

Original Paper

A Practical Study on Strategic Adjustment by Small and Medium-Sized Enterprises in a Changing Market Environment

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Abstract

High-frequency volatility in the market environment has markedly accelerated the rate at which existing strategic frameworks of small and medium-sized enterprises (SMEs) become ineffective. Strategic adjustment, once an occasional response, has become a routine necessity for survival. The core question addressed here is how SMEs adjust their business strategies under resource constraints. Dynamic capabilities (DCs) and ecological niche theory (ENT) supply the analytical tools, while theoretical deduction and case analysis are the methods employed. The analysis shows four mutually reinforcing adjustment pathways: niche repositioning, resource constraint breakthrough, deep cultivation of demand granularity, and institutional capital conversion. Their effectiveness depends on the level of synergy between niche identification accuracy and capability bricolage efficiency. Strategic adjustment is, in essence, the continuous reconstruction of the matching relationship between the organization and its environment; under conditions of resource scarcity, SMEs need to maintain dynamic adaptive capability.

Keywords

Changes in the Market Environment, Small and Medium-Sized Enterprises, Strategic Adjustment, Niche Theory, Dynamic Capabilities Theory

1. Introduction

Export order volatility and domestic consumption stratification have unfolded in tandem. The mass production model familiar to SMEs now faces a dual squeeze—fragmented channels and extended payment cycles—so the applicability of their existing strategic frameworks has declined markedly. Research on strategic adjustment has long taken large enterprises as its prototype, treating resource redundancy and hierarchical impetus as given conditions, a premise that hardly holds in the SME

context. Taking DCs and ENT as its framework, and drawing on inductive observations of SME business practices, this paper examines the adjustment logic and practical directions of SMEs under environmental pressure along four pathways: niche repositioning, resource constraint breakthrough, deep cultivation of demand granularity, and institutional capital conversion. For greater practical explanatory power, the following section introduces two comparative cases after the analysis of the current situation and problems, illustrating the divergence of adjustment pathways and their mechanisms.

2. A Theoretical Analysis of Changes in the Market Environment and Strategic Adjustment by Small and Medium-Sized Enterprises

2.1 The Nature and Characteristics of Changes in the Market Environment

Market-environment change is now discontinuous. Policy shifts, technological substitution, and changes in consumer preferences often converge within short periods. SMEs are left no time to adjust incrementally along existing paths before survival pressures arrive. Large enterprises can draw on resource slack to hedge against misjudgments; for SMEs, the acuity of environmental sensing directly determines whether they can seize the adjustment window (Abid, Ceci, & Aftab, 2023). Shocks of this kind are unevenly distributed across positions in the industrial chain. Supporting firms are more directly affected by the transmission of downstream order volatility. Firms close to end-consumer markets, by contrast, perceive demand shifts earlier. The conceptualization of market-environment change thus shifts from continuous change to intermittent restructuring of the rule system and demand structure. At the strategic level, SMEs need to establish mechanisms for continuous scanning and rapid response. How such mechanisms are constructed diverges according to the niche in which firms are located.

2.2 Definition and Types of Strategic Adjustment by Small and Medium-Sized Enterprises

SMEs' strategic adjustment denotes the systematic revision of a firm's target directions and resource allocation approaches under environmental pressure. Resource slack and hierarchical driving forces are the two premises that existing classification frameworks implicitly presuppose. In SMEs, decision-making authority is concentrated among owner-managers; between the issuance and execution of adjustment directives, almost no intermediate hierarchy exists. Their adjustment therefore manifests as simultaneous fine-tuning across multiple dimensions rather than a wholesale switch in a single domain. Retrenchment-oriented adjustment and embeddedness-oriented adjustment thus emerge as two types with greater explanatory power. Under the former, firms proactively reduce their business scope to safeguard core capabilities. The latter involves embedding their businesses in external platforms or key links of the industrial chain to secure survival space. Which of the two is chosen depends on firms' assessment of the substitutability of their own niche. Firms with a high degree of substitutability tend to pursue retrenchment to reduce exposure risk; those with a low degree are more likely to choose embeddedness to amplify their unique value.

2.3 The Theoretical Foundation of Strategic Adjustment

Dynamic capabilities theory and niche theory provide complementary explanatory threads for SMEs' strategic adjustment. Most existing studies discuss dynamic capabilities theory in relation to resource-abundant large enterprises. SMEs lack systematic capability reserves, yet under prolonged survival pressure they develop a keen sensitivity to external opportunities and a habit of low-cost trial and error. This form of capability remains inadequately theorized. From a population perspective, niche theory explains the positional relationship between firms and their environment; for SMEs, the degree of substitutability in the industrial chain determines the scope and direction of their adjustment space. Juxtaposing the two theories suggests that the core mechanism of SMEs' strategic adjustment lies in positional migration, guided by niche identification and enacted through capability bricolage (Yihan, Ekaterina, Samantha et al., 2024). Adjustment direction is answered at the identification phase; the bricolage phase addresses the source of resources; matching reconfiguration refers to the temporary stable state formed between the adjusted firm and the new environment. This paper accordingly proposes “niche identification–capability bricolage–matching reconfiguration” as the analytical thread and theoretical fulcrum for the subsequent discussion of practical pathways.

3. Current Status and Challenges of Strategic Adjustment by Small and Medium-Sized Enterprises Amid Changes in the Market Environment

3.1 Major Practices in Strategic Adjustment by Small and Medium-Sized Enterprises

Strategic adjustment by SMEs under environmental pressure fall into two directions of action: retrenchment and embeddedness (Yang, 2025). Adjustment rhythm, however, differs. Some firms retrench proactively, cutting marginal product lines before orders decline noticeably and concentrating freed manpower and capital on a single core category. Such firms usually maintain close information communication with downstream customers and can perceive demand-side changes in advance. Outcomes among proactive retrenchment cases diverge markedly. Firms that can hold on to their core categories had already accumulated stable customer relationships or process barriers in the target category before retrenchment; retrenchment merely consolidates dispersed resources into areas where stable advantages have already been established. Firms that remain struggling after retrenchment, in contrast, mostly have no obvious advantages in the target category and have merely reduced their business scope passively: their position changes, but their degree of substitutability does not. Reactive embeddedness is more common. After original channels fail, firms hastily access platforms or seek opportunities to supply leading enterprises, and resource allocation wavers repeatedly as platform policies change frequently. Whether firms have formed a stable cognition regarding the substitutability of their niche divides these two types of practice. Clear niche identification is accompanied by relatively coherent adjustment pathways; ambiguous niche identification tends toward repeated wavering between retrenchment and embeddedness.

3.2 Prominent Issues in Strategic Adjustment by Small and Medium-Sized Enterprises

Three problems stand out in SMEs' strategic adjustment. Ambiguity in niche judgment is the primary obstacle. Most firms lack a clear assessment of their own degree of substitutability in the industrial chain. Their adjustment direction often depends on short-term order pressure rather than continuous scrutiny of their position. This ambiguity stems from SMEs' long-standing reliance on order fluctuations to judge operating conditions and from an inertia that leaves proactive analysis of their own structural position undeveloped. External dependence in capability bricolage forms another dilemma. Once firms access platforms or embed themselves in leading enterprises' supporting systems, technical standards and data interfaces are controlled by the other party, and their own capability accumulation is locked into low-end links. Platforms and leading enterprises open interfaces with the intention of having SMEs undertake standardized links. Learning thresholds for these links are low, but capability accumulation is shallow. The longer firms participate, the harder it becomes to break away from the established role; as platform rules tighten, adjustment space narrows. A further dilemma lies in the disconnection between adjustment actions and internal capability building. Resources are concentrated on external positional migration, while investment in organizational learning and skill accumulation remains insufficient. Internal capability building has a long cycle and slow results; external positional migration yields quick results. When cash flow is tight, firms often lack the patience to wait for internal accumulation to mature. These three dilemmas overlap and reinforce one another, so that some firms' strategic adjustment remains at the level of positional migration and fails to develop sustainable adaptive capacity.

3.3 Analysis of Typical Cases

The practical divergence outlined above can be illustrated through a comparison of two manufacturing SMEs. Company A, a specialized, refined, differentiated, and innovative (SRDI) enterprise in fine chemicals, has a flagship product that leads the domestic market in a niche segment; that segment, however, is limited in overall size. Having assessed its degree of substitutability in the industrial chain, management concluded that the original segment, despite its established advantages, offered constrained growth space, and the firm therefore undertook niche migration into the adjacent biopharmaceutical field. Throughout this migration, it retained internal accumulation of core process parameters and drew on external research and development (R&D) resources for capability bricolage, gradually establishing a matching relationship in the new field. Company B, an equipment manufacturer, entered the photovoltaic (PV) cell segment through mergers and acquisitions (M&A) when its original main business came under market pressure. Before entry, however, it did not clearly assess its degree of substitutability in the new segment. Without a stable advantage in the target category, the new business accumulated losses exceeding RMB 150 million within two years and reported negative net assets, ultimately forcing a sale and exit. Company B's position changed, yet its degree of substitutability did not fall; adjustment remained at the level of "positional migration" rather than achieving "matching reconfiguration." The contrast between the two cases supports the preceding judgment: the effectiveness of adjustment lies not in the actions themselves but in the level of synergy

between niche identification accuracy and capability bricolage efficiency.

4. Practical Pathways for Strategic Adjustment in SMEs Amid Changes in the Market Environment

4.1 Niche Repositioning: Shifting from Homogeneous Competition to Filling Gaps in the Industrial Chain and Embedding in Platform Ecosystems

For niche repositioning, the practical starting point is a map of capability substitutability: firms rank their own capabilities by scarcity. High-scarcity capabilities serve as the entry qualification for niche filling; low-scarcity ones are unsuitable as adjustment directions. To identify signals of industrial chain niche filling, firms must attend to precursors easily overlooked in daily operations—shifts in the category structure of customers' proactive inquiries, unilateral compression of delivery cycles by the other party, and after-sales maintenance demand moving from scattered to concentrated. Such details often register positional drift earlier than fluctuations in total order volume. Management should bring these signals into regular scrutiny. The adjustment window typically opens before signals become clear, not after.

Seizing niche-filling opportunities requires proactive identification of links that leading enterprises are unwilling or unable to perform well. Flexible delivery cycles, small-batch customization, responsive after-sales maintenance—needs of this kind have long existed but lack stable supply. SMEs can use their short decision-making chains to enter such niches; through niche filling, customer relationships can gradually be consolidated into specific assets with a higher degree of substitutability. Platform ecosystem embeddedness, by contrast, requires firms to clarify before gaining access whether they assume the role of a standardized service provider or of a participant in standard setting within the ecosystem (Xing, Chen, & Liu, 2023). The former has a low entry threshold but a high degree of substitutability; the latter requires technological accumulation or data advantages in specific links. The choice of role determines firms' subsequent bargaining room amid changes in platform rules.

4.2 Breakthroughs in Resource Constraints: Asset-Light Operations, Modular Outsourcing, and Capability Bricolage

Breaking through resource constraints depends less on how many resources a firm owns than on whether it can make external resources serve its own purposes without being locked in by the other party. In asset-light operation, the practical task is to distinguish links that can be outsourced from those that must be retained in-house. Production equipment, logistics and warehousing, and basic customer service—all highly standardized—are suitable for outsourcing. Customer relationship maintenance, core process parameters, and customized solution design must remain within the firm. Capability accumulation in the latter constitutes the firm's bargaining foundation in external cooperation (Yu & Chen, 2024). Modular outsourcing works only to the extent that the firm can manage its contractors. Tasks must be decomposed into modules with clearly defined acceptance

requirements, delivery standards, and acceptance milestones; otherwise contractor replaceability cannot be maintained, and binding to a single supplier becomes likely. Several specific indicators reveal the degree of dependence on external cooperation: changes in the proportion of external resources in key links, whether the firm's own team has acquired transferable skills through cooperation, and whether bargaining space narrows upon contract renewal. When these indicators exceed safe boundaries, cooperation structures should be adjusted promptly.

Outsourcing management concerns resource acquisition channels. How introduced resources are connected with a firm's own capabilities depends on its control over the rhythm of capability bricolage. The temporal arrangement of capability bricolage needs to retain flexibility; firms need not wait until internal core capabilities are fully formed before assembling external resources. Capability identification itself gradually becomes clearer in the process of cooperation. The task is to continuously record, during bricolage, the contribution structure of external resources and the growth trajectory of internal capabilities. Between internal capability building and external resource utilization lies an easily overlooked tension. The more a firm relies on external resources to complete delivery, the fewer opportunities its internal team has to engage with the complete business chain; skill accumulation consequently slows. The disconnection between adjustment actions and capability building often arises precisely from this.

4.3 Deep Dive into Demand Granularity: Scenario-Based Products and User-Participatory Rapid Iteration

Deep cultivation of demand granularity means segmenting the market by specific usage scenarios, not by generalized demographic labels. For the same type of customer, pain points often differ more across scenarios than they do between different customers. In scenario-based products, a practical starting point is to identify friction points that users repeatedly encounter during use and that existing products fail to resolve. Because R&D resources are constrained, SMEs should not pursue full functional coverage. They should instead build deep accumulation in the most painful link within a single scenario. User-participatory iteration calls for low-cost feedback channels, through which after-sales follow-ups, usage observations, and complaint records become inputs for product improvement. Perfection in one step is not the aim; a small-step, rapid-adjustment frequency allows products to approach actual needs gradually through continuous user feedback.

User sample bias is an easily overlooked risk in participatory iteration. The user groups SMEs can reach are limited, and after-sales follow-ups and complaint records often cover only a very small number of active customers. Iteration judgments based on such samples may deviate from the true needs of the silent majority. To mitigate this risk, firms need to cross-validate consciously across different channels. Offline observation captures real friction in usage scenarios; distributor feedback reflects blockages in the distribution process; online reviews expose shortcomings in product functions. Feedback from the three channels points to problems at different levels. In setting priorities, firms should rely primarily on how frequently friction recurs, not on the opinions of customers with the

highest feedback intensity. As iteration proceeds, scenario knowledge should also be organized, with scattered feedback summarized into reusable bases for demand judgment. Accumulation of scenario knowledge in turn feeds back into the precision of niche judgment, enabling firms to obtain a more solid position in niche filling or embeddedness.

4.4 Conversion of Institutional Capital: Compliance-Oriented Operations, Policy Adaptation, and Risk-Sharing Mechanisms

Converting institutional capital begins with recasting compliance investment as an accumulable competitive asset. Firms that internalize compliance processes as management standards tend to earn trust in customer audits and supply chain access; in homogeneous competition, that trust is difficult to replicate. Policy adaptation hinges on continuous tracking of policy developments in relevant fields. Firms must identify which policy instruments intersect with their businesses and respond promptly when application windows open. Policy dividends come from routinized information processing, not last-minute efforts. Experience accumulated through dealings with competent authorities and industry associations becomes, in risk-sharing negotiations, a capacity to judge the boundaries of rules—helping firms discern which risk-sharing clauses are enforceable. Compliance investment then shifts from a cost item to a bargaining chip.

To achieve a risk-sharing mechanism, firms engaged in industrial chain cooperation must proactively seek contractual arrangements with upstream and downstream parties or platform operators for cost sharing and loss compensation, dispersing part of the risk through contractual means. The bargaining space for such arrangements depends on whether partners recognize the firm's unique value in its niche; from the early stage of cooperation, firms need to demonstrate their irreplaceability in specific links consciously. Once established, a risk-sharing mechanism does not remain effective indefinitely. Technological diffusion erodes process barriers, an influx of competitors dilutes delivery advantages, and changes in platform rules may redefine role weights, loosening the risk-sharing relationship accordingly. When that relationship loosens, on what basis should the firm re-enter negotiations—by continuing to deepen accumulation in the original link, or by migrating to higher-value links in the industrial chain? No fixed answer exists. The judgment depends on the firm's ability to identify its position in the next round of environmental change.

5. Conclusion

Strategic adjustment among SMEs unfolds as the synergistic evolution of niche identification, capability bricolage, demand segmentation, and institutional capital conversion. Firms that secure a stable position in segmented scenarios, offset weaknesses through modular outsourcing, and turn compliance pressure into competitive barriers are more likely to sustain adaptive capability. This adds to discussions of DCs in resource-scarce contexts. Between niche identification and capability bricolage, SMEs need a dynamic balance. The two cases compared above indicate that adjustment effectiveness diverges not in the actions themselves but in the level of synergy between niche

identification accuracy and capability bricolage efficiency. Firms with clear identification can turn migration into matching reconfiguration; those with ambiguous identification may complete a switch in business direction yet still struggle to build sustainable adaptive capability. Future research could track how adjustment pathways evolve differently across industries and how their performance decays.

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