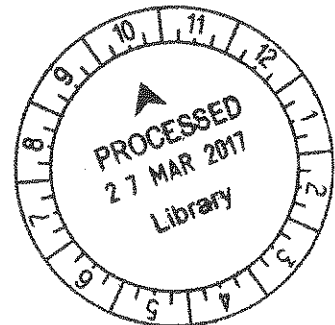


INTI INTERNATIONAL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

INNOVATION STRATEGY FOR SMES IN SHANGHAI, CHINA

Author: Li Hao
Student No: I15008966
Supervisor: Dr. Arasu Raman
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DECLARATION BY CANDIDATE

I hereby declare that this thesis is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been duly acknowledged.

Name : Li Hao

Student ID : I15008966

Signature : Li Hao

Date : 16/12/2016

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Li Hao

Abstract

This research is mainly dedicated for discussion on influential factors in innovation strategies for SMEs. With the deepening of economic globalization, international market competition intensifies, which brings various innovation methods for SMEs that will continuously upgrade themselves in order to accommodate to changes on the market and alter our production and lifestyle now and in the future. In the course of the rapidly changing environment, exclusive advantages of SMEs could be fully utilized so as to achieve innovation strategies. Stable growth of SMEs could become one vital foundation in national industrial competitiveness within China. Along with varied economic environment, SMEs within China are faced with influences from the institutional environment, coordination and flexibility as well as dynamic core capacity. By studying research questionnaires, it could gather information on the environments during innovation strategies. Furthermore, SMEs adapt more quickly and effectively, thus it makes proper adjustments according to different environments. Therefore, the result of the research is beneficial in taking up the advantageous position within international markets for SMEs.

Key words: SMEs, Innovation Strategies, Competition Environment

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LIST OF ABBREVIATIONS

SMEs:	Small Medium Enterprise
SWOT:	Strengths, Weaknesses, Opportunities, Threats
STEEPL:	Social, Technological, Economic, Environmental, Political, Legal
SPSS:	Statistical Package for Social Science
VIF:	Variation Inflation Factor
KMO:	Kaiser-Meyer-Olkin

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Chapter 1

Introduction

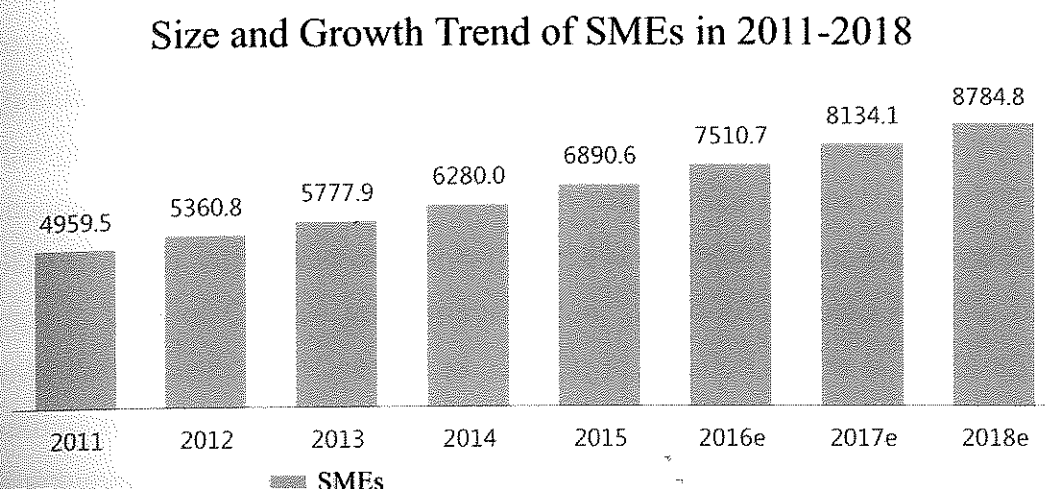
1.1 Overview

This chapter mainly introduces the topic idea of *Innovation Strategy for SMEs in Shanghai, China*, followed by a brief description. Firstly, it elaborates on research background and brings forth existing issues during constant innovation within SMEs from different perspectives. Secondly, it will illustrate the purpose of this research and the research meaning behind innovation strategies in SMEs. In the end, this chapter will explain the restrictions and research scope in this research, accompanied by research on the definition of operability and major structure of the article.

1.2 Research Background

The 21st century is a century with fierce competition, however, competition is the motivation for enterprises to survive and develop under the condition of the market economy, and is also the source for corporate events (George, 2008). Corporate competitiveness decides the position for a company on market. At the end of 20th century, new knowledge and advanced technologies were emerging from new economies, such as the internet. These advances brought profound changes to the global economy and corporate competition. The integration in global markets, growing companies, and technological innovation turned the competition intense and even insane (Baoling, 2014). New economies are transforming game rules of market economy, and when the force and frequency of innovation reach the certain level, its influence will increase accordingly (George, 2008). Traditional survival strategies for enterprises will no longer adapt to complicated innovation and practice. Thus, enterprises are required to control innovation, destroy old survival strategies and accomplish a new pattern of innovation strategies (Padoan and Arzeni, 2010).

Figure 1.1: Size and Growth Trend of SMEs in 2011-2018



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SMEs are business whose personnel numbers fall below certain limits. It has been widely acknowledged that SMEs outnumber large companies by a wide margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sectors. China's private SMEs sector matters for inclusive growth. The contribution of the local SME sector to inclusive growth is visible in a number of areas : broad-based economic growth, equality of opportunities, creation of employment, improvement of human capital, and the overall contribution of local enterprises to local public finances

Innovation strategies for SMEs is the eternal theme and motivation for accomplishing corporate development, when SMEs are the important part in domestic innovation system (Liu, Li and Zhang, 2012). SMEs make up the bulk of China's privately owned sector. At present, there are 3,650,000 SMEs and 28,000,000 individually-owned businesses in China, accounting for 99.6% of total enterprises within China (Huang, 2009). Earlier in 2004, there was 70% of employment population within China serving in SMEs which became

the main channel for creating jobs (Cui, Khan and Tarba, 2016). More importantly, China's SMEs employ more low-income source of employment in poorer regions. A case study illustrated that in a less developed region, the development of the SME sector not only reduced poverty by expanding non-agricultural employment but also increased farmer's incomes through strengthening their connections with external markets and creating new economic opportunities for rural households. SMEs created nearly 60% of GDP in China, while also accounting for 68% of China's total export value and imports 69% of China's total import value, which contributed to 40% of tax revenue domestically (Chen et al., 2015). In addition, there is about 65% of patents which are created by SMEs, while over 75% technological innovation is achieved by SMEs, and over 80% new products are developed by them (Liu, Baskaran and Li, 2015). SMEs are flexible and able to rapid adapt new technologies. Besides, SME development is essential for simultaneously absorbing resource and re-employing workers laid-off or dispersed from the restructuring of the large enterprise sectors, so as to minimize social disruptions. SMEs further highlight the main body role and dynamic function in Chinese economic growth and are becoming one sort of important power in our economic development (Cordeiro and Vieira, 2012). SMEs make more and more contribution to our national economy and have become the crucial guarantee in propelling reform in our scientific and technological system, accelerating commercialization and industrialization of the scientific and technological outcome, transforming means of economic growth and increasing economic benefits (Huang, 2009). Meanwhile, they are the essential source of motivation in enhancing our national independent innovative capability and economic growth (Liu and Gao, 2016.).

In modern economic activities, innovation has become the source of life for enterprises and the key to success in market competition (Stonkut, 2015). Due to the market structure and the businesses own unique characteristics, SMEs are more in need of innovation strategies in order to be invincible in intense market competition (Kasbi, 2013). They should not only enhance their viewpoint in technological innovation in terms of strategies, but make best use of their advantages and bypass disadvantages, and draft strategic plan for

technological innovation scientifically, select fair strategic objective, and apply correct innovation methods so as to ensure success for innovation events according to their specific conditions and environment (Chereau, 2015). Although SEMs are among the most dynamic and efficient enterprises in China's economy and are responsible for a large share of technology creation and scientific development, SMEs suffer from an unlevel playing field compared with large enterprises which limit their access to resources and their capacity for innovation. SMEs face informational asymmetries and barriers in their attempt to enter the market traditionally controlled by large enterprises monopolies.

Finally, this research is mainly about how SMEs utilize strategic innovation so as to quickly accommodate and modify their own business pattern accordingly.

1.3 Problem Statement

With the intensifying economic globalization and increasingly fierce market competition, certain difficulties and issues arise in the process of development for SMEs within China (Mazzarol, Clark and Reboud, 2014). For instance, there is more risk in innovation for SMEs who lack high profitability, innovation capacity and continuous momentum etc, which seriously restrain the promotion and fast development in the competitiveness of Chinese SMEs (Liu, et al., 2012). SMEs in China face a series of issues and difficulties, which, in the light of comprehensive scope for enterprises and higher level, relates to the lack of corresponding innovation strategies within them (Yong, 2013). With the gradual establishment, self-growth, and development for the principal role in market economy of SMEs in China, they are faced with more and more factors that demand them to enhance corporate independent innovation strategies (Kasbi, 2013). Therefore, it is hopeless for SMEs to merely rely on cost and price reduction, policy protection from the country and the local government without long-term innovation strategies guidance in the market competition for a long time (Lecerf, 2012). They must go deeper and study and formulate innovation strategies for SMEs in China systematically with the view to seizing opportunities, circumvent risks, dissolve contradictions and achieve breakthrough (Huang, 2009). By the means of innovation, sustainability,

healthiness and fast development for SMEs in China could be accelerated, which is not only of great meaning but is also great guidance meaning in reality, and is the expediency for the long-term development of SMEs (Zehir and Karaboga, 2015).

In recent years, owing to insufficient capitals, technologies, personnel quality and management level, because large enterprise is enhancing their competitiveness incessantly by the modifying system and transforming, SMEs are at a disadvantageous position for they lack the policy advantage in competition (Mazzarol, Clark and Reboud, 2014). Meanwhile, SMEs in China are in face of new opportunities and challenges. That is to say, it has become a practical issue for SMEs in China in the age of knowledge economy regarding how to seize opportunities and rise to challenges (Phan, et al., 2015). If they want to win in this challenge, they must fully exert their own strengths and create suitable corporate innovation strategic pattern (Yong, 2013).

1.4 Research Objectives

This aim of this research is to seek the main factors that place influences on the innovation strategies of SMEs which account for crucial role and function in the modern economy. Promotion of development for SMEs in China not only helps reach the goal of economic growth but also benefits mutual support in products with large-scale enterprises so that they could learn from each other in terms of corporate innovation (Padoan and Arzeni, 2010). Along with increasing intense competition in front of SMEs and constant perfection of the domestic market economy, market competition environment has become the propelling force in boosting SMEs in increasing activities (Haro, Salazar and Ceballos, 2012). For survival and development, SMEs could only access to advantages in the fierce competition environment by drafting suitable strategic innovation for their own (Mansor and Sabri, 2015). To achieve the goal of this research, the following objectives will bring forth one structure for this research.