



Study on SME of China Development and Competitive Strategy in the Age of Knowledge Economy

LIN Delin^[a]; SUN Jing^[b]*

^[a]Graduate of Business Management School, Shenyang University, Shenyang China P.R 110041.

^[b]Associate Professor, Business Management School, Shenyang University, Shenyang China P.R 110041.

*Corresponding Author

Address: Business Management School, Shenyang University, Shenyang China P.R 110041.

Received 10 March 2012; Accepted 12 May, 2012

Abstract

The era of knowledge economy refers to the late industrialization, knowledge has become the most important production resource, and formation of an entrepreneurial economy system with innovation-oriented. This article explains the importance of SMEs to economic development, small and medium enterprises faced challenges in the era of knowledge economy, the development and competitive strategy of medium and small enterprises in the era of knowledge economy, and there is guidance significance to the development of China's medium and small enterprises.

Key words: Knowledge; Small and medium enterprises; Competition strategy

.....
 LIN Delin, SUN Jing (2012). Study on SME of China Development and Competitive Strategy in the Age of Knowledge Economy. *International Business and Management*, 4(2), 111-115. Available from: URL: <http://www.cscanada.net/index.php/ibm/article/view/j.ibm.1923842820120402.1085>
 DOI: <http://dx.doi.org/10.3968/j.ibm.1923842820120402.1085>

1. THEORETICAL ANALYSIS OF THE EXISTENCE AND DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

1.1 Development Economic Theory

Early development of economics advocated by means of government policies and plans, make up for the

lack of market mechanisms, bias in development of large enterprises to drive economic growth. SMEs are considered burdens and negative factors of the economic development, it should gradually decline in the economic development process. However, late in the 20th century, research on the practice of economic development found that such development strategies from the national conditions of developing countries, one-sided emphasis on planning function and one-sided support of big business, leads to economic inefficiency, cannot make full use of local and national resources. Many small and medium enterprises development slowly, resulting in domestic market distribution, differences in the social benefit distribution, the rise in unemployment.

Developing countries want to achieve a breakthrough on economy, it should rely on market mechanisms regulation, focuses on using its own resources, attached great importance to develop small and medium enterprises, based on the existing comparative advantages. People gradually recognized the vital role of SMEs in economic development, such as job creation, to solve a large number of surplus labor force transfer, promote greater social equality and participation, to make full use of resources, promote economic growth, as well as development of entrepreneurs and entrepreneurship. Due to the small and medium enterprises play a huge role, many countries improve to the strategic position of developing medium and small enterprises.

1.2 Appropriate Scale Economy Theory

Economies of scale is that other things being equal (such as technology, prices, interest rates, taxes, and so on) case, as enterprises expand, while the average cost of production decrease, that is, income can be increased as the scale.

While the enterprise's long-term average costs will decrease within the scope of as the enterprise scale, beyond this scope, cost varies with the size and increase,

economies of scale advantages gradually lose, as large scale is not possible, so Result in concept of moderate scale. Study on the moderate scale to provide a theoretical explanation for existence and development of small and medium enterprises.

Studies have shown that moderate scale with a different scenario. Some industry average costs present a downward trend in a very wide range as the economy expands, this industry is prone to big enterprises and monopolies. But there are also many enterprises the minimum long run average cost is not a point, but a range in terms of size. In this way, different enterprises of all sizes can achieve best economic efficiency, that is, enterprises of different sizes are likely to be modest in the same industry. In additional, economic moderate scale in addition to technology, markets, cost constraints, and also restriction by the innovation capacity of enterprises, Government policy, changes in market demand, technological progress and other factors. The theory has laid the theoretical foundations for the long run coexistence of different scale companies and driving economic prosperity

1.3 Technical Innovation Theory

Economics analyses show that, on the one hand, technology innovation have an impact on enterprise economies of scale, technical innovation make enterprise to have a technology advantage at one time, rapidly to produce new products, and make the cost reduction. Therefore, technological advances reduced the minimum efficient scale of production demand, that make SMEs greatly increasing the possibility of achieving economies of scale, makes a lot of small and medium enterprises can enjoy the advantages of economies of scale. The other hand, there is a correspondence between market structure and firm size and innovations. In the exclusive monopoly of the market, due to lack of competitive pressure, insufficient impetus for innovation. In a fully competitive market conditions, enterprises were small, material conditions for innovation is limited, is not conducive to innovation.

Therefore, market structure between monopoly and perfect competition, composed by the different characteristics of medium-sized enterprises, new businesses can more easily enter the industry, the most conducive to promote of innovation activities. However, the research found, modern science and technology advances, small businesses can share achievements by information revolution, physical constraints on small business innovation has gradually weakened.

Research also found that the industrialized countries had entered a new era of technology, market stagnation and decline of traditional industries have made great difficulties in the development of big enterprises. The rise of new technologies bring new industries, Provide development space for small and medium enterprises, especially in the early period or adjustment of industry

growth, SME has a clear advantage in innovation and its competitiveness in a leading position.

1.4 Advantage Theory

Advantages for SMEs in an outstanding performance for the creativity, flexibility and growth, these advantages have been there, and can be better in the society of knowledge economy. Therefore, should abandon the traditional “weak theory of the SMEs”, use “advantages theory of small and medium enterprises” to re-constructing theory of new small and medium enterprises in the knowledge economy. With the rapid development of the knowledge economy, human economic and social have been a number of new trends, it is this new development, provides the stage for SMEs advantage play. First of all, knowledge economy is attention economy. After a State entering the stage of knowledge economy development, there will be sufficient of products and information supply in this country, goods needs to be attracted attention of consumers and information need to be drawn the attention of visitors.

In the attention economy, enterprises have to do is get enough attention. Gets attention not only depends on the scale of the enterprise, but also has mainly been from enterprises of creative. Compared with large enterprises, small and medium enterprises organizations flexible, low cost of information transfer, and therefore more easily take advantage of creative. Secondly, the knowledge economy is diversified economy. Compared to the standardization industrial economy, value orientation in the era of the knowledge economy is diversified. One the results of industrialization is to alleviate a shortage of industrial products in the market, market forces of supply and demand changes bring consumer attitudes and behavior change. Diversified requirements of product diversification and differentiation, there will be forward higher requirements flexibility of the production process, advantages of flexible manufacturing system for SMEs to be reflected. Diversification of consumption have an impact not only on the flexibility of the production process, has also affected the circulation, the traditional circulation patterns is also facing the challenges, to raise the level of customer service as the goal of the new logistics tools continue to emerge, it provide opportunities for the development of small and medium-sized logistics enterprises.

2. NECESSITY OF THE SME DEVELOPMENT IN THE AGE OF KNOWLEDGE ECONOMY

2.1 Development of Knowledge Economy Promote the Miniaturization Enterprises Development

Promotion of information and network technology, has

caused the change of enterprise organization, there is development trend of miniaturization enterprises in some areas. Network make "large and comprehensive" of large enterprises to decompose many business and contracting out, enterprise organizations become smaller. E-commerce make sales organization capable, network make flat of management organization within the enterprise, particularly produces new enterprise as the main body of knowledge assets. Network also produces virtual company which online production and exchange and half a virtual company which not the main plant, factory, arcades. With the help of network marketing function, featured small business can obtain big space for development.

The rapid expansion of high-tech small companies is one of the characteristics of the development of enterprises in the times of knowledge economy. Some good profit expected of high-tech enterprises rapid growth with the help of virtual capital market expansion mechanism, and merger he traditional large enterprises, achieved extraordinary development, and become an important enterprise.

2.2 Development of the Knowledge Economy Promoting the Development of the Service Sector

The development of the service sector provide opportunities for SMEs characteristics of the knowledge economy is that growth of high and new technology industry, Internet marketing and e-business development which builds on the foundation of economic globalization, as well as in the promotion of economic growth, has also contributed to changes and restructuring of the economy, promoting the development of the service sector. With the development of economic, human material needs are met, thereby steering levels of tourism, health care, finance, communications, business services needs. At the same time, efficient material also allows more of the resources and labor to flow of services economy field from the industrial production area, which is accelerating the pace of development of the service industry. Number of small and medium enterprises, and wide, there are low barriers to entry many service filed, therefore, services become areas of concentration distribution of SMEs. Development of the service sector has provided more and more development opportunities for SMEs.

2.3 New Changes of Market Competition Conducive to Take Advantage to Small and Medium Enterprises

In the knowledge economy, technological progress more and more faster, product life cycles continue to shorten. A new technology or product, need decades to complete its industrialization in the past, and now even a few years will be finished within a few months. In this situation, competing between firms changes speed competition from the scale of competition, competing in the competition

of knowledge from costs and prices. Rapid access to and utilization of knowledge requires the enterprise to have a high degree of flexibility and mobility. Compared with large enterprises, small and medium enterprises size were small, organizations form were flexible, rapid decision, high mobility, so it will quickly capture consumers demand and provide fast products and services to them, grab in the competition.

2.4 Economy Changed the Survival Base of Small and Medium Enterprises

In the era of knowledge economy and technology innovation is the basis for the survival and development of enterprises, only by constantly advancing technology innovation, enterprises can win in the competition. Innovation is the source of modern of enterprises evolving and maintaining the core competitiveness, and it is the core of the development strategy of enterprise competition, it must proceed from the requirements of the knowledge economy, proceeding from the changes in the market environment, ongoing technical, management, systems, marketing, strategy, and many other aspects of innovation, and technology innovation as the core. Only through the perseverance of technology innovation, business can continue providing new products and service to market, constantly improving the contents of knowledge and scientific and technological content of products and services, improve production technology, reducing production costs, and to improve market share and market competitiveness of products and services, and open up new areas of the market.

Compared with large enterprises, SMEs, innovation-driven mechanisms more effective, innovation costs are relatively low, in the United States, there are about 70% technology innovation is implemented by a small business. With technology innovation and knowledge innovation, SMEs will take on new development in the competition.

3. SMALL AND MEDIUM ENTERPRISES FACED THE CHALLENGES IN THE ERA OF KNOWLEDGE ECONOMY

3.1 Pressure of Global Division of Labor and Global Market Competition

Facilitated by developments in information and communications technology, and internationally through foreign investment, technical cooperation and other means of industrial patterns of international division of labor, have wholesale changes in the way of competition in the past. Multinational companies is setting up production stronghold around the world now, and the Division of labor and cooperation of enterprises for production around the world, making its comprehensive product line have been

equipped with a competitive advantage in all over the world. This global Division and integration of network operations, make the living space of independent operation of small and medium enterprises more reduced.

3.2 Technological Change Fast and Product Life Cycle Short

Under a large number of research and development investment of capital, technological change is rapid, shorter product life cycles, copies introduction technology opportunities of SMEs in backward regions fewer. SMEs will have to do Technical innovation and research and development in the future, could open up market living space.

3.3 Knowledge Created the Highest Added Value and Protection of Intellectual Property Rights Become the Main Means of Competition

Knowledge can make the small and medium enterprises “small but strong”, and was able to compete for the global market, but also lack of knowledge innovation ability of enterprises is almost no space for development. As an incentive for SMEs to engage in knowledge and innovation, and to safeguard the interests of knowledge innovation, intellectual property protection will be more stringent in the future.

3.4 Faced Competition for Time, Speed, Price, Features, Low-Cost Advantage of Backward Area has been Gradually Losing Effect

In the information society, space distance does not constitute obstacles to competition, all enterprises in backward area and developed countries enterprises are facing the challenge of market competition at the same time. Market reaction speed, speed of product innovation, the ability of quickly reduce price, and the provision of high quality multi-function product, will be the key factors of competitive success.

4. SME OF CHINA DEVELOPMENT AND COMPETITIVE STRATEGY IN THE ERA OF KNOWLEDGE ECONOMY

4.1 Specific Strategies

SMEs often unable to operate a variety of products in order to spread the risk, difficult form scale of production and sales, it is difficult to have strong ability of research and development, ability of quality, technology, credit and marketing more lacker than large enterprises, cannot form business advantages that cost leadership strategy and product differentiation strategy requires. Therefore, sensible SME will be good at concentrating ability, concentrate limited resources and funding to targets and area which be able to form their own advantages or pursuit of cost leadership, or strive for product differentiation advantages,

if possible a combination of both. After forming relative competitive advantage, form the core competitiveness. Small and medium enterprises should play their “small” characteristic, specialize in one or two areas, form the core competitive power, become “strong” and competitive enterprises. Survival and development of enterprises depends on the availability of the core competitiveness, so-called core competencies are unique to maintain the continued survival and development of enterprises and other enterprises is difficult to imitate. Small and medium enterprises should be thrown “self-contained” business ideas, management revolving around their core competencies, apply themselves to do business with the most expertise. This is the most basic strategy of existence and development of small and medium enterprises.

4.2 Dependent Strategy

Formation of small and medium enterprises and large enterprises and large group division of labor and cooperation, professional complementary groups of related industries, this strategy is a business strategy, that is based on the characteristic of small and medium enterprises force thin and product single. Large enterprises in order to obtain economies of scale, they need to take out “large and comprehensive” shackles of production systems, recourse to social division and collaboration. On the objective to increase the dependence of large enterprises to small and medium enterprises, provide a reliable basis for survival and development of small and medium enterprises, so that this interdependence as a complementary strategy of survival.

When small and medium enterprises in determining the direction of own production, are not focused on developing new products, but to accept one or several big enterprises of long-term fixed-order, and to establish close division and cooperation with large enterprises. SMEs can also gain concessions and cooperation with big enterprise. The so-called concession, refers to a large enterprise select a number of small and medium enterprises, granted to operate of large enterprise products, services, or brands, and received a certain amount of license fees, but without prejudice to the independence of small and medium enterprises. Concession to become large enterprises using a strategy, its more successful combination of large, medium and small enterprises, small and medium enterprises may adopt this strategy.

4.3 “Gap” Strategy

The globalization of enterprise competition and consumer demand cycle of short are potential starting points and objectives of develop strategies. In addition, existing markets are not perfect, there will always be there “gaps”. Because “The gap” narrow market product services area is more narrow, market capacity is not big, large enterprise can’t form scale production rather than involved in this area so that SMEs can expand market share, and increases

yields. Small and medium enterprises as long as the right opportunity, make these gaps to joint sales network will be more than the big circle market. Small and medium enterprises should be taking advantage of the flexible, strong adaptability,

4.4 Virtual Business Strategy

Virtual management strategies is essentially of a resource allocation model which loan, consolidation of external resources, in order to enhance the competitiveness of enterprises. Virtual management focus on the utilization of resources, rather than control resources, it pursues is the organizational structure of the weakened entity form as far as possible, maximize the use of external resources, achieve all-round “leveraging campaigns” purposes. Therefore, virtual management have leveraging function to the development of small and medium enterprises, the result is that make the modern enterprises in organizational structure and mode of operation to fundamental change, business operations and management will also be “control-oriented” to “orientation”.

REFERENCES

- CHEN Han (2002). Analysis of Competitiveness of Small and Medium Enterprises. *Modern Economic Discussion*, 12, 18-20.
- FAN Chunliang (2006). *Knowledge Economic*. Zhuhai: Zhuhai Publishing House.
- FU Shali (2005). Use of Modern Management Theory to Enhance SMES' Competitiveness. *Social Sciences*, 06, 37-40.
- GUO Hongling & ZHAO Yong (2003). The Research on the Development Strategy Model for Small and Medium Sized Enterprises. *Journal of Southwest Jiaotong University (Social Sciences Edition)*, 01, 33-35.
- GUO Yan & ZHANG Shiyong (2003). Virtual Strategic Alliances of Small and Medium Enterprises for Sustainable Competitive Advantage. *Journal of Tianjin University (Social Science Edition)*, 02, 57-59.
- HE Pingran & ZHANG Surong (2008). Analysis and Suggestion to International Competitiveness of SMES of China Lack. *Modernization of the Mall*, 3, 45-47.
- LI Xingong (2006). Constructing Social Capital Environment and Promoting Enterprise Technological Innovation. *Contemporary Economic Research*, 8, 52-53.
- SHI Junwei (2002). Virtual Economy: New Trend of Small and Medium Enterprises. *Economic Review*, 7, 35-36.
- TANG Zhifang (2002). Study on the Development Strategy of Small and Medium Enterprises in the Era of Knowledge Economy. *Economist*, 05, 29-32.
- WU Jingzhe (2001). *Contemporary World Knowledge 200 Questions*. Beijing: China Youth Publishing House.
- WU Jisong (2003). *Knowledge Economic*. Beijing: Beijing Science and Technology Press Release
- YANG Xihuai (1999). *Enterprises Strategic Management*. Beijing: Higher Education Publishing House.
- XIE Chaowu & ZHENG Xiangmin (2002). Information Technology and Reconstruction of the Competitiveness of Small and Medium Enterprises. *Economist*, 05, 42-43.
- YAN Guanghua & LIN Ming (2003). Research on Strategic Management of Foreign SMES. *Foreign Economics and Management*, 9, 24-25.