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MASSEY UNIVERSITY

Guanxi and government policy: A Chinese SME perspective

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Abstract

Deng Xiaoping's economic reform in 1978 was seen as a new beginning for the Chinese SME sector as, previously, no private businesses were allowed. In the past three decades, the government has played a vital part in fostering the development of Chinese SMEs in terms of enacting policies and providing support. Currently, no empirical research has been carried out to investigate the effectiveness of government policies from the point of view of the SME owners. The basic research question addressed in this thesis is: How do Chinese SME owners/managers perceive government policies in mainland China?

First-hand information was collected in 2009 through face-to-face interviews with 210 SME owner/managers of businesses located in three regions with different economic development conditions and stages. All the participants were reached through personal contact, either by business owners' friends or local government officials, which ensured the research's response rate was 100%.

The findings showed that Chinese SME owners do not perceive any role for their participation in political decisions and processes, but they are affected both positively and negatively by the policies and the way they are administered at the regional level. Major problems that concerned the owners were the effectiveness of the policies as many do not translate well to the real conditions of SMEs and the unlawful practices of local government officials. However, one element of the Chinese culture, *Guanxi*, is very important for Chinese SMEs. Good relationships with local government officials can help SMEs easily get resources and information.

The study also shows that the government provides more services and support to SMEs. However, the size of the business and the industry that SMEs are in control whether SMEs can enjoy the services. Only larger businesses and those in the industries encouraged by the government can benefit from government support. The location of SMEs is also associated with the attitudes that SME owners have towards the effectiveness of government services. Those in developed areas were making more requests to the government for better and more effective support.

Although the government policies, especially those concerned with the SME sector, are having a great impact on Chinese SMEs, the growth of SMEs largely relies on SME owners. The government services and support still lag behind SMEs' needs, and the services are seen by SME owners as inefficiently administered. For SMEs to continue to develop as a business sector that contributes more to China's growth, greater contact between academics, the SME sector, and the government is necessary so that policies and support can be more closely aligned to the needs of SMEs. The measures in tackling the unlawful practices of the local government officials are also important.

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Abbreviations

Abbreviation	Full term
ACFIC	All China Federation of Industry and Commerce
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
CAS	Chinese Academy of Sciences
CCP	Chinese Communist Party
CCPCC	Chinese Communist Party Central Committee
CCTVs	Closed-circuit televisions
CICASME	China International Cooperation Association of SMEs
CISMEF	China International SME Fair
EU	European Union
FDI	Foreign direct investment
FTA	Free trade agreement
GDP	Gross domestic product
GNP	Gross national product
HM	Her Majesty
IT	Information and technology
MIIT	Ministry of Industry and Information Technology
NDRC	National Development and Reform Commission
NPC	National People's Congress
OECD	Organisation for Economic Co-operation and Development
PBC	People's Bank of China
PEST	Political, economic, social, and technological environments
PRC	People's Republic of China
R&D	Research and development
ROAMEF	Rationale, objectives, appraisal, monitoring, evaluation, and feedback
SAIC	State Administration for Industry and Commerce
SASAC	State-owned Assets Supervision and Administration Commission
SAT	State Administration of Taxation
SEZ	Special economic zone
SME	Small and medium-sized enterprises
SOE	State-owned enterprises
S & T	Science and technology
TVE	Township and village enterprise

UNESCO	United Nations Educational, Scientific, and Cultural Organization
UK	United Kingdom
USA	United States of America
VAT	Value-added tax
WTO	World Trade Organization

1. Introduction

The People's Republic of China (PRC), over the last six decades and under the leadership of the Chinese Communist Party (CCP), has experienced dramatic social, political, economic, and cultural changes, and has also attracted world attention. China has not only developed economically, but the Chinese people's living standards have also increased significantly compared to the conditions in 1949 when the PRC was founded. The changes that have happened in China are described by President Hu Jintao in his report at the 17th National Congress of the CCP in 2007. He stated that China has been transformed from a closed or semi-closed state to being one that has become open to the world, and from a highly centralist and planned economy to a 'socialist market' (The CCP Central Committee, 2007). The death of Mao Zedong in 1976 marked the end of the Soviet-style socialist system and also the end of absolute rule by one individual (Li, 2011). The socialist system was marked by the existence of State Owned Enterprises (SOEs), described as "huge monsters" (Wu, 2007b, p. ix) because almost every SOE could operate any social function. The only thing they did not have was a crematorium. The new system was established based on market distribution, where the marketplace is determined by supply and demand. Private business activities, which were banned during Mao's era, were allowed under the new economic system. This provided an opportunity for the development of Chinese small- and medium-sized enterprises (SMEs), and now the Chinese SME sector has become the mainstay of the Chinese economy. Before looking deeper into the Chinese SME sector, it is important to know what the term 'SME' means and what role it plays in an economy.

1.1 Defining Chinese SMEs

Currently, there is no single agreed international definition of SMEs, the characteristics of which reflect the economic, cultural, and social dimensions of each country. Therefore, different criteria are used for different countries (Organisation for Economic Cooperation and Development [OECD], 2004a). Various SME definitions are applied across countries. Employee numbers is just one defining criterion for SMEs; others, such as turnover, financial assets, and sector, can also be applied.

In 2011, the *Categorising Criteria on Small and Medium-sized Enterprises* were approved by the Chinese State Council. These criteria were jointly written by the State Development Planning Commission, the State Economic and Trade Commission, the National Statistics Bureau, and the Ministry of Finance. Within the new criteria, instead of the previous seven industries, the government has defined 16 industries, each of which has its own standards based on sector, headcount, turnover, and financial assets. The new criteria also define micro-sized enterprises in detail for the first time, showing that the government has started to pay more attention to the development of micro- and

small-sized businesses and suggesting that they will receive more support from the government (Fei, 2011). The industries are also defined in more detail.

The criteria are not consistent across the industrial sector, which reduces their comparability. For example, the agricultural, forestry, animal husbandry, and fisheries sectors exclusively use annual revenue as a criterion to define SMEs: medium-sized enterprises are those that have an annual revenue of between 5 to 200 million Chinese *Yuan*; small-sized enterprises 0.499 million to 5 million; and micro-sized businesses less than 0.499 million. For the other 15 industries, two additional criteria are used: headcount and total assets (shown in Table 1). Table 2 lists three industries that use total assets with either headcount or annual revenue as criteria to categorise SMEs. For other non-specified industries, employee number is used as a criterion. Medium-sized enterprises are those that have 100 to 300 employees, small-sized enterprises 10 to 99 employees, and micro-sized businesses less than 10 employees.

Table 1

Industries With Employment and Annual Revenue for SMEs in China

Sector	Employment	Annual revenue (Ten thousand *Yuan*)
Manufacturing	Medium: 300 – 1,000	2,000 – 40,000
	Small: 20 – 299	300 – 1,999
	Micro: < 20	< 300
Wholesale	Medium: 20 – 200	5,000 – 40,000
	Small: 5 – 19	1,000 – 4,999
	Micro: < 5	< 1,000
Retail	Medium: 50 – 300	500 – 20,000
	Small: 10 – 49	100 – 499
	Micro: < 10	< 100
Transportation	Medium: 300 – 1,000	3,000 – 30,000
	Small: 20 – 299	200 – 2,999
	Micro: < 20	< 200
Warehousing	Medium: 100 – 200	1,000 – 30,000
	Small: 20 – 99	100 – 999
	Micro: < 20	< 100
Post	Medium: 300 – 1,000	2,000 – 30,000
	Small: 20 – 299	100 – 1,999
	Micro: < 20	< 100
Hotel	Medium: 100 – 300	2,000 – 30,000
	Small: 10 – 99	100 – 1,999
	Micro: < 10	< 100
Food and beverage	Medium: 100 – 300	2,000 – 10,000
	Small: 10 – 99	100 – 1,999
	Micro: < 10	< 100
Information transmission	Medium: 100 – 2,000	1,000 – 100,000
	Small: 10 – 99	100 – 999
	Micro: < 9	< 100
Software and IT services	Medium: 100 – 2,000	1,000 – 10,000
	Small: 10 – 99	50 – 999
	Micro: < 10	< 50
Property management	Medium: 100 – 300	1,000 – 5,000
	Small: 100 – 299	500 – 999
	Micro: < 100	< 500

Source: Chi, Chen, Xie, & Ye (2011, p. 63).

Table 2

Industries with Employment, Annual Revenue, and Total Assets for SMEs in China

Sector	Employment	Annual revenue (Ten thousand *Yuan*)	Total assets (Ten thousand *Yuan*)
Construction	Medium: N/A	6,000 – 80,000	5,000 – 80,000
	Small: N/A	300 – 5,999	300 – 4,999
	Micro: N/A	< 300	< 300
Real estate development and management	Medium: N/A	1,000 – 200,000	5,000 – 10,000
	Small: N/A	100 – 999	2,000 – 4,999
	Micro: N/A	< 100	< 2,000
Leasing and business services	Medium: 100 – 300	N/A	8,000 – 120,000
	Small: 10 – 99	N/A	100 – 7,999
	Micro: < 10	N/A	< 100

Source: Chi, Chen, Xie, & Ye (2011, p. 63).

1.1.1 The changes in defining Chinese SMEs

Yao (2005) explains the changing process of describing Chinese SMEs. When the PRC was founded in 1949, enterprise size was determined by fixed assets. In 1962, the criteria were changed to employment size: enterprises that employed more than 3,000 people were considered large enterprises; 500 – 3,000 people were considered medium enterprises; and fewer than 500 people were considered small enterprises. The criteria were then changed to overall production capacity in 1978. In 1988, industry-specific criteria were adopted by the government: enterprises that produced single products were determined by production capacity, and enterprises that produced multiple products were determined by fixed assets. The criteria were corrected again in 1999 when sales revenue and total assets became the standard. Enterprises with annual sales revenue of over 500 million Chinese *Yuan* and total assets of over 50 million Chinese *Yuan* were categorised as medium enterprises, while those with annual sales revenue and total assets of less than 50 million Chinese *Yuan* were categorised as small enterprises. In 2003, the *Interim Categorising Criteria on Small and Medium-sized Enterprises Regulations* were published and, although these apply to different industrial sectors, the major elements of consideration cover employment size, revenue, and the total assets of enterprises (Yao, 2005). In 2011, new criteria were released, but these are the same as those of 2003; however, a business only needs to meet one or two of the criteria rather than meeting three criteria at the same time. Table 3 presents the changes in criteria for Chinese SMEs since 1949.

Table 3

The Changes in Chinese SMEs' Criteria

Year*	Criteria
1949	Fixed assets
1962	Employment size
1978	Overall production capacity
1988	Production capacity and fixed assets
1999	Sales revenue and total assets
2003	Employment size, revenue, and total assets
2011	Employment size, revenue, or total assets

*Before 1978, the definition only applied to SOEs.

Yao (2005) believes that the criteria for Chinese SMEs have two characteristics. Firstly, they are subject to rapid change (six times from 1949 to 2011). Secondly, the standard has gradually increased, becoming more industry-specific and reflecting Chinese economic development. Compared to the criteria before 1999, that of 2003 covers broader industries, such as manufacturing, construction, and the service sectors. Further new criteria were introduced in 2011 because the 2003 standards could not meet the economic development and industrial changes, and also because the micro- and small-sized enterprises could not attain government support after the financial crisis started (Ministry of Industry and Information Technology [MIIT], 2011a). The latter criteria for enterprises are not only based on production capacity, but also on employment numbers. Therefore, the new and more detailed criteria have expanded their coverage to almost all the important industries in the Chinese national economy. Different criteria have been adopted to define SMEs according to each industry's specific characteristics. In addition, defining micro-sized enterprises helps the government to enact targeted policies to businesses of different sizes, and micro-sized enterprises can now receive more support in accessing capital (MIIT, 2011b).

1.1.2 Ownership structure of Chinese SMEs

There are three basic forms of ownership recognised in Chinese law: sole proprietorship through the Individual Proprietorship Enterprise Law enacted in 1999; partnership through the Partnership Enterprise Law passed in 1994; and company through the Company Law promulgated in 1997. Beyond these three forms, another four types of SMEs exist: individual households, collective enterprises, joint stock cooperative enterprises, and SOEs (Li, 2010). In 2010, individual households were the main form of SMEs, accounting for 75% of Chinese SMEs. Among the remaining 25%, 69%

were in the form of companies, followed by sole proprietorship (11%). Collective enterprises accounted for 7%, and 5% of them were small- and medium-sized SOEs. Partnership, joint stock cooperatives, and other forms of enterprises shared the remaining 19% (Li, 2010). Different from the partnership enterprises, shares in joint stock cooperative enterprises are owned by business owners and employees, and this form of enterprise was allowed by the Chinese government in 1997 (State Commission for Economic Restructuring, 1997). Garnaut, Song, Yao, and Wang (2001) further discuss that, depending on the form of ownership of the company, employees experience different benefits and drawbacks within their packages. In SOEs, employees can enjoy health insurance and pension or housing benefits fairly. In non-SOEs, employees may or may not have these benefits, and the decision as to who can enjoy these benefits and how are made by the owner. However, despite the form of ownership, employee involvement in the decision making process in Chinese enterprises is always limited.

1.2 The Development of Chinese SMEs

Without a doubt, the significant role that SMEs play in economies is recognised by nearly all governments and academic researchers. Ayyagari, Beck, and Demirguc-Kunt (2007), in a study comparing the contribution of the SME sector to GDP in 35 countries, found that around 50% of GDP in developed countries comes from SMEs, like 51.45% in the United Kingdom (UK) and 48% in the United States of America (USA). The SME sector's contribution to China's GDP is also remarkable, accounting for 60% in 2009 (Li, 2010). In addition, the great contribution of SMEs in solving the unemployment problem in developed countries has also been well documented (Birch, 1997; Storey, 1994). Currently, 75% of the Chinese workforce is employed by SMEs (Li, 2010). As the new criteria were only issued in 2011, the current numbers of SMEs based on the new criteria are not available; consequently, the statistics given in this section are based on the old criteria. Chinese SMEs play an important role in China's economy and, based on the latest official statistics provided by the government (2010), there were 42 million SMEs in China, which accounted for 99.8% of the country's enterprises; 60% of GDP; 60% of exports; 50% of tax revenue; and 75% of job opportunities in 2009 (Li, 2010). Within the 34 years from 1978-2012, the Chinese SME sector has experienced rapid growth from its infancy to now being such an important player in China's economy. The development of the Chinese SME sector can be seen as the epitome of the last 30 years of Chinese economic reform.

However, the Chinese SME sector, just like the Chinese economy, has experienced dramatic changes over the last 60 years. The central government has completely changed its policy stance towards the private SME sector from banning it to recognising it as the engine of growth. During the Mao era, all private enterprises were transferred to public ownership, but the status of SMEs in the national economy has increasingly been encouraged by the central government since the economic reforms of

Deng Xiaoping. After private businesses received legal status in 1978, the SME sector was recognised as supplemental to the socialist economy in 1982. However, in the early 1980s, Chinese people thought it was very shameful to work in privately-owned firms as they were still seen as the 'capitalist tail', translated as 'capitalist leftovers'. This relates to the perception that this form of business was what remained when other capitalistic forms had been removed. At that time, the owners of small private enterprises were almost all from the lower strata of Chinese society with low levels of education and literacy (Wu, 2008). However, no one could have predicted that these people would come to play such an important role in PRC history. During the 1980s, the Chinese changed from looking down upon private business owners to being jealous of their much higher earnings than people working in SOEs (Wu, 2007b). Their courage and the lack of laws on SME-related issues made many first generation private business people succeed (Yu, 2005). A successful private business owner explained to Yu (2005) that he could not have been as successful if he had been in a Western market economy because when he first started his business in the 1980s, many business operations in China were illegal. However, government policies on SME operations have gradually improved since the status of the SME sector has increased. Thus, nowadays, one of the keys to success of using loopholes in the legal system in the 1980s has almost become impossible.

In 1988, the SME sector changed from a supplement to becoming a necessary support of the socialist market economy. Eventually, the poor performance of SOEs led to their privatisation by the central government in the 1990s. Since 1997, SMEs have become essential components of the market-based socialist economy (Cunningham, 2011). In 2002, private entrepreneurs became Party delegates and were allowed to attend the National Congress for the first time, but only six private business owners were selected. Ten years later, at the 18th National Congress held in November 2012, the number of delegates chosen from the private business sector increased to 34. The greater number of private entrepreneurs indicates the increasing status of the private business sector; further, entrepreneurs are now allowed to participate in the decision-making process of the country's fundamental policies (Zhang & Chen, 2012).

1.3 The Rapid Development of the Chinese Economy

The Commission on Growth and Development's (2008) report investigated the economic growth of economies around the globe. Only 13 economies have grown at an average rate of 7% per year for more than 25 years since the 1950s. They are Botswana, Brazil, China, Hong Kong, Indonesia, Japan, Malaysia, Malta, Oman, Singapore, South Korea, Taiwan, and Thailand. Among these economies, China's economic growth from 2008 to 2011 has gone beyond the average rate of 7% per year. Deng Xiaoping's Open Door Policy in 1978 and China joining the World Trade Organization (WTO) in 2001 are the two most remarkable events in PRC history. They have helped China's sustainable growth and increased its active participation in the global economy. As discussed in Section 1.2,

Deng's economic reforms legitimised the status of private businesses and, since then, the SME sector has played a vital role in China's rapid development. In addition, the high investment rate has also assisted China to maintain a consistent growth rate (Yuan, 2008). China is now recognised as an emerging and transitional economy because of the rapid growth caused by economic liberalisation and the transition in the economic system (Hoskisson, Eden, Lau, & Wright, 2000).

Reforms became necessary when Deng Xiaoping came into power in 1976 because Chinese economic and social conditions were in ruin due to the effects of the Cultural Revolution that had lasted for 10 years. Deng Xiaoping and other Chinese leaders visited more than 50 countries in 1978. The lag in economic development between China and other countries made the Chinese leaders decide to initiate reform and open up the country (Zhang, 2004). Deng's ideology of learning from other countries' advanced managerial experiences and technologies played a vital role in deciding the objectives and processes of Chinese economic reform. In the 1970s, China was not only economically backward and severely impoverished, but it also had a shortage of talent, funds, goods, and materials. This condition made the Chinese government realise that reform needed to be made gradually with an overall plan and clear reform objectives rather than a sudden change from one economic system to another (Lin, 2008). The Chinese government imported the Western concept of macroeconomic control in 1987 (Lin, 2008). Since then, the Chinese government has used this macroeconomic system to regulate the market, which then guides business enterprises. This system has successfully been implemented and has helped the Chinese economy to grow quickly (Yang & Shi, 2011).

At the beginning of the reforms, Chinese leaders did not have any specific goals or strategies, so any policies or systems that could enable China to recover its economy and stabilise society were welcomed (Wu, 2008). Since then, China has begun progressive reforms by absorbing Western knowledge and investments. Spence (2008) notes that the Chinese leaders realised that the most essential element for the success of Chinese economic reform was government recognition of the importance of research into other economies. The Chinese government learnt from different countries, international organisations, and professionals, and then integrated this knowledge into the reforms. However, Spence (2008) also suggests that China, being a Communist country, is very different from Western economies. Therefore, not all models of economic development that have been tested and used by Western economies have been applied to China. The Chinese government has had to make decisions when development trends could not be fully predicted, and Spence (2008) suggests that this might be an important factor in China's success. This success could also be due to the Chinese government, which did not simply replicate the Washington Consensus, but also integrated Western economic policies and market-based approaches into its unique national condition and socialist system. This distinctive approach is recognised as 'the China model' (Breslin, 2011; Zhang, 2011). It is a mixture of Chinese tradition and modern concepts and is a product of interacting with the world (Zhang, 2011).

When looking back on the development of the Chinese economy over the last few decades, Long Yongtu, the chief negotiator for China's entry into the WTO, gave his opinions in an interview on the changes that China has experienced. Long concluded that the biggest change was that everything in China develops so fast; this, in turn, raised the question of whether China is ready to face the dynamic changes that come with being a part of the international community (Wang & Wang, 2011). In the interview, he used a fable, which was told to him by an African parliamentarian, to describe the current situation in China. Africans are famous for their fast running ability. However, they stop and have a rest before they reach the top of a mountain as they need to wait for their souls to catch up. Long applied this fable to the current situation in China as the Chinese government has focused on the economic side of development ever since the start of the economic reforms in 1978 and has tried hard through every means to continue the GDP increase every year. However, China seems to have paid too much attention to the GDP growth rate and neglected other areas, such as the development of culture and education (Wang & Wang, 2011). Wu (2012a) believes that Deng's theory laid the ground work for the following Chinese leaders to keep a watch on the growth of GDP. In 1978, Deng Xiaoping used the phrase, 'no matter if it is a white cat or a black cat, a cat that catches a rat is a good cat,' to encourage the government and Chinese people to use so-called capitalistic measures, such as private ownership, to promote economic development (Yu, 2008).

1.4 The Role of the Government in the Business Sector

The emergence of the modern state, from feudalism to the rise of capitalism in the West, has encouraged numerous scholars wanting to look at how governments have administered the system in various countries. Early studies done by Max Weber, Georg Hegel, and Woodrow Wilson have provided classic public administration principles for governments. They each have different views on public administration, but one aspect Weber believes is that politics should be separate from administration; in contrast, Wilson and Hegel stress harmonious relations between the two elements (Sager & Rosser, 2009). Therefore, based on their discussion, Knowles (2002) summarises that the key task of government is to effectively operate the economy and administer justice. Clark (1998) emphasises that society's prosperity and justice cannot be attained solely by either the market or the government but that there needs to be a balance of both economics and politics to sustain a healthy society. The interaction between the market and government helps individuals and communities to achieve their goals. The interdisciplinary approach between economics and politics has been studied at both the national economy and business levels.

Although all governments have a certain degree of intervention, Coen, Grant, and Wilson (2010) have found three different approaches used in various capitalist countries. Firstly, some governments, such as the UK and the USA, tend to limit their direct involvement in industry, but use macroeconomic policies to pursue long term goals and encourage stable growth. Secondly, some governments, such as

those in the Scandinavian countries, also have limited direct involvement but work together with business in a collaborative partnership. Thirdly, governments such as Japan, South Korea, and France have adopted explicit intervention policies. In these countries, economic development is planned and led by the government.

Besides the role of government at the national economy level, the relationship between business and government is also dynamic and complex; it varies over time and differs according to countries, sectors of the economy, or even firms. Generally, the role of government is to set up guidelines through promulgating public policy. Policy is a product of political influence, and it determines and also sets limits on what the state does. Further, it is also composed of principles that provide the foundation upon which laws, regulations, and other decisions made by government are based (Hill, 1993). By using policy to set basic goals, plans, and actions, governments can achieve their purpose of ensuring the public interest (Lawrence & Weber, 2011). However, the concensus is that governments should reflect the nature of the economic system which, in turn, influences the modernisation of the economy (Ringer, 2004; Wilson, 1969).

Although China is a communist country and its political and economic systems are totally different from capitalist countries, the Chinese government plays similar roles in the national economy and in the business sector as its counterparts. The creation of the national economic development strategy and its encouragement of the Chinese SME sector show the vital role that the Chinese government plays in economic development. However, for the Chinese business sector, the interrelationship between the government and the business sector is closer than that of Western countries and is always intertwined. Fairbank (2003) questions why the Chinese business class could not disengage itself from its dependence on the government and become an independent industrial or business operating power. By studying Chinese enterprise history from the first Chinese dynasty until the present, Wu (2012b) concludes that the development of Chinese enterprises is a result of a continuous game between politics and the business sector.

In relation with the business sector, both the central and local Chinese government officials have always been directly involved in enterprises' development. Wong, Wei, and Tjosvold (2011) find that although Chinese government officials under the socialist market economy have less power and authority than they did in the centrally planned period, they are still very influential in China. Thus, there is still a close relationship between government and business. The reason for this is that one of the most distinctive features in Chinese culture, *Guanxi*, which means social networks, is deeply embedded in every aspect of Chinese society. Further discussion on *Guanxi* will be provided in Chapter 3. From a transaction cost perspective, networks serve as transaction cost minimising devices to facilitate exchange among members (Williamson, 1993). Such an economising function is especially important for firms in transitional economies like China because other alternatives, such as

market exchanges and hierarchical solutions through mergers and acquisitions, are not readily available (Peng & Heath, 1996). Xin and Pearce (1996) suggest that as long as the boundaries between the government and the firms remain blurred, managers will always have a strong incentive to network with officials.

Along with the Chinese central government's deregulation that started in 1979, local governments have also been granted more power to develop local economic conditions (So, 2003). This means the central and local Chinese governments have different responsibilities for economic growth. The central government has a responsibility to manage the comprehensive industrial economy, but the local governments only need to monitor a small number of firms (Walder, 1995). Thus, deregulation plays an important role in the development of SMEs in China. Local governments become regulators of their regions and are responsible for generating revenues in their economies, determining the structure of local expenditure, and providing supportive infrastructure by initiating local policies and services to foster and oversee the business sector (Qian, 2003). Thus, the local states, comprising of village, town, and county level governments, have been directly responsible for the remarkable growth of rural enterprises in China (Qian & Xu, 1993).

After decentralisation, governments at the local levels have become regulators of the economies within their jurisdictions. This also makes the attitudes of local governments towards the market an important issue (Smallbone & Welter, 2012). The current local experimentation is a key to the success of Chinese economic reform. The success and fast development of private businesses in Jiangsu and Zhejiang provinces since the 1980s shows that deregulation gives local governments more power to design and implement their developmental plans based on the local conditions (Chow, 2002). As a result, not only has private business enjoyed rapid development, but local revenue has also increased dramatically (Naughton, 2007). Following the rapid growth of SMEs and their positive impact on the local economic development in Jiangsu and Zhejiang provinces, deregulation became more widespread in the 1990s (Huang, 2005). All the local governments in China started to grant special orders to evaluate private enterprises. At the same time, discriminative practices against private enterprises started to lessen and the complex administrative procedures have eased. Thus, Zhou (2011) believes that both Chinese central and local governments play a positive role in the growth of Chinese SMEs. The central government removes key ideological and regulatory restrictions on the existence of private enterprises and local governments lift predatory and discriminatory regulatory policies, thus promoting the growth of private enterprises.

1.5 The Unique Chinese Culture

What also makes China so unique is that it has 5000 years' worth of rich history and culture. Even in this age of globalisation, traditional Chinese culture still has a strong impact on the Chinese people and is one that differentiates the way Chinese people see and do things. Wan (1999) uses a story to describe how difficult it is for people from different cultural backgrounds (China and the West) to understand each other. A mother lost her child and a young man came and comforted her so she would not be too sad. The mother then asked the young man: 'Have you got any children? How can you know my feelings?' The underlying message of this story is that people's feelings cannot be fully understood unless others have had the same experiences. This also applies to the difficulty in understanding the cultural differences between China and the West. It is true that globalisation has brought Western practices and knowledge to China, but those Western companies trying to enter the Chinese market and do business with Chinese partners need to learn Chinese business etiquette to do well. It appears that there can still be misunderstandings between China and the West, and both Chinese and Western people still have trouble fully accepting different ways of thinking. Thus, a better understanding of the Chinese culture will help the West to understand how Chinese people think and behave and the impact that culture has on the Chinese business people.

1.6 Theoretical Framework

The theoretical framework adopted in this thesis is institutional theory. There are three theories that specifically observe the relationship between the government and the SME sector: population ecology, local corporatism, and institutional theory. All these theories suggest that government plays a role in the external environment that allows businesses to survive. Population ecology discusses that sometimes the environment can be designed or changed by the government through enacting policies in order to provide a better and more desirable environment for the population (Aldrich, 1990; Wang, 2011). Local corporatism emphasises the interaction between government and business associations which, in turn, have an impact on individual firms (Lehmbruch, 1984; Schimitter, 1989). In contrast, institutional theory provides a broader view of the impacts of different institutional factors, such as norms, regulations, and culture on the society, and also stresses the vital role that the government plays in a society in terms of setting out the rules and procedures to regulate the market, organisations, and individuals (North, 1990; Shane, 2003). This institutional theory proposes that different forms of institutions can shape human interaction and the development of the business sector by setting operational rules for society and governing economic and market activities (Peng, 2003). Thus, the economic environment can be seen as being in an intermediate position between the government and the business sector. More detailed discussion on these three theories is given in Section 2.3.6 and Section 2.3.7.

Institutional theory is used as a theoretical framework for studying SMEs in China as the multi-level analysis in this theory provides a comprehensive review of the interrelations between government policy and the SME sector in China. This theory is especially useful when studying emerging economies and post-socialist countries such as China because the external environment in these countries is more unstable. Changes not only occur in economic settings, but also in political and social surroundings. Unstable environments and inefficient formal institutions make economic activities and SME owners/managers' rely heavily on informal institutions. Thus, both formal and informal institutional factors play important roles in transition countries.

1.7 Statement of the Problem

In recent years, the Chinese SME sector has attracted more and more attention from the government due to its contribution to the economy. The government has enacted and amended policies and set up different programmes to encourage the development of Chinese SMEs. For example, a substantial proportion of funding has been granted to SMEs. However, many SMEs still complain that they cannot get loans from the banks. So the question arises, where does this money go? Also, the Labour Contract Law, which encourages the relationship between businesses and their employees to be based on a contract, has been promulgated by the government. This law is considered to be a progressive step for Chinese SMEs to replace the old practice of the rule of man, which is built on moral concepts and a social conscience, to the rule of law. However, some of the rules in this law are difficult for SMEs to implement because the actual conditions that Chinese SMEs face do not allow for them to be applied. There is a famous story in the book, *Mencius* (one of the classic books of Confucianism), that describes how eagerness for success can bring bad consequences. A man of the State of Song was worried about his seedlings growing too slowly. He pulled up the seedlings one by one and came home exhausted, saying to his family, 'I am tired out today because I have helped the seedlings to grow.' Hearing this, his son hurried to the fields and found that all the seedlings had shriveled up. Sometimes the Chinese government is like the impatient man in the story who wants the Chinese SMEs (seedlings) to grow quickly to achieve the required goals set through policies. In some cases, this is unhelpful and can actually harm the SMEs if the government does not take into account the needs and wants of SMEs and if the policies ignore the realities of running a business.

In addition, Storey (1994, 1998) recognises that, although there have been many policies introduced by the government, they were poorly specified and piecemeal in nature. The objectives were stated, but in 'politician-speak', such as 'to enhance key management skills in the small business', which made it difficult to determine whether the policies were successful or not. Curran (2000) also discovers that the number of small businesses increased rapidly in the 1990s in the UK, but their reports of success in creating jobs have been controversial. However, the UK official statements claimed that SME growth was successful in both direct and indirect ways. This problem could also be

happening in China. In recent years, China's official data problems have attracted a great deal of attention (Rawski, 2001; Wang, 2009), and law enforcement is also criticised by researchers and observers (Carlson, 2005; Shear, 2009). Davidsson's (1991) study shows that the business owners' subjective opinions or 'reality–as perceived' have an impact on their growth motivation and direct behaviour. Thus, it is worthwhile getting first-hand information from Chinese SME owners to examine the effectiveness of government policies and programmes. To date, there has been little empirical research done in this area.

1.8 Significance of the Thesis

The main significance of this thesis is that it expands the current understanding of Chinese SMEs and contributes valuable insights into the attitudes that Chinese SME owners have towards the government's policies. Nietzsche said that "there are no facts, only interpretations" (Kaufmann, 1954, p. 458). This thesis is different from other studies that have discussed the SME sector from the government's point of view. It concentrates on seeking the perceptions of Chinese SME owners/managers towards government-related issues. A perception, defined by the Concise Oxford Thesaurus (2007, p.612), is "an idea, a belief or an image you have as a result of how you see or understand something". Thus, it is important to find out Chinese SME owners/managers' perceptions because the way they see and understand the policies are the facts they view, and their behaviours come from their view of such facts.

This thesis is important for three interest groups: policymakers, academia, and the SME communities for three basic reasons. First, the findings of this thesis are important for the policymakers because the present implementation of some policies does not match their stated purpose, and the Chinese SMEs' needs are not fully known by the government and academia. Also, not much research has been done in this area. Thus, the government may be able to enact new policies or adjust those that are seen to be unreasonable. This would promote the development of the SME sector and improve their needed services so as to further develop SMEs in general. Second, this thesis provides a better understanding of Chinese SME owners' perception of their operational environments. It also contributes to current research practices in China as it shows that interview techniques are an effective way to conduct research in China. Third, it can also be important for Chinese SME owners because it clarifies how to actively communicate with government agencies to get timely information on government programmes and policies.

1.9 Research Approach

1.9.1 Research questions and objectives.

The purpose of this thesis is to establish Chinese SME owners/managers' views on the effectiveness of current government policies in relation to their businesses. Government policies in China are important and should have an impact on the development of SMEs. Recent policies and programmes have been instituted by the Chinese government to try to promote growth in the SME sector. Thus, it is necessary to review whether these are helping the development of Chinese SMEs by talking to those involved with the SMEs themselves. Therefore, the fundamental research question of the thesis is:

How do Chinese SME owners/managers perceive the government policies in mainland China?

To address this question, this thesis has four research objectives. These are as follows:

- To determine SME owners/managers' awareness of current policies and programmes;
- To observe their understanding of current policies and programmes;
- To discover and document their attitudes towards these policies and programmes; and
- To analyse their suggestions for current or future policies and programmes.

1.9.2 Delimitations of the thesis.

The delimitations utilised in this thesis are determined by addressing the basic research question of having a better understanding of the attitudes that Chinese SME owners/managers hold towards current policies or programmes. In this thesis, the policies and programmes are limited to those that have a direct impact on the SME sector, either issued specifically to SMEs or having a direct influence on SME operations. The government programmes are the plans or events organised by the government in SME-related areas with the purpose of supporting the growth of SMEs. Formal institutions that are used in the questionnaire refer to any government departments, agencies, or services that relate to the business sector. In contrast, informal institutions represent any organisations not established by the government that provide services to SMEs. The participants in this study are either Chinese SME owners or Chinese SME managers in mainland China. In the analysis and presentation, the number of responses of the managers (16 out of 210) who answered on behalf of the owners of the businesses is small compared to the owners' responses and no differences were found between the two. Therefore, the results were not differentiated. In order to study a general perception of SME owners towards the government's policies, the participants are not limited to any particular ownership or sector.

A government's power to make policy relies on a nation's political system, and such power has different levels. In the case of China, power is basically a three tier system: central, provincial, and

local (including city and county) levels. This means that both the central government and the local governments in China have power to make policies. The national policies are enacted by the central government and must be implemented by all the regions. In contrast, provincial policies can vary and are only effective within a particular region. In order to make the research results valid and comparable so as to provide a holistic view of Chinese SME owners' perceptions on government policy, only the policies and systems that are made and overseen by the central government are selected and discussed. These are the SME Promotion Law, the Labour Contract Law, the taxation system, and the banking system.

1.9.3 Methodology.

A mixed methods approach is used in this thesis, combining the use of structured interviews with both closed- and open-ended questions in the collection of data. All 210 participants were contacted through *Guanxi (*social networks), such as introductions by friends or relatives. Goodman (1996) suggests that the lack of access to information about the range of experience in China is a fundamental problem for doing research there. At the same time, Chinese businesses, especially small or medium privately owned firms, tend to keep a low public profile. Thus, a relationship network becomes essential for conducting research with this business sector in China (Shi, 2001).

1.10 Outline of the Thesis

This thesis is presented in five chapters. Chapter 1 introduces the background of the study, statement of the problem, significance of this study, research questions, delimitations, and methodological approaches used in this research. Chapter 2 provides a review of the literature on the relations between the government and the SME sector from the perspective of the government and the different forms of support it offers the SME sector. An analysis of the three theories that look at government and the SME sector lead to the selection of institutional theory as a conceptual framework in this research study. The research gaps are also given in this chapter.

Chapter 3 adopts three forms of institutions under institutional theory to analyse the factors that influence the SME sector in the Chinese context. The first form of institution helps to review patterns that have emerged in the development of Chinese economic history and culture. The second form gives a broad picture of the political, economic, social, and technological environments in which Chinese SMEs exist, and the third form of institution looks specifically at factors that influence the operation of Chinese SMEs. Particular regulations and government administrative agencies for Chinese SMEs and their impact on the SME sector are discussed, followed by the issues of law enforcement and the reliability of official Chinese data. The chapter then looks at problems and obstacles that Chinese SMEs face, and a model of the factors that influence Chinese SMEs is

subsequently presented. The chapter ends by identifying the current research gap in studying Chinese SMEs.

Chapter 4 describes the methodology used for this research. It begins with the fundamental research question and four research objectives that address the question. This is followed by a discussion of the research design and the reasons for choices made, and the development of the interview questionnaire. It also describes the data collection process, pilot testing, ethical considerations, and issues around the use of back translation to ensure accuracy of the questionnaire and data as it underwent translation in Chinese and English.

Chapter 5 presents the results of the interview data analysis in two parts. First, qualitative and quantitative results are presented based on the four research objectives. This is followed by the findings on significant or insignificant associations between variables from the quantitative questions. Chapter 6 contains a discussion of the results of Chapter 5 with respect to the four research objectives and previous research discussed in the literature review. Key findings and suggestions on each of the objectives and the identified research gaps in the literature are also given in this chapter. Finally, Chapter 7 contains the conclusions and implications of the thesis. A summary of the study is provided, along with the significance and implications of it for policymakers, researchers, and practitioners. The limitations of the study are also included.

2 Review of the Literature on Government Policy for SMEs

2.1 Introduction

Over the past few decades, increasing attention has been given to the SME sector by policymakers and academia. More supportive policies and programmes have been instigated, and research into various aspects of SMEs has also been carried out. The purpose of this chapter is to provide a broad review of the current literature on the relation between government policy and the SME sector by establishing what research has actually been conducted in this area. It will also look at how these two aspects are interrelated and note the key issues. The chapter starts by studying the importance of government in the SME sector, followed by four different measures taken by government to intervene in the growth of SMEs, including policies at the macroeconomic level as these policies can affect SMEs. Policies and services that are offered to the SME sector are also examined. How SME owners/managers react to government intervention is also analysed, followed by a look at current research in the field of policy evaluation. As the economic development of each country varies, thus having an impact on how governments provide policies and services to their SMEs, an analysis of how governments at different economic stages encourage SME growth is provided. A detailed investigation into three theories—institutional theory, population ecology, and corporatism—all of which study the relations between the business sector and government is given. This is followed by a comparison of the three theories with the aim of selecting the most appropriate one to examine the relationship between government policy and the SME sector in the Chinese context. Discussion on the research gaps that have been revealed through the review of the literature is also provided. This chapter finishes with a brief conclusion section that highlights the main findings from the current literature.

2.2 The Role of Government in the SME Sector

Government policy in the SME sector can generally be defined as policy initiatives designed to assist small firms (Storey, 1994). Lundstrom and Stevenson (2005) further explain that the role of policy in the SME sector is to ensure SMEs will not be prejudiced in market competition due to their smaller size compared with larger firms. SME policy has traditionally concentrated on issues related to SMEs' productivity, competitiveness, and opportunity with the aim of solving obstacles faced by SMEs. However, this definition only addresses the needs of SMEs that have been established and ignores the areas related to entrepreneurial processes, especially in the study of individuals' awareness and skills required in the nascent phase. Thus, there is an overlap between government policy in entrepreneurship and SMEs: policy affects start-ups and firms at the emerging growth stage (Lundstrom & Stevenson, 2002). Based on Lundstrom and Stevenson's argument, the scope of 'government policy' in the SME sector can be interpreted as the various ways in which government policies and actions provide better conditions, not only to established SMEs, but also to start-ups and

emerging firms (Audretsch, Grilo, & Thurik, 2007; Lundstrom & Stevenson, 2002). In addition, some scholars extend their study of the relationship between policy and the SME sector to society. Niska and Vesala (2013) propose that within the SME policy discourse, there are three players: society, policy implementers, and the SME owners. These three groups have their own roles and are also interrelated: society is the principal, policy implementers are the mediators, and the SME owners are the agents. The policy implementers are mediators of the society's interests, and their responsibilities are to ensure SMEs' perform well and that the SME sector is successful. Niska and Vesala's (2013) view is also supported by Perren and Jennings (2005), who study the relationship among the three players from the SME owners' perspective rather than that of the principal and agents; they suggest that the problem between policy initiators and SME owners stems from the society's urge to grow SMEs. Thus, society, as the principal, urges SME owners and policy implementers to grow the SME sector.

Attention from the policymakers in the development of SMEs has increased dramatically over the past few decades. Although the SME policy development in each country is different, a similar pattern can be found by looking at changes in SME policy across different economies. Recognition of the important role played by SMEs in the economy has increased, and more support has been granted to the SME sector by policymakers. Such an attitudinal change is associated with large enterprises' economic development. A government's traditional thinking of favouring large-sized enterprises can be traced back to the concept of economies of scale proposed by Adam Smith in 1776, which suggests that larger-sized enterprises are more competitive than smaller ones as they enjoy lower costs per unit of output due to their larger sizes (Silvestre, 1987). Government policy in the business sector has put more emphasis on larger corporations since then. Large corporations are considered superior to small ones in every aspect of economic performance, such as productivity, job security, and technological progress (Galbraith, 1967). The mentality of the effectiveness of large corporates has been embraced by policymakers across the world. In contrast, the SME sector has been poorly understood and its role in the national economy has also been neglected.

Since the 1970s, new attitudes towards the SME sector have emerged, and researchers have started to gain a better understanding of this sector (Acs, 2008). Carlsson (1992) explains that the key reasons for this shift are the fundamental changes in the world economy, which intensify global competition, increase uncertainty, and grow market fragmentation. Much research shows that the characteristics of SMEs, in comparison with large firms, are more suited for the rapidly changing markets, and SMEs have also become a more effective way of alleviating economic problems (Narayanan, 2001; Schaper, Volery, Weber, & Lewis, 2011; Westhead & Birley, 1995). The key differences between large and small firms lie in their organisational structure, management skills, and financial capability (Schaper et al., 2011). SMEs' informality, which shows in terms of flexible structures, is one of the significant competitive advantages that SMEs have over large businesses (Narayanan, 2001; Qian & Li, 2003).

Arie de Geus, in his well known book, *The Living Company* (1997), demonstrates that in the age of the turbulent business environment, the size of the business is no longer important for its survival. The living companies are those that are sensitive to the external environment, use decentralised management styles, and are conservative in financing. Because of SMEs' ability to more easily become established, operate, and also expand faster than large enterprises, risks and negative impacts are also less than for large enterprises (Storey, 1994). Thus, SMEs, rather than large companies, better fit in with Arie de Geus's 'living company' description. His discussion is supported by Tweed's (2006) research study, which finds that small enterprises, in reality, actually have higher rates of longevity than failure. Narayanan (2001) and Qian and Li (2003) suggest that SMEs' competitiveness comes from their ability to be innovative and respond quickly to market uncertainties. Their findings verify a study done by Wynarczyk, Watson, Storey, Short, and Keasey (1993), who think that uncertainty, innovation, and evolution are the three aspects that make small firms different to large firms. Along with the increasing role that SMEs play in contributing to economic and social development, creating jobs, and making innovations, policymakers have paid more attention to the SME sector and have tried to adopt different measures to encourage new and growing SMEs (Michael & Pearce, 2009).

However, studies show that governments still treat SMEs and large enterprises differently, with large enterprises still being more favoured by governments. Curran (2000) evaluated small business policy in the UK and finds that the aim of these supportive policies was to counter economic decline; however, in practice, government strategies still put more emphasis on large companies (Martin & Tyler, 1992). In addition, regulatory burdens are a big problem for small firms, not only for those in the start-up stage, but also for existing firms in an expansion stage (Henrekson & Stenkula, 2000). This was confirmed in a study by Crain and Hopkins (2001), which showed that the cost of federal regulation in the US for small firms was 45% greater than for large enterprises. Thitapha (2002) illustrates that SMEs in developing countries are exposed to fierce competition because of globalisation. In addition, compared with large businesses, the development of SMEs is constrained by insufficient infrastructural sources, such as finance, technology, and human resources, and limited access to information. Although governments seem to be focused on large businesses, in recent years, large companies, especially those involved in manufacturing, have developed subcontracting relationships with SMEs. These relationships could help large businesses to not only reduce input costs, but also increase flexibility and specialisations (Okatch, Mukulu, & Oyugi, 2011).

2.3 Four Ways that Government Policy Influences SMEs

Government policy is important for SMEs because it is an important factor that affects firms' successes or failures (O'Neill & Duker, 1986). Some scholars study how governments influence SMEs from different angles. Henrekson and Stenkula (2010) believe that SME policies can be broadly categorised into two sections: the side-effects of macroeconomic or microeconomic policies that are

associated with the SME sector. Smallbone and Welter (2001) give a more detailed view by looking at government intervention in the SME sector in five ways: government influence on the macroeconomic environment; government legislation on firms of different sizes; supportive policies for SMEs; government influence on economic institutions; and influence on the value placed on enterprise and entrepreneurship in society. In contrast, Lambrecht and Pirnay (2005) specifically look at policy and the SME sector, and they consider that governments use policy in two ways to help the SME sector. One is to use regulations, administrative procedures, and taxation to improve the interactions of governments and enterprises. The other is to have direct provision of various forms of business support. Summarising the similarities among all these studies means they can be grouped into two broad areas. One is policy on the broader environment that includes two sub-areas: the macroeconomic environment and the business sector. The other is specific policy related to the SME sector, which also includes two sub-areas: supportive policies and programmes. Each of these four areas will be discussed more fully in the following section.

2.3.1 Two ways policy influences the general environment.

The first way to affect the general environment is to use policy to influence the macroeconomic environment in which the SMEs exist. Policymakers use policy to impact society in a politically desirable manner in order to ensure the growth of the national economy (Hart, 2003). Thus, policy in this approach can be defined as a set of basic goals, plans, and actions that a government can use to achieve its purpose of ensuring the public interest (Lawrence & Weber, 2011). Knowles (2002) explains that policies can be used to provide an effective economy and administrate justice, the key tasks of government. Once guidelines have been determined, the government will use policy instruments, such as laws and regulations, to ensure the goals set up in their guidelines can be achieved (Jurado & Massey, 2011). Eventually, industries will be influenced, and firms within the industries will also be impacted, thus requiring managers to adjust their operations to meet the guideline requirements (Henrekson & Stenkula, 2010; Jurado & Massey, 2011). Aldrich (1990) and Wang (2011) further stipulate that sometimes the environment of a certain industry or sector could be designed or changed by the government through enacting policies in order to provide a better and more desirable environment for that population. Thus, the government can change the existing policies or introduce preferential ones to support certain sectors or industries according to the environmental conditions or the requirements of government. SMEs, as one of the participants of industry, will eventually be affected by the policies.

Smallbone and Welter (2001) also discuss that instruments, such as supportive programmes used by governments to oversee the macroeconomic environment, are important indicators for SMEs in mature market economies. Tambunan's (2008) research finds that the Indonesian government's policies that aim to support national infrastructure also have a positive impact on the development of SMEs.

Conversely, an unstable or unfavourable macroeconomic environment will have a negative impact on SMEs. Smallbone, Venesaar, Rumips, and Budreikate's (1997) study shows that in countries in transition, business owners have less interest in developing businesses with higher turnover and profits. Based on previous studies, Acs and Szerb (2007) summarise that government policies concentrating on labour market reform, deregulation of the financial markets, improving human capital, and updating technology availability are key factors for the growth of SMEs in a country.

The second way to influence the general environment is to develop policies, such as taxes on businesses, that are designed for the business sector, regardless of the size of the firms. These policies are completely neutral in intention; however, the impacts of these policies can be different on firms of different sizes because each sized business has different characteristics and operates in different circumstances (Bolton Committee, 1971). There are two different views regarding the impacts of such policies on the SME sector. On the one hand, some researchers believe SMEs can enjoy some benefits from these policies. Sobel, Clark, and Lee (2007) contend that the quality and quantity of government inputs, such as taxes, can influence the entrepreneurial process. Their stance is supported by Staber's (1989) study which shows that favourable tax policies are positively related to the emergence of new firms in Canada. Bruce and Mohsin (2006) also find that tax policy not only influences people's decisions on whether to become self-employed, but also impacts their decisions on the new firm's ownership structure. For example, when corporate income tax rates are high, businesses are more likely to be organised as unincorporated sole proprietorships.

On the other hand, SMEs sometimes have more disadvantages than large firms. Firstly, SMEs suffer more than large firms in dealing with the bureaucratic burden that is embedded in the collection of government taxes, such as value-added tax (VAT), from their employees and customers. Such taxes extract money out of the business, either by increasing salaries or pension scheme contributions, which then reduces the funds available to SME owners to expand their businesses (Poutziouris, Chittenden, & Michaelas, 1999; Sandford, Godwin, & Hardwick, 1989). Secondly, tax compliance costs have become a major concern for SMEs. Although governments have developed more pro-small-business policies, SMEs still bear a heavier burden in compliance costs that firms need to pay in order to meet legislative requirements than large enterprises (Ariff & Pope, 2002; Devereux, 1991; Sandford, et al., 1989). Pope (2008) thinks that this is because most politicians are not concerned about tax compliance costs when they provide tax incentives. Pope, Fayle, and Chen (1994) give their explanations from different perspectives. They believe that from the legal perspective, there are too many rules, regulations, and complicated corporate income tax matters. From the SME owners' perspective, they lack knowledge. SME owners have limited awareness of specific regulations, such as employment (Pratten & Lovatt, 2005), the environment (Gunningham, 2002), and also compliance variables in these regulations (Atkinson & Curtis, 2004). Therefore, compliance costs are also known as the hidden costs of taxation and are considered as a tax burden to SMEs (Sandford et al., 1989).

Kitching (2006) summarises that SMEs incur higher proportionate costs in terms of time and amount of turnover than large companies.

2.3.2 Two ways policy influences the SME sector.

Two ways that governments can influence the SME sector is through direct support policies and programmes. The purpose for governments developing these supportive policies and programmes is to assist SMEs to overcome size-related disadvantages and make them contribute more to economic development (Smallbone & Welter, 2001). The first direct support from government is SME–supportive policies. Many countries have promulgated a specific law for SMEs, which ensures they can receive full and legal support from the government. For example, the USA enacted the Small Business Act in 1953 to guarantee that SMEs could get support in different areas, such as technology, loans, and management aid (Shi & Li, 2006). In the EU, there is the Small Business Act, which is the EU flagship SME policy that guides the conception and implementation of policies in the EU. Also, the Think Small First principle provides a fundamental belief to ensure policymakers develop more SME-friendly legislation at the early stages of policymaking within the EU (Commission of the European Communities, 2008). This does not only happen in the developed countries; in recent years, many developing countries have also enacted basic laws to support SME development. For example, in India, the Micro, Small, and Medium Enterprises Development Act came into effect in 2006. This law provides the legal framework for recognition of the SME sector and also states the government's requirements for promoting SMEs (Government of India, 2007).

Policymakers and researchers are paying more attention to the SME sector. However, the emphasis of each country may be different due to their unique economic, political, and social environments (Dinu, 2010, cited in Dodescu, 2011). Urban (2010) finds that the SME policy in the USA focuses on entrepreneurship with an emphasis on competition and innovation; in contrast, the SME policy in the EU is oriented towards SMEs with an emphasis on job creation and competitiveness, and with the manufacturing industry a key area. Although the orientation of SME policy may be slightly different across countries, the obstacles faced by SMEs are very similar. Studies show that major problems that SMEs face include access to finance (Irwin & Scott, 2010; Kira; 2013; Slotty, 2009) and also human capital resources (Ferri, Galeotii, & Ricchi, 2003; Malo & Norus, 2009). Thus, in order to help SMEs overcome these obstacles and also make them become more competitive, lawmakers in different countries tend to use policy to provide assistance to SMEs in two major areas: financing and innovation.

2.3.2.1 Financing.

The most common policy that governments enact to support the SME sector is in the area of finance. Easier access to finance is essential to guarantee SMEs can obtain physical resources and also develop new ventures (Lichtenstein & Brush, 2001; Storey, 1994). Although some scholars argue that incentives for individuals' wealth accumulation would increase entrepreneurial activity (Nykvist, 2008; Parker, 2004), in reality, it is hard for SME owners to accumulate funding due to their low personal savings; in addition, being smaller in size means that it is difficult for outside financiers to assess the viability and profitability of the business projects (Henrekson & Stenkula, 2010). Many studies show that access to finance is one of the most important obstacles in the way of SMEs' growth (Ahlstrom & Bruton, 2006; Beck, Kunt, Laeven, & Maksimovic, 2006; Commision of the European Communities, 2008; Parker, 2004). In order to improve SMEs' access to finance, governments in different countries have adopted a series of measures, such as developing financing instruments and intervening to grant loans to SMEs (International Finance Corporation, 2010). Financing instruments include offering special tax treatments for SMEs, and some governments also give more preferential policies to SMEs that are involved in R&D activities.

The most common and prevalent way used by governments to help SMEs access funds is through loan guarantee programmes and these are widely used by both developed and developing countries (Cowling & Mitchell, 2003; Llisteri, 1997). Although most countries have loan guarantee programmes, the objectives for and setting up of these programmes vary and can be categorised into three groups (Riding, Madill, & Haines, 2007). Firstly, for countries such as the UK and Canada, governments design guarantee- and risk-sharing programmes primarily to increase the funding available to SMEs. Secondly, some governments like the USA offer loan guarantees to SMEs when firms cannot obtain funding from other sources. Thirdly, other governments, such as Japan, use loan guarantees to prevent the failure of SMEs. No matter what its objective or process of setting up the loan guarantee programmes, the role of government is to act as a guarantor to enable SMEs access to loans and to accrue interest (Riding, Madill, & Haines, 2007). Also, these programmes can be justified and manipulated by governments (Cowling, 1998; Cowling & Clay, 1995). However, there is debate about whether governments should intervene in the credit market. Some scholars and politicians, such as Vogel and Adams (1988) and Stockman (1986), believe government intervention cannot help SMEs to solve their problems and could even make SMEs face a severer situation. Because only a small portion can access loans, the other SMEs could face downward pressure on market shares, thus creating an unfair competition environment (Stockman, 1976, cited in Rhyne, 1988,). On the other hand, academics have found that government loan guarantee programmes can help SMEs to improve their performance due to the efficiency of the bank loans (Beck, Demirguc-Kunt, & Martinez Peria, 2008; McMahon, Holes, Hutchinson, & Forsaith, 1993). Abor and Eiekpe's (2006) study also discovers

higher performance which, in turn, can increase the level of internal financing of firms. From a government's point of view, not only can this scheme benefit the SME sector, but it can also set up an excellent partnership between the public and private sectors. Craig, Jackson, and Thomson (2004) also find there is a positive and significant relationship between the level of loans granted by the schemes and future personal income growth. Therefore, many policymakers support this programme because it generates social benefits in excess of its costs (Brown, 1974, cited in Rhyne, 1988).

Besides many scholars studying governments' support of financing programmes for SMEs, others have looked at SMEs' borrowings from government-owned banks (Baumol, Litan, & Schramm, 2007; Beck, Demirguc-Kunt, & Marksimovic, 2008; Cole, 2009; Sapienza, 2004). Baumol et al. (2007) note that political intervention may reduce the effectiveness of these programmes as their decisions are made based on political motives rather than commercial criteria. Although government-owned banks charge lower rates than private banks, they tend to lend to larger firms rather than to SMEs (Cole, 2009; Sapienza, 2004). In addition, some studies find countries with larger shares of government banks have less developed financial and economic systems (Barth, Caprio, & Levine, 2004; Porta, Lopez-de-Silanes, & Shleifer, 2002) and also give less credit to SMEs (Berger et al., 2008). Therefore, Djankov, McLiesh, and Shleifer (2007) posit that lending is also affected by the institutional environment in a country. Institutional stability and predictability enhance SMEs' loan success (Nguyen, Le, & Freeman, 2006). Thus, some scholars study SME banking financing in emerging economies because of the less stable institutional environments in these countries (Nguyen et al., 2006). Many studies of emerging countries, such as Vietnam and China, show that SME owners' personal relationships and networks with government officials and bankers are essential for firms to procure loans from government-owned banks (Ahlstrom & Bruton, 2006; Le, Venkatesh, & Nguyen, 2006; Peng & Luo, 1998). Therefore, when there is a weak legal system and ineffective market institutions, socially embedded institutions play a more important role in SMEs' practices (Peng, 2001; Redding, 1990). Networking with government officials tends to ensure SMEs' legitimacy which, in turn, increases their accessibility to bank loans (Ahlstrom & Bruton, 2006). Although research results indicate networking is an effective way for SMEs in emerging countries to access loans, some studies show that accessing loans this way cannot ensure better firm performance because banks' decisions are based on friendship rather than efficiency (Oliver, 1997; Uzzi, 1997). This will accelerate corruption due to the close relationships between business owners and government officials (Peng & Luo, 1998). The importance of socially embedded institutions is one of the key factors in institutional theory (North, 1990), which presents the key differences as to why firms behave differently in countries with different economic conditions. Discussion on institutional theory will be provided in the following section.

2.3.2.2 Innovation.

Innovation is defined as the introduction of new or significantly improved goods or services, a process, a new marketing method, or a new organisational method in internal business practices (OECD, 2005). The key to innovation is the ability to exploit the 'novelty', which can lead firms to new advantages in the market. Jong and Vermeulen (2006) believe that innovation is a firm's core value creation capacity and is one of the most important competitive weapons for not only large firms, but also SMEs. Further, SMEs' flexible structure and systems can enable them to respond quickly to market uncertainties (Adu & Singh, 1998). Thus, they are efficient innovators and also have a competitive advantage over large firms (Massa & Testa, 2008; Narayanan, 2001; Qian & Li, 2003). Much research shows the positive impact played by innovation activities and the role of R&D in the survival and success of a firm (Coad, 2009; Koellinger, 2008; Mason, Bishop, & Robinson, 2009). However, SMEs still face resource constraints in conducting innovation activities (Rosenbusch, Brinckmann, & Bausch, 2011). These constraints are identified in various empirical research and include: a shortage of financial resources and access to finance (Hausman, 2005; Purcarea, Espinosa, & Apetrei, 2013); underdeveloped education in innovation management (Purcarea et al., 2013); and weaknesses in cooperating with external parties (Purcarea et al., 2013; Srinivasan, Lilian, & Rangaswamy, 2002).

In order to help SMEs to be more innovative, policymakers have developed support policies to encourage SMEs engaging in innovation. The main role of innovation policy is summarised by Nauwelarers and Wintjes (2003), who suggest that it is to increase SMEs' capabilities to innovate and to foster interactive learning within the firms and also across firm boundaries. In the end, the capacity of both firms and regions will increase. With the aim of helping SMEs to overcome obstacles to innovation, governments normally provide financial incentives, such as subsidies and loans, and also help SMEs to build networks with institutes (OECD, 2010a). The reason for emphasising these two measures is that a lack of funding is a key obstacle that restricts SMEs' ability in the field of technology transfer (Smallbone, Ram, Deakins, & Aldock, 2003). Also, external networks are an essential element for SMEs to adopt technological innovation. Many studies address the importance of linkages with external resources in SMEs' capacity to innovate as building networks stimulates knowledge sharing and accelerates the innovation process of firms (Doloreux, 2004; Fukugawa, 2006; Zeng, Xie, & Tam, 2010). Innovation policies have been found to successfully help SMEs to increase their innovative abilities. For example, the German government has increased funding to SMEs, and over 1.5 billion euros was invested in providing technological assistance to SMEs in 2011, which is more than double that of 602 million euros in 2005. Funding is granted to all SMEs with the key aims of helping them have R&D collaborative ventures and building innovative networks with research institutes. The results of this supportive government innovation policy has led German SMEs' R&D expenditure to increase and SMEs' knowledge exchange with universities and research centres to

intensify (Belitz, Eickelpasch, & Lejpras, 2013). Improved innovation activities can have a positive impact on firms' competitive advantages and, as a result, firm performance is improved (Marques & Ferreira, 2009). In addition, Scotland's supportive programmes have also helped to increase the commercialisation and exploitation of higher education research; these have also been replicated in other countries (OECD, 2010b).

Despite the positive impacts of innovation policies on the SME sector, some scholars find problems with them. A common measure adopted by policymakers is to provide financial support for R&D activities in technology-based enterprises, especially those at the early stages (Lerner, 2010). The emphasis on support for technological development reflects a strong cross-over between entrepreneurship and innovation policy (Audretsch, 2007). However, Shane (2009) considers that the criteria for granting funding and supporting firms should be based on the quality of the firms. He believes that firms with high quality and growth potential should enjoy government support rather than firms in specific industries or at specific growth stages. Thus, policymakers should also provide financial incentives for small firms to conduct R&D. In addition, some scholars criticise government support policies as not being very useful for the firms' innovation deficiency and their incapacity to develop new products and services. Mason and Brown (2013) point out that current policies on providing innovation support tend to be very broad and to focus on 'what not to do'; they also state that there is a lack of sufficient detail to provide rational guidance to foster and support firms' innovation activities. By evaluating 40 innovation policy tools in ten European regions, Nauweladers and Wintjes' (2002) findings also support Mason and Brown's belief. They find the policies tend to generalise both the SMEs' characteristics and policy challenges. SMEs embrace different levels of innovation capabilities and advanced technologies, so a general innovation policy cannot meet the demands of different SMEs' needs. In addition, Cobbenhagen (1999) posits that even though firms may be eligible to receive resources supported by the government, such as finance and technology, the support may not be useful as the firms may lack the managerial and organisational abilities to deal with the innovation process.

Besides granting financial and innovation assistance, policymakers also work on reducing impediments to regulating specific business activity (Hoffman, 2007; OECD, 2005). Policymakers try to reduce transaction costs embedded in regulations in order to encourage people to start or grow their businesses (Butter & Hudson, 2009). The purpose of such policies is to eliminate or diminish barriers for starting or growing SMEs. Brock and Evans (1986) and Dennis (2009) discuss that there are three ways to achieve such an objective. The first way is wholesale destruction of regulatory systems. For example, the commercial airline industry in the EU and the USA has been reconstructed. The second way is to make regulatory structures more efficient. This requires governments to reduce the administrative burdens associated with guidelines within the regulatory system. The last way is to modify current policy in order to fit the characteristics of particular firms or industries, thus possibly

reducing the costs for the targeted firms. Discussion in the previous section, such as tax reductions for SMEs, has shown that, currently, the last method is the most common measure adopted by policymakers to help SMEs reduce costs (Dennis, 2011).

2.3.2.3 Government business support service.

With the fast growth of SMEs in any economy, the majority of governments have provided advisory services to SMEs. The establishment of such a government support service is a result of the needs of SMEs for external business advice. Increasing rivalry in the market and inadequate capital and less skilled human resources mean that SMEs need external support to fully exploit their potential by bringing in more specialist knowledge and expertise (Caniels & Romjin, 2005; Dollinger, 1990). In addition, many SME owners are reluctant to use external advisory services because they fear they will lose control of their businesses or they do not know where to go for advice (Hashim, Ahmad, & Hassan, 2007; Storey, 1994). Therefore, governments have set up advisory services to fill resource gaps by offering information and recommendations to SMEs (Wren & Storey, 2002). Also, business advisory services can act as a 'mentor' to business owners, which means they work together with business owners to help them implement their business ideas (Berry, Sweating, & Gotu, 2006). Previous studies have shown there is a positive relationship between firms' usage of government support agencies and business performance (Berry et al., 2006) that can also increase SMEs' strategic knowledge and positioning which, in turn, can improve SMEs' competitiveness (Bracker & Pearson, 1986; Porter, 1998).

However, studies conducted in different countries show that government advisory services are not always fully utilised (Berry et al., 2006; Imran, 2009). Less than half of SMEs use government services in developed countries such as the UK, and the percentage is much lower in developing countries. Khairudin's (2007) study shows that only around 15% of Malaysian SME owners make use of these services. There are two reasons for such a low level of utilisation. Firstly, there is a low awareness of such services by the SME owners. Emslie and Bent (2007) find this lack of awareness can be size-related as micro-sized SME owners are more likely to be unaware of the availability of these services. Secondly, government advisory services are not the main choice for SMEs. Research conducted in various countries, such as in the UK (Berry et al., 2006) and in Australia (Jay & Schaper, 2003), indicates that SME owners prefer non-government services, such as accountants, rather than government-sponsored services.

A number of researchers have investigated the possible causes of SMEs' low utilisation of these services. Some scholars believe it may relate to small business owners' psychological traits as they have more autonomy and independence, which means they are less likely to seek outside help (Curran, 2000; Curran & Blackburn, 2000; Dyer & Ross, 2007). A study carried out in Thailand also shows

that the use of government assistance is strongly related to the characteristics of the entrepreneur and the nature of the business (Osathanunkul, 2011). Other scholars have analysed the services provided by government agencies. The assistance programmes appear to be ineffective in that only limited SMEs can receive a full range of assistance, there is an inefficient allocation of resources, and the programmes only seem to target new enterprises (Abdullah, Latif, Bakar, & Nor, 2001). Officers implementing these programmes are often not skilled to do so as they have not been practically involved in real business dealings, meaning their advice may be disconnected from business reality (Atherton & Fairbanks, 2006; Jossee & Etieene, 2007). In addition, some SME owners find the services cannot meet their needs: some have already mastered the information and services provided by government agencies, or others may lack the skills or machinery to meet the requirements suggested (Hashim et al., 2007; Tambunan, 2007). Other studies also show the low take-up rate of the advisory services by SMEs and the inefficient government services. Yusoff, Yaacob, and Ibrahim (2010) and Oc and Tiesdell (1999) consider this is due to governments' failure to market and promote the services. Thus, Yusoff et al. (2010) and Xiao and Fu (2009) believe governments need to be more proactive in communicating with the SME sector in identifying what types of support are needed by SMEs; further, the services should also be modified for SMEs from different demographic backgrounds.

2.3.3 Reactions from SME owners/managers on government intervention.

Although some scholars have studied the impacts of different institutions on the SME sector, others take another path by looking at how SMEs react to institutions. Some of this research has focused on the attitude of the SME owners/managers towards government policies and support. Bannock (2005) suggests that SME owners have ambivalent attitudes towards government interventions, and there are various reasons for such an attitude. Firstly, there is the negative view of SME owners/managers. Many SME owners strive for independence and autonomy (Curran, 2000; Dyer & Ross, 2007); therefore, they do not like government intervention and prefer to use their personal networks to solve problems (Curran & Blackburn, 2000). Secondly, poor public promotion measures mean some SME owners cannot access government support. Hashim et al.'s (2007) and Yusoff et al.'s (2010) studies show that some SME owners are unaware of the availability of government supportive services. SME owners also have a low awareness of government policies that makes them unclear about what they need to do in order to meet legislative requirements (Vickers, James, Smallbone, & Baldock, 2005). Thirdly, poor government services and the high compliance costs of the policies mean some owners have a negative perception towards government intervention. For government services, Atherton (2008) and Abdullah et al. (2001) find that officers in government agencies have little knowledge or no experience of the support required by private enterprises; in addition, the available programmes are

not targeted to the firms that seek them. Storey's (2009-2010) study also indicates that SME owners view legislation as a burden because of the compliance costs of those policies.

Vickers et al. (2005) propose a typology that shows four types of attitudes businesses have towards regulations. Avoiders and minimalists have a very low awareness of policies and also keep a low profile. However, they have different attitudes towards the policies' cost compliance: avoiders tend to use any means to avoid compliances, while minimalists will respond to the legal requirements under compulsion. In contrast, the other two types—positive responders and proactive learners—have more positive attitudes towards policies and greater access to government agencies. The differences between these two types are that proactive learners are not only responsive to intervention like positive responders, but they also use inspectors as free consultants and policies and good practices are embedded in their organisational routines. They also have a higher profile than the other three types. Prior research also shows that SME trust in the system is an important factor in how businesses respond to regulations. Trust in this field tends to be built over a long term with the purpose of developing regulatory relationships (Gulati, 1995; Kramer, 1999). However, firms may have different types of trust with government regulators, based on whether the regulators are considered as good performers or not (Willman, Coen, Currie, & Siner, 2003). When firms have high levels of trust in regulators, they are more accepting of the regulators' requirements (Willman et al., 2003), thus also helping firms and regulators to reduce the regulatory transaction costs between them (Chiles & McMakin, 1996). In contrast, low levels of trust can cause an information breakdown between the two parties, and poor business coordination and low levels of cooperation will also be apparent. This, in turn, will result in regulators being incapable of managing firms (Willman et al., 2003).

In recent years, there has been a growing amount of literature on entrepreneurs' political connections, and these studies can be categorised into two fields: connections through informal arrangements and those with formal institutions. Some research has shown that the informal arrangements, especially social networks, play a significant role in entrepreneurial activities in less developed countries because of the lack of formal institutions (North, 2005; Peng, 2003). This is one of the key arguments in institutional theory which has been discussed in the previous section. Social networks are seen by Peng and Luo (1998) as a bridge that links firms and institutions in less developed economies with the aim of cultivating better performance. The main reason for this is that market infrastructures are underdeveloped in these countries, and the government still has a strong role in allocating resources; in contrast, the market determines resources in advanced economies (Faccio, 2006; Siegel, 2007). In support of Peng and Luo's (1998) thesis, firms that have connections with government can enjoy advantages in gaining access to resources and opportunities; however, such access can also be fatal for firms to survive and gain profits (Shane & Cable, 2002). Besides the benefits of easier access to resources, firms with political connections in economies with weak legal frameworks can also get private protection from government, especially for property rights. The reasons for officials providing

such protection are due to at least one of the business owners being from the same family as the officials (Faccio, 2006), or for a money incentive, which makes corruption one of the characteristics of less developed economies (Shleifer & Vishny, 1994). Chen, Ding, and Kim (2010) also discover that firms' benefits from political connections are reduced in countries with stronger anticorruption controls. More effective enforcement of the law and more developed market mechanisms set boundaries for the nepotism of politicians.

However, this does not mean political connections are not important in developed countries. The current literature reveals that political connections also have a positive impact on market share, taxation, and performance for large firms in these areas (Faccio, 2010; Goldman, Rocholl, & So, 2008; Khwaja & Mian, 2005; Niessen & Ruenzi, 2010). These studies look at the political connections of large corporations, but this is not the objective of this thesis; however, the existing research in both smaller and larger enterprises in both developed and less developed countries does show that political connections are important for firms, regardless of their size or in what economic environment they operate.

2.3.4 Evaluation of government policy for the SME sector.

A review of the literature on different ways of government intervention in the SME sector shows that some policies have positive impacts on SMEs, while others may not reach the targeted objectives. Whether policy has achieved its designed targets or not raises an important issue in policy: evaluation. Research on SME policy evaluation has only emerged among academics since the 1990s (Curran, 1993; Storey, 1994) and is recognised as an important but difficult activity (Bennett, 1997; Storey, 1998). It is important because policy evaluation is a necessary process in policy formulation. Policy formulation models, such as the ROAMEF (Rationale, Objectives, Appraisal, Monitoring, Evaluation, and Feedback) cycle used by the UK government (Her Majesty's (HM) Treasury, 2005) and Porter's policy-in-stages model (1995), indicate that policymaking is a process which requires continuous improvement rather than being a fragmented decision-making activity (Dorey, 2005). Thus, this continuous process indicates that evaluation is not at the end of the policymaking process, but is an important step in getting feedback from participants on experiences to help policymakers refine policy in order to improve objectives and outcomes (Houghton & Fell, 2012; OECD, 2004b). Hall and Jennings (2006) believe that long term monitoring and evaluation, which involves gathering evidence, can help governments to invest money and effort into the areas of greatest need.

The most sophisticated and widely used analytical framework for evaluating SME policy is Storey's 'Six Steps to Heaven' (2000) (shown in Table 4). Storey's approach provides a best practice for policymakers in different countries to administer the effectiveness of policy schemes (OECD, 2004b;

Storey, 2000). Storey's six step model shows a gradation of sophistication in policy assessment: Step 1 is the least sophisticated procedure, and Step 6 is the most sophisticated.

Table 4

Six Steps to Heaven

Monitoring
Step 1: Take up of schemes
Step 2: Recipients' opinions
Step 3: Recipients' views of the difference/s made by the assistance
Evaluation
Step 4: Comparison of the performance of 'assisted' with 'typical' firms
Step 5: Comparison with 'match' firms
Step 6: Taking account of selection bias

Source: Storey (2000).

Greene's (2009) study of UK business support programmes shows that the higher an evaluation is in the six steps ranking, the clearer the results. Thus, the closer the evaluation is to Step 6, the better the measurement. Storey (2000) explains that the three steps in the monitoring category are exclusively based on the recipients' views of the policy. However, when coming to the evaluation category, the steps also seek to contrast these recipients' views or actions with those of non-recipients in order to provide a 'counter-factual'. Thus, the difference between actual changes and the 'counter-factual' is viewed as the impact of the policy. Although Storey's six steps of evaluation is considered as the best practice for policy evaluation, there are two issues related to this approach. One issue, raised by Houghton and Fell (2012), is that the more sophisticated the level of the evaluation step, the more expensive and resource intensive it is. Statistical expertise and monitoring of programme and non-programme participants are also required. The second issue is that based on the nature of the programme and policy, it might be more appropriate to use the different steps at different points within the lifecycle of the policy programme. The logic model developed by the W.K. Kellogg Foundation (2004) shows that the evaluation process involves two assessments at two different stages: process evaluation takes place at an early stage of the programme, which aims to understand how the policy is implemented, and impact evaluation takes place on the partial or total completion of the programmes and seeks to find out whether the intended outcomes have been achieved. Thus, different data collection methods need to be considered when evaluating a programme at different stages.

Even though academics have raised the issue of the importance of policy evaluation and more research has been conducted to assess the effectiveness of policy, there are still some challenges that need to be overcome. Firstly, policymakers need to have more clearly defined policies. Clearly stated objectives are vital for evaluating policies. However, Lashley (2011), O'Neill (2010), and Shane (2009) find

some government policies are diluted. The objectives and targets of policies are not clear, and less clarified policies make it difficult to assess whether the objectives have been achieved (Barrett, Billington, & Neeson, 2004). Thus, it is important for governments to provide more direct and focused policies in order to have more valuable assessment and make policies more effective (O'Neill, 2010; Shane, 2009). Secondly, Greene and Storey (2007) find there is a lack of coherent understanding of how SME policy leads to the intended impacts. They believe that most evaluations do not reveal or indicate what causes the input results in the outputs. Thus, linkages between inputs and outcomes are broken, meaning evaluators cannot capture and measure these ties (Gallart & Davies, 2006). Thirdly, there is a need for both quantitative and qualitative outputs at the policy evaluation stage. Cowie (2012) posits that data collection is an essential step for evaluating policy because information retrieved at this time can add sufficient value, which can increase the usability and value of the evaluation. Gallart and Davies (2006) also stress that different types of data have different roles. Quantitative data can help policymakers defend their policy decisions, and qualitative data is useful for informing future policy development. However, current government and academic research on assessing SME policy tends to prefer quantitative data collection methods, such as sending questionnaires or conducting telephone surveys, as in Foreman-Peck's (2013) and Belitz, Eickelpasch, and Lejpras's (2013) studies on SME innovation policy. This is because quantitative data can speed up the policy redelivery and satisfaction rate (Cowie, 2012). A key weakness of quantitative data collection is that policymakers' assumptions may hold sway as they can only check if the observed outcomes have been achieved and not know how the outcomes may have come about (Gibb, 2000). In contrast, qualitative methods can yield richer and more detailed information on understanding the processes (Cowie, 2012). Thus, Curran and Blackburn (2001) point out that qualitative methods cannot be ignored, especially when studying the SME sector, because the human element plays an important role in SME owners' decision making and business growth. Many scholars have therefore called for the application of a mixed method approach to policy evaluation because both qualitative and quantitative data can help give researchers a more balanced and detailed understanding of the impacts of policy (Cowie, 2012; Leeuw & Vaessen, 2009).

2.3.5 Governments at various economic stages treating the SME sector differently.

The review of the literature in the previous section is based on the common measures applied by governments across the world. Some scholars look at the relationship between policy and the SME sector from different perspectives, which is the interaction between government and SMEs in countries with varied economic conditions because developed and developing countries face diverse political, economic, and social environments. Schott and Jensen (2008) note that national economic growth is a key factor that influences governments' ability to devise SME policies. Brett, Audretsch, and McDougall (2004) and Audretsch and Thurik (2001) explain this is because developed countries

tend to manage their economies entrepreneurially, and politicians firmly believe in the economic benefits that can be accrued from policies and programmes. As a result, governments can receive the highest economic benefits from entrepreneurial activities (Carree & Thurik, 1999). Thus, there is a tight coupling between policy and the SME sector in developed countries, whereas this pairing in developing countries is loose (Schott & Jensen, 2008). In developed countries, governments encourage market competition, and policy is more favourable to new and entrepreneurial endeavours (Dennis, 2011). Xiao and Fu (2009) and Atherton and Fairbanks (2006) also find government supportive services in developed countries are of a higher quality and are more specialised; their services are more professional and they also have better skilled staff than developing countries. This is because this area is a relative new service field for developing countries (Xiao & Fu, 2009). At the same time, policymakers in developed countries have continuously improved their legal, financial, and regulatory frameworks and also cut bureaucracatic and reporting requirements. More support schemes are also provided to SME owners (OECD, 2005). Governments, such as those in the USA, Australia, and New Zealand, offer direct or indirect subsidies through separate government programmes and all but a few of them are relatively small. State and local initiatives for SMEs are also increasing (Dennis, 2005). Thus, Dennis (2011) believes that the governments of developed countries tend to combine the competitive and nurturing approaches to support the SME sector.

In contrast, in developing countries, policy is generally treated by governments as tools for performance achievements, and there is a lack of consistent programmes to implement such policies (Drori, 2003). Therefore, Meyer, Boli, Thomas, and Ramirez (1997) consider that the governments of developing countries are more prone to engage in using policy to plan national structures rather than implementing and facilitating it. Frye and Shleifer's (2001) study takes the interaction between government and the private sector one step further by specifically looking at countries in transition. They find that governments in developing countries also behave in different ways when administrating the private sector. After analysing the characteristics of countries that are in transition, Frye and Shleifer discuss that policymakers will use one of three models to manage private businesses: the 'invisible hand', 'helping hand', or the 'grabbing hand'. The invisible hand model is similar to the one adopted by developed countries. Governments are well organised and generally uncorrupted. In terms of administrating the private sector, policymakers adopt competing and nurturing approaches. The role of government is limited to basic functions, such as providing regulations, contract enforcement, and law and order, and the majority of allocation decisions are given to the private sector. The best example of governments adopting this model is given by Sachs (1994), who notes that Eastern European countries had to reform market competition in order to join the EU. Thus, the approaches adopted by governments under this model are the same as those in developed countries that are using competing and nurturing strategies to encourage the SME sector.

Compared to the invisible hand model, in the helping hand environment, governments interfere more in the market and the business sector. Governments under this model tend to use the compensating approach to ensure the growth of SMEs (Dennis, 2011). For example, after World War II, SMEs in Korea and Japan benefited from their governments' credit allocation policies while being squeezed out of others and developed quickly (Park, 2002; Wu, 2004). Another example is the reforms in China and Poland that also fit this model as these governments were closely involved in the development of private economic activities and also had close relationships with the private business owners. However, these countries' legal frameworks tend to be relatively weak because of the intimate relationship between government officials and businesses. Thus, corruption is commonly found in countries adopting this model (Frye & Shleifer, 2001; Walder, 1995). In the grabbing hand model, governments act similarly to those in the helping hand model whereby governments intervene in the market and businesses; however, they are much less organised. Thus, government officials in this model follow their own agendas rather than the government's (Shleifer, 1996; Shleifer &Vishny, 1994). As a consequence, governments lose their ability to ensure law and regulations can be enforced, and legal protection cannot be guaranteed. Frye and Shleifer's (2001) research shows that the Russian government's economic reforms in the late 1990s can be described according to this model as legal protection for business owners was compromised and corruption was severe.

In summary, the current literature on SME policy in countries with different economic conditions shows that although world models can be universally adopted by governments across the world, developing countries have more unstable social, economic, and political environments than developed countries. Further, policymaking in developing countries has a higher ritualistic and symbolic character (Schott & Jensen, 2008). Therefore, many scholars, such as Dennis (2011), Smallbone and Welter (2009), Schott and Jensen (2008), Acs and Szerb (2007), and Frye and Shleifer (2001), emphasise the importance of paying attention to local economic and cultural contexts in order to provide an adequate policy for local SMEs. They also suggest that the unstable environment in countries in transition means world models that have helped Western countries succeed cannot be duplicated in developing countries. This raises the issue of the importance of studying unique institutional environments, which will be discussed in the following section.

2.3.6 Theories on the relationship between government and the SME sector.

Studies on the relationship between the business sector and government have started from a low base point, and this area is still undersupplied with theory (Coen, Grant, &Wilson, 2010). A review of the literature shows that three theories have been developed and are commonly used by researchers to investigate the relationship between government and the SME sector: institutional theory, population ecology, and corporatism. Each of these theories will be analysed in this section.

2.3.6.1 Institutional theory.

Institutional theory has been studied in different disciplines, such as sociological institutionalism, historical institutionalism, and political institutionalism (Amenta & Ramsey, 2010). Amenta and Ramsey (2010) explain that the fundamental difference between these three schools is that sociological institutionalists examine the influential factors in society, such as culture in organisations and states, and their policies. In contrast, historical institutionalists focus on big questions and situate them within specific places and times; their explanations are broadly contextual and bound by time and space. Political institutionalists address the causal role of political institutions in political outcomes and processes. Douglass North, in his book *Institution, Institutional Change and Economic Performance (*1990), integrates key ideas from the three schools into one conceptual framework. He believes that economic relationships have to be understood within the institutional framework in which they take place. Thus, North breaks the boundary between each school and proposes that institutions can be divided into two different categories: informal and formal. Informal institutions, such as customs and social ties which are rooted in culture and history, along with formal institutions, such as rules and constitutions, are both essential elements in economic growth (North, 1990). North's theory has been further developed to study the subjects of the SME sector and entrepreneurship. North (1994) and Nooteboom (2002) explain the reason for emphasising the interaction between formal and informal institutions is because the interaction between these two shapes the institutional evolution of an economy in which organisations and entrepreneurs are players; in effect, they are constrained, enabled, and guided by the institutional frame.

In addition, some scholars further investigate the relations between formal and informal institutions. North (2005) and Peng (2003) suggest that formal and informal institutions complement each other. When formal institutions fail, informal governance mechanisms will act as substitutes to facilitate economic activities, and vice versa. Thus, Helmke and Levitsky (2004) summarise four different roles that informal institutions play in different formal institutional frameworks. When formal institutions are effective, informal institutions only play a complementing or accommodating role for the formal institutional framework. When formal institutions are ineffective, informal institutions will compete or substitute for the formal institutions. Thus, this means that the role of informal and formal institutions in an economy depends on institutional contexts (Sheng, Zhou, & Li, 2011). Therefore, some scholars look at how different institutional contexts have different impacts on the business sector. The key difference between developed and developing countries is the impact of formal institutions on the business environment (Aulakh & Kotabe, 2008; Ketkar & Acs, 2013; Peng, 2003). Advanced economies have developed formal institutions and markets, which provide open markets and better enforcement of laws that are not available in developing countries (Ketkar & Acs, 2013). In developing countries, North (2005) and Peng (2003) believe that informal institutions, such as social

ties, serve as keys for governance at the early stage of development and, along with the development of formal institutions, firms will rely more on formal institutions rather than social ties to coordinate exchanges.

Institutional theory has mostly been used by scholars to study SME development in countries in the transitional context. The key findings of these studies are that the characteristics of institutional factors in countries that are in a transitional period are different from developed countries in the roles informal institutions play in entrepreneurship development (Sheng, Zhou, & Li, 2011; Smallbone, Welter, Voytovich, & Egorov, 2010; Xheneti & Smallbone, 2008); entrepreneurs' behaviours (Welter & Smallbone, 2011); and also firms' strategic decisions (Keister 2009; Smallbone & Welter, 2009; Wright, Filatotchev, Hoskisson, & Peng, 2005). In order to further study the interaction between institutions and the business sector, Williamson (1985) proposes three levels of interaction under institutional theory: socially-embedded, the macro, and the micro, all of which cover both formal and informal institutions and are adopted by scholars when studying the impacts of institutions on the SME sector (Smallbone & Welter, 2001). Socially-embedded institutions refer to the norms, customs, traditions, and religions of the society. Institutions at the macro level refer to regulatory institutions, laws, and government policies, and the micro ones are the arrangements between firms and other agencies or individuals. Oxley (1999) considers that these two latter levels of institutions establish the fundamental basis of production and exchange for the business sector. Socially-embedded institutions come from the socially transmitted information and are part of the heritage that is called culture (North, 1990); the informal rules reflect the old ethos, the hand of the past, or the carriers of history (Pejovich, 1999). North (1990) emphasises that history matters as these cultural norms connect the past, the present, and the future, and informal institutions are the continuity of institutions. Based on Hofstede's (2001) study, cultures take a long time to change. Thus, although developing countries are in a transitional period, which means many changes will occur economically or politically, informal institutions, such as social norms embedded in their culture, will not change (Ketkar & Acs, 2013).

The institutional environment of developing countries, compared with developed countries, is still in a transitional period; this means they lack stability and are full of uncertainty as well as being unverifiable and unpredictable (Li & Peng, 2008). Aidis (2005) believes that these countries have low purchasing power and lack information; therefore, such conditions totally change the business environment. Also, formal rules are usually absent in these countries, meaning informal institutions play a more important role in shaping economic activities (Ketkar & Acs, 2013; Khanna & Palepu, 2006). These inadequate legal institutions make it difficult or expensive for honest firms to adhere to the formal legal processes whilst competing with firms with unlawful and unethical practices (McMillan & Woodruff, 1999). Thus, businesses in these countries have to set up business or political ties to protect themselves from other firms' unlawful or unethical behaviours in order to survive.

Besides history, social ties are considered as another important part of informal institutions. These can act as substitutes to facilitate economic activities (Peng, 2003) as social networks and personal interactions among business partners who can provide information that may not be available in the open market (Lusch & Brwon, 1996), and also help business owners to get information about trustworthy partners (Poppo & Zenger, 2002). Thus, firms with good reputations will again network legitimately within a business community through interactions among business partners (Rao, Chandy, & Prabhu, 2008). In addition, some scholars suggest that social networks can facilitate knowledge transfer between business partners (Rindfleishch & Moorman, 2001), which can help firms to utilise knowledge to improve their operations (Cohen & Levinthal, 1990). Informal social connections in the business community can create trust between partners and establish long term cooperation (Ganesan, 1994; Poppo, Zhou, & Ryu, 2008). As a result, this can reduce transactional costs and also maximise their economic returns (Ghosh & John, 1999). Besides setting up social ties with business partners, some researchers have also discovered that establishing political ties can also help firms' access policy, industrial information, and scarce resources (Faccio, 2006; Khwaja & Mian, 2005). Research has shown that political ties are important for firms in developing countries. Institutional theory suggests that the effects of political ties will reduce with the establishment of a market-oriented economy and stronger formal, institutional rules. As a consequence, the role of political ties will be replaced by an increase in the firm's internal capabilities (Peng, 2003; Peng & Zhou, 2005).

The dominant factor influencing the growth of SMEs is the external environment, including social, economic, and political settings. Some scholars also look at entrepreneurs' behaviours in transitional economies, especially in the early stages of transition. Smallbone and Welter (1999) find that despite the governments in power, people in these countries set up and grow their enterprises because of their drive, creativity, and flexibility that can help them adapt to hostile external environments. Shane (2003) and Smallbone et al. (2010) also note that hostile external environments can actually provide new opportunities for businesses to grow. Continual changes in technology, political forces, regulations, macroeconomic influences, and also evolving social trends can all influence the occurrence of new opportunities (Shane, 2003) and the emergence of a new sector of activities (Smallbone et al., 2010). In addition, Smallbone and Welter (2001) also find that frequent changes in the legal systems and the unpredictable behaviour of officials in transitional countries may force business owners to shift some or all their activities to an informal economy. In terms of the forms of business, Arzeni (1996) discovers self-employment and part-time businesses are the most popular forms of entrepreneurship in transition countries. This is because during the transformation from socialism to market economies, many former employees of SOEs see setting up their own businesses as a self-help measure to survive.

Many scholars further find formal and informal institutional factors can influence firms in how their strategies will be crafted and implemented (Li & Peng, 2008; Oliver, 1997). This is because emerging economies have a more dynamic institutional environment, thus influencing the strategies used by

firms. Li and Peng (2008) therefore posit that enterprises in these countries have to adapt to the changing environment and institutional constraints in order to survive and grow. Porter's (1980) typology distinguishes two strategies that can be used by firms: cost leadership and differentiation. Porter also emphasises that firms that combine both these strategies will not perform as well as those only adopting one of the approaches, and his discussion has been supported by firms in the Western institutional environment (Ebben & Johnson, 2005; Spillan & Parnell, 2006). However, the strategy development in emerging and transitional economies may differ from Porter's argument as these countries have a different institutional environment from Western settings. The previous discussion on social connections has shown that networking is recognised as an important factor for conducting business in these countries, and networking is a commonly-used strategy (Ledenva, 1998). Smallbone and Welter's (2009) study finds that using personal contacts is common in East European countries after transiting into a market economy due to business owners having low trust in formal institutions and valuing more trust-based relationships (Welter & Smallbone, 2006). Transaction costs can also be reduced through networking (Feige, 1997). Therefore, business people have to spend time dealing with the inefficiencies of the system (Xheneti & Smallbone, 2008). Chilso (2001) identifies that using networking as a strategy can involve bribery and/or getting along with politicians. Feige (1997) believes informal norms, such as corruption, are beneficial in countries where compliance with formal rules is very costly. This jeopardises the principle of the rule of law, and makes building an effective legal framework more difficult and take longer. Also, rent-seeking entrepreneurship may destroy the creativity and productivity of entrepreneurs who can contribute to economic development (Chilso, 2001).

2.3.6.2 Population ecology.

Population ecology theory focuses on particular populations and how individual members within the populations are selected and survive in the environments; it also deals with the competition between and within different populations (Hanna & Freeman, 1989). Population ecology analysis asserts that a firm's performance is determined by environmental variations (Hanna & Freeman, 1977; Miller & Mintzberg, 1984). Some empirical studies have also found a positive relationship between firms' performance and environmental characteristics (Freeman & Hannan, 1983; Nielsen & Hanna, 1977; Shane & Kolvereid, 1995). In addition, Shane and Kolvereid's research also finds that new ventures are more dependent on the national environment rather than the firms' strategic fit. Thus, Tsai, MacMillan, and Low (1991) summarise that population ecology proposes organisational survival is determined by environmental selection, while business owners/managers' strategies are only one of many sources of random variation related to firms' success.

Similar to institutional theory, institutional factors in population ecology are also considered as important factors. Aldrich (1990) argues that institutional practice is one of the three processes that

form populations, the other two being intra-population and inter-population processes. Population ecology theorists study institutional influences from two perspectives. Firstly, they focus on the impact of the general political environment on populations. Some researchers find that population will increase, which means new firms will be founded during a period of political turmoil (Aldrich, 1990; Carroll & Huo, 1986; Delacroix & Carroll, 1983). This is because political turbulence can disrupt existing connections between organisations and resources, and these resources can then be used by new organisations (Stinchcombe, 1965). Aldrich (1990) uses the economic unification of the EU as an example of how political turmoil can help firms remove barriers for extending their markets. Secondly, there is the issue of the relationship between government policies and populations, but research in this area is still underdeveloped (Wang, 2011).

Nevertheless, the research results on the impacts of government policies on the population are mixed. On the one hand, according to Singh, Tucker, and House (1989) and Hannan and Freeman (1987), government policies do have an impact on the formation of new firms within the population. Singh et al.'s (1989) research finds that more voluntary social service organisations were established when the Toronto government provided funding to the sector. Wang's (2011) research also shows that SME owners/managers are more likely to move from a regulatory environment which is less friendly to a more friendly state. On the other hand, some research finds that the formation of new firms is not related to economic variables which are directly influenced by government policies (Carroll & Hou, 1986; Delacroix & Carroll, 1983). Shane and Kolvereid's (1995) study on the relationship between the national environment and entrepreneurship in three developed countries even finds that a less friendly environment can actually increase the performance of start-up firms and entrepreneurial performance because entrepreneurs have to develop their skills in order to survive, and the better firms will eventually make it through the selection process. Aldrich (1990) and Wang (2011) further believe that sometimes the environment could be designed or changed by the government through enacting policies in order to provide a better and more desirable environment for that population. Thus, the government can change the existing policies or introduce preferential ones to support the growth or regulate the ecology of the population. For example, by offering favourable tax polices, the numbers of founding firms can be increased (Staber, 1989). Also, anti-trust regulations in the US separated the telecommunication company, *AT & T*, and changed the ecology of the phone industry (Wang, 2011).

Except for institutional processes, the other two processes, intra-population and inter-population, are not related to institutional factors. Intra-population refers to the structure of the environment into which new firms are born. In other words, organisations that fit in with environmental requirements can survive while those that cannot will disappear (Oertel & Walgenbach, 2006). Most studies on population ecology are in this area, and some key streams are the founding rate (Carroll & Hannan, 2000; Kieser & Woywode, 2006; Schmelter, 2004) and density dependence (Hanna & Carroll, 1992; Singh & Lumsden, 1990). Some main assumptions of intra-population are that when potential

business owners try to imitate what others are doing in the environment, which means there is a high level of founding rate in this population, this phenomenon sends out a signal that opportunities in the population are growing (Aldrich, 1990). A consequence of this is that population density will be increased and, when density reaches a certain point, competition will be raised. Severe competition will then reduce founding rates in the population (Hanna & Carroll, 1992). However, Robben (1984) suggests that increased density and competition in the population can actually help potential business people enter into the population. Because there will be frequent contacts between organisations within the populations and outsiders, thus causing social networks between them, this will help potential business people break through the scale barriers. In contrast, the inter-population process concentrates on the interaction between populations and their impacts on the founding rates in the population (Brittain & Wholey, 1988). Relations between populations can have either positive or negative impacts on other populations. According to Halliday, Powell, and Granfors (1987), the founding rate of state bar associations in the US rose when employment in all kinds of professional services increased.

In contrast, Hanna and Freeman (1987) find there is partial competition between industrial and craft unions. The increased industrial unions actually suppressed the founding rate of craft unions. The discussion on the three processes in population ecology shows that this theory studies the impact of environment on populations rather than businesses, which has raised some critiques of the theory. Wang (2011) believes that population ecology cannot help businesses make better decisions and also ignores the owners/managers' role in organisations. Donaldson (1995) also points out that this theory neglects the role and impacts of the internal structures of organisations. In addition, the theory does not acknowledge that organisations can sometimes penetrate and even adapt their environments rather than being selected (Fombrum, 1988).

2.3.6.3 Local corporatism.

Another theory that studies the relationship between government and business is corporatism. Schmitter (1974, p.93–94) defines corporatism as:

> A system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognised or licensed (if not created) by the state and granted a deliberate monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.

Corporatism has been used to study the relationship between government and private businesses by looking at the institutional links, such as business associations, which exist between these two players (Schmitter, 1989). Lehmbruch (1984) further explains corporatism as a mode of making policy by incorporating interest associations within the process. Thus, associations have to be officially recognised in order to practice policy concertation in the making and implementing of policies. Negotiations between government and organisations appear in both advanced and less developed economies and also at the national and local levels. Corporatism at the national level requires direct interventions from government in order to reach agreements or to ensure their implementation (Traxler, Blaschke, & Kittel, 2001). Schmitter (2010) discusses that the most frequent form of corporatism is organisations representing one industrial sector reaching an agreement with government on wages and other issues. Further, such a form can be seen in most advanced economies. Research conducted by Calmfors and Driffill (1988) proves that countries with corporatist bargaining structures at the national level are capable of successful economies. After World War II until the late 1970s, corporatism helped many developed countries increase their economic performance with lower strike rates, higher fiscal effectiveness, less unemployment, and also less income inequality (Schmitter, 2010). Corporatism at the national level has become much less powerful since the acceleration of globalisation in the 1980s (Walsh, 1995). Therefore, corporatism at the national level has been downsized or completely taken out of the systems in most advanced economies as business interests have changed to more micro level issues, such as how to survive and recover to make profits in the age of globalisation and the 2008 financial crisis (Schmitter, 2010).

Studies conducted in developing countries, such as Mexico, Argentina, and other Latin American nations, also show the existence of corporatism (Peralta, Ortiz, & Arboleda, 2008; Shadlen, 2000). However, these studies in developing countries show that not only is corporatism seen in a form of state–society alliance, oriented towards industrial development, but also appear as nationalist projects that are often led by the national armed forces (Perelata et al., 2008). Thus, the role played by business associations in the relationship between government and business in developing countries has two identities: governmental organisations and also private entities (Nevitt, 1996; White, 1993). Besides looking at corporatism at the national level, some researchers also pay attention to local corporatism in terms of local business associations (Bayirbag, 2011; Besser & Millar, 2011; Jain, 2011). The functions of local business associations depend on a country's legal framework and also the province where they become established. In some developed countries, such as Canada and the UK, business associations solely concentrate their services within the business sector; they are the communication platform for businesses (Fallon & Brown, 2003; Gertler & Wolfe; 2004). Other business associations in the USA and Singapore provide services beyond the business scope, and they also have a responsibility to

improve communication between government agencies and businesses (Yun, 2004). In contrast, Moore and Hamalai's (1993) research on developing and transition economies indicates that business associations in these economies tend to focus on measurements that promote the private sector, such as strengthening property rights and reducing information costs .

In addition, there are two kinds of local business associations: industry associations and community-based business associations, such as Chambers of Commerce (Besser & Millar, 2011). Inkpen and Tsang (2005) explain that these associations are a form of business networks, which are formal and enduring arrangements among all businesses in order to gain strategic benefits. Business associations have been recognised by policymakers as important players for local and national economic revitalisation. Pyke and Sengenberger's (1992) study shows that business associations play a vital role in small businesses' performance as they can strengthen member businesses and also promote good citizenship among those belonging to them. In addition, Logan and Molotch's (1987) study proves that community-based associations can help businesses to enjoy financial gains because local real estate developers, bankers, and speculators work together in such associations. They provide a communication platform where members can exchange information about government programmes and legislative requirements (Christiansson, 1996). Thus, social relationships and networking provided by local business associations can create relational and social capital, which can also provide an innovative environment for their members (Maennig & Olschlager, 2011). Thus, Jain (2011) believes that local business associations work as knowledge distribution channels and are a repository of information. However, Jain's study also reveals that local business associations, similar to the findings on government agencies, only have a limited role in providing services to their members and also have poor market penetration.

Although corporatism has some positive impacts at both central and local levels, some scholars are critical of this theory at both levels. At the national level, Schmitter (2010) criticises that corporatism, the negotiation between government and labour unions, imposes rigid constraints on the benefits offered by globalisation, such as privatised enterprises and deregulated products and services, along with importing cheaper products from other countries. At the local levels, Chen and Touve (2011) believe this theory makes scholars fail to take into account the actions and agency of individual entrepreneurs. This is because it is important to have theoretical means to capture determinants and consequences from individual entrepreneurs as political participants.

2.3.7 Selection of the theoretical foundation of this thesis.

The previous discussion has reviewed the research on three theories that study the relationships between government and the SME sector. The key characteristics of each theory are summarised and given in Table 5.

Table 5

Key Characteristics of Three Theories

Theory	Key players	Relationship	Usage
Institutional theory	Informal and formal institutions, including culture, macro environment, government, and individual businesses	Both informal and formal institutions determine the development of the SME sector and how SME owners behave	Mostly to study SMEs in emerging and transition countries
Population ecology	Government; certain populations in the business sector	Influence each other, and also have influence within populations	Mostly to study SMEs in developed countries and a few in less developed nations
Corporatism	Government; business associations	Influence each other	Mostly to study SMEs in the developed countries and a few in less developed nations

One common feature among all the three theories is that they all emphasise the importance of an institutional factor—policies—on the business sector. However, the object being influenced by the institutional factors and the scope of the defined institutional factors are different among these three theories. Institutional theory has the broadest scope of institutional factors that have an impact on the business sector. The institutional factors not only include the formal ones, such as government policies, but also include informal institutional factors, such as history and culture. The scope of population ecology and corporatism only concentrates on formal institutional factors. In addition, the object of institutional theory focuses on individual enterprises. In contrast, population ecology and corporatism study a group of enterprises rather than an individual firm. Thus, the responses of individual enterprises to changes in the external environment cannot be offered.

Institutional theory is selected to be a basic research framework to study the perceptions of Chinese SME owners/managers on government policy. The key reason for this is that institutional theory is the most appropriate theory to study countries in transition. China is both an emerging economy and a

country in transition. Aldrich (1999) considers that when studying organisation–environment relations, institutional theory resembles population ecology as both have an explicit environmental influence over organisations. However, institutional theory can offer unique insights into organisation–government relations by uncovering the ways in which organisations react to institutional processes and also drawing attention to the causal impact of state, societal, and cultural pressures (Oliver, 1991). These unique insights cannot be offered by using population ecology and corporatism. This is certainly the case for China as it has a history of over 5000 years, so a large number of traditions have been passed on. China, defined by Zhang (2011), is a nation with four 'ultras': ultra large population, ultra vast territory, ultra long historical traditions, and ultra deep cultural accumulation. In addition, social progress develops according to historical input. Both social behaviour and economic decisions are influenced by the past as people's knowledge and experiences are inherited through history. Tradition is embedded in the national language and culture, and nobody can disregard it (Shi & Zheng, 2008). Thus, Perkins (1975) believes that many traditional Chinese characteristics have played an important role in facilitating developments under the People's Republic of China. Socially embedded institutions enable and constrain the understanding and action of the business owners (Thornton, Ocasio, & Lounsbury, 2012). Their actions may be based on taken-for-granted meanings, rituals, and practices embedded in the specific context, and also with a purpose of reducing uncertainty (Hwang & Powell, 2005). Institutional theory helps researchers to explain how the cultural context may influence everyday business practices, and emphasises the importance of actors in the local meaning systems (Binder, 2007).

Also, the economics of transition is a relatively new research field which has gained more attention since the 1990s. This field is unique because it allows researchers to examine how economies behave when markets are changing in order to achieve more advanced economies (Svejnar, 2002). Government is a key player in providing an institutional framework through the rule of law to enable and/or constrain the development of SMEs (Smallbone et al., 2010). The governments in countries such as China and in Eastern Europe have transited their economic form from a socialist to a market economy. Changes have occurred in both political and economic settings. Thus, Peng and Heath (1996) believe that transitional economies such as China offer fascinating examples to refine and test existing theories and develop new ones. Among all the three theories, institutional theory can provide a comprehensive analysis by studying the interrelationship between institutions at different levels and the SME sector in these countries.

Currently, some studies have adopted institutional theory to look at the SME sector in post-socialist countries such as in the Ukraine (Smallbone et al., 2010), Poland (Smallbone & Welter, 2009), and in Albania and Estonia (Xheneti & Smallbone, 2008). However, the findings in the Eastern European countries cannot be directly applied to China because of the differences in culture and in the development of the SME sector. A long history and rich culture have brought unique characteristics to

the Chinese way of thinking which, in turn, has an impact on how people interact with each other and the way they do business. In addition, China is transforming its economic system but, politically, it is still ruled under the socialist ideology and is one party led. Moreover, Chinese private businesses were banned by the government in the 1950s when the Chinese economic system was centrally planned. In contrast, private firms were permitted throughout the centrally planned system in Eastern European countries (Smallbone & Welter, 2009). Thus, the uniqueness of the Chinese political and cultural environment makes the development of the SME sector become a story of ongoing experimentation (Smallbone & Welter, 2012). Compared with population ecology and corporatism, institutional theory is the only one that recognises the importance of analysing the SME sector within a country's social context (Davidsson, 2003).

2.3.8 Gaps in the current research.

The review of the literature shows the interaction between governments and SMEs in terms of the SME policies and services provided by governments. However, the analysis also reveals a few gaps that have not gained much attention from academia and policymakers. Firstly, there is a lack of qualitative inputs from the owners' perspective. Henrekson and Stenkula (2010) believe that current policies in the SME sector are evaluated using quantitative measures, such as changes in the rate of self-employment and the number of start-ups. Current literature has not given enough attention to whether policy can meet the needs of SMEs, and it also lacks an understanding of the perspective of SMEs on the benefits of using government assistance and the reasons for SMEs to choose this assistance (Osathanunkul, 2011). This lack of sufficient evidence also makes the evaluations of government policy less reliable (Storey, 2008). In addition, Bridge, O'Neill, and Cromie (1998) point out that there is a dearth of strong evidence to show the effectiveness of government support because there appears to be no clear evidence to show government support can help businesses perform better, nor any clear evidence to indicate it does not. Regnier (2000) also reveals that research data and evaluation of government support are imperfect, ambiguous and, sometimes, contradictory.

Secondly, there is also a lack of cooperation between academia, practitioners, and policymakers. Blackburn and Schaper (2012) find these three parties have not shared their knowledge and experience with each other, which makes the causes of problems encountered by SMEs and governments unclear. Some studies provide detailed information on the impacts of the lack of communication between these parties. Mason and Brown's (2013) study on the innovation policy for the SME sector shows there is currently a lack of detailed engagement by researchers with policymakers at the planning and initiating stages. This limits the influence of most academic research and, without empirical research and evidence-based research results, the ability of policymakers and researchers to propose more detailed policy is also restrained. Thus, Shergold (2013) claims that valuable academic research results fail to find a practical use in public policy.

Thirdly, Zhou (2013) considers that there is little research on the effect of political connections on firms of different sizes. Empirically, it is not clear what political connections are more beneficial to large firms or SMEs. Large firms are more likely to be the target of government involvement in terms of both support/protection and expropriation. The existing literature seems to assume that political connections substitute for formal market institutions; however, it is not clear whether they may complement or substitute for them since political connections continue to play a role even in underdeveloped market institutions in advanced economies (Dixit, 2004; Faccio, 2006). Fourthly, more research is needed in the field of SME development in transition economies. This is a relatively new research field; however, it can provide valuable knowledge when studying how government and businesses behave when markets are changing in order to achieve more advanced economies (Svejnar, 2001). Finally, institutional theory is useful to learn how spatial and ethnically bounded local instances of entrepreneurship can be connected to the impacts of globalisation (Greenman, 2013) as it investigates the impacts of informal institutions on local business practices. However, the relationship between institutions and entrepreneurship is inadequately explored, which limits the contribution of the theory to contextualising entrepreneurship (Shane, 2012).

2.3.9 Summary of the chapter.

This chapter provides a review of the literature on the relationship between governments and the SME sector. The important role played by government in SME development is demonstrated in terms of improving firms' innovation ability, supplying funding, and also providing support services. It shows that government intervention in the SME sector can be carried out in four ways, which include both side-effects from macroeconomic policies and also direct policies and services for the SME sector. Besides looking at the impacts of policy on the SME sector, this chapter also illustrates the awareness and attitudes of SME owners towards government policies and services. The rationale for evaluating government policy is also demonstrated. In addition, differences between governments at varying economic stages in administering the SME sector are provided. Based on analysing and comparing three theories that study the interrelationship between policy and the SME sector, institutional theory is considered to be the most suitable theoretical foundation to study the effect of government policy on Chinese SMEs. Thus, the next chapter will focus on the impacts of government policy on SMEs in the China context, and the analysis will be based on three levels of interaction under institutional theory: socially-embedded, the macro, and the micro.

3 The Chinese SME Environment Context

3.1 Introduction

The literature illustrates that government is a key participant in the growth of the SME sector in terms of the setting up of SME guidelines. Variations between nations at different economic development stages mean government policies and aims need to be suitable for the SME development conditions in each particular country. The Chinese economic system has changed from being centrally planned to market based since the economic reforms that started in 1978; since then, the SME sector has enjoyed rapid development. However, the reason for this rapid growth is complex. First, Chinese people have been in business for more than 3000 years, and the rulers in the different dynasties have shown similar attitudes towards the private business sector as are shown today in some of the current government practices. In addition, their unique culture makes Chinese people's mindsets very different from the West, thus affecting the way people in China do business. Secondly, as China is the largest communist country in the world, the Chinese government has a powerful influence over social life and economic development. The recent economic reforms have been the most significant in modern Chinese history, allowing China to develop greater prosperity by absorbing Western knowledge, technologies, and investments. It is important to look at these two areas as they provide a context for the SME sector: particular measures that the current government takes, some of which may greatly impact SME development, are actually similar to those of previous dynasties. Chinese culture has an influence on both the government and Chinese people; consequently, it has an impact on the way Chinese people do business.

Thus, this section starts with a review of the first level of institutional theory: socially embedded factors, including history and culture. The summary of the economic history of China from the Qin Dynasty, the first empire in Chinese history, to the People's Republic of China under the current leadership of the Chinese Communist Party helps understand the patterns and influential factors that have emerged from Chinese history and which impact current government and business people's behaviours. The review of Chinese economic development focuses on business policy and the status of merchants and leads to the conclusion that Chinese economic development is under a pattern of collapse and resurgence, subjugation and development. In addition, Chinese culture and its unique characteristics, as well as the impact of non-Chinese culture, will be discussed. An analysis of the differences between Chinese and Western cultures provides an insight into how culture shapes people's mindsets and the impact it can have on their daily lives, resulting in different business approaches. In this chapter, Chinese economic history and the key characteristics of Chinese culture will be reviewed.

A review of the second level of institutional theory, the macro-environment of China, will also be provided. An analysis of the Chinese macroenvironment provides an insightful view of the infrastructure in which Chinese SMEs operate, and also how the external environment can influence the development of Chinese SMEs. The most commonly used tool to analyse the macroenvironment—the PEST analysis—is adopted to study four macroenvironmental factors in China: the political, economic, social, and technological environments (PEST).

After analysing the broad environment in which Chinese SMEs operate, this chapter then provides a discussion based on the third level of institutional theory, the micro, by looking at some specific factors that have a direct impact on the growth of Chinese SMEs. This comprehensive overview of the factors and constraints that influence the development of Chinese SMEs is based on current Chinese business sector literature. Four areas covered in this chapter include:

- A discussion on the development of Chinese entrepreneurship over the last 60 years;
- A discussion on the official systems and relationships concerning the Chinese SME sector;
- A summary of the impacts of important laws and regulations given by the central government on Chinese SMEs; and
- A discussion on how Chinese SME owners/managers behave under the current environment.

Issues related to government law enforcement and difficuilties faced by Chinese SMEs are also analysed. A model of influential factors, which illustrates the relationships between the factors and Chinese SMEs, is developed and presented. Similarities and differences in research gaps between the current literature in the field of government policy in SMEs and Chinese SMEs are compared and discussed at the end of the section.

3.2 Analysis of the First Institutional Level: Socially Embedded Factors

Chinese SME owners and the way they operate their businesses, as well as the growth of the SME sector in general, are all influenced by many external factors. Previous research shows that social trends, norms, political forces, regulations, and macroeconomic factors influence the emergence of opportunities available for entrepreneurs, and this has been defined as institutional theory (Shane, 2003). This section analyses two socially embedded institutional factors: Chinese economic history and culture, both of which provide a contextual background to understand how norms and traditions influence the current Chinese government and Chinese SME owners.

3.2.1 Chinese economic history.

Social progress develops according to historical input. Both social behaviour and economic decisions are influenced by the past as people's knowledge and experiences are inherited through history. Tradition is embedded in the national language and culture and nobody can disregard it (Shi & Zheng, 2008). Hence, subjects, such as civilisation or economic history, become important areas of academic enquiry. This is certainly the case for China as it has a history of over 5000 years, so a large number of traditions have been passed on.

While the People's Republic of China is clearly far removed from the history of dynasties, some traditions are still maintained. The most important contribution to Western understanding of the economic history of China has been Joseph Needham's ongoing series of books, *Science and Civilisation in China* (Xu & Wu, 2000). Needham's massive chronicle of science and technology in China demonstrates that tradition is the strong foundation on which today's China is based. For example, China occupied a dominant position in global technical progress up to around AD1500. Many inventions were developed during this golden period, such as the technology of iron and steel, inventions of gunpowder and paper, the mechanical clock, and basic engineering devices like the diving and chain belts. In addition, some concepts embraced by the current government and Chinese people can be traced back to the ancient dynasties. For example, SOEs have become a major contributor to the Chinese economy since the founding of the Republic in 1949. From 1949 to 1978, private business was prohibited and SOEs were the only form of business allowed by the Chinese government. However, the establishment of SOEs is not unique to the current government. When looking at the economic history of China, two policies related to officially-operated businesses and the government's monopoly system, both of which can be traced back to the Zhou Dynasty (1100BC), have expressed the same principles as SOEs. Wu (2012b) states that the ideology of controlling the important products/industries has been supported by every Chinese ruler, and the dominant position of SOEs can be seen throughout Chinese history. Yang (2007) also finds that China's authoritarian market economy can be found throughout the dynastic period. In addition, Chinese people learned how to do business in the Shang Dynasty (1600 – 1100 BC), the one that preceded the Zhou Dynasty. Following the overthrow by Zhou, business activities were the only means of survival for those of the Shang Dynasty. Over time, business or *Shang Ye* became a permanent occupation and those involved in it were referred to as businessmen or *Shang Ren*, a name that has continued to the present day (Wang, 2008). Thus, it is important to discover the traditions and patterns concerned with the development of the business sector that have been followed throughout Chinese history because they can recur and be repeatedly adopted by Chinese governments; in addition, the current government is still likely to be influenced by traditions in making policies.

3.2.1.1 Economic development in the ancient China era.

Business became an essential economic and social component in the Zhou Dynasty and, therefore, both buying and selling activities were monopolised by the government. In addition, businessmen's lives were also controlled by the government. Since then, regardless of whichever dynasty in Chinese history has held power, the ruling class has always adopted similar policies on officially-operated businesses as well as having a monopoly on certain commodities. Huang (1991) considers that the only differences were in the degree of control and in the variety of industries monopolised. In the ancient China era (from 2100 BC to AD 1840), China was a feudal country. Skilled craftsmen had to work for the ruling class for generations; at the same time, the important industries, such as smelting iron or copper, making ironware, and producing and selling salt, were operated directly by the government. In the modern era (from 1840 to 1949), following the Opium War in 1840, China became a semi-feudal and semi-colonial country as other Western countries, such as the United Kingdom and France, opened the Chinese market by forcing the government to import products and capital. However, the traditional feudal economy was deeply ingrained in Chinese society due to agriculture having such a fundamental base and the strong tradition of self-sufficient handicraft production (Huang, 1991).

In the late Zhou period, also called the Eastern Zhou, many different schools of native philosophies developed. It was also called the Hundred Schools of Thought (Shi & Zheng, 2008). These thoughts could be grouped into two categories. One was concerned with studying topics like philosophy, society, and politics that led to different viewpoints and to the development of different Schools of Thought, for example Confucianism, Taoism, and Legalism. The other category was concerned with studying specific subjects as, for example, warfare that was studied by military schools, agriculture by the school of agriculture, and business by the school of business.

During the late Zhou period, business study put emphasis on finding ways of making a living (*Zhisheng zhi xue*). It focused on learning when was the perfect time for doing business according to various natural and political environments. The school of business also believed that businessmen must have four characteristics: intelligence, courage, goodness, and strength (Shi & Zheng, 2008). Although some schools mentioned in the first category, such as Confucianism and Taoism, had their opinions on business issues, the school of business made business study a specialised discipline for the first time. However, the economy and also the study of business were short lived as years of war among Zhou's seven states brought devastation to the country.

After the state of Qin's victories over all of its rivals, the first Emperor of the Qin dynasty, Qin Shihuang, not only amalgamated China into a single state, but also unified the currency, weights, and measures. The policy of emphasising agriculture and restraining commerce was adopted by the first

Emperor and was primarily due to the dramatic loss in population involved in agriculture when the commercial activities flourished. As a farming country, all the Chinese rulers believed that agriculture was fundamental (Ding, 2003). In addition, since the Qin dynasty (221 – 206 BC), the policy of concentrating on agriculture and discouraging trade was adopted by every dynasty until the extinction in 1911 of the Qing dynasty, which was the last feudal dynasty in Chinese history. This policy has had a great impact on the development of business, especially private business, because the government used it as a way of strengthening government-owned enterprises. It was also treated as one of the major obstacles to the development of capitalism in China (Liu & Fu, 2005). Even though business had been restrained for more than 2000 years in Chinese history, the status of merchants improved over time, and business policies became less and less strict from the Qin to the Qing dynasties.

The Qin Dynasty (221 – 206 BC) was the first unified Chinese state in Chinese history and it had strict control over business and merchants. Years of war between Qin and other states destroyed the land and the agricultural population dropped dramatically. In order to revitalise agriculture, Qin adopted a policy of pro-agriculture and anti-commerce, which included policies such as heavy taxation on businesses and government monopoly over important industries. Also, there was a major reduction in the status of merchants. They were considered as one of five kinds of people who were harmful to society (Ding, 2003). Such a perception towards the business class can be found in different dynasties and also in contemporary China.

After the Qin collapsed, the founder of the Han Dynasty (206 BC – AD 220), Liu Bang, took drastic measures to curb business activities. On the one hand, he promulgated a decree that merchants were not allowed to enjoy privileges such as wearing silk clothes and travelling by carriage. On the other, he reduced taxes on the peasants. The reason for these measures was that wealthy merchants from the Qin dynasty had great influence in controlling markets and the country's economy. Therefore, the government had to limit their power. Later, following economic and social recovery, policies of restraining businesses became less intense, with merchants being allowed to wear silk clothes and take carriages again. Song Hongyang, a prominent Han official, proposed a policy which encouraged peasants, merchants, technicians, and scholars to have the same rights. The adoption of this policy meant that the Han rulers paid equal attention to both agriculture and business. The establishment of the late Han regime, which is also called the Eastern Han Dynasty, was supported by the wealthy merchants. The emperor, Liu Xiu, was also a landowner and merchant before he led the country. Therefore, business made considerable progress in the late Han period. During the Han era, China made contact with other nations as the Emperor tried to find foreign allies to defeat the Xiongnu. Therefore, as the search for allies grew, so did foreign trade. Chinese and foreign goods were transferred and traded through the Silk Road, a trade route connecting the Asian continent with the Mediterranean world, Africa, and Europe (Li & Zheng, 2001).

The Weijin Nanbei Dynasty (220 – 581), a period of turmoil in Chinese history, endured many civil wars, with each state struggling to become the controlling power over the country. There was also international strife with the barbarians in the north invading and attempting to defeat China. The development of the economy during this time followed a familiar pattern: the economy was in ruin when the war started and under recovery when it stopped. Although the political situation was unstable, some important commodities, such as iron and salt, were under the tight control of the government as they could provide materials for ammunition. Wealthy merchants, too, gained political status as they could provide financial support for the government (Ding, 2003). Even though China suffered a turbulent period, connection with the rest of the world continued. Knowledge of Buddhism arrived in China during this period through trade with northern India and was gradually adopted by Chinese society. Buddhist philosophy came to be widely accepted around AD 400, and the upper levels of society, even the emperors, were attracted to it (Ebrey, 2006).

The Sui (581 – 618) and the following dynasty, the Tang (618 – 907), were prosperous periods in Chinese history. Although Sui was a short-lived dynasty, only lasting for 37 years, it reunified China, sparking a boom in the Chinese economy. The Sui government, in order to recover the economy, encouraged both Chinese merchants to import goods from foreign counties and foreign merchants to come to China. Many hotels were even built and offered to merchants by the government (Li & Zheng, 2001). The Grand Canal was built in the Sui and provided a channel to transfer commodities and troops between the northern and southern provinces (Ebrey, 2006). The government also introduced an examination system for people who wanted to become officials. This system was followed by later dynasties; however, in the Sui dynasty, merchants were banned from attending the examinations.

The laws and administration in the Sui were followed by the Tang Dynasty (618 – 907). The Tang is recognised as one of the golden ages of Chinese history. The first Tang emperor, Li Shiming, adopted several measures which helped China as it went through a relatively peaceful growth period. Li Shiming was very cautious about undertaking big projects which might drain the treasury; in addition, he lowered taxes and reduced forced labour requirements. Large amounts of currency were also issued to facilitate trade (Ebrey, 2006). At the beginning of the Tang, strict rules regarding merchants were laid down by the emperors, but these rules were abolished as the economy rapidly grew (Ding, 2003). Trade with other countries was developed on a large scale as commodities were not only traded by land via the Silk Road, but also by sea to Southeast Asia, the Persian Gulf, the Red Sea, and Rome (Li & Zheng, 2001). The Tang government even allowed foreign merchants to freely trade their goods in China (Wang, 2008). A civil war, which lasted 10 years, ended the Tang's 120 year prosperity and destroyed China's unity once again.

After a 53-year period of warfare and disruption, the Song dynasty (960 – 1297) was founded by Zhao Kuangyin, who defeated other rivals and reunited China again. He established a strong central

government to ensure the empire would have stable development. The Song became another flourishing dynasty in Chinese history and its economy was one of the most advanced. The rulers issued several decrees to help the development of businesses and to boost the economy. Prominent merchants and private businesses were allowed to enter into industries that had previously been controlled by the government (Needham, 1986). Merchants and people with skill and merit were allowed to take the examination for selecting government officials, and non-aristocratic people started to rise in power (Rossabi, 1988). As a result, the merchant class in the Song became more sophisticated and organised than in any previous dynasty. Along with the strong economic growth, world connections were also strengthened as the Song actively promoted trade with foreign countries. Merchants could deal with overseas companies by investing money in trading vessels which docked at foreign ports. Many foreigners travelled to China to conduct trade or live permanently.

The prosperity of the Song was interrupted by the invasion of two non-Han tribes, the Jurchen and later the Mongols. The Mongols, under Kublai Khan's command, finally defeated the Song, and the first foreign dynasty, the Yuan (1271 – 1368), was founded. There was a huge loss in population as a result of the Mongol conquest. Kublai Khan, the first Yuan emperor, expanded the Grand Canal in order to make transportation between the north and south easier. He and his successors encouraged trade between China and other Khanates of the Mongol Empire. Trade between China and the Middle East increased dramatically, and many Persians and Arabs entered China during the Yuan era. However, although trade with foreign countries was encouraged by the Yuan rulers, the government administrators were not Han Chinese, although many foreigners were employed by the government (Twitchett & Fairbank, 1995). The Yuan emperors undertook extensive public works, and overland and maritime trade were increased due to improvements in both road and water transportation. China also had an opportunity for direct contact with Europe, which brought foreign food crops and products and methods of preparation to China. However, over-spending by the government made the rulers resort to high taxes in order to fund their projects and military campaigns, all of which drained the treasury and became a burden on the economy.

The Mongol rule in China was extremely unpopular, especially its high taxation and discrimination towards the Han Chinese, leading several Han Chinese groups to rebel in the later years of the Yuan. This led to the formation of the Ming dynasty (1368 – 1644), which was founded by Zhu Yuanzhang after Zhu's rebel force defeated the Yuan. At the beginning of the Ming era, the rulers enforced austerity values and rebuilt an agricultural base. Trade and travel without the government's permission were forbidden, and the government monitored merchants' activities and forced them to register all their goods each month (Brook, 1998). However, merchants started to gain power after the economy began to recover. Commercial activities rose as a result of an efficient communication network being built, and officials began to work closely with merchants as they wanted to solicit money from them to fund public projects. The merchant class was accepted and admired. Furthermore, the government

started to allow merchants to take over the state monopoly of salt production, and other industries, such as iron, were privatised soon after (Brook, 1998). Zheng He's international diplomatic mission was the first government-sponsored delegation in Chinese history and helped to increase the cultural and economic exchange between China and the rest of the world (Li & Zheng, 2001).

The late Ming government was weakened because of severe corruption. The Manchu, a subgroup of the Ming, took advantage of this and defeated the Ming, leading to the founding of the Qing dynasty (1644 – 1911). The Qing Dynasty, as with the Yuan, was not founded by Han Chinese and, similar to the Yuan emperor, the Qing government took strict control over the Han Chinese people. Many Han Chinese scholars were killed, and the Han Chinese were forced to dress in the Manchu fashion (Wakeman, 1985). Before the Opium Wars broke out in 1821, the Qing emperors adopted an isolationist policy towards foreign trade because they believed that China was so prosperous and wealthy, it did not need to exchange products with foreigners. In addition, foreigners were considered to be barbaric (Mickelthwait & Wooldridge, 2003). The Opium Wars between China and the British and other European countries reopened the Chinese to the world. The Qing Dynasty lost the Opium Wars and sovereignty was given to foreign powers; the government was forced to give silver payments, lands, and the rights to develop railroads to Japan and European countries. The Qing also eventually reorganised the taxation system, which reduced taxes for merchants and abolished the ban on trading with foreign countries. As a result, huge amounts of foreign goods flowed into China. By the late nineteenth century, China had descended into a semi-colonial state. The development of domestic industries was slow and the defeat in the Opium Wars made the Qing government realise the importance of modernisation. Reformers instituted the Self-Strengthening Movement, and modernisation created a standing navy, equipped the army, and strengthened the building industry. Industrialisation increased, but modernisation was limited as the emperor was afraid of losing imperial power to reformers (Sun, 2000). The Qing was the last ruling dynasty of China, governing from 1644 to 1911. After this, China entered into the Republican Era.

From 1912 to 1949, which is also recognised as the Republican era, China remained in political, economic, and social turmoil (Ebrey, 2006). Firstly, Sun Yat-sen declared the Republic of China in 1912 and became the first president. However, this type of political power was new and political ideas were still in their infancy. The struggle between traditional imperial authority and the new power dominated the early Republican era. Secondly, China was bullied by Western powers in World War I as the Chinese government was forced to sign many treaties and secret deals to give land and money to Western countries. Thirdly, war between China and Japan that broke out in 1937 and lasted eight years completely destroyed the Chinese economy and normal social life. Fourthly, war broke out in 1945 between two Chinese political groups, the Nationalist Party (Kuomindang) and the CCP, to seize political power. This four year civil war dominated the rest of the Republican Era and ended with Chiang Kai-shek, the leader of the Guomindang, fleeing mainland China with his remaining troops to

Taiwan in 1949. In the same year, Mao Zedong, the leader of the CCP, declared the founding of the People's Republic of China. In summary, the political, economic, and social setting of the Republican Era was full of strife. Thus, the new leaders of the PRC had to re-establish the national economic system and normal social order. Table 6 shows the changes in merchants' status and business policy over the last nine dynasties; it also notes the reasons for their eventual collapse and how China was connected to the rest of the world.

Table 6

Merchant Status, Business Policy, Cause of the Collapse, and Connection with the World from the Qin to the Qing Dynasties

Dynasty	Status of merchants	Policy on business	Cause of collapse of dynasty	Connection with the world
Qin (221 -206BC)	harmful to society	strict	tyranny	military conflict
Han (206BC – AD220)	same status as peasants	from strict to liberal over time	corruption and incapability	searching for allies; foreign trade started
Weijin Nanbei (220 – 581)	gained political status	strict	warfare and scramble for power	Buddhism from India
Sui (581 - 618)	banned from being official	strict	tyranny and corruption	foreign trade encouraged
Tang (618 – 907)	gained political status	from strict to liberal over time	corruption	foreign cultural practices accepted
Song (960 – 1279)	gained official political status	liberal	incapability	foreigners traded or lived in China
Yuan (1271 – 1368)	gained high positions in the government	liberal	corruption and internal split	contact with Europe
Ming (1368 – 1644)	merchants and their descendants allowed to attend imperial exam	from strict to liberal over time	corruption and internal split	formal trade relations set up
Qing (1644 – 1911)	enjoyed some special privileges	liberal	corruption and incapability	isolated first, then re-opened

Table 6 shows that the status of merchants in China improved from them being considered harmful to society to enjoying more privileges than the agricultural sector. At the same time, policies toward the business sector loosened. In some dynasties, such as the Tang and the Ming, the rulers adopted strict policies to restrain the development of business activities; however, these policies were usually enacted when there was a change in dynasty.

3.2.1.2 Economic development from 1949 to the present.

The People's Republic of China was founded in 1949 and has since been governed by four generations of the CCP. Generally, the history of the PRC can be clearly divided into two eras: the era of Mao, which was from 1949 to 1976, and the era of reform and opening up, which was from 1976 to the present. When viewed together as a whole, both the economic policy and connection with the rest of world have expanded considerably.

When Mao and the first generation of CCP leaders took control, a Soviet-style political and economic order was installed. The basic ideology of the Soviet model was socialism, which focuses on communal public ownership and a centrally planned economy. Private businesses, lands, and the property of wealthy landlords or capitalists were collectivised. During Mao's era, all industries and agriculture were entirely collectivised, and China also cut all ties with foreign countries except the Soviet Union. The Cultural Revolution, a ten-year-long chaotic period from 1966 to 1976, was launched by Mao. Factories were closed, students dropped out of school, and basic social and economic structure were in total disarray. The newly installed political and economic order was dramatically destroyed by the Cultural Revolution (Yu, 2005).

The Cultural Revolution came to a complete end when Mao died in 1976 and Deng Xiaoping became the leader of the CCP. After that, China entered into reform and an era of opening up to the outside world. Policies in the Mao era led to a ruining of the Chinese economy and people were living in poor conditions. Deng, with a foreign–educated background (studying and working in France in the 1920s), initiated economic reform, which gradually transformed China from a centrally planned economy to a free market system. Under Deng's direction, private businesses were permitted, agriculture was decollectivised, and government controls in the industrial sector decentralised. Deng's most notable contribution was the establishment of special economic zones (SEZs) in coastal cities and areas where capitalist practices were encouraged and foreign investment with flexible government regulations and policies was allowed. More detailed discussion on the SEZs is given in Section 3.3.2. Foreign products, such as *Coca-Cola* and Japanese TV, entered into the Chinese market, and even the world-class fashion designer, Pierre Cardin, was invited to China in 1978 (Wu, 2008). As a result, many private entrepreneurs became wealthy and people's living standards improved greatly; China became one of the fastest growing economies. However, the fast pace of growth in the Deng era also brought some social and economic problems, such as wealth disparity, corruption, and inefficient SOEs. In the latter years of Deng's presidency, from 1989 to 1992, China experienced a process of passing from the old ways of thinking and systems to a new path, which meant reform was both cautious and thrilling (Wu, 2008).

Deng's successors, Jiang Zemin and Hu Jintao, continued his reformist policies. Under Jiang's direction, a more favourable business environment was established that benefited both domestic enterprises and multinationals. Inefficient SOEs were required to be privatised and allowed to list a portion of their shares on the stock market. In addition, the debt problem started to be sorted, and the old two-track exchange system, which included two exchange rates, an official exchange rate and an adjusted regulated market rate, was replaced by a single, managed, floating exchange rate system (Wu, 2008). At the same time, global relations were more closed than during the Deng era. In order to facilitate domestic economic growth and attract more foreign investment into China, Jiang attempted to establish cordial relations with other countries by actively attending various international events or talks, such as the Asia-Pacific Economic Cooperation (APEC) conference and the WTO talks. Multinationals could also become sole entities rather than having to be joint ventures with Chinese business partners. The Chinese government even opened up some of its previously monopolised areas, such as natural resource industries and financial markets, to foreign investors.

China experienced strong economic growth when Jiang was in power. After Hu Jintao became the president of China in 2003, one of his major tasks was to solve social and political problems, such as the wealth disparity between the hinterlands and the rich coastal regions, corruption, and the immense rise in materialism, which had been caused by the rapid reforms since the 1980s. The government has continued to foster the development of the private sector and has provided huge amounts of funding to boost the economy. It has also instituted policies to reduce the regional imbalance problem to maintain social stability. At the same time, the government has taken measures to strengthen the legal system (Wu, 2008). In order to enhance China's influence and power in the international environment, Hu has adopted a peaceful development measure when dealing with foreign countries. This is because China has been recognised as an emerging world superpower, which may threaten many countries ("Special section," 2008). Since Hu became president, China has opened up more to the outside world and has had a more active and friendlier attitude to encourage broader economic cooperation and participate in economic globalisation. The free trade agreement (FTA) with New Zealand, signed in 2008, was the first FTA China signed with a developed country; China also signed a FTA in 2009 with the 10 member Association of South East Asian Nations (ASEAN) ("China, ASEAN," 2009). Xi Jinping has become the new General Secretary of the Central Committee of the CCP in November, 2011, and he will soon become the president of the PRC in March 2013. Based on his speech given at the 18th CCP National Congress, Xi has shown that the government, under his leadership, will put Chinese people's welfare and attacking serious corruption as priorities rather than focusing on the growth of the economy (Xie, 2012). From Mao to Xi, CCP business policy has changed from being strict to liberal, and communication with the outside world has changed from isolationism to broader cooperation (shown in Table 7).

Table 7

Chinese Presidents, Business Policy and Western Influence Since 1949

President of PRC		Policy on business	Western influence
Mao Zedong	(1949-1976)	strict	help from the Soviet Union; self-reliance
Deng Xiaoping	(1976-1992)	less strict	opened doors to the outside world again; foreign investment allowed in SEZs
Jiang Zemin	(1992-2003)	liberal	opened monopoly fields to foreign investors
Hu Jintao	(2003-2013)	liberal	broader economic cooperation with the world
Xi Jinping	(soon to be)	liberal	continues Hu's policy

3.2.1.3 The PRC in the historical development context.

By looking at Chinese history, there are several periods, such as in the Han, Tang, and Ming dynasties, when the control of the government also shifted from being strict to liberal. Each dynasty had dramatic economic growth and social development (as described in Section 3.2.1.1). The overview of economic development also shows that the role of the state changed significantly from maintaining military and political authority to increasing intervention in economic and social processes after power was consolidated (Richardson, 1999).

As discussed in Section 3.2.1.1, the ruling classes in Chinese history enjoyed privileges and also had exclusive power over important industries, as can also be found in the current government. In recent years, both Chinese and foreign researchers have called for the Chinese government to institute further reform because its intervention is slowing down the development of the Chinese economy. Western researchers (Coy, 2012; Schuman, 2012; Wooldridge, 2012) use the term 'state capitalism' to name the current economic situation in China, which is very similar to the 'authoritarianism market economy' used by Chinese scholars (Mao, 2010; Yang, 2007; Yang, 2010). These Western researchers illustrate that state capitalism in China is shown in the way the state controls important industries or owns the most powerful companies in China. Chinese scholars tend to take this further by looking at who is behind this so-called state capitalism, and their studies show that the top Chinese government officials have become the ruling classes, similar to those in the previous dynasties. These top officials have used and even overly used their powers to make their families become wealthy and privileged by controlling and owning China's key industries, such as finance, telecommunications, and electricity. In addition, the children of the senior Communist Party officials are also given the top positions in either government departments or key companies (Barboza & Lafraniere, 2010; Lu, 2004). Thus, these offspring are often referred to as China's 'princelings' (Page, 2011).

From an historical development point of view, the PRC is a period in Chinese history similar to the other dynasties discussed in section 3.2.1.1. Many scholars have found that there have been circles or repetitions throughout Chinese history. Wiethoff (1975) believes that, in contrast to the development pattern in European history which was linear, not reversible, and had no repetition, Chinese history could be considered as monotonous. In the early nineteenth century, Hegel (as cited in Faure, 2008), in giving his opinion on Chinese history, considers that it was only the repetition of the same ruin, suggesting that Chinese history was without history. Spence (1990) draws attention to the repetitious movement in Chinese historical development and points out that China's history could be interpreted in terms of intersecting cycles of collapse and resurgence, revolution and advance, subjugation and development. Wei (2005) also finds that Chinese economic history from the Qin to the Qing dynasties had three characteristics. Firstly, the growth of the Chinese economy followed a certain pattern: the economy suffered a setback when there was a change of dynasty, but recovered and grew after a new regime was established. Secondly, when there was no warfare, whether the social and political environments were good or bad, the economy would always grow. Thirdly, the development of businesses and the regime were damaged by either corruption or conflict between powers. These scholars' findings prove that there is a developmental pattern in Chinese history. The current government's prime task of solving corruption and bribe taking indicates that corruption has even threatened the leadership of the CCP.

After reviewing the development of the Chinese business sector from ancient China to the present, some common patterns in how the government administers the business sector are also found. First, Fairbank (1962, cited in Wu, 2012b) finds that the development of the Chinese merchant class in all the dynasties relied on the government; in addition, these traders never became an independent power when operating their businesses. The development of SMEs in PRC history also supports Fairbank's discussion as they still rely on government recognition and support. The close relationship between SME owners and the government has become an important element in the growth of their businesses. Thus, Chinese business owners have an opposing view to their Western counterparts regarding the purpose of operating businesses. Fairbank (1962, cited in Wu, 2012b) uses a metaphor to describe the difference: Chinese businessmen seek licences from the government to produce mouse traps rather than inventing better ones. Wu (2010) gives an insightful analysis of the processes ten Chinese private businesses went through from the start-up stage through to success or failure. One of the important factors found in these businesses is the relationship with the government. It can help businesses succeed, but can also cause them to collapse. Thus, Wu (2010) raises a question: how close should Chinese entrepreneurs be to politics?

A second common pattern is that private business has tried hard to survive under the oppression of two forces: the government and SOEs. The Chinese government has adopted two approaches in managing the business sector since 700 BC. These are: controlling the leading industries that are

important to the national economy and the people's livelihood, and requiring the SOEs to remain in a dominant position in these industries (Wu, 2012b). The current Chinese government still uses the same philosophy in managing the business sector. This means SOEs are more like a government and, in contrast, the government is more like an enterprise in practice. Thus, the private sector is in an awkward situation when competing with these two interest groups.

Nowadays, China is going through a development stage under the direction of the CCP. People can draw on experience from history and so does the CCP. One famous Chinese saying is that with history as a mirror, you can know why a dynasty blossomed and faded. Therefore, it is important for the CCP to learn from the past and formulate proper principles and policies and regulations to boost people's living standards and develop the Chinese economy under free, fair, and stable social conditions.

3.2.2 Chinese culture and its impact on Chinese people.

3.2.2.1 Overview of Chinese culture.

Culture is defined by Hofstede (1991, p.5) as "the collective programming of the mind which distinguishes the members of one group or category of people from those of another". From an historian's point of view, mankind may be the same in terms of their physical being; however, such similarity does not include their historical and social beings (Wiethoff, 1975). In management and international business literature, culture has been studied independently (Hofstede, 1991, 2001). However, in Williamson's (1985) study on institutions, the organisational arrangements in society are analysed at three different levels, namely: cultural factors (norms, customs, traditions, and religions); the macro level (government policies); and the micro level (arrangements between firms or individuals). Norms of behaviour and conventions, defined by North (1990) as informal institutions, reflect the hand of the past or the carriers of history and can guide human interaction (North, 1990; Pejovich, 1999). They will influence human interactions which, in turn, will impact the social and economic development (Pejovich, 1999).

According to Hofstede (1991), China is a collectivistic culture and is classified as being long-term oriented as opposed to Anglo–American culture, which is individualistic and short-term oriented. Chinese culture is described as a product of three different value systems or religions: Confucianism, Taoism, and Buddhism (Faure & Fang, 2008; Kung & Ching, 1989). Vermander (2011) discusses that Chinese culture manifests spiritual form and content and also stresses the moral relationship among people. Among these three value systems, key Chinese cultural tenets are based on Confucianism. Confucian ideology stresses a broad commitment to the harmony of society, which is considered as a hierarchical pyramid of roles, and people need to behave to fit their roles (Pun, Chin, & Lau, 2000). Individuals are part of interdependent relationships rather than just being isolated entities. Thus, people need to offer sacrifices in order to maintain harmony in relationships (Vermander, 2011). In

Confucianism, there are five types of relationships: the ruler and the ruled; the father and son; the husband and wife; the brother and brother; and the friend and friend. The relationships between people are also defined by five virtues: benevolence, righteousness, politeness, wisdom, and trustworthiness, all of which set the norms on how people should behave when interacting with others in a social hierarchy (Yao, 2000).

Taosim, founded by Lao Tzu in 571 BC, focuses all relationships on the family. Superiors, such as father, older brother, and husband, owe weaker ethical duties to the inferiors, such as son, younger brother, and wife, than the inferiors owe their superiors (Fei, 1992). Taoism closely links human beings with the whole cosmos. In Taosim, man should keep in harmony with macrocosms through virtue. Haley, Haley, and Tan (2004) think that, basically, Taoism served as the ideology of the common people, and Taoist scholars lived in the villages to provide guidance and education to the villagers and their children. In contrast, Confucianism served as the philosophy of the ruling classes and elites, and Confucian scholars filled China's imperial courts to provide guidance and education to aristocrats and their children. At the same time, Chinese culture was also influenced by Buddhism. Chinese Buddhism meditation emphasises quick wit and insight, aims at self-realisation, and works with external influences. It provides a pragmatic way of thinking. Compassion is the key value underlining Buddhism, which requires people to be compassionate with everyone (Phan, 2004). It was Buddhism that hugely influenced Chinese intellectuals and led to Confucianism's revival after the Song Dynasty (Wong, 2001).

Confucianism, Taoism, and Buddhism, as philosophies, have similar features. They all stress the consciousness of people's minds, emphasise subjectivity, focus on life, and believe in reality and manifestation (Wong, 2001). Keeping harmonious relationships among people is one of the key fundamental concepts in each of these three value systems. Thus, the unique Chinese culture influences the Chinese character, which is very different from the West. Lin (1938) summarises that all the character traits, such as sanity, simplicity, patience, indifference, and industry, can be summed up in one word: 'mellowness'. Mellowness suggests that the character of Chinese people is built on the basis of support and endurance. It enables the Chinese to find peace under any circumstances. Thus, patience has become a noble virtue of the Chinese people. Lin (1938) also points out that sometimes patience may come with a purpose and, as a Chinese saying goes, 'a man who cannot tolerate small ills can never accomplish great achievements'. The old Chinese culture makes people realise that it is not worth striving for the unattainable in life. More recently, Ogden (1989) notes that there are three basic competing values underlying all the decisions of the Chinese government: traditional Chinese culture, socialism, and development. He also believes that the priority of values would change along with political changes. However, Ogden's study reveals that Chinese culture is the most dominant of the three values:

> If we pose the question of what is the most crucial element in a Chinese person's identity, what is a Chinese person most afraid of losing; it would be his or her Chineseness. 'I am a Marxist' has a hollow ring. 'I am a modern person' defies reality. But 'I am a Chinese' speaks to a fundamental identity (Ogden, 1989, p. 6–7).

3.2.2.2 Comparisons between Chinese and Western cultures.

According to Zeng (2005), Chinese and Western cultures embrace different rules when governing a country. Zeng explains that Chinese culture believes that a society should be governed under the rule of man, but Western culture believes that a society should be governed under the rule of law. Figure 1 shows four possible approaches to governing a country.

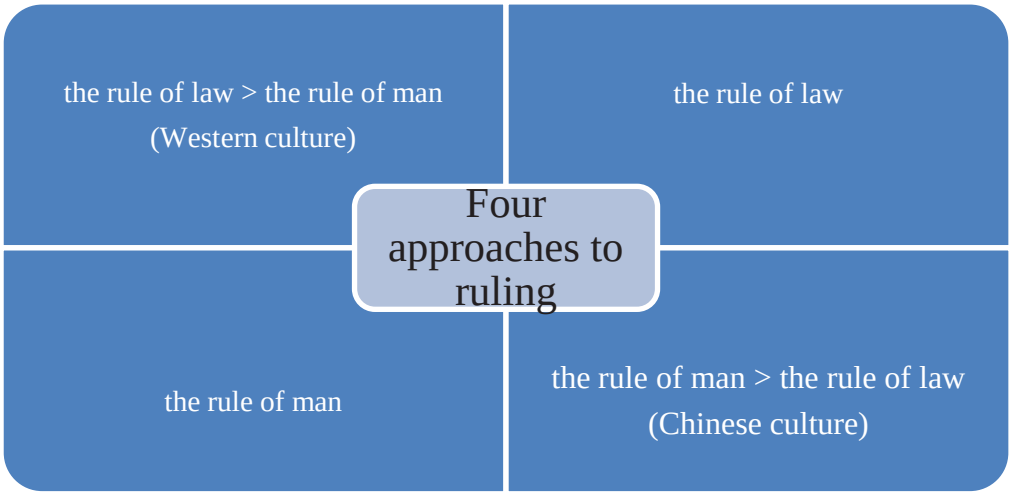

Figure 1. **Four approaches to ruling.**

Confucianism does not embrace the idea of legalism. Confucius said: "If the people are led by laws, and uniformity sought to be given them by punishments, they will avoid the punishment, but have no sense of shame. If they are led by virtue, and uniformity sought to be given them by the rules of propriety, they will have a sense of shame and, moreover, will become good" (Analects, Book 1). Thus, traditional Chinese culture believes that the law cannot eradicate problems; only by setting a sense of shame and inculcating self-regulating moral mechanisms into people's minds can people effectively change their bad behaviour (Fang, 1999). Faure (1995) suggests that laws are traditionally seen by Chinese as something made to be circumvented. One example is that the most basic traffic rules are often ignored by car drivers when traffic policemen are absent. However, the opening up of China to the rest of the world has helped the country to gradually build up a legal framework. For instance, The New Labour Law, passed in 2008, requires all employers to sign a contract with their employees in order to protect employees' legal rights.

Confucius advocated '*wuke wu buke*' (indifference), which means there is no 'yes and no' when doing things. Zeng (2005) believes that this thought causes a fundamental difference between Chinese and Westerners in making decisions. Western countries adopt a legalist approach; therefore, they will have two clear views on things — yes or no. However, there is another view in Chinese culture — neither yes nor no. The main reason why this view exists is that Chinese tend to use the rule of man to govern the country. Figure 2 explains the idea more clearly.

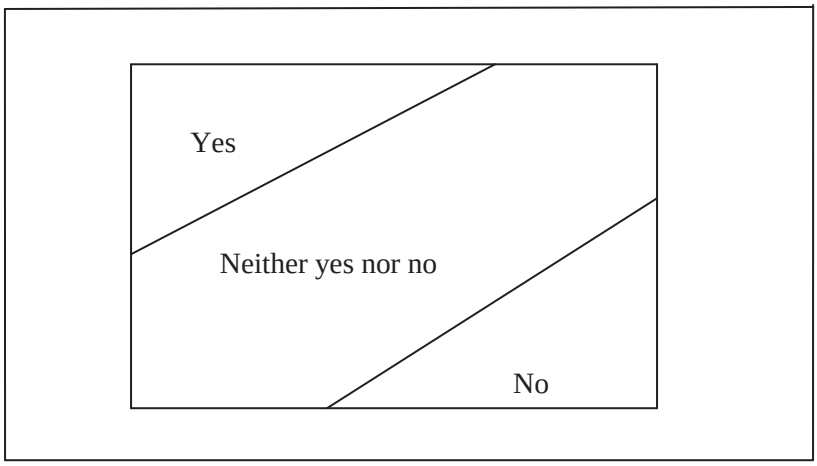

Figure 2. **Chinese thinking in making decisions.**

Yin Yang, a Chinese philosophy, also expresses a similar idea. Yin symbolises female energy, such as the moon, water, and femininity, and Yang symbolises male energy, such as the sun, fire, and masculinity. The basic principle of Yin Yang is that there is no absolute borderline existing between Yin (black) and Yang (white). Yang (a dot of white) exists in Yin (black), and Yin (a dot of black) exists in Yang (white). Chen (2002) explains that Yin Yang provides a holistic and paradoxical worldview as Yin and Yang embrace each other and they come together to form a changing unity to keep the balance. The idea of Yin Yang is fully expressed in Figure 3.

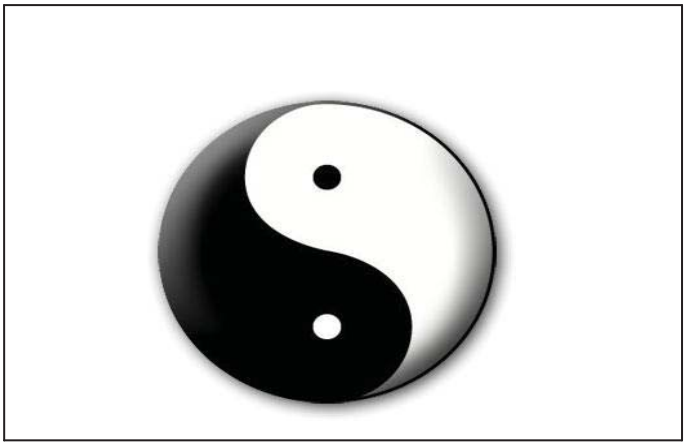

Figure 3. **Yin and Yang.**

Similar to Chinese logic, which is shaped by several concepts, Stcherbastsky (1993) believes that the Western mindset is also shaped by three classic laws of thought, all considered to contribute to Western logic: the laws of Identity, Contradiction, and Excluded Middle. The Law of Identity, as noted by Aristotle in his book, *Metaphysics*, states that any object is identical with itself (Stcherbatsky, 1993). The laws of Contradiction and Excluded Middle express different thoughts: the former suggests that contradictory propositions cannot be true at the same time, and the latter explains that any proposition is either true or false. However, the underlying principles of both laws are based on the same logical viewpoint — that a judgment on any issue is given from two contradictory perspectives (Stcherbastsky, 1993). Therefore, the Western worldview tends to be 'true or false' or 'either–or'. Moreover, many Western studies reveal that human beings' right brain and left brain have different characteristics and functions. For example, the right hemisphere of the brain is 'big picture' oriented, looks at similarities, and is analogic, while the left hemisphere of the brain is detail oriented, looks at differences, and is logical (Henschen, 1926). The Western worldview, therefore, sees ideas as being two absolute and isolated factors. Yin and Yang, however, shows that the Chinese worldview is totally different as each factor can also influence the other. This explains why the Chinese worldview is 'both–and' rather than 'either–or'.

Fan (2001) studied the differences between Chinese and Western mindsets. He finds that Chinese minds think in terms of concrete analogy, synthesis, and intuition. Chinese logic is also accompanied by some personal and subtle threads, while Western logic is more impersonal and explicit. One example is that the word 'because' appears less frequently in Chinese language as it is normally used by the speaker to imply or by the audience to infer with reference to the context. However, 'It is because…' is used by many Americans, which suggests the cause–effect relationship is embedded in their mindset. The Doctrine of the Golden Mean, the central principle of Confucianism, is another important aspect of Chinese thinking. For Chinese, being reasonable is more important than reason, which means people should be fair rather than merely logical. Lin (1938) considers that reason is more abstract and idealistic than equanimity, which is more human and offers a better understanding of the specific situation than reason. This doctrine is very similar to the Greek ideal of 'nothing to excess', which signifies a capacity for compromise and a way of life. In everyday life and business activities in China, the Doctrine of the Golden Mean means that nothing can go beyond its appropriate domain.

3.2.2.3 Guanxi.

As individuals are in interdependent relationships, *Guanxi* is an important concept in Chinese society. *Guanxi*, a Chinese term for relationship or connection, refers to a bond between two individuals to enable a bilateral flow of social or personal transactions. In order to continue the relationship, both individuals should benefit from the transaction (Yeung & Tung, 1996). Tsui and Farh (1997) think that the cultural origin of *Guanxi* was in Confucianism, whereby relationships occur not only within

the family, but also outside the family, as in the ruler and ruled and friend and friend. Therefore, one feature of *Guanxi* is that it can build on the basis of shared institutions, such as birthplaces, kinships, and work units, rather than on personal similarities (Tsui & Farh, 1997; Yang, 1994). Furthermore, Yao (2002) considers that the practice of *Guanxi* in China goes beyond interpersonal relationships to serve as an important means for economic and political ends. Thus, Hwang (1987) discusses that China is a relation-oriented society. In addition, Butterfield (1983) notes that, compared with Westerners, the Chinese have a strong tendency to group people into different types and treat them accordingly. They categorise people into three groups based on *Guanxi*: family members, familiar people, and strangers (Yang, 1994). Ties with family members, including relatives, are the closest; ties with familiar people, such as former colleagues and people from the same town, are semi-close; and ties among strangers are either distant or non-existent (Chen, Chen, & Xin, 2004).

In business, Yeung and Tung (1996) believe that, similar to the West, the concept of business relationships is important in China. However, it is seen by the Chinese as a personal asset which can have influence in both business and non-business environments. Western countries take the approach of business relationship management, which studies business relationships according to different models and disciplines. Business networking is also used as a marketing method to help businesses create opportunities through various relationships. In the West, business relationship management models or methods are available for marketing, human resource management, supply chains, or other functions relating to the business operation. There are six differences between relationships in China and in the West, which are shown in Table 8.

Table 8

Differences in Relationships Between China and the West

Area	China	The West
1. Motive	Role obligation	Self-interest
2. Reciprocation	Self-loss	Self-gain
3. Time orientation	Long-term	Short-term
4. Power differentiation	Being righteous individuals	Behaving under the laws
5. Nature of power	Personal power	Institutional authority
6. Sanction	Avoid shame	Avoid guilt

Adapted from: Yueng & Tung (1996).

Confucianism stresses social harmony by maintaining the five types of relationships previously discussed in Section 3.2.2.1. Therefore, the Chinese concentrate on fulfilling the responsibilities that are required of these roles. In contrast, self-interest tends to be the primary concern of individuals in

the West. Interpersonal relationships, especially in the business world, have a long-term orientation in China and, because of this enduring view of relationships, self-loss in the short term is acceptable. There is a Chinese saying that 'suffering a loss is a blessing', which illustrates how Chinese culture is different from the West. There are two consequences of suffering a loss in the short-term: learning lessons from the experience or, more importantly, bringing benefits for the future. Jinshang was the richest and the most powerful commercial group in ancient China, and the key to its success was that Jinshang knew the importance of suffering losses. By giving 10% more goods to customers, they developed a strong reputation as being honest traders and, thus, gained many loyal customers (Han, 2006). This philosophy of living demonstrates self-loss and a long-term perspective in reciprocation in Chinese culture. In Western social transactions, the tendency for self-interest in human behaviour and rules and regulations determine that self-gain and the short-term perspective are the foci (Yueng & Tung, 1996).

The concept of 'the rule of man' is important in Chinese culture. It is a term that expresses similar ideas regarding power differentiation, the nature of power, and sanction differences to those of Yeung and Tung (1996). Emphasis on ethical concepts and a social conscience in Chinese culture means that the concept of power is different from the West. The focus on ethics means that people attempt to right the wrongs. They try to be righteous individuals, similar to the knights in Western culture or to the fictional character, Zorro, who was a passionate crusader for justice. He robbed the rich to help the poor, and also punished the evil and helped those in distress. The idea of being righteous individuals in China is very similar to Zorro. Laws and rules may even be ignored under certain circumstances. As discussed in Section 3.2.2.3, people in the West believe that laws are the best way to regulate living, and people with power have no obligation to assist the disadvantaged.

There are two important elements embedded in *Guanxi* relationships in China: trust and face-saving. Trust, in Chinese, is *Xinyong* and is vital in business; it is often referred to by some researchers as 'an old friend approach' (Leung, Chan, Lai, & Ngai, 2011). In contrast, relationships in Western countries are based on benefits and institutional laws. In the West, business dealings are carried out under legal protection by signing contracts; however, with *Xinyong*, business in China is often completed by oral agreement. The main reason for such a practice is that trust is embedded in business partners, and *Xinyong* is one of the most important assets a business person can have as people will trust and be willing to do business with a person who has it (Tong & Yong, 1998). Trust can sometimes be a substitute for the risks that are embedded in decisions (Luhmann, 2000). Based on Luhmann's discussion, Welter and Smallbone (2006) suggest that trust can help entrepreneurs reduce the transaction costs because sometimes business relationships do not necessarily need to be regulated by contracts. Thus, trust can strengthen interfirm cooperation and also help with the exchanging of information between businesses (Hausler, Hohn, & Lutz, 1994; Hite, 2000). Another important element of *Guanxi* is face-saving. Face, in Chinese society, only exists in the broader context of social

interactions. This means it only can only be given or taken away through contact with other people. Behaviour or expressions of emotion are both needed to maintain social harmony, and individuals have to ignore their personal interests if needed. Those who disrupt harmony, both individuals and their families, will be considered as shameless or face losing (Faure & Fang, 2008). Hwang (1987) also thinks that losing face in China could injure Chinese people's self-esteem and result in emotional uneasiness. This idea helps to explain Yeung and Tung's (1996) noting of the differences in sanctions between China and the West. Different from face-saving in China, Western people feel guilty if they break laws rather than having a sense of shame. Therefore, in Chinese society, people tend to use every sort of measure to protect and earn face, such as having higher social status or presenting themselves so as to signal their wealth and knowledge (Hwang, 1987). Peng (2004) proposes a model (see Figure 4) to illustrate how *Guanxi* can have an impact on the Chinese economy:

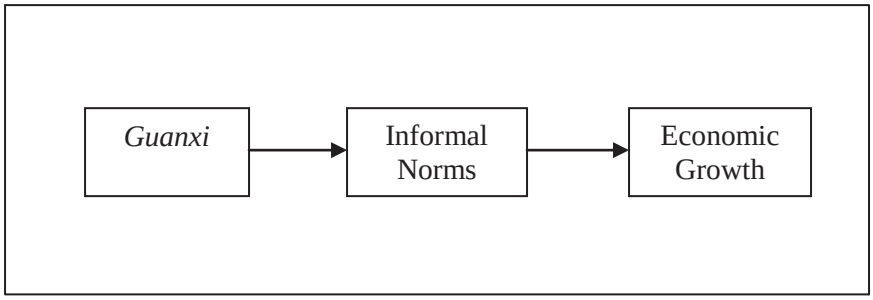

***Figure 4*. How *Guanxi* plays a role in the Chinese business environment. Adapted from: Peng (2004).**

Figure 4 summarises how *Guanxi* can impact Chinese economic growth. Culture forms unique customs, traditions, or codes of behaviour for different countries, and *Guanxi*, as a distinctive Chinese cultural factor, also forms norms for Chinese society. As discussed above, *Guanxi* is an important factor that can help businesses to build connections with potential business partners. Therefore, informal norms, which are formed by *Guanxi*, can also influence economic growth (Wank, 1996). However, there is an increasing concern that *Guanxi* is a major cause for corruption in China. Some scholars argue that corruption problems in China are caused by such a *Guanxi* culture as things can be done by trading personal favours and totally ignoring fair and professional competence (Fan, 2003; Faure & Fang, 2008). Yeung and Tung (1996) suggest that the reason why *Guanxi* plays such an important role in Chinese society is because Chinese business laws are vague. They state that the concept of *Guanxi* in China is very similar to nepotism in the West as both require someone in authority to make employment or business decisions, but these are based on relationships rather than on an objective evaluation of ability. Luo (2008) believes that the intertwining of *Guanxi* and corruption has made China become less moral than before. People tend to pay too much attention to

Guanxi, and the principle of *Guanxi* has shifted from favour exchanges to power exchanges and gain sharing without consideration for laws and regulations.

3.2.2.4 Influences of non-Chinese culture.

In Liu Yizheng's book, *History of Chinese Culture* (1988), he includes a spatial narrative relating China to the rest of the world. By stressing cultural interactions from the ancient period to modern times, Liu underscores the fact that China has always been part of the world and, hence, its history is intertwined with the history of other countries. Based on Liu's finding, Hon (2004) concludes that Chinese culture is an open system as China never rejected things from abroad. Liu gives a full explanation of this idea: "Chinese culture is indeed flexible, and from the past to the present it has been constantly renewed and rejuvenated" (Liu, 1988, p. 1). He provides two major examples of how Chinese history is tied to that of other nations. The first dialogue between the Chinese and the rest of the world took place when Indian Buddhism was introduced into China during the Tang dynasty, around AD 700. The second dialogue occurred when European missionaries arrived in China in the fourteenth century, bringing with them advanced knowledge of astronomy and armaments. In addition to Liu's discussion, Wu (2007a) proposes a third important dialogue between China and Western culture: in 1872, 30 young Chinese between the ages of 12 to 16 years, sponsored by the Qing government, were sent to America to study. This was the first time in its history that China sent students to learn Western culture.

One major outcome of the economic reforms in 1978 was the liberalisation of government ideology. Some communist traditions and principles have been relinquished while, at the same time, some traditional patriarchal values and practices have resurfaced (Summerfield, 1994). Aufrecht and Li (1995), in a study of the impact of Western personnel technology on Chinese civil service reform, point out that although the Chinese government has adopted some Western management systems, there are still many traditional Chinese characteristics embedded in the Chinese civil service. These traditional characteristics are: Confucianism, traditional civil service exams and scholar rules, and the Chinese personalism known as *Guanxi*. Similar results are found in other research studies of the impact of Western management practices or foreign direct investment (FDI) on Chinese enterprises (Flynn, Zhao, & Roth, 2007; Jiang, Chen, & Liu, 2009). Zhang Zhixue, a professor of organisation management at Peking University, explains how much Western management theories have impacted on Chinese business practices. He believes that when managing operations, people tend to follow Western practices, but when managing people, Chinese traditions or Chinese culture are more important as they can influence leadership practices and styles (Robison, 2008). Ye and Tweed's (2010) study also proves that Chinese family business owners use Western practices, such as Western quality control system ISO 9001; however, the way that they deal with business partners and employees is influenced by Chinese culture. Thus, Faure (2008) discusses that China is only being

flexible in terms of assimilating, adapting, and learning from foreign sources. Chinese practices, however, will always be more important.

3.2.2.5 Cultural change in China.

All countries change with modernisation. Triandis (1995) points out that the need for interdependence will be lessened when societies become wealthy, thus giving rise to individualism. This idea suggests that the Chinese will become less interdependent and more individualistic as they become richer, especially those who live in more affluent regions. Zhang also observes that the younger generation in China is becoming more individualistic and open to new cultures and values (Zhang, 2008, cited in Robinson, 2008). However, Hofstede (2001) considers that, although cultures are changing, the relative distance between cultures has only moved slightly in the past few decades. Hofstede's finding reveals that China still belongs to the collectivistic category, despite it possibly becoming more individualistic.

Leung (2008) further uses the notion of materialistic achievement to describe current Chinese cultural characteristics. Compared with Chinese culture before the Open Door Policy of 1978, which treated being wealthy as a sin and consumerism as decadence, materialism is now widely accepted. In addition, many Chinese long for wealth and status in order to be rich. The influence of this cultural change on Chinese society is that materialistic achievement encourages people to be diligent and enterprising, but immorality and greed have also stimulated unethical business behaviour and corruption. Yao (2002) considers that corruption has become a fatal problem in the Chinese economy and is also a cancer in Chinese society. Luo (2008) states that from a surface perspective, China is now rampantly losing its morality as corruption and *Guanxi* become increasingly intertwined. Luo did two studies on *Guanxi* and business in 2000 and 2007. He found that the interconnection of corruption and *Guanxi* was not as noticeable in 2000, but was a common phenomenon in 2007; further, all kinds of people used it for a variety of purposes. Therefore, he notes that corruption and *Guanxi* have become embedded in Chinese society. The public perception has changed from a tradition-based culture to a rent-seeking practice. The principle of *Guanxi*, under a less ethical society, has changed from a favour swap to a power and benefit exchange by ignoring obligating laws and regulations, which is a danger to economic and social development.

Wang, Chi, and Sun (2008) studied corruption from another perspective by looking at the characteristics of corrupted officials. Their study shows a positive relationship between the rank of corrupted officials and the amount of money they demanded in bribes: the higher administrative power the corrupted officials had, the more illegal economic returns they received. The Chinese government estimated that approximately 17,000 Communist party cadres smuggled 800 billion *Yuan* overseas between 1993 and 2008 (Jamil, 2011). Table 8 shows that corruption is one of the key

reasons for the collapse of almost every dynasty in Chinese history. Thus, Deng, Zhang, and Leverentz (2010) believe that the growing corruption is now threatening the legitimacy of the CCP and also has a huge impact on Chinese people's faith and trust in the Chinese government.

In Luo's (2008) study, however, he noticed that the progressively intertwined *Guanxi* and corruption in China developed in two totally opposite directions. One is a positive side, which is manifest in an increasing awareness of capability building and competitive advantages. Another is a negative side, which is shown in the intertwinement between *Guanxi* and corruption. Different to Luo's opinion, Zhang (2007) believes that *Guanxi* is relatively less important than it used to be as the regulation system has improved in China over the past few years. He also notes that market-oriented practices have become more prominent because more and more Chinese leaders and managers want to learn from Western practices so they go to universities to participate in MBA programmes. However, *Guanxi*, or relationships, is still important when company managers need support or resources.

Traditional Chinese culture, which was treated as a superstition during the Cultural Revolution, was previously totally forbidden and replaced by the Communist ideology. However, the situation has greatly changed. Although Confucianism was assaulted under Mao's reign, it has now been rekindled as a system of morality. A Chinese government-controlled TV station, Chinese Central TV, has broadcast a series, *Forum of One Hundred Schools*, which has offered lectures on traditional Chinese philosophies and literature since 2006. It has become one of the most popular programmes in China. Such a phenomenon reveals that the current Chinese society desires inspiration from traditional culture (Faure & Fang, 2008). The fourth generation of Chinese leadership has also embraced traditional Confucian philosophy as the government has declared it a priority to build a harmonious society. Faure and Fang (2008) further state that traditional beliefs and modern approaches in today's China can paradoxically go hand in hand. On the one side, people have become more and more trusting in the effectiveness and efficiency of modern approaches and the concept of scientific development is promoted by the current leadership. On the other side, traditional thinking is back in favour in Chinese society. The reasons for this are that Chinese people are starting to feel helpless and hopeless in the materialistic orientated society, and the lack of a belief system has also lead to the current severe corruption (Wu, 2012a). In addition, in recent years, food safety has also become a big issue in China. Food manufacturers produced contaminated milk and pork, and restaurants used oil dredged from the sewers to cook meals in order to lower costs and increase profits (Moore, 2010). Therefore, bringing back traditional culture and the moral sense is important to help people find a balance in an increasingly uncertain world, reduce the materialistic mentality, and conduct business practices ethically.

3.3 Analysis of the Second Institutional Level: China's Macroenvironment

Institutional theory explains that the institutional environment, including political, legal, and economic conventions, establishes the fundamental basis of production and exchange for the business sector (Oxley, 1999). This section uses the PEST analysis to look at the macroenvironment in which Chinese SMEs operate. The four macroenvironmental factors—the political, economic, social, and technological environments in China—will be discussed in this section.

3.3.1 The political environment in China.

3.3.1.1 Political ideology of the CCP.

In a country like China with a one party system, making key policy decisions is highly centralised, and top leaders and key policymakers play a vital role in policy change (Chen, 1995). In Mao's era, the government used the self-reliance model of development and stressed national autonomy. When Deng Xiaoping became president, he shifted the focus from building a socialist country to economic development. Deng's thoughts have brought tremendous economic progress to the country. Although China experienced economic backwardness and political turmoil under Mao's reign, So (2003) suggests that the current Chinese development success owes much to the heritage of the Maoist era. During that time, the CCP gained concentrated power. It could use its political power to control all levels of society, including families and individuals, and also oversaw different state functions, such as economic policy, culture, and education. Although the present government no longer focuses on building socialism, it still has strong state control to carry out its developmental policy.

The supreme ideal and ultimate goal of the CCP is to achieve communism where there are no class divisions in society. Although each generation of the CCP leadership has different guidelines, Mao Zedong's thoughts; Deng Xiaoping's theories; Jiang Zemin's Three Represents; Hu Jintao's Concept of Scientific Development, the underlying ideal of carrying out Communism; and the Four Modernisations penetrate all these guidelines (Urio, 2010). Chen (1995) thinks that the CCP's ideology has two aims: fundamental and instrumental. The nature of the CCP is determined by the fundamental ideology, which defines the political and social order the Party wants to maintain, provides a framework to evaluate policies and social behaviour, and legitimises the Party's leading role in the country. The Party uses fundamental principles to define its status and maintain its socialist image. In China, fundamental principles are expressed in the form of political doctrines, such as the notion of 'four fundamental principles'; the socialist road; the people's democratic dictatorship; Marxism–Leninism and Mao Zedong Thought; and the leadership of the Communist Party. This notion of the 'four fundamental principles' is maintained in an official position and is politically

unchallengeable (Deng, 1979). However, capitalist economic ideas have started permeating China's policy process since the economic reform of the 1980s.

Instrumental principles interpret ideological fundamentals and justify immediate policy goals. According to Chen's (1995) study, Chinese policymakers use instrumental principles either to reinterpret fundamental principles to make them more flexible or to establish new linkages between fundamental and instrumental principles. For example, the CCP stressed the 'Four Modernisations', introduced by Zhou Enlai in 1963, as its fundamental goal. The Four Modernisations were to update the agriculture, industry, national defence, and science and technology sectors (Zhou, 1963). This political slogan indicates that any necessary methods can be embraced if they can increase productivity and encourage modernisation. The Four Modernisations focus is an instrumental principle used to broaden the meaning of ideological fundamentals. Another example is that the CCP argued that market mechanisms, such as shareholding and contracting, are not only encompassed within capitalism, but are also indispensable elements under socialism. The leadership justified capitalist measures as necessary for China's development, and the capitalistic ideology became legitimate. Therefore, the new linkage between fundamental and instrumental principles was established. In conclusion, ideas from the Chinese leaders can define and form political ideology from which new policies can emerge (Chen, 1995).

3.3.1.2 The CCP and other groups in China.

The CCP is the largest political party, not only in China, but worldwide (Economist Intelligence Unit, 2009). Wang Qinfeng, deputy head of the Organisation Department of the CCP Central Committee, released the latest numbers of CCP members at a press conference, noting that at the end of 2010, there were 80.2 million members or around 6% of the Chinese population (Dong, 2011). The criteria for becoming a Party member and the responsibilities that a Party member should fulfill are clearly stated in the first chapter of the Constitution of the Communist Party of China. Only advanced elements of different social strata who work actively in their organisations and are willing to carry out the Party's resolutions are able to become Party members. The Constitution also states that those who do become Party members are 'vanguard fighters' of the working class. Although they are the advanced elements in their organisations, they are still ordinary members of the working class. Thus, they do not have any rights to seek personal gain or enjoy privileges beyond their job-related powers. On the contrary, they must serve the people wholeheartedly and get ready to make any personal sacrifices when necessary (Communist Party of China, 2006c).

The CCP controls China through organisations at three different levels: primary, local, and central/Party (Communist Party of China, 2009). Primary Party organisations are formed in the mainland enterprises, which have at least three Party members, regardless of the industry or region.

These are the basic units of the Party. Each primary Party organisation also has a primary Party committee elected by the members. Organisations at the local level include the Party congress and the Party committee in a province, autonomous region, and municipality. This means that any enterprise and government organisation at different levels in China have dual administrative organs: the administrative department and the Party committee. However, under the CCP, the Party committee is more powerful than the administrative organisation. All the heads of a county, city mayors, and governors of the provinces are only positioned as the deputy secretaries of the Party committee. The highest position at all government levels is the secretary of the Party committee. For example, Beijing's major, Guo Jinlong, is the Deputy Secretary of the Beijing Municipal Party committee ("Resume," 2006), and the governor of Jiangsu province, Li Xueyong, is the Deputy Secretary of the Jiangsu Provincial Party committee ("Resume," 2010).

Organisations at the central level include the National Congress and the Central Committee. The National Congress is held every five years and, when it is not in session, the Central Committee implements the resolutions. The first National Congress of the CCP was held in 1921 before the PRC was founded, and the first National Congress after the PRC was founded was held in 1956; since then, it has been held every five years (Communist Party of China, 2006a, 2006b). The 18th National Congress, held in November 2012, was when Xi Jingping was elected as the new leader of the CCP. The National Congress of the CCP is different from the National People's Congress as only Party members are allowed to participate in the National Congress; in contrast, for the National People's Congress, participants include both Party and non-Party members. The government has allowed private entrepreneurs to participate since the Party's 16th National Congress in 2002; the numbers of private entrepreneur delegates increased to 17 at the 17th National Congress in 2007, and totalled 34 at the 18th National Congress in 2012. The structure of the National Congress of the PRC is shown in Figure 5.

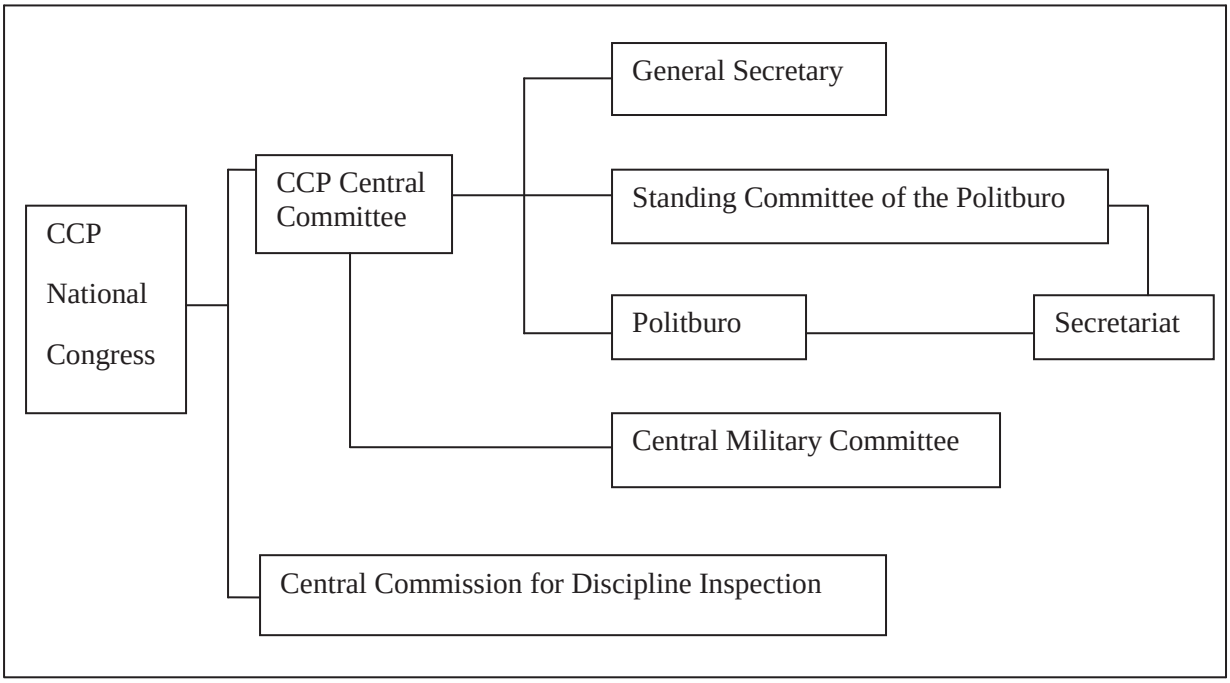

***Figure 5*. Structure of the National Congress of the CCP.**

Adapted from: News of the Communist Party of China (2012).

The members of the CCP Central Committee and the Central Commission for Discipline Inspection are elected during the National Congress of the CCP. There are 371 members in the CCP Central Committee, and the position of General Secretary and members of the Standing Committee of the Politburo, Secretariat, Politburo, and Central Military Committee are indirectly elected by them (Guo, 2010). The most powerful organ, the Standing Committee of the Politburo, has nine members who decide the overall policy of the Chinese government (Brown, 2009; Guo, 2010). The government structure can be described clearly; however, how decisions are made remains a mystery. Dreyer (2008) states that Politburo members are not allowed to give interviews to reveal the discussions in or outcomes of meetings, neither are the meetings televised. Reporters and analysts sometimes have to use terms such as "The Party has decided" (Dreyer, 2008, p.8). The Party here is used in a general way, and decisions made by the government follow a set but vague process that is known only to the government officials involved.

The Party members at various levels are trained and indoctrinated by the CCP through an extensive national network of Party schools (around 2,700) (Wang, 2006). Being the central and prestigious institution of the Party school system, the Party School of the Central Committee of the Communist Party of China plays a vital role in providing training to central level cadres and generating key ideas for the Party (Shambaugh, 2008). The Central Party School has always been headed by a leading member of the Politburo Standing Committee. Hu Jintao, the current president, was its head from

1992 to 2002, and Xi Jingping, the current vice-president and president-to-be, is the current head (Party School of the Central Committee of CPC, 2012). The lower divisions include provincial-level Party schools, which train provincial and municipal level cadres, and sub-provincial Party schools, which exist at three different levels: city, county, and township. Each of these lower divisions provides training for their cadres, and the Party committees at each level directly administer the schools. Thus, the Party members at various levels have regular and rotational trainings in order to study and carry out the principles of the Party.

Although the PRC is under the leadership of the CCP, eight democratic political parties cooperate with the CCP and all form the basic Chinese political system of multiparty cooperation and political consultation. By taking part in government affairs, the main role of these eight parties is to support the government's agenda and make suggestions rather than pursue state power or gain benefits from the government for their members (The Central People's Government of the PRC, 2005). By the end of 2007, these eight parties had more than 700,000 members (Zhou, 2008). The eight democratic parties and members of each group are listed in Table 9.

Table 9

Eight Democratic Parties in China

Party name	Social/political status of members	Total number
1. The China Democratic League	Intellectuals engaged in culture, education, and technology, and those with senior and middle-level management positions	181,000
2. The China Democratic National Construction Association	People from manufacturing and commercial businesses	108,000
3. The Jiu San Society	Intellectuals who work in science and technology in senior and middle-level positions	105,000
4. The China Association for Promoting Democracy	Intellectuals from education, culture, and publishing sectors	103,000
5. The Chinese Peasants and Workers Democratic Party	Intellectuals from health and medical circles	99,000
6. The Revolutionary Committee of the Chinese Kuomintang	Former middle and high-ranking Kuomintang officials; people from the middle and upper social classes who once had relations with the Kuomintang	81,000
7. The China Zhi Gong Party	Chinese who have returned from overseas; relatives of overseas Chinese; noted figures and scholars who have overseas ties	28,000
8. The Taiwan Democratic Self-Government League	Taiwanese who reside in mainland China	2100

Adapted from: The State Council Information Office of the PRC (2007).

Similar to Western countries which have different interest groups, there are also many groups in China, such as women, writers, and peasants, and each has its own organisation. However, the function of these groups is different from interest groups which, in China, are tightly controlled by the government. Despite this, social groups have arisen and started to articulate and pursue their common interests because of government shifts from building ideological rigidity to establishing a market economy. Dreyer (2008) also suggests that a "civil society" (p.19) is emerging in China, whereby Chinese citizens can voice their dissatisfaction with individual leaders or the government. By being loyal to the CCP and government, people can form groups or associations to express their opinions. Economic development is the main reason to foster this phenomenon as, once people get used to making their own economic decisions, they will soon expand their demands into social and political areas. For example, the MIIT announced that the Green Dam internet filtering software, which can

restrict young internet users' access to pornography, would be installed in all computers sold in China after 1 July, 2009. However, some internet users revealed online that the software also blocks many politically sensitive words, and many fear that the software will be used to restrain access to information and keep track of users. The government had to change its decision to install the software on schools' computers as there were too many questions and criticisms from internet users (Branigan, 2009). This example shows that social groups, such as internet users, can voice their dissatisfaction and influence the government's decisions. However, this example also shows that centralised policy making is still embedded in Chinese politics.

3.3.1.3 Current legislation structure in China.

The most distinctive characteristic of the Chinese legislation structure is that it has multi-legislative powers, which are held by the central government, ministries, and local government. The central authorities have responsibility for overseeing the whole legislation structure. The most important legislative power belongs to the central government, such as the State Council and the National People's Congress (NPC). National legislation, such as the Constitution and state laws, are made and carried out by central organisations. No administrative and local laws are allowed to go against national legislation. Based on different legislative powers, there is a hierarchy of regulations in China (shown in Table 10).

Table 10

Hierarchy of Regulations in China

	Name	Organisation
1	The Constitution	The NPC
2	National laws	The NPC
3	Administrative regulations	The State Council
4	Ministerial regulations	Ministries and commissions
5	Local regulations	Local governments

The Constitution Law, the highest law in China, states the basic tasks and structure of the state and the fundamental rights and duties of its citizens. Both the Constitution and national laws are laid down or amended by the NPC. National laws, such as The Property Law and The Labour Contract Law, are a primary part of Chinese top-level legislation. As the highest organisation of state power, the NPC has the authority to enact, amend, and withdraw any administrative, ministerial, and local regulations that go against the Constitution and national laws (State Council, 2008; "China's Current legislation," 2003).

Administrative regulations, such as the Social Organisation Register Regulation and The Law on Sino-Foreign Equity Joint Ventures, are formulated by the State Council, and they should not go against national laws passed by the NPC. The State Council, as the highest state administrative organisation, has responsibility for managing administrative work in China. It also leads all ministries, commissions, and local government; thus, it guides local governments in formulating and enacting local regulations and rules. The State Council is also empowered with rights to devise regulations. It can also change or cancel any decisions and orders made by local governments that are contradictory to the Constitution or administrative regulations. Further, it has licence to change or cancel unsuitable decisions and orders made by its subsidiary ministries and commissions. When there are differences in rules or regulations made by various departments or local governments, the State Council has the right to decide which need to be changed. However, such a system means that administrative, ministerial, and local regulations can be reasonably autonomous ("Creation of regulation," 2003).

Ministerial regulations, such as the Interim Categorising Criteria on SMEs and Provisional Regulations on Wage Payment, are made by ministries and commissions under the State Council. Currently, there are 28 ministries and commissions in China, including the Ministry of Foreign Affairs, the Ministry of Education, and the Ministry of Science and Technology. Each ministry can formulate and promulgate regulations according to its own respective jurisdiction, and the rules and regulations made by different organisations under the State Council have equal validity. They belong to the central legislative process; however, they have restricted status compared with national laws and administrative regulations. These ministerial regulations are made to enforce laws and regulations formulated by the NPC and the State Council ("Creation of regulation," 2003).

As the legislation structure exists at different levels, local governments also have the right to make regulations based on their local conditions. Local legislation in China refers to the local organisations of state power that enact and amend regulatory documents within their respective administrative areas. Local legislation is an important part of the legislative system in China. However, in the traditional Chinese legal system, local authorities were not able to make regulations, and the legislative power was fully exercised by the central government. Even after the PRC was founded, there was a period of time (1949–1982) when the legislative system was highly centralised. Local legislative power was confirmed by the 5th National Party Congress in 1982 and was the first time that legislative rights were decentralised to local governmental organisations (Zhai, 2004). Local regulations are at the lowest level of the Chinese legal system and should not contravene the Constitution, national laws, or administrative and ministerial regulations. Zhai (2004) states that the local regulations can be categorised into four groups according to provincial administrations in China: the legislation of the general administrative area, the national autonomous region, the special economic zone, and the special administrative region. Some examples of local regulations are the *Regulations of the Shenzhen*

Special Economic Zone on the Protection of Enterprises' Technical Secrets and one-off taxes charged by the local governments.

The basic principle of local regulations is to reflect the characteristics of local conditions. This means that these regulations need to be suitable for the local situation and reflect the degree of legislative readjustments in local economic conditions, customs, and living standards. More importantly, their role is to solve the issues that cannot be settled by the central government or have not been laid down in law at the central level ("Local legislation," 2003). For example, Chapter 7 of the SME Promotion Law gives local governments the right to formulate supplementary regulations. Economic conditions in each region are different, so it is not possible for the central government to make a single standard regulation to solve the problems that SMEs face in different areas. Therefore, local regulations play an active and important role in implementing policies issued by the central government. As the central government has decentralised more power to the local level, the number of local regulations has increased enormously, as have the readjustments of laws.

3.3.1.4 Chinese government organisation.

Chinese central government organisations include the National People's Congress, the State Council, Chairman and Vice Chairman, the State Military Commission, the Supreme People's Court, and the Supreme People's Procuratorate. The Constitution of the PRC (2004), the highest law of the PRC, states that the National People's Congress is the highest organ of state power. The State Council is the supreme administrative body of the country and the executive system of state power. Local governments are the administrative organs at different local levels and are under the leadership of the State Council. The State Council also directs 28 ministries and commissions, 18 bureaus, 14 business units, four administrative offices, and one special organisation, the State-owned Assets Supervision and Administration Commission. Figure 6 shows the organisation of the Chinese Government.

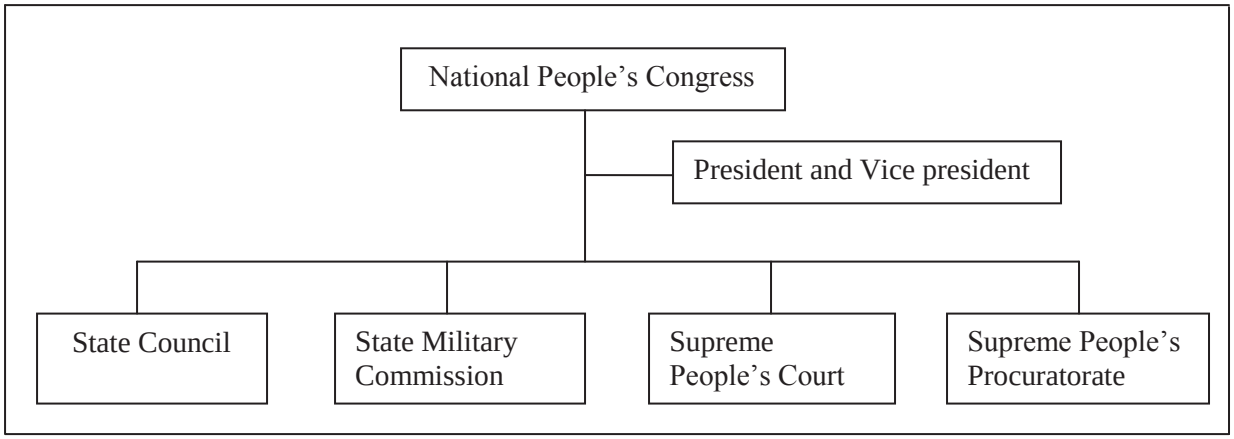

***Figure 6*. Organisation of the Chinese government.**

Adapted from: The Central People's Government of the PRC (2012).

In addition, the State Council administers the country through four types of provincial-level units: province, autonomous region, municipality, and special administrative regions. Each of these units also has several practical levels of local government (State Council, 2012). Autonomous regions are also at the provincial level and are established in areas where the ethnic minorities are the majority population. Figure 7 shows the structure of the government administrations at all levels.

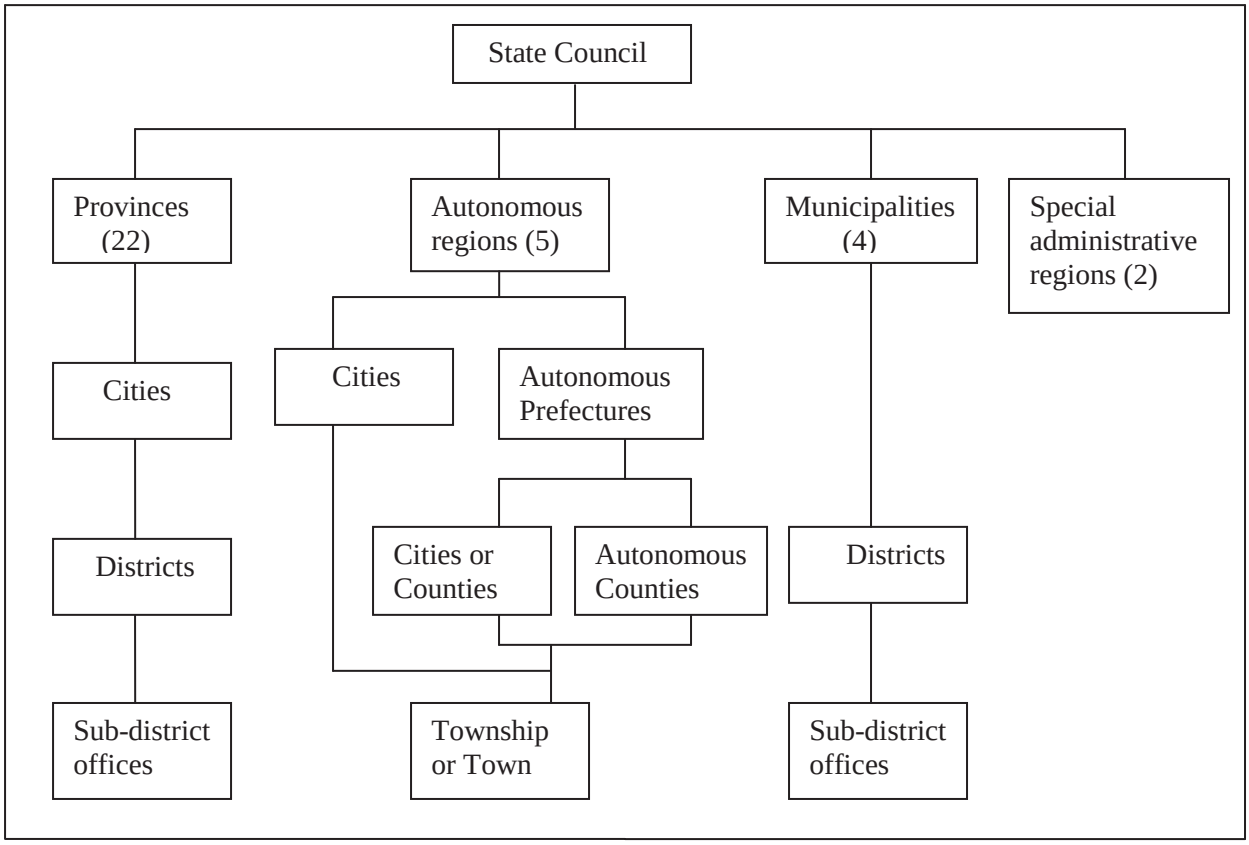

Figure 7. **Structure of the government administrations at all levels.**

Adapted from: Xia (2001).

The central government started to transfer some governmental authority to local levels in 1979 with the aim of encouraging officials at lower levels to be more supportive of profitable economic development (Naughton, 2007). Deregualtion has changed the role of central government from completely planning and controlling local development under the centrally planned economy to providing guidelines and supervising local governments to administer local development (Wu, 2008). Local governments can oversee their own areas' developmental plans and expenditure. Also, in relation to the business sector, local government has the power to issue business licences, coordinate local business development, and enact tax policies (Qian, 2000). As government expenditure is linked to revenue generation, local government has more incentive to promote local economic development

in order to increase income. Thus, Blanchard and Shleifer (2001) suggest that China is functioning as a de facto market-preserving, federalist state.

3.3.2 Economic analysis.

Economic development under socialism is unusual. Unlike other communist regimes, China has been through an economic structural change from being a centrally planned economy to a market economy. The Chinese economic system is still at an early stage in transition to a market economy (Zhang & Edwards, 2007). It could even be argued that the Chinese economy is turning from socialism to capitalism (Chen, 1995). Further, the economic outcome is also distinctive. In the past, it was assumed that China would become the world's second largest economy in terms of GDP in the next decades (Naughton, 2007; So, 2003). In 2010, China overtook Japan to become the second largest economy after the USA, and estimated figures also indicate that China was still ranked in second place in 2011 (International Monetary Fund, 2011a). However, when dividing GDP by the population (GDP per capita), China only ranked 91st in 2011, compared with the USA at 15th and Japan 18th (International Monetary Fund, 2011b).

The Chinese economy has been through a gradual process since the establishment of the new China in 1949. This process can be divided into four broad phrases (Guo, 2007):

1. Centrally planned economy (1949-1978);
2. Combinations of planned and market economy (1978-1993);
3. Socialist market economy, of which state ownership was a main form (1993-1997); and
4. Socialist market economy, of which public ownership is a main form (1998 onwards).

The four phrases show that Chinese economic development has changed from a traditional socialist economy to a market economy with socialist characteristics. During the centrally planned economic era, all productive activities were planned and controlled by the government; people also had guaranteed employment, thus encouraging a low sense of societal economic and legal responsibility (Guo, 2007). Furthermore, the CCP nationalised all enterprises when it took over political power, and non-state enterprises were forbidden by the government until the advent of economic reform (Fan & Li, 2001).

The economic reforms, which started in 1978, modified the economic system from central planning to a commodity economy with a plan. Individual businesses were officially recognised and regarded as complementary to the economy in 1982, after which private business became a new category in the Chinese economy in 1988. A large number of Township and Village Enterprises (TVEs) emerged in the late 1980s. TVEs, based in townships and villages, are public enterprises under the influence of local government. The uniqueness of TVEs is that firms are collectively owned by the public and the

local government (Tong, 2001). The most significant decision made by the government under the economic reforms was to open up China to the outside world. In order to attract foreign technologies and capital to China and to modernise its social economy, Special Economic Zones (SEZs) were established. Four coastal cities and one province — Shenzhen, Zhuhai, Shantou, Xiamen, and Hainan province — were in 1978 chosen as the first areas to be opened up to the world economy. Figure 8 shows the locations of these five SEZs.

***Figure 8*. The locations of the SEZs.**

Adapted from: BBC News (2006).

These areas also played a role in testing Western management, technologies, and finance in China. If the experiments were successful, Western practices would be applied throughout the country. If they failed, this would not be too problematic for China as these areas are far from the interior and the impact of failure would be very limited. This is one of the examples of how the Chinese government has cautiously allowed new approaches to be brought into China, where Deng Xiaoping's famous quote applies: 'feeling for the rocks with your feet as you cross the river' (Wu, 2008). Therefore, the SEZs served as pioneers of the economic reforms and the results were surprisingly successful. The preferential policies, the Western advanced knowledge and technologies, and trade connections with the outside world allowed the SEZs to become the most industrialised, Western-oriented, and wealthy areas in China after 1978. Due to their favourable outcome, the Western influences were applied to more cities and areas. Since 1978, 15 free trade zones, 32 economic and technological development zones, and 53 high-tech industrial development zones have been established. These open areas have served as bridges for introducing foreign investment and technologies into China (Xu, 2009).

At the beginning of the 1990s, after the dissolution of the former Soviet Union, the CCP realised that only further reforms could help it to retain its legitimacy. In 1992, the Chinese government declared it would build a socialist market economy and called for faster reform. Along with economic growth, the SOEs under the control of the government became less competitive, and the government had to invest much capital to maintain these inefficient firms. Therefore, President Jiang Zemin announced in 1997 that the government would gradually close, merge, or sell the majority of SOEs. After due consideration, the government chose to retain only large and very large SOEs that could compete in global markets. Medium and small SOEs were transferred to the private sector (Hughes, 2002). The major impact of privatising SOEs was that self-employment and small-scale enterprises in the private sector boomed. The SME Promotion Law of 2003 identified that SMEs were an important component of the Chinese economy as they could provide job opportunities for both urban and rural areas (Atherton & Fairbanks, 2006). The Property Law that came into effect in 2007 was the first piece of legislation in the PRC to protect private assets and put private and state-owned property at the same level (Beck & Guo, 2007).

Currently, China is one of the largest producers of agricultural products; over 40% of the labour force in China is engaged in agriculture (Bureau of East Asian and Pacific Affairs, 2008). Before the 1980s, the people's commune system, where land was owned collectively by the government and the farmers, was used in the agricultural sector. The output was distributed to each household based on work points, and the state purchased a majority of the output. A change to a production-related system took place in the early 1980s. Since then, farmers have been able to sign a contract with the local government to attain a certain amount of land and have a production quota. As long as farmers fulfil the product quota, they can decide what they want to produce and how to sell.

The industrial sector, together with construction, both account for 48% of China's GDP (Economist Intelligence Unit, 2009). Around two thirds (66%) of the total industrial output value came from the Chinese SME sector (Li, 2008). As discussed above, the government started to contract out privatised non-performing SOEs from 1995, and the majority of the remaining large SOEs were turned into corporations. There are currently various forms of ownership, ranging from being solely private-owned, to a mixture of private and state ownership, to 100% state ownership. The government is still the only shareholder in companies that produce defence-related and special-category products, such as telecommunications and the petroleum industry. Foreign investment enterprises, either joint-venture or wholly foreign-owned enterprises, have grown dramatically since the early 1980s. By building a socialist market economy with Chinese characteristics, there have been some changes in industrial management since 1993. The most important step has been to import modern-enterprise systems which follow the market-based corporate structure. As a result, productivity has improved substantially in the industrial sector (Guo, 2007).

The service sector has also grown. According to the Economist Intelligence Unit (2009), China's service sector accounted for 40% of GDP in 2007. More than 99% of enterprises in the service sector are small- and medium-sized (Li, 2010). There has also been a dramatic growth in the retail sector, with total retail sales reaching 8.9 trillion Chinese *Yuan* in 2007. The logistics industry has also experienced changes in recent years. Before 2005, foreign operators were only allowed to own a limited number of logistics companies, but since the reform, foreign operators have been able to have full ownership (Economist Intelligence Unit, 2009). The public finance and banking sector is the most important part of the services economy and it, too, has been through some major changes. China adopted a single taxation system before the reform but, since 1994, the government has opted for a tax-sharing system. Therefore, the central government collects all central taxes and the local governments collect the designated local taxes. Banking reform was also started in 1994. Private banks have been able to be established, and foreign banks have also been given access since China became part of WTO in 2001 (Guo, 2007). However, despite this, the four state-owned Chinese banks accounted for 50% of total banking assets in 2007.

As well as provincial administrations, another three approaches, based on either economic conditions or geographic location, can be used to analyse the Chinese economy. The first approach is to manage the Chinese economy through six administrative regions: North, Northeast, East, Central South, Southwest, and Northwest. This approach has been adopted by China's official statistical authorities since the early 1980s (Guo, 2010). The second approach is based on geographical locations, which divides China into three regions: East, Central, and West. The Eastern region is the coastal areas, and both the Central and Western regions are the inland areas. This approach is a categorisation commonly used by academic researchers studying Chinese economic regions (Lin, Wang, & Zhao, 2004). The third approach, which is often used by Chinese people, divides China into North and South according to the dividing line of the Qinling Mountains and the Huaihe River (Guo, 2010; Schlevogt, 2001).

One negative consequence of economic reform and the opening up of China has been increased regional disparities as Deng's central economic development theory favoured the coastal regions and their special economic zones (Fan, 1997). After thirty years of development, the economic conditions in the coastal regions are more prosperous than the inland areas. In order to reduce the inter-province disparities, the government has released three strategies to promote economic development in the less developed regions. The first strategy is the Western Development Programme (*Xibu dakaifa*), which was first mentioned in *The Decision of the Central Committee of the CCP on Major Issues Concerning the Reform and Development of State-owned Enterprises* in 1999 (The CCP Central Committee, 1999). Following this, in 2001, the National People's Congress gave a detailed plan in *The Tenth Five-year Plan for National Economic and Social Development of the PRC*. Until 2011, the Western Development Programme has made marked improvements. Although the top three provincial contributors (Guangdong, Jiangsu, and Shandong) of GDP in 2011 were located in the Eastern region,

the growth rate of the Western region was higher (Xu, 2012). From 1999 to 2009, the GDP of the Ningxia Hui Autonomous Region increased more than six times from 24.1 billion *Yuan* to 135.3 billion *Yuan*, with an average annual increase of 11.5% (Wang, 2011).

The second government strategy is the Northeast Programme (*Dongbei zhenxing*), which was mentioned in the 16th CCP National Congress in 2003 (The CCP Central Committee, 2003). The Northeast region was the first industrial base set up by the Chinese government, and many large key enterprises in energy, raw materials, and equipment manufacturing were built there in the 1950s. Among the 156 key projects started in the first Five-Year Plan (1953-1957), 58 of them were developed in the Northeast. The region made great contributions toward forming the independent and comprehensive Chinese industrial system (The CCP Central Committee & State Council, 2003). In addition, 10.2% of the SOEs and state-controlled enterprises were located in this region at the end of 2002. However, along with the marketisation of the economy, the simple ownership structure (state-owned) and huge economic and social burden caused by the SOE reforms of the 1990s made it difficult to further develop the region (The Leading Group of the State Council for Revitalising Northeast Old Industrial Base, 2010). Thus, the region has been through an industry structure adjustment. The development of the tertiary industry (service industries), rather than primary (agriculture, forestry, animal husbandry, and fisheries) and secondary (manufacturing, mining, and construction) industries, has been encouraged by the government. The Northeast Programme has been successful, with the proportion of non-publicly-owned entities increasing from 36% in 2005 to 54% in 2010, and the GDP per capita doubling from 14,087 *Yuan* in 2004 to 33,312 *Yuan* in 2010 (NDRC, 2011a).

The third strategy is called the Promotion of the Rise of Central China (*Zhongbu jueqi*), which was launched in the Report on the Work of the Government at the 11th National People's Congress in 2004. Around one quarter of Chinese famers live in the six provinces in Central China, and the region is an important base for China's grain production, producing 40% of China's total grain output. The region also serves as China's main source of coal ("Strategies on promoting," 2011). Thus, the government strategies focus on not only enhancing the production of grain and energy, but also upgrading the industrial structure and industrialisation level (Comprehensive Department of the Research Office of the State Council, 2005). The economic development of the Central region has improved significantly since the strategy was implemented in 2006: during the five-year period, 2006 – 2011, the average growth in the GDP of the region was 13%, which was higher than the national GDP growth. In addition, the average increase in personal income during the same period was around 13% (Yan, 2011). All three strategies regarding grain, energy, and industrialisation to improve the poverty of the region have made significant advancements. In order to bring in more investment into this region, the local governments, with the permission of the central government, have developed different preferential policies, such as giving tax cuts or charging lower fees, to businesses that invest in the

area. These policies are made by the local governments based on their local conditions (The Government of the Xinjiang Uygur Autonomous Region, 2002; Zhou, 2012). Thus, in order to diminish the unbalanced regional economic development, the policies and control of the business sector by the local government in each province may not be the same. Chan, Makino, and Isobe's (2008) study finds that the governments in the undeveloped regions tend to have a tighter control on the prices of raw materials and end products.

3.3.3 Social analysis.

3.3.3.1 General background.

The population of mainland China was over 1.339 billion people at the end of 2010 (National Bureau of Statistics of China, 2011) and accounted for more than one fifth of the world population. When the PRC was founded in 1949, China's population was about 450 million. The rapid population growth was due to Mao Zedong's thought, which was the more people, the more power. In 1980, the government adopted a one-child policy as it realised the importance of population control (Guo, 2007). The one-child policy has effectively controlled population growth, which dropped from 3% in the 1960s to less than 1% in the 1990s. However, the policy has been relaxed since 2001. The Law of Population and Family Planning, which was decreed in 2001 by the Standing Committee of the National People's Congress, clearly states in Article 18 that people who meet certain conditions may request to bear a second child. These conditions would be provided by the governments at the provincial level. At the end of 2011, 31 provinces and cities announced several requirements for couples to have a second child, one of which being that a couple, each from a single child family, can bear a second child. In addition, couples in the rural areas can have another child if they only have one daughter (Tian, Zhen, & Wang, 2011).

After implementing the one-child policy for decades, the government realised that the size of the population is beyond a demographic issue, but is also one that has an impact on the economy and social development. The reasons for the government loosening its policy can be summarised into four aspects. First, the population is ageing rapidly due to the low birth-rate, and this has brought some challenges to the economy and social development. The data from the 2010 census show that the proportion of population aged over 60 accounted for 13.26% in 2010, up 2.93% from the 2000 census. However, the ratio of people aged below 14 years dropped to 16.6%, compared with 22.89% in 2000 (National Statistics Bureau, 2011). The ageing population not only contributes to the shrinking of the working-age population, but also puts pressure on the pension system and causes the 4-2-1 problem, where children from the one-child family need to support two parents and four grandparents on one salary ("Beijing announces," 2011; Buckley & Martina, 2011). Second, there is an imbalance between males and females. The traditional discrimination against women still remains strong, especially in

poor and rural areas. This is an incentive for people to have more than one child until they have a son (Guo, 2007). Third, Guo states that the population is imbalanced between the urban and rural areas. In urban and relatively wealthy areas, there is a correlation between having more children and improving the living standards. This is not the case in rural areas, so there is less incentive to have fewer children. Families in urban areas are also more willing to invest in the education of their children than those in the country. The consequence of this imbalance is a reduction in the education level of the population as a whole. Fourth, Mu (2009) notes that the one-child policy has brought poor family structure, which may cause an imbalance between intellectual and non-intellectual qualities, such as lack of morality and empathy, for children who grow up in a one-child family.

The economic and political reform has brought dramatic economic growth and improved people's living standards. However, there are some social costs associated with this growth. There is the problem of income inequality, which has widened since the 1990s. This problem exists within urban areas, between rural and urban areas, and also between the eastern coastal cities and the less prosperous western and central provinces (Economist Intelligence Unit, 2009). In 2009, the government announced that it would focus on narrowing the income gap between rural and urban areas and between western and eastern regions by expanding domestic consumption ("China promotes," 2009). Another problem is corruption which, according to Lewis and Xue (2003), has become a growing stigma for China's social and political system. In order to solve this problem, the fourth generation of Chinese leadership has focused on building a society under the rule of law, where a law-based administration has been fully established.

3.3.3.2 Human capital.

In the World Bank's study, intangible capital is made up of three components: human capital, such as knowledge and skills possessed by the population; social capital, which includes the level of trust among people and their ability to work together; and governance elements, that is, the ability of the government to boost the economy. Intangible capital, together with natural capital and produced capital, are the three measurements that the World Bank uses to estimate the wealth of a nation (World Bank, 2006). Based on the statistics provided by the World Bank's report on the wealth of 118 countries, China's intangible asset $ per capita only ranked at 94, which placed it at the same level as Cameroon and Bangladesh.

Currently, the Chinese government has two concerns relating to human capital: migrant workers and college graduates. In China, the term 'migrant workers' refers to people who relocate from their home town to large cities or industrial zones in search of work. The majority of migrant workers are inadequately educated rural farmers from the poorer regions, and statistics from the Sixth National Census show that the migrant stream has kept increasing (National Bureau of Statistics, 2011). By

2010, there were 261.4 million migrants, which means that one fifth of the Chinese people left their homes and worked in different cities. Compared with the 2000 figures, there was an 81.03% increase in migrant workers in the 2010 census, and they are the major labour force in Chinese SMEs. One consequence of this mass migration is urbanisation. Almost half of the Chinese population (49.68%) lived in urban areas in 2010, an increase of 36.22% from the data provided in the 2000 census. In addition, the number of students entering tertiary education had also grown dramatically. In comparison to the 858,000 university degrees granted in 1999, the number reached 6.1 million in 2009. The government also estimated that there will be 6.8 million tertiary students entering the job market in 2012, which will mean that the government will face a severe employment situation ("China to phase out," 2011). In order to keep the unemployment rate within 5%, the State Council released a plan in 2011 to create 45 million job opportunities in the next five-year period, and the central government has called for local governments to make the employment problem for university graduates a primary concern (State Council, 2011a). In order to help graduates to find jobs, the central government has also encouraged them in recent years to apply for jobs in SMEs (Chen, 2010).

3.3.3.3 Social stability in China.

Social stability is a fundamental element for China's development, and it connects closely with the CCP's 'regime stability' (Sun, 2008). However, Lewis and Xue (2003) state that due to economic development, the gap between rich and poor has grown and the boundaries between them have shifted. New social classes are becoming stronger; thus, the CCP has lost its original social base. Several groups were identified by Lewis and Xue as threats to society. The first group is farmers. In recent years, farmers have stormed government buildings in several provinces to accuse local officials of corruption and to protest at the government's unreasonable land seizures. One recent protest, the biggest event in China in 2011, was in Guangdong province's Wukan County at the end of the year (Page & Spegele, 2011). The local government sold farmland to developers at 778,000 *Yuan* per mu (one mu is approximately equivalent to 667 square metres). However, the local government only gave 18,739 *Yuan* per mu compensation to the farmers and the rest went into the local officials' pockets (Shobert, 2012). According to the Chinese Academy of Science's statistics, since the 1990s, 65% of large events in Chinese rural areas have been caused by the problem of land seizures (Page & Spegele, 2011). Furthermore, many rural immigrants have had to go back to their home villages due to increasing unemployment in rural and city industrial areas.

The second group considered to be a threat to society is the laid-off workers. As discussed in Section 3.3.2, the SOE reforms that began in 1999 forced thousands of SOEs to close and, as a consequence, millions of workers have lost their jobs. Many received either a cut or delay in payment of their wages, while others received only a tiny monthly allowance. University graduates have become a third group threatening social stability. The Chinese government expanded educational opportunities in 1999 with

a policy of greater enrolment so that tens of thousands of students have had the opportunity to enter into universities, with numbers increasing from 1.07 million in 2000 to 6.8 million in 2012 (Liu, 2010). Such a rapid growth of university graduates has put huge pressure on the government. Finally, the last threat comes from religious and minority groups, such as Tibetan Buddhists, Muslim Uyghurs, and the *Falun Gong*. Data from the 2010 census show that 55 ethnic groups accounted for 8.49% of the total population, and the rest (91.5%) are Han Chinese (National Statistics Bureau, 2011). In recent years, the conflicts between the Han Chinese or Chinese government with the ethnic groups have been increasing as, for example, the battles between the Hui Muslims and the Han Chinese in Henan province in 2004 and the clashes between the Uyghur and Han Chinese in Xinjiang province in 2009, that have threatened the unification and stability of the country. The business sector was also affected as many shops were ruined in the clashes and many Han Chinese chose to close the shops and went back to their hometowns (Zhang, Zhang, & Li, 2010). Thus, Zhu Weiqun, the executive vice-director of the United Front Work Department of the CCP, called for further economic development in the non-Han areas and also increased communication between the Han and non-Han regarding the workforce, logistics, information, and funding (Zhu, 2012).

3.3.4 Technology analysis.

Either directly or indirectly, technological innovation has been the most important factor in promoting social change and economic development. The technological progress in communication and transport has changed from simple and crude means, such as hand-written letters and horses, to the use of telephones, mobile phones, and computer networks. No one would deny that technology is changing the world at an incredible speed.

In the 1950s, the former Soviet Union introduced technologies to China (Guo, 2007). These technologies had a profound impact on Chinese industrial and military technology; furthermore, the national system of research and innovation also came from the Soviet model. The Chinese Academy of Sciences (CAS), the elite national research institution, was formed with the Soviet's help. As a result of the political movements in the 1960s and 1970s, China became isolated from the world and, consequently, the gap between China and the rest of the world in technical progress increased. Since then, China has tried to keep abreast of developments through government investment in R & D (Naughton, 2007). According to statistics provided by the United Nations Educational, Scientific, and Cultural Organisation (UNESCO), the Chinese R & D/Gross National Product (GNP) ratio in 1987 was 0.79%, although this percentage dropped to 0.5% in 1990 due to the political turbulence in 1989 (Zhong, Wang, Pang, & Jia, 1989). During the last two decades, this ratio has increased to 1.75% in 2010, and the government aims to reach 2.2% by the end of 2015 (Ministry of Science and Technology, 2011a).

Since 1985, the Chinese government has introduced a number of programmes to promote science and technology. Based on their features, these programmes are divided into six groups: the Programme for Basic Research; the National Programme for High-Tech Research and Development; the National Programme for Technology Support; the National Programme for Building Infrastructure on Science and Technology; the Programme of Policy Guidance; and one group for other programmes (Ministry of Science and Technology, 2011b). Table 11 lists all the current science and technology programmes.

Table 11

National Science and Technology Programmes

Programme		Started	Focus
National High-Tech R&D Programme (863)		1986	To improve the overall capability of R&D in advancing technology
Basic Research Programme (973)		1997	To strengthen basic research in line with the key national strategic demand
Building Infrastructure in Science and Technology		2004	To provide a public service platform and on-line technology platform
National Technology Support Programme		2006	To improve technology to the sectors that most need economic development
National Science and Technology Major Project		2006	To develop key national strategic products or projects, such as manned space flight
Policy Guidance Programme	Spark	1985	To improve technology in the agricultural sector
	New Products Plan	1988	To develop innovative and highly technological products
	Torch	1998	To promote industrialisation and internationalisation of high-tech products
	Soft Science Research Plan	2000	To conduct soft science research in economic, social, and technological areas
	Regional Sustainable Development Action	2007	To promote environmentally friendly and energy saving activities
	Innovative Technology Engineering	2009	To introduce enterprises to innovative technologies
Other Programmes	National Key Laboratory	1984	To support university laboratories and other institutions to conduct innovative research
	Innovation Fund for Technology-Based SMEs	1999	To provide a fund to encourage technologically-based SMEs to develop advanced technologies
	International Science and Technology Cooperation	2001	To promote cooperation between the Chinese government and other countries in science and technology
	National Engineering Research Centre	2004	To provide advanced and practical engineering technologies

Adapted from: Ministry of Science and Technology (2011b).

Mitsuhiro (1994) considers that technological capabilities, in general, can be described as a pyramid. The base of the pyramid includes basic manufacturing capabilities, such as machining and welding; the middle area of the pyramid represents assembly line and manufacturing skills, such as automobile factories; and the apex of the pyramid represents research and science capabilities, such as research institutions or laboratories. Based on Mitsuhiro's concept, Naughton (2007) thinks that China's technical capabilities today are still mixed. They have a strong base because simple industrial skills are widespread, and China also has strong capabilities at the apex as their scientific and technological research is world class. However, Naughton also points out that China only has a few first-class firms with leading-edge technologies, which means it is weak in the middle area.

Human capital plays an important role in technological progress in China. The statistics provided by the Ministry of Science and Technology (2009a) show that workforce numbers involved in research institutions have kept increasing from 561,000 in 2004 to 615,000 in 2008. Among these 615,000 employees, 260,100 were involved in R & D and, of these, 204,200 were scientists and engineers. In 2008, government research institutions used 65.4% of their budget on R & D (Ministry of Science and Technology, 2009a). The total number of people employed in science- and technology-related fields was 4.97 million. Although these R & D numbers have been increasing, the percentage of R & D employees for every 10,000 workers has meant that China was only ranked 35th among 37 nations in 2008. Japan was six times higher than China, and the USA was five times higher (Ministry of Science and Technology, 2009b).

Chinese people who have had overseas study experience are important for technological progress. These numbers have kept increasing every year. In 2001, 124,000 tertiary-level students studied in developed countries: 42% of them in the USA, 26% in Japan, and 21% in the EU. These numbers increased to 339,700 in 2010 (Ministry of Education, 2012), and the Ministry of Education estimates that the number of overseas students would reach 300,000 in 2020 ("Official: students," 2006). The total number of Chinese students who studied in foreign countries from 1978 to 2011 was almost 2.25 million, and around three quarters of them (72%) chose to return to China when they had completed their studies. Those who did so provided a strong human resource base for the country. Even though one quarter of them (28%) did not return to China, they were still able to help domestic scientists to connect with international research and innovation networks (Zweig, 2005).

China has been building its information and technology (IT) and telecommunications infrastructure since the 1980s. E-commerce has been adopted by many industries and companies. Tan and Wu's (2004) study shows that e-commerce diffusion in China can be characterised by the notion of disparities. Different levels of e-commerce infrastructure have been built up according to geographic areas, industrial fields, demographics, and firm size. Large cities and wealthy coastal provinces have better infrastructure and more internet users than the relatively poorer provinces. Information-

intensive industries in China, like insurance and banking, have greater IT capability, and large companies invest more in IT and have better trained IT staff than SMEs. Tan and Wu conclude that current e-commerce activities primarily exist in large cities, coastal provinces, certain industries, and large companies and are most popular among the younger generation with higher education. According to Ovum's (2007) research, around 80% of SME employees in China are still desk bound. Ovum further explains the reason for Chinese SMEs' slow adoption of mobile services is that SMEs are not satisfied with the price and quality of services provided to them. In addition, Chinese SMEs also have problems in both choosing which supplier is best for them and how to keep up with the changing technological environment. Table 12 summarises the macroenvironmental analysis for China, including political, economic, social, and technological factors. The PEST analysis gives an overview of how different macroenvironmental factors influence China's growth.

Table 12 *The PEST Analysis of China*

	Political	Economical	Social	Technological
1949 – 1978	Building a socialist country: - National autonomy - Self-reliance model	Centrally planned economy: - Socialist economy - Economic development controlled by the central government	Rapid population growth	- Technologies came from the former Soviet Union - The research institutions were formed with the Soviet's help
1978 – 2002	Focusing on economic development: - Open Door Policy - Special political preference for certain areas to attract foreign investment and technologies	Combinations of planned and market economy: - Economic reform started - The SEZs set up - Trade with the outside world	- One child policy - Income inequality - The SEZs became the richest areas	High government investment in research and development (R&D)
2003 onwards	- Power decentralised to lower levels - The increasing power of social groups	Socialist market economy: - Dramatic growth in the industrial and service sectors - Full ownership for foreign operators	- Relaxed one child policy - Ageing population problem	Human capital plays an important role: - Tertiary education grows dramatically - More people have overseas study

3.3.5 Three official systems in the business sector.

Chinese SMEs are influenced by several environmental factors; however, these factors are, in turn, influenced and controlled by a range of government policies. This section studies three official systems related to the business sector. The reforms of the taxation and banking systems and their impacts on businesses are analysed, and a study of the licencing system is provided at the end of this section.

3.3.5.1 Taxation system in China.

China uses a unique dual tax administration system as the national tax bureau and local agencies co-exist (Guo, 2010; Zhu & Krug, 2007). This so-called tax sharing system has two levels: one is national, and the other provincial. At the national level, the central government stipulates tax rates and also determines which taxes should be enforced and how total revenue needs to be shared between the central and provincial governments. At the provincial level, by considering the local conditions, the provincial and sub-provincial governments can make decisions on ad hoc taxations and tax contracting. Therefore, local governments may have their own unique taxes. Under this dual system, the central and local governments have to collect their own specific taxes. However, some taxes are assigned exclusively to the central government, while others are assigned only to the local level; in addition, there are also a few taxes that are shared between central and local levels according to a fixed rate which is decided by the central government. For all the shared taxes, provinces only need to give a fixed proportion to the central government and can retain the rest (Garnaut & Song, 2001; Guo, 2010).

One of the important measures that the central government has adopted in recent years has been the decision to abolish the agricultural taxes in 2006. These have existed in China for more than 2,600 years and nine million Chinese farmers have benefited from them (Cui, 2009). Jin Renqing, the Minister of Finance, explained that the main purposes for such a measure were to reduce the burdens on farmers, stimulate farmers' initiatives, and to also help improve the relationship between farmers and the governments (Xie, 2005). Currently, there are 19 types of taxes in China: they are value-added tax (VAT); consumption tax; turnover tax; enterprise income tax; individual income tax; resource tax; urban and township land usage tax; house property tax; urban maintenance and construction tax; farmland occupation tax; increment tax on land value; vehicle purchase tax; vehicle and vessel usage tax; stamp tax; contract tax; tobacco tax; customs duty; vessel tonnage tax; and a regulatory tax on investment in fixed assets. Of all these taxes, only the collection of the regulatory tax on investment in fixed assets has been suspended since 2000 (State Administration of Taxation, 2012a). As discussed above, the tax sharing system defines that some taxes are shared by central and local governments, and others are collected independently for both parties and for customs. Table 13 illustrates the tax collections by different authorities in China.

Table 13

Taxes Collected by the Chinese Authorities

Category	Types of taxes
Shared Tax	VAT; Enterprise income tax; Resource tax; Stamp tax
National Tax	Consumption tax; Income tax on foreign investment enterprises (FIEs) and foreign enterprises (FEs); Income tax on SOEs; Income tax on local banks, foreign banks, and all other financial institutions; Stamp tax on security transactions; Vehicle purchase tax
Local Tax	Turnover tax; Individual income tax; Urban and township land usage tax; Urban maintenance and construction tax; House property tax; Farmland occupation tax; Increment tax on land value; Vehicle and vessel usage tax; Contract tax; Tobacco tax
Customs	Customs duty; Vessel tonnage tax; Tax on imported goods

National tax bureaus have the responsibility of collecting the national taxes, and local tax bureaus collect the local taxes (State Administration of Taxation, 2012a). The national tax bureau is subordinate to the State Administration of Taxation (SAT) and is in charge of central and shared taxes. The SAT has its own offices at all levels. At the same time, the SAT and local government jointly supervise the local tax bureaus. The local tax bureaus below provincial level are subordinate to local governments. The SAT is responsible for commenting on nominations for tax personnel and providing operational guidance to local tax bureaus. Under the shared taxes, the central government collects 75% of VAT, 60% of enterprises' income tax, 60% of resource tax, and 94% of stamp tax. The remaining proportion of these taxes is collected by the local bureaus. Customs are responsible for collecting taxes on vessel tonnage and imported and exported goods (State Administration of Taxation, 2012a). Figure 9 shows the organisational chart of China's tax administration.

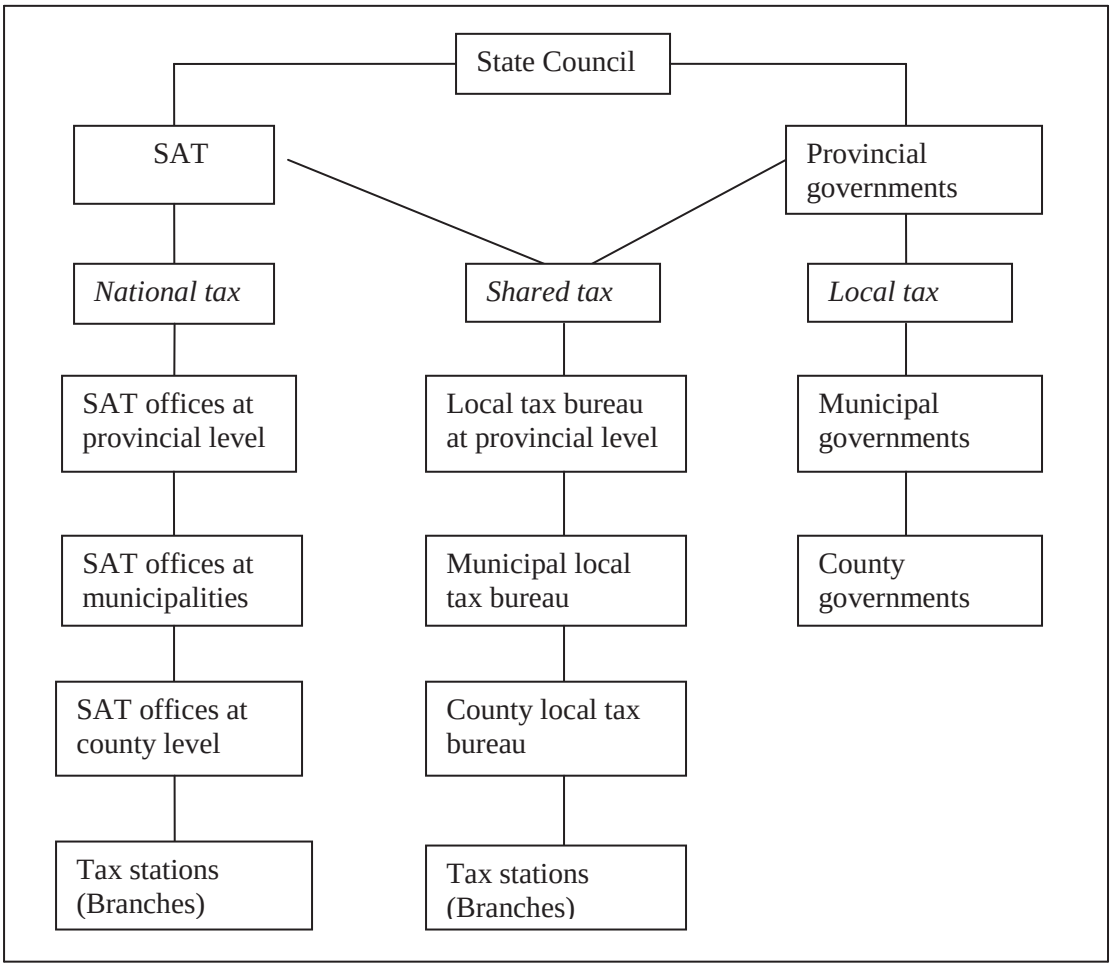

***Figure 9*. Taxation administration in China.**

Adapted from: The State Administration of Taxation (2012a).

Figure 9 shows that the SAT is the highest authority and directly under the control of the State Council. Because of the tax sharing system, there are two tax organisations below the provincial level in China, and each has its own chain of command. These two organisations are the SAT offices and local tax bureaus. This system links the local governments' self-interest with their economic performance, as well as giving them flexibility as they can decide their unique taxes and tax rates according to their local conditions. However, Garnaut and Song (2001) find that there are some problems embedded in this system. Firstly, there are regional differences in the tax burden. For example, corporate income tax in Shanghai is 1% of a firm's sale revenue, but is 1.5% in Shunde. Therefore, this can cause arbitrary problems. For example, some regions may have unrealistically high tax rates imposed by the local government. Secondly, firms can be charged unpredictable one-off taxes by local governments and some of these taxes may overlap.

SMEs have six major taxes: VAT; enterprise income tax; turnover tax; stamp tax; urban and township land usage tax; and consumption tax. VAT is the difference between output tax (sales volume in the

current period multiplied by the tax rate) and input tax for the current period. This tax rate varies between 13% to 17%, depending on the type of goods (State Administration of Taxation, 2011a). The enterprise income tax is 25% for tax-resident enterprises, including companies registered in China or those that have headquarters based in China (Liu, 2007). For non-tax-resident enterprises, the tax rate is 20% (State Administration of Taxation, 2011a). Turnover tax is calculated based on the business turnover and varies in different industries from 3% to 5% (State Administration of Taxation, 2011b). Stamp tax is paid by all institutions and individuals who establish or accept contracts or other deeds. The rate varies from 0.003% to 0.1% per contract, depending on the different sectors (State Administration of Taxation, 2011c). Urban and township land usage tax is calculated based on the size of the land occupied by the enterprises. Tax rates are different in different regions: in large cities, the annual tax rate per square metre is 1.5 – 30 *Yuan*; in middle-sized cities, the rate is 1.2 – 24 *Yuan*; in small cities, the rate is 0.9 – 18 *Yuan*; and in counties, the rate is 0.6 – 12 *Yuan* (State Administration of Taxation, 2011d). Consumption tax is paid based on the amount of goods sold, and the tax rates vary for different goods (State Administration of Taxation, 2012b).

At present, certain industries or firms can enjoy tax privileges in China. To stimulate the development of highly technical industries, the central Chinese government has been giving tax privileges to associated firms. These firms can be exempt from corporate income tax for three years, after which the income tax rate is only 15 %, which is much lower than the normal rate of 25% (National People's Congress, 2007). The central government has also offered preferential tax policies to the north-eastern provinces, including Heilongjiang, Jilin, and Liaoning, since 2004. The purpose of giving tax privileges to certain industries and regions is to encourage more people to go into business and utilise domestic and international investment to solve the problem of regional economic disparity ("China offers," 2004). Generally, the lower tax rates increase the business incomes. Therefore, the preferential tax policies attract people to set up their business in these regions or industries. Businesses can also enjoy buying semi-manufactured goods or spare parts from these regions at lower prices as the government charges less tax for goods produced there. Small and low profit-making enterprises also enjoy a preferential income tax policy that requires them to pay 20% income tax rather than 25% (National People's Congress, 2007). In order to further foster the development of small enterprises, in 2011, the Ministry of Finance and the State Administration of Taxation announced that small enterprises with an annual taxable income of less than 60,000 *Yuan* would have their enterprise income tax reduced from 25% to 12.5% between 2012 and 2015 (Li, 2011).

3.3.5.2 The Chinese banking system.

Before the reforms of the banking system in the 1980s, the People's Bank of China (PBC) was the only state bank dealing with banking activities as all private financial institutions were merged into the PBC in the late 1950s (Wu, 2005). However, after the opening up and the reforms in the late 1970s, the mono-bank system could not meet the economic changes and demands. Therefore, four state-owned banks were established during the late 1970s and early 1980s, as were smaller banks and non-bank financial institutions, such as trust and investment companies (State Council, 1979; Wu, 2005). Currently, there are thousands of entities in the Chinese financial system, which includes four state-controlled commercial banks, 12 second-tier banks, urban and rural banks, credit cooperatives, and the Postal Savings Bank. However, among all these entities, the so-called 'Big Four' state-controlled banks: Bank of China, Agricultural Bank of China, China Industrial and Commercial Bank of China, and China Construction Bank, are central to the system as they control around 43% of China's total financial assets (Walter & Howie, 2011). Although the Big Four banks have changed to corporations owned by stakeholders, the state is still the largest shareholder. In addition, the banking system, including both the Big Four banks and the other financial institutions, is still dominated by SOEs (Podpiera, 2006). This implies that government intervention in China's banks is still very strong. The reason for this is that banks in China are forced to serve targets set out by the central government or adhere to the political goals of local governments. When the governments tell the banks to lend money to SOEs that may not be able to repay the loans, the banks will still lend (Dobson & Kashyap, 2006; Walter & Howie, 2011). Thus, the banks must support the SOEs in all circumstances. The government will not blame the banks for losing money, but only for not doing what they are told (Walter & Howie, 2011).

SMEs' access to credit is largely reliant on regional city commercial banks. Before the reform of the banking system, these banks operated as urban credit cooperatives which had very strong ties with the local governments, and their loans often went to government projects (Wu, 2005). The reform has resulted in these banks becoming key players in financing the local SMEs. In order to provide better services to SMEs, many of them have set up small loan units or SME departments. For example, the Harbin Commercial Bank, which is in the Heilongjiang province, has set up a SME department and has also explored a new business programme, microcredit loans, which targets individual clients and laid-off workers in the region (PlaNet Finance, 2008). In addition, in 1998, the central government also required the Big Four banks to set up a SME credit department. However, the loans from these banks were mainly given to medium-sized enterprises (Chen & Li, 2011). Thus, in 2008, the China Banking Regulatory Commission issued the *Guiding Opinions for Banks to Establish Specialised Institutions Providing Financial Services for Small Enterprises*, which requires these four banks to provide services to small enterprises as well.

In recent years, the Chinese government has made a great effort to eliminate the problem of SME financing. The government-owned television station, CCTV, has been working with the China Minsheng and China Merchants banks to launch the advertising of loans for SMEs (Liu, 2008). As well as this, the Ministry of Science and Technology not only provides technological support to SMEs, but has now also opened up bond financing to them as well, with the Ministry of Industry and Information offering 600 billion *Yuan* to SMEs in 2009 (Ding, 2009). The Big Four banks have also given large amounts in loans to SMEs, with 91.6 billion *Yuan* approved in November 2009 (Chen, 2009). In addition, the number of loans granted by the four banks has increased dramatically in recent years. For example, in November 2011, 214.798 billion *Yuan* in loans was given to businesses (Chen & Li, 2011). The latest measure of providing financial support from the government is that the State Council will grant 15 billion *Yuan* from 2012 to 2016 to help the development of micro- and small-sized enterprises (Gong & Duan, 2012).

However, despite these measures, this does not mean that SMEs can access these loans. In reality, despite a huge number of loans being made available to the business sector, SMEs still have difficulty in obtaining funds from the banks. Large enterprises and SOEs are still the banks' major clients. According to Lin (2007), less than 0.5 million out of 40 million SMEs obtained bank loans in 2006, which means 98% of SMEs could not access bank financing. In addition, Chen Quansheng, the Counsellor of the State Council, revealed that 99% of SMEs cannot get loans from the Big Four banks ("Chen Quansheng," 2011). From the banks' perspective, there may be a problem in identifying the profitable SMEs, thus making it less likely for them to receive loans.

There are three reasons why it is hard to identify profitable SMEs. Firstly, not all large banks are profit-maximising organisations. So, for these banks, it is not useful to put effort into determining which SMEs are profitable. Secondly, managers at the local branches may not give loans to SMEs, even though they can distinguish credit-worthy businesses. The reason for this is that these managers do not have the right to make such decisions on their own. Berger and DeYoung (2001) believe that the bank size can have an impact on SME lending. They find that SMEs have difficulty obtaining loans from large state-owned banks as these banks' headquarters are often far from the local branches. More layers between the headquarters and the local branches of large banks can cause inefficient decision-making processes which, in turn, can make lending more difficult. According to Berger and DeYong's study, if the local branches of large banks have the right to approve loans, physical distance and the bank hierarchy will become less important. The establishment of small- or medium-sized banks has thus been welcomed by many Chinese economists as they believe that these banks can help SMEs to deal with the problem of accessing loans because there will be more communication and personal interaction with SMEs (Chen & Li, 2011). Therefore, banks are able to use more soft information to make decisions (Petersen, 2004). Thirdly, some outside environmental factors, such as

government influences, bank competition, and law enforcement, may have an impact on the banks' lending decisions (Shen, Shen, Xu, & Bai, 2009).

3.3.5.3 Licencing system.

According to the *Procedure for Private Enterprise Registration Provisions 1991*, which was promulgated by the State Administration for Industry and Commerce, there are 11 procedures for starting a business in China. Another three procedures have also been added since the Procedure came into effect. In 2009, the Statistics Law was passed by the government and this requires all businesses to register with the local statistics bureau within 30 days of getting a business licence. The Ministry of Human Resources and Social Security issued the *Interim Measures for the Administration of Social Insurance Registration* in 2005 and *the Interim Measures for the Administration of Employment and Unemployment Registration Certificate* in 2010 so businesses now also need to register with the local Career Service Centre and Social Welfare Insurance Centre. Table 14 shows the 14 procedures required in setting up a business in China.

Table 14

Registration Process for Businesses in China

Steps	Requirements	Concerned government agencies
1	Obtain a company name	The local Administration of Industry and Commerce
2	Open a preliminary bank account; deposit registration fund	The local bank
3	Obtain a capital verification report	An auditing firm
4	Obtain business licence	The Local Administration of Industry and Commerce
5	Obtain approval to make a company seal	The local police station
6	Make a company seal	Designated company by the police station
7	Obtain organisation code certificate	The Quality and Technology Supervision Bureau
8	Complete tax registration and purchase company invoices	The local tax bureau
9	Register with the local statistics bureau	The local statistics bureau
10	Open a formal company bank account and deposit the required capital	The local bank
11	Print or purchase financial invoices/receipts	The local tax bureau
12	Purchase invoices	The local tax bureau
13	Register with the local Career Service Centre	The local Career Service Centre
14	Register with the local Social Welfare Insurance Centre	The local Social Welfare Insurance Centre

The procedures shown in Table 14 are applicable for any business, regardless of ownership structure. However, according to the regulations of the *Procedure for Enterprise Registration Provisions*, this procedure is only valid for a business that has more than eight employees. Individual households must go through three processes in the procedure for registering their businesses (State Council, 2011b). Firstly, the applicant needs to obtain a pre-approved business name by submitting the application form for company name pre-approval. Secondly, the applicant needs to fill out the application form for opening a business. Thirdly, the applicant must register with the local Administration of Industry and Commerce by submitting an application form, identity card or document, proof of business premises, and a proof of relationship for a family business or an agreement for a partnership business.

In 2011, The World Bank released a 'Doing Business Project' report which compared business regulations for starting a business across 183 countries/regions. Compared with other developed and developing countries, China has very complicated, costly, and time-consuming procedures for starting a limited liability company. It will take Chinese people 38 days to complete 14 legal processes at the cost of 3.55% of income per capita. In contrast, there are only six procedures, and these are completed in only six days at the cost of 1.4% of income per capita in the US. India has 12 procedures and these take 29 days. However, the cost in India, 46.8% of income per capita, is much higher than in China.

3.4 Analysis of the Third Institutional Level: The SME Sector

This section closely looks at the factors that influence the development of Chinese SME owners and the SME sector. The economic reforms provide opportunities for Chinese people to start their own businesses; however, the deeply embedded cultural norms still have huge impacts on the Chinese people. Thus, how Chinese SME owners grow their businesses and how they interact with the government are discussed in this section. The direct administrative government departments and SME sector laws are also explained.

3.4.1 Evolution of Chinese entrepreneurship during institutional change.

Private firms in China have only been recognised by the government since the 1970s. Institutional changes paved the way for China's rapid economic reform after Deng Xiaoping became the president; the encouragement from the central government for economic incentives made the local governments become more entrepreneurial (Oi, 1995). Therefore, the concept of entrepreneurship in China is relatively new. The Chinese entrepreneur is seen as a uniquely Chinese phenomenon. Liu (1997) believes that Chinese entrepreneurs have distinct and special Chinese characteristics; they are reformers and act in order to improve social prosperity and further the interest of social requirements. In contrast to Western entrepreneurs who act as innovators and possess political qualities, Chinese entrepreneurs come under the title of 'socialist entrepreneurs', who contribute to both the "material" and "spiritual civilization of socialism" (Yuan, 1997, p. 5). *Renmin Ribao*, the government-owned newspaper, published an article in 1997 which suggested that the ideal entrepreneur in Chinese society should definitely adhere to the Party line, the Party's policies and guidelines, and legal regulations. Chinese entrepreneurs should work hard and fulfil their public duties in an honest way. In addition, they should provide services to society and cooperate with the Party and the government to benefit the public (Qiu, 1997).

Some scholars suggest that the government's motivation in encouraging Chinese entrepreneurs to be Party members and be involved in decision-making processes was to diminish the potential threats from this increasing bourgeois middle class, which has also been recognised as the new elite of China

(Dickson, 2000; Wibowo, 2001). Heberer (2002) discusses that, from a traditional Confucian perspective, entrepreneurs should act in the interest of society and state and be under certain government control. Chinese entrepreneurs should be patriots, meaning that they need to have a clear picture of the political system and its values. In order to legitimise the concept of entrepreneurship in socialist China, the concept of social class was reinvented by the Party. Workers and farmers are identified as 'basic labourers'; in contrast, the new elite, which includes entrepreneurs and managers, is recognised as 'management labourers'. Thus, the CCP, in supporting the rights of the working class, can represent both the basic and management labourers (Lu, 2004).

Heberer (2002) summarises the growth of entrepreneurship in China in four phases. Firstly, the term 'capitalist' was commonly used in the 1950s, and those associated with it were looked down upon in Chinese society. In 1952, the Five-Anti campaign was launched against private businesses, which were accused of "tax evasion, bribery of government workers, theft of State property, cheating on government contracts, and stealing economic information from the government for private speculation" (Cheng, 1982, p. 172). The second phase, from the 1950s to 1977, was when all private enterprises had to be converted into state ownership and were managed by both the business director and Party Secretary. One effect of this mixed management level is that nowadays the term 'entrepreneur' in China is often used for managers and directors of SOEs (Li, 1997). The third phase from the 1980s to 1999 was when the economic reforms created opportunities for individual and large scale entrepreneurs to start small businesses and large private enterprises. The status of the entrepreneur was approved by the government in 1997 through the release of two articles in two important government-owned publications. The first one was an essay published in *Jingji Yanjiu*, the most important Chinese economics journal, and indicated that entrepreneurship had started developing in China (Xu, 1997). The second article was published in the newspaper, *Zhongguo Gongshang Bao*, and stated that running a business was a heroic act and it was an honour to be an entrepreneur (Yu, 1997). The private business sector experienced a boom in this stage; however, Wu (2008) discusses that the growth of the private businesses was largely built on the owners' adoption of illegal practices. This is because the inadequate legal system provides opportunities for people to easily operate their businesses. Smallbone and Welter (2001) posit that enterprises in countries in the early stages of transition can survive and grow despite government because of these businesses' creativity and flexibility in adapting to hostile external environments.

Finally, the actual use of the term 'entrepreneurs' did not come about until the late 1990s and was used to describe socialist entrepreneurs, Chinese entrepreneurs, red entrepreneurs, and entrepreneurs generally. Entrepreneurship is described by Wei and Sun (1996) as the Chinese economy's most valuable resource. The status of the Chinese entrepreneur has kept increasing since then. The growing ratio of entrepreneurial Party delegates demonstrates that more voice from the private business sector can be heard by the central government; at the same time, the private business owners can participate

in the decision- and policymaking processes (Zhang & Chen, 2012). These "red entrepreneurs", called by the government-run publications (Guo, Zhao, & Zou, 2012), have to have been through six rounds of a selection process in order to become Party delegates. They are nominated by the local government and selected by the provincial government. However, according to the profiles of these red entrepreneurs' businesses, they all belong to very well-performed larger businesses (Guo et al., 2012). Although the concept of entrepreneurs has been embraced by the government, being a socialist/Chinese/Red entrepreneur means that they need to follow the Party's disciplines (Zhang & Chen, 2012). Table 15 summarises the evolution of Chinese entrepreneurs and the changing attitude of the Chinese government toward entrepreneurs since the PRC was founded.

Table 15

The Evolution of the Entrepreneur in China

Year	The evolution of entrepreneurs	The attitude of the Chinese government toward entrepreneurs
Early 1950s	Capitalist	Treated as bad and banned
1950s – 1977	Director/Party Secretary managed an enterprise	No entrepreneurs existed
1978 – 1999	Individual entrepreneurs; private entrepreneurs	Recognised and tolerated
2000 onwards	Entrepreneurs: Includes Socialist entrepreneur, Chinese entrepreneur, red entrepreneur, and entrepreneur	Embraced, but the concept of entrepreneurship is different from capitalism

Adapted from: Heberer (2002).

Table 15 shows that the status of entrepreneurs has changed dramatically from 1949 to the present. After the Communist Party came to power in 1949, China's existing market economy became a socialist economy. Therefore, all capitalists were recognised as anti-socialists and their assets and properties had to be given to the government. In the 1950s, private enterprises started to convert to state-ownership, and these enterprises were managed by both business directors and the Party Secretary because the government had to make sure these enterprises' operational activities fitted with the centrally planned economy. When economic reforms were introduced in the 1980s, the government realised the inefficiency of the planned economy and, in an effort to improve the country financially, small-scale and individual businesses were allowed to emerge and entrepreneurs recognised by the government. TVEs, owned by local governments, became a form of business favoured by the government and experienced fast development in the 1980s and early 1990s (Chow,

2002). However, during this period, many of the private enterprises that existed in rural areas were 'red hat' firms, which were owned collectively by both the local government and businessmen but, in reality, they were privately owned (Chen, 2007). The collective ownership structure of these firms started to change to become privately owned in 1992 due to massive financial losses (Chow, 2002; Gregory & Tenev, 2001). Kornai (2001) and Wu (2005) believe that this strategy of bottom-up development of the private sector is one of the key reasons for China's rapid economic development. In addition, the privatisation of SOEs in the 1990s brought more than 53 million job losses, mainly through early retirements and lay-offs. However, this situation became a threat to social stability. Thus, since the late 1990s, the Chinese government has encouraged the growth of SMEs and embraced the development of entrepreneurship, which can both absorb the excess SOE workforce and improve economic development (Bolotinsky & Jiang, 2008). Due to the rapid growth of the labour market in recent years, the central government has called for local governments to encourage the growth of SMEs and their associated job creation (Jiang, 2012).

3.4.2 SME administration and government support.

Currently, there are five central state organisations in China which have the power to administrate SMEs. They are: the Department of SMEs in the National Development and Reform Commission; administrative authorities for industry and commerce at different levels; the Bureau of Township Enterprises, the Foreign Trade Promotion Centre for SMEs; and the Development Bureau of SMEs in the Ministry of Industry and Information Technology. The role that each organisation plays in administering the SME sector will be introduced in this section. Other business associations that provide services to SMEs and the major government support projects and programmes associated with them will also be discussed.

3.4.2.1 Department of SMEs in the National Development and Reform Commission (NDRC).

Broadly speaking, this department is responsible for the overall planning and policy coordination for SMEs as well as for the non-SOE sector. The main functions of the NDRC include formulating and implementing strategies for SMEs; setting up and improving the entrepreneurial environment for SMEs; and directing SMEs' reforms and improving their management and productivity. The Department also has the authority to formulate and implement annual plans for SMEs' special funds. Finally, it is required to develop policies to help SMEs solve financing problems (NDRC, 2011b)

3.4.2.2 Administrative authorities for industry and commerce at different levels (SAIC).

The State Administration for Industry and Commerce (SAIC), which is the leading organisation of administrative authorities for industry and commerce at all levels, investigates and studies the development and managerial issues of self-employed people and private businesses. It also develops policies and laws to supervise and administrate these types of businesses. The administrative authorities of the State Administration for Industry and Commerce at the provincial, district, and county levels are responsible for monitoring and providing guidance for the self-employed and private businesses within their respective jurisdictions (SAIC, 2011).

3.4.2.3 The Bureau of Township Enterprises.

The Bureau of Township Enterprises is under the jurisdiction of the Ministry of Agriculture. Its main functions are to: draft laws and regulations for rural and township enterprises and organise their implementation; guide the administration of these enterprises and their related foreign trade; develop the reform of rural and township enterprises; and monitor and analyse their economic operations. Local governments at the provincial, district, and county levels also have Bureaus of Township Enterprises, which provide services and monitor township enterprises' development within their respective jurisdictions (Ministry of Agriculture, 2009).

3.4.2.4 Foreign Trade Promotion Centre for SMEs.

This agency is under the jurisdiction of the Trade Development Bureau of the Ministry of Commerce and assists SMEs active in importing or exporting. The SME Foreign Trade Advice Centre, set up in 2004, provides information, business training, and international communication opportunities to SMEs in order to improve their competitiveness in the international market (Foreign Trade Promotion Centre, 2011).

3.4.2.5 The Development Bureau of SMEs in the Ministry of Industry and Information Technology (MIIT).

The main target group of this bureau is scientific and technological (S&T) SMEs. Its main function is to provide funds for technology innovation to technology-based SMEs, and to set up and improve the service system for SMEs (MIIT, 2009). SME bureaus are also established at the provincial level, and these are responsible for providing information, resources, funds, and technologies for SMEs within their respective jurisdictions (SME Development Bureau, 2007).

3.4.2.6 Business associations and government-supported projects and programmes.

Business associations in different industries have also played an important role in exchanging information and providing consultations for SMEs. The All China Federation of Industry and Commerce (ACFIC) is the official association at the national level and is the largest business association in China as its organisational network covers all government departments above the county level. The ACFIC at all levels serves as a bridge between the government and the private sector. It informs the private sector of government laws and regulations and informs the government of the private sector's suggestions. At the same time, it is more powerful than other associations in influencing banks or local government decisions. One example of this influence is that it has been working with the Minsheng Bank to give unsecured loans to private firms that have been identified by the association as having qualified (ACFIC, 2011). There are also some industry-specific associations in China, either at the local or national levels, such as the Wenzhou Garment Chamber of Commerce and the China National Association of Automation. They have provided useful and effective services, information, and interactions to their members (Garnaut et al., 2001).

The China Association of SMEs, launched in 2006, is under the charge of the State-owned Assets Supervision and Administration Commission (SASAC). Businesses are guided and supervised by the Department of SMEs of the Trade Development Bureau of the Ministry of Commerce and the NDRC. The major functions of this association are to facilitate collaboration and cooperation between SMEs, set up a bridge between SMEs and government organisations, and encourage international cooperation and communication for SMEs (China Association of SMEs, 2012).

The China International Cooperation Association of SMEs (CICASME) is also directed by the State-owned Assets Supervision and Administration Commission. The aim of this association is to organise and promote cooperation and trading opportunities between Chinese SMEs and SMEs worldwide. Since it was founded in 1990, it has hosted many big international economic and trade events in China and other countries, such as the China International SME Fair (CISMEF) and Exhibitions for SMEs in textiles and clothing in Moscow (CICASME, 2011). The CISMEF in Guangzhou began in 2004 and is the largest SME exhibition in China. It is hosted by the NDRC, the Ministry of Commerce, and other state administrators. Exhibitors come from different industries, such as machine-making, electronics, textiles and garments, and food and beverages. Every year, the CISMEF provides a good opportunity for SMEs from both China and the rest of the world to display, cooperate, and trade (CISMEF, 2012). By the end of 2009, there were 1800 national and 24 million local non-government business associations (Hou, Ma, Lin, & Wang, 2011).

One of the biggest and most important projects for Chinese SMEs is the National SME Galaxy

Training Project, which is financed by state revenue and led by the Department of SMEs of the NDRC. This project is particularly designed for SME owners/managers and employees and provides training courses in areas such as basic management skills, technological innovation, and SME regulations. The aim of this project is to accelerate SMEs' development and increase their competitive ability in the market. Although the management departments at all levels of SMEs are responsible for providing training courses, the local departments can provide such tutoring according to the local SME conditions (Department of SMEs in the NDRC, 2008).

These government services and projects show that the Chinese government is pursuing every means of support for SMEs, from encouraging international cooperation and adopting more favourable SME policies to strengthening SME development. Exhibitions and projects supported by the government reduce the costs for SMEs in seeking business opportunities and provide a chance for SME owners/managers and employees to learn about management skills and technological innovation. Furthermore, by attending these exhibitions and projects, SME owners/managers can find out about the latest developments in the industry. They can also assess the demands in the market so as to improve or adjust their production to meet market demand and industrial and environmental protection standards in the international market.

3.4.3 Important laws relating to Chinese SMEs.

3.4.3.1 The adjusting of SME laws and regulations by the Chinese government.

Every year, in order to stimulate the development of SMEs and address the difficulties they face, both the central and local governments adjust and introduce laws and regulations to best meet policies. According to a government-run Chinese SME information website, in 2008, the government announced several policies concerning SME development, most of which covered the two major problems for Chinese SMEs: taxation and finance ("Major SME laws," 2008). Within the area of taxation, the government distributed circulars on various issues, including the pre-tax deductions from the individual income tax of individual and partnership businesses, the raising of the export tax rate on certain commodities, and the reduction of taxes for certain businesses, such as those producing pipelines. Within the area of finance, the government published circulars on concerns, such as the improvement of financial services for SMEs, the practices for managing SMEs' special funds, and new lending rules to take into account environmental and social issues when financing projects. Whether these laws and regulations were to adjust previous ones or to introduce new ones, they align themselves with Chinese economic progress. As SMEs are becoming increasingly important in stimulating economic and social development, the Chinese government will need to put more effort into guiding and promoting SMEs by providing supervision and protection in the form of legal

support. Until 2011, the State Council had reviewed 1.6 million laws and regulations concerning SMEs, and around 6000 of them have been abolished or amended in order to provide a better environment for SMEs' further development (Hou et al., 2011). Among all the laws and regulations promulgated by the central government, four laws have a greater impact on the SME sectors. More detailed discussion of the impact of these four laws on SMEs will be provided in the following sections.

3.4.3.2 SME Promotion Law.

The SME Promotion Law (2002) reflects the central government's strategic policies for developing Chinese SMEs; this was also the first law regarding SMEs (Song, 2012). This law clearly states that it is the government's duty to focus on providing a better developmental environment for SMEs rather than interfering in their growth. Furthermore, this law has also been a significant step in bringing the development of SMEs into the form of law and increasing the recognition of the importance of developing SMEs in China (Ouyang, 2009).

There are seven chapters in the Promotion Law and these can be categorised into three groups. Firstly, the general principles chapter (Chapter 1) clearly defines SMEs' legal status, regardless of their ownership and form. Whatever type of business SMEs are in or what ownership or form SMEs have, they can enjoy the support and protection from the government if they are in line with government policies, satisfy social demand, and increase employment opportunities. Secondly, other chapters of the Law lay down regulations and concrete policies for promoting the development of SMEs in different aspects. These require both the central and local governments to provide financial support (Chapter 2), give favourable policies and services to SMEs in order to promote entrepreneurship (Chapter 3), and help SMEs to have technological innovation (Chapter 4). Government departments and state-sponsored service organisations should provide services to support SMEs to expand their cooperative relationship and market (Chapter 5), and these government organisations should give first-rate services to SMEs and help them establish an information service system (Chapter 6). Thirdly, the last chapter (Chapter 7), which is the supplementary chapter, gives local governments the right to formulate supplementary regulations according to local SME conditions.

This Law has been enacted for over ten years, so it is necessary to evaluate how effective it has been in helping the growth of SMEs and how many of its policies have been enforced. The special funds for SMEs are required under the Law; however, until 2010, Li Yizhong, the Minister of MIIT, admitted that the special funds were not being granted and are only in the planning stage ("Minister of MIIT", 2010). The MIIT only released the first policy on granting special funds to SMEs, called the *Notice of Application of SMEs' Special Funds Projects,* in 2011. The notice specifies four types of special funds for SMEs: supporting business operations, building an SME credit guarantee system,

improving the SME managerial level, and encouraging SMEs to participate in the China International Small and Medium Enterprises Fair. In addition, Jin Yingying, a delegate at the National People's Congress, also found that it is necessary to amend the Law because it is no longer suitable for the current economic situation and current needs of SMEs (Lin, 2012). For example, Jin suggested that more detailed regulations should be given on the rights of SMEs' property ownership, and new regulations, such as protecting financial institutions which create new methods to provide financial support for SMEs, should be made.

3.4.3.3 The Property Law.

The Property Law was passed by the National People's Congress in 2007 and came into effect on October 1 of that year. The law covers all property types in China: state, collective, and private properties. This was the first legislation in PRC history that provided protection to individuals' assets and recognised individuals' right to own private assets ("China passes new law," 2007).

For businesses, especially private businesses, the Property Law provides a framework to protect both movable and immovable properties. Therefore, borrowers can use their movable properties, such as present and future-acquired equipment and accounts receivable, to secure a loan. The Law also gives creditors more control over payment defaults by defining default activities in the contract. Furthermore, the Law gives the People's Bank of China — the central bank of the PRC — the power to regulate financial institutions and control monetary policy so as to establish a single and centralised receivables registry. The online receivables registry, launched on October 8, 2009, can help the government centralise all asset registries (Marechal, Tekin, & Guliyeva, 2009). The Law has had a great impact on SMEs as, before it was passed, SMEs had limited ability to use their movable properties as security to obtain a loan. Marechal (2009) reveals that, after the Law went into effect, 52% of the 74,453 lending transactions that used account receivables as collateral in the first 20 months after the online registry was launched were made to SMEs.

3.4.3.4 The Labour Contract Law.

Another recent law is the Labour Contract Law, 2008. This law mainly targets domestic companies that do not have labour contracts and provides protection to their employees. Research found that in 2008, 40% of businesses in the private sector did not have contracts with their workers and there were problems with forced labour and wage defaults because of this (Jia, 2010). The key features of the Law require both domestic and foreign companies to have written labour contracts using contractual terms, such as severance payments, safety regulations, and minimum wages, with their employees (Standing Committee of the NPC, 2007). Later in 2008, the State Council promulgated the *Regulation*

on the Implementation of the Labour Contract Law, which provides more detailed implementation rules.

The operation of SMEs in China is largely influenced by Chinese traditional culture. Confucian values, such as family, hierarchy, and trust, as discussed in Section 3.2.2.1, are deeply rooted in people's minds. According to Confucian values, having a contract is recognised as a lack of trust between people and, therefore, not accepted by some SMEs in China, especially family businesses. Also, hierarchy and harmony can be considered as invisible laws, both in the operation of SMEs and when dealing with employment relationships. Workers at lower levels of the company hierarchy should show respect for people at higher levels, and less experienced and new employees should pay respect to those with seniority. Therefore, Ho (2009) believes that from a traditional cultural perspective, contracts between employers and employees, as well as those between business partners in China, are not necessary. However, the lack of contracts has meant problems for workers in the past. There are some business owners/managers who have neglected the traditional family values and only paid attention to their own best interests. For example, some employees have been laid off without notice and some have had to do overtime but with less pay. Even worse, some business owners have disappeared without paying their workers when their businesses had to close during the economic downturn (Taylor, 2011). These unethical business owners/managers have seriously harmed workers' rights in China. Thus, the Labour Contract Law is an important piece of legislation, which not only specifies the rights and obligations of both employers and workers in an employment contract, but also protects workers' rights and interests (Li, 2011).

The Law has been implemented for more than five years, but throughout this time, some problems have arisen. These relate mainly to the unfair treatment of workers who have been assigned by labour dispatch service providers and the paying of different salaries to employees who perform the same job (Zhao, 2012). Thus, in 2012, the central government considered amending the law for the first time. In addition, a negative impact of the law for the employers has been the added financial burden. According to Tsoi's (2009) study, this Law has raised companies' labour costs by 20%.

3.4.3.5 The Social Security Law.

The Social Security Law 2010, passed by the Standing Committee of the 11th National People's Congress, has also had a great impact on SMEs. This law is the result of several changes made for social security welfare since the 1980s. Leung and Nann (1995) note that the social security or social welfare system was considered by the CCP to be an instrument that could promote productivity, sustain social stability, and enhance the CCP's legitimate regime. Before the 1970s, even though the economic condition of China was very poor, the government provided a comprehensive and very generous social welfare system compared with the most advanced welfare system in Western

countries. Social welfare at that time had a broad coverage and was provided to all Chinese people; it included full employment, medical services, occupational benefits, income equality, and housing and other subsidies (Li, 1999). However, the government changed the social security system after the economic reform started because this system placed a huge financial burden on the government (Tang & Ngan, 2001). In the 1980s, a new scheme was set up, which combined both the government pooling and individual contribution accounts. Since then, the combined funds have been shared among three parties: the government, enterprises, and individuals (Ye, 2011).

Several legislations have been introduced by the government in order to mandate the social welfare system, but the responsibilities of the three parties have been established under the Social Security Law 2010. Five types of social welfare were identified: old-age social security, work-related disability, health care, unemployment, and maternity coverage. The most significant influence brought by the Law to businesses is that enterprises are now required to pay a certain amount into the pooling funds, based on the employees' salary for these five types of welfare. The proportion of funds paid by the enterprises and individuals are shown in Table 16.

Table 16

Proportion of Funds Contributed by Enterprises and Individuals under the New System

Name of the social welfare	% contributed by enterprises	% contributed by individuals
Old-age social security	20%	8%
Unemployment	2%	1%
Health care	8%	2%
Work-related disability	1.2%	N/A
Maternity coverage	0.7%	N/A

Currently, two issues around this Law have attracted much attention from both scholars and ordinary people in China. Firstly, this so-called 'dual old-age social security system' has caused a huge public debate (Bei, 2011; Zeng, 2012). The dual system divides employees into two groups: those who work in government-related organisations and those who work in non-government-related organisations. Although the new Law requires that all enterprises need to pay into the five types of social welfare, employees who work in the government departments and the government-run companies do not need to pay 8% of the old-age social security; instead, the government covers this for them (Zeng, 2012). Bei (2011) discovers that this dual system has resulted in pension differences (of one-and-a-half to four times) between these two groups. On the one hand, due to the low salaries that non-government organisations offer, pensions for their employees are much lower than the government-run organisations. On the other hand, the government has kept increasing pensions for employees who

work in the government-run institutions. This has occurred seven times from 1990 to 2011. Thus, the higher pensions offered by government-related organisations has become one of the reasons why new graduates want to work for these companies rather than for SMEs. In addition, Sun (2011) suggests that the government's adoption of this dual system has also resulted in inequalities between rich and poor.

The second issue regarding this law is that many Chinese scholars have argued that the new social system has placed a huge burden on enterprises, especially SMEs (Sun, 2011; Zhang, 2011). Sun (2011) contends that the Chinese government took too many resources from society, such as the social security funds and taxes paid by the enterprises and individuals. Bai's (2010) study reveals that China's social welfare payments were the largest among 181 countries, were 2.7 times higher than the G7 countries (the United States, United Kingdom, Germany, Italy, Canada, France, and Japan), and two times higher than Russia and India. Before the Law was enacted, Chinese SMEs only needed to pay three types of social welfare: old-age social security, unemployment, and health care. Under this new law, they have to pay for an extra two types of social welfare. At the same time, the fierce competition that SMEs face has resulted in them earning less profits, and having to pay for these five types of social welfare means that their profits will be reduced even more (Bei, 2011).

3.5 How the Chinese Government Treats SMEs and Large Enterprises Differently

The governments of transition economies not only maintain considerable control over the market, but also allocate economic resources to large businesses (Feng & Wang, 2010). A good example of this is the privileges that Chinese SOEs enjoy over the SME sector. After the SME reform of the 1990s, most small-sized SOEs were either privatised, leased to private operators, merged, or shut down. Poor performing large- and medium-sized SOEs became corporatised, with government entities having the majority of shares (Jefferson & Su, 2006; Li & Putterman, 2008). Although Holz (2003) believes that the Chinese government imposed high tax rates on SOEs, these SOEs were large and involved in state monopoly sectors, such as petroleum and natural gas, which were closed to private enterprise. By rigidly controlling these enterprises, the government could effectively collect taxes. High profits and tax revenues from the monopolies means that the prices they charge the public are high and are also fully determined by the government. The Chinese government's monopoly on products with high prices has caused widespread discontent. One example is the oil prices. Unlike oil prices in other countries which change according to fluctuations in world petroleum prices, Chinese oil prices are determined by the government duopoly of *PetroChina* and *Sinopec*. Being ranked first in the world's 500 most valuable listed companies, the net profit of *PetroChina* in 2010 was 167.6 billion *Yuan*, meaning that the company daily earned 459 million *Yuan* ("PetroChina," 2011). However, despite *PetroChina's* exorbitant profits, for years it has been applying for state subsidies, and the largest

amount the government has granted the company was 30 billion *Yuan* in 2011. Some experts have considered these moves by the Chinese government to be unreasonable ("PetroChina", 2011). Yu (2008) also contends that the Chinese government only wants to have a high investment rate, so this explains the large amount of funds being invested into big projects and large companies. However, the return on investment is very low. In addition, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) has warned SOEs in 2012 to prepare to face a difficult time over the next three to five years and has also required them to reduce their costs several times (Zhong, 2012). The SASAC issued its warning after considering the current and future global and domestic economic situations. Many Chinese business commentators have argued that, compared with SOEs, the problems that private businesses face are more severe; however, the government has not given any warnings to the SMEs (Chen, 2011; Wang, 2012). Wang also believes that Chinese SOEs rely heavily on the government's preferential policies; thus, it was time for SOEs to jump out from the 'greenhouse' and face the difficulties, which will help them to increase their market competitiveness.

Bank lending is also an issue for Chinese SMEs. Since the 2008 global financial crisis, banks have granted more loans to state-owned companies because of the government guarantees and lending policies for large SOEs and key local enterprises. In contrast, SMEs can rarely borrow money from a bank, whether the lending policies are tightened or loosened (Pierson & Lee, 2012; Wan, 2011). Wan also points out that loans for SMEs are almost non-existent in some small counties which do not have large SOEs. Instead, the loans are given to large enterprises in other big counties.

SMEs can also be discriminated against in terms of resources. Pierson and Lee (2011) contend that large companies not only have advantages in accessing loans, but are also the first to get resources, land, and policy change information. Generally, large businesses are the leading enterprises in a region and are also the engines for promoting economic growth. In 2009, there were 973,771 businesses in Zhejiang, China, but only 190 or 0.2% of them were large businesses; however, they contributed 13.64% of the total industrial output value (Zhejiang Provincial Bureau of Statistics, 2010). Thus, local governments pay greater attention to the development of large businesses in terms of providing special funds and resources or developing preferential policies. In many industrial parks, the entry criterion is based on how much the business pays in taxes. Thus, the majority of SMEs, especially those in their start-up stage, cannot enter into the parks (Hou et al., 2011). Also, there is a high criterion imposed for bidding on government procurement projects. One example given by Hou et al. (2011) was that one local government invited public bidding to get new air conditioners for its offices, but only companies which had a registered capital higher than 1.2 billion *Yuan* were allowed to bid. Therefore, with such regulations, SMEs are excluded from bidding on government acquisitions.

In addition, the irrational tax structure has put SMEs at a disadvantage. A report done by Tian (2011) gives a comprehensive analysis of the tax burden that Chinese SMEs are facing based on an investigation into several SMEs and interviews with government officials. Currently, tax rates for SMEs are flow taxes, such as value added tax and turnover tax, and are set at fixed rates and account for at least 60% of the total tax revenue. These flow taxes put SMEs at a disadvantage compared with large businesses because SMEs have smaller profits; however, the amounts of taxes that SMEs contribute are similar to large businesses, thus putting more pressure on SMEs.

A more recent event clearly shows how the Chinese government uses its power to enact policies to override the lawful rights of the businesses, rather than to administer and foster the growth of SMEs. In August, 2012, all the micro- and small-sized businesses in the service sector, such as retail stores, restaurants, and hair salons, in many cities in the Liaoning province were closed (Yang, 2012). Many people mentioned this on the internet and stated that the once busy streets had become 'ghost streets'. The shops in Liaoning province closed because of the unreasonable fines imposed by the government. For example, one retail store was fined *RMB* 10,000 for selling wooden toothpicks without having a deforestation certificate. It is unreasonable to require a retail store to have such a certificate, and these fines were far too high. The retail price of a bottle of wooden toothpicks is around *RMB* 5, which means the owner has to sell 2000 bottles in order to afford the charge. All the other stores faced the same situation. Thus, these micro- and small-sized business owners had to shut their stores to avoid such irrational fines. The government soon explained that it was having a counterfeiting operation to prevent businesses selling fake products (Yang, 2012). However, the general public's version of this was that the government lacks *RMB* 8 million to host the National Games in 2013 (69ying, 2012). No matter which explanation is correct, SMEs in China are in a very vulnerable position. The situation also implies that the disregard and prejudicial attitudes of the government towards Chinese SMEs still exists, and the important role that SMEs play in the Chinese economy has not been fully recognised by the government.

3.6 Characterisitcs of Chinese SME Owners

3.6.1 Background of the Chinese SME owner.

In China, SMEs are set up and owned by people in many different fields. Zeng (2009) interviewed 200 Chinese SME owners in 2008, researching and reporting in Chinese, and found that Chinese entrepreneurs come from five different backgrounds. The first group is where the owners are product dealers before they start their own businesses, and the second are people who used to work for other privately-owned enterprises. The third group is owners who used to work in state-owned enterprises, and the fourth are owners who had technical skills and used to work for others. The last group is those who were senior managers in the enterprises and took over the businesses when the enterprises

experienced transformation. This supports Roberts and Tholen (1998), whose study revealed that private business owners in transition countries lack management skills because they have no previous experience in running a private business. According to Schlevogt's research in 1999 and 2002a, entrepreneurs in China have four characteristics: distinctive management practices; unique structural choices; an emphasis on small companies; and a focus on Chinese culture. Tan (2002) also finds three dimensions where Chinese SME owners differ from American entrepreneurs regarding entrepreneurial strategies. Firstly, the perceptions of Chinese SMEs of the importance of competitors, suppliers, and consumers are lower than American entrepreneurs. Secondly, the importance of the political and regulatory environment is perceived as being significantly important by Chinese entrepreneurs. Thirdly and finally, Chinese entrepreneurs are more willing to take risks than their American counterparts. Schlevogt and Tan's research indicates that Chinese entrepreneurs do have their unique characteristics. In addition, Yang (2007) uses the term 'double entrepreneurship' to describe the unique characteristics of Chinese business owners. He finds that Chinese entrepreneurs not only take opportunities that arise through the discovery of gaps found in the market, but also through the gaps that appear in institutional rules. Thus, the development of Chinese entrepreneurs is based on the combination of high economic reward with low socio-political risk. However, despite these differences, some research results from Tan's (2002) study also support McGrath and MacMillan's (1992) findings that there is a basic set of beliefs shared by entrepreneurs around the world. McGrath and MacMillan's study shows that entrepreneurs in 13 nations, which can be grouped into the three cultural-based regions of Anglo, China, and Nordic, had the same beliefs about themselves in contrast to non-entrepreneurs in their own societies. More detailed similarities are found by Tan, who reports that some entrepreneurial traits, such as attitudes towards pursuing opportunities and which both the Chinese and American entrepreneurs had, are nearly universal. Entrepreneurs in both countries are also innovative, proactive, and aggressive.

3.6.2 Strategies used by Chinese entrepreneurs.

In Schlevogt's (2002b) study, he further notes that Chinese entrepreneurs have two specific features in choosing management practices. One is entrepreneurship: private Chinese enterprises tend to adopt a flexible leadership style and use proactive and aggressive strategies. The other feature is business networks: private Chinese firms usually have broad networks and many of them focus on facilitating close ties with family members. With regard to organisational structure, Chinese entrepreneurs tend to embrace a high degree of centralisation and a low degree of bureaucracy. For non-SOEs, the power of control is in the hands of one person, who is usually the founder or the owner. They have low standardisation of control and formalisation of structure in contrast with the more highly organised Chinese SOEs. Chinese entrepreneurs' focus on building small-sized companies emphasising strong Chinese culture also influences their managerial and structural choices. Most private firms in China

are either small- or medium-sized. According to Schlevogt's (2002b) empirical study, CEOs tend to keep their firms family-based because expansion would bring in outside professional managers or investors. These small scale firms emphasise Chinese family values, including hierarchy, respect for age, group orientation, and trust-based relationships. Sun and Wong (2001) further explain that the trust network has been extended beyond individual families to the business sector, and these extended trust-based relationships have helped private enterprises to reduce their costs and get resources. Thus, it appears that Chinese entrepreneurs adopt two different approaches: the traditional Chinese way of managing their businesses and the Western style of pursuing opportunities.

In addition, the growth tactic that Chinese SMEs adopt is a simple strategy rather than multiple ones. Several strategies can be adopted by SMEs in order to survive in market competition, such as providing innovative products, having better marketing strategies, or best use of financial or locational benefits (Borch, Huse, & Senneseth, 1999). Companies adopting mixed strategies are more likely to have better performance than those that rely on a single strategy (Ebben & Johnson, 2005). For Chinese SMEs, using mixed strategies in the complex Chinese business environment is also recommended by researchers (Tang, Dickson, Marino, Tang, & Powell, 2010). However, currently, Chinese SMEs largely adopt a cost-control strategy because it can produce instant economic gains; however, this strategy means Chinese SMEs are less likely to become innovative (Tang & Hull, 2011).

Some studies have looked at the reasons why the majority of Chinese private enterprises are either small- or medium-sized. Both Whyte (1995) and Malik (1997) give their explanations from the perspective of the impact of the external environment on Chinese SMEs. Whyte (1995) believes that the growth of family influence in Chinese business could be either positive or negative, depending on the response of outside forces. Currently, there is a positive attitude toward this type of organisation as recent changes in the global economy and Chinese policy show that small enterprises are in favour. Also, the Chinese government has been willing to provide support for private enterprises. As a result, the Chinese SMEs, especially family enterprises, have experienced dramatic growth (Peng, 2004). Whyte's finding supports Fishbein and Ajzen's (1975) cognitive-motivation theory, which believes that people are more likely to start a business when they recognise there is a favourable economic environment. Lipshitz and Strauss (1997) discuss that uncertainty, in the context of action, can lead to a sense of doubt, which will block or delay action. In China's case, uncertainty, as pointed out by Malik (1997) and Krug and Polos (2003), has a great impact on the development of entrepreneurship in China and increases when economic institutions are perceived as weak. Malik's (1997) research finds that, nowadays, many Chinese entrepreneurs in their 50s have been through the Cultural Revolution and other political movements during the 1960s and 1970s. Even though they are engaged in business to pursue either profit or self-accomplishment in the current, relatively stable business environment, they still fear that their businesses will be confiscated by the government as was done

during the Cultural Revolution. However, this uncertainty factor may only apply to certain generations of entrepreneurs in China and may not possibly apply to all.

In addition, by conducting interviews with businessmen from Singapore and Malaysia, Tong and Yong (1998) reveal that European enterprises are less flexible than Chinese businesses. European enterprises (Tong & Yong, 1998) and, more broadly speaking, Western firms (Wank, 1996), use contracts to guide business decisions, so they can be impersonal and rigid when the other party needs to make adjustments and will not always seek a compromise. In contrast, the Chinese tend to be flexible in these problems because when *Guanxi* has been built up between both parties, the Chinese see the relationship as a long-term orientation. Profits or personal gain may not be achieved in the short-term, but a secure and comfortable relationship can develop when doing business in the future as both parties already know who their business partners are and how they act. Although Chinese businessmen pursue profits, from their perspective these can be both tangible and of short-term gain as well as intangibles of potential value, such as building trust or new connections with other people, which may be helpful in the future (Kriz & Keating, 2010). Therefore, problems can be more easily solved and both parties learn how to work together from such experiences, which is good for doing business in the future (Peng, 2004). In addition, the cultural value of keeping harmony, which was discussed in Section 3.2.2.1, also plays an important role in the business context in China. Phan (2004) discusses that Chinese business owners try to create harmonious relationships with their stakeholders, business partners, and employees. A Chinese saying goes: 'make big problems small, and make small problems nothing'. Thus, Chinese businessmen prefer to solve problems by mutual consent so may end up not with new enemies but new friends.

The theories of convergence and divergence discuss whether or not value systems or individual ideologies will be retained when exposed to a new environment (Redfern & Crawford, 2010). The perspective of 'crossvergence' has been developed from these theories, suggesting that the interaction of culture and industrialisation can create a new value system (Priem, Love, & Shaffer, 2000). This combined system has been successfully adopted by Japan and Singapore and has brought outstanding improvement to their economies (Jacobs, Guopei, & Herbig, 1995). These two countries combine concepts from both Confucianism and Western scientific management to their national conditions. Huo and Randall (1991) discover that the different levels of industrialisation in different Chinese cities could also have a great impact on managers' individual values and behaviours. Wuhan is a highly industrialised city in central China, and the managers there tend to have a more 'masculine' value structure and a higher power distance than managers in Beijing. The reason for this, explain Huo and Randall, is that the socialistic doctrines and collective ideology could have affected those in Beijing, the capital of the PRC, more than those in other Chinese cities. Based on Huo and Randall's study, the empirical study by Redfern and Crawford (2010) further looks at the relationship between modernisation, which is reflected in industrialisation, marketisation, and Westernisation, and moral

judgement in China. The results reveal that there is a positive relationship between modernisation and the moral behaviour of Chinese mangers in regard to social responsibility, nepotism, and pollution. Managers in the more industrialised areas, such as in coastal regions, were found to be more ethical than managers in the inland regions (Redfern & Crawford, 2010).

3.7 Connections between SMEs and Government in China

3.7.1 Reasons for SMEs to build relationship with government.

Walder (1995) notes that the central and local Chinese governments have different responsibilities for economic growth. The central government has a responsibility to manage a comprehensive industrial economy, but the local governments only need to monitor a small number of firms. As a consequence of the increasing decentralising power that has been granted from the central to local governments, Chinese local officials can now become involved in local firms' activities more directly. Thus, the local states, comprising of village, township, and county-level governments, have been directly responsible for the remarkable growth of rural enterprises in China (Qian & Xu, 1993). Based on the important role that the local Chinese states play, a local developmental state model was put forward by Duckeet (2001). This model is where the local governments, in their entirety, have direct responsibility to facilitate local economic development by providing supportive infrastructure for all enterprises whether they are state, collective, or privately owned.

Local governments have various forms of influence over and control of businesses in their areas. Qi (1995) points out that local officials at certain levels have a direct role in fostering the development of both local collectives and private enterprises. In addition, Cao, Qian, and Weingast (1997) note that new issues regarding economic development are often initiated by the different levels of government. The local government officials' salaries and careers are often closely connected with the growth and performance of these enterprises. In order to facilitate market production, local officials use their administrative bureaucracy as a free channel to give information to enterprises about new technology and markets and resources, such as raw materials. However, empirical studies of six Chinese enterprises by Cheung (2005) reveals that these businesses can only enjoy such local government help when they are doing well and, thus, had the power to negotiate with the local governments. When the enterprises are in trouble, the local government officials tend to ignore the enterprises' demands. Therefore, only the better-performing enterprises would be given policy concessions or the use of land assets.

In addition, all Chinese enterprises need to submit numerous reports to their local economic commissions, and these are then sent to the county level administration. Participating in local enterprises' activities and collecting information from them allows the local government to monitor

the businesses and produce a local industrial policy (Qi, 1995). Qi contends that under this local state system, local officials can have close relationships with banks and tax and finance offices. These relationships can benefit the local enterprises. Such benefits include local officials securing large loans for the enterprises, and banks, tax offices, or other bureaus being required to provide services beyond their administrative domain (Tjosvold, Peng, Chen, & Su, 2008). For example, the local tax bureau may be asked to help enterprises to train accountants, or banks may be requested to relax the rules in favour of some particular enterprises. Aside from the benefits that businesses can gain from having a close relationship with the local government, the partnership approach is also advantageous for the government. Dougherty and McGuckin (2008) find that govovernment officials can also learn and become well informed from businesses and quickly respond to the changing Chinese social and economic environments.

However, Chinese business people may act differently in their relationships with the government. Wank (1995) identifies two business strategies used by local business owners/managers with regard to local state power. One is to treat the local government as an obstacle: business owners/managers try to have as little contact as possible with officials. This strategy is commonly used among small, privately-owned shops. The reason for this avoidance is that local officials often demand cash pay-offs, such as fines or licences, which are regarded as predatory and arbitrary behaviours (Bruun, 1993). The second strategy is to treat the local government as a source of opportunity: business owners/managers can have close relationships with local officials. Private firms can benefit from these closer associations, and Huang (2003) discovered that this strategy was more favoured as a large number have political connections with government bodies. Some scholars suggest that enterprise leaders tend to build political connections in order to increase the value and performance of their businesses (Fisman, 2001; Johnson & Mitton, 2003) by having secure and favourable regulatory conditions (Agrawal & Knoeber, 2001). Also, many enterprises form business affiliations with public units through leasing arrangements, contracting, or by forming cooperatives. By forming these affiliations, business owners can get access to scarce resources, information, or commodities and enjoy bureaucratic protection from political campaigns and policy changes (Cheung, 2005; Faccio, 2006; Wank, 1995). However, Du and Girma (2010) find that Chinese enterprises that have a relationship with the government perform better than those that do not. Wank (1995) also believes that business owners/managers are willing to have closer contact with the local state and more personal ties with officials as their businesses grow. In addition, Qian (2003) and Li (2004) discuss that Chinese enterprises that had relationships with the higher levels of government (central and provincial) were more likely to enjoy more privileges, better protection from the government, and more assistance in getting loans, licences, and public contracts.

3.7.2 Strategies of building connections with government.

Some scholars have suggested that the growth of Chinese SMEs might be different to other countries. There has been the notion that these enterprises might behave differently because of close *Guanxi* (Ahlstrom & Bruton, 2002; Fan, 2002a) and a variety of constraints coming from the institutional environment (Tang, Tang, Martino, Zhang, & Li, 2008). *Guanxi*, introduced in Section 3.2.2.3, has become a key channel for SME owners as a way of obtaining information about business opportunities and also government policies, which could reduce transaction costs and enhance their firms' efficiency (Fan, 2002a; Zhang & Zhang, 2006). Having government connections, one important component of *Guanxi*, is also essential social capital for entrepreneurs as they can get first hand information on the latest government policies (Ye, Tweed, & Toulson, 2011). Carlisle and Flynn (2005) also believe that *Guanxi* could provide legitimacy for small firms in China, particularly at the startup stage, because legitimacy ensures that the actions of the startup businesses are seen as desirable and appropriate under social development. Thus, Peng and Heath (1996) discuss that building government connections is a unique growth strategy used by Chinese businesses. They believe that this strategy, neither market nor hierarchy, is a process of 'boundary blurring' so that interpersonal connections are fostered between government officials and business managers. These relationships would then extend to inter-organisational networks with the purpose of creating better business performance. Therefore, a macro–micro link emerges because of social networking. Peng and Heath's belief is supported by Zhao and Aram's (1995) study in China, which finds that managers of firms with higher growth rates have greater networks than managers of low growth firms. A more recent research conducted by Wei, Hou, Wang, and Wang (2011) on the importance of building political ties for SMEs to get government assistance shows that it is necessary for SMEs to build both political ties and technological innovations in order to enjoy better assistance and resources from the government. In summary, for businesses in China, among all the external environmental factors, the institutional context is the most crucial for businesses rather than the competitive or unstable industrial environments (Peng, 2002).

There are some studies that focus on the benefits of being a Party member in China. Knight and Yueh's (2002) study on the impact of Party membership in urban labour markets reveals that being a Party member could enhance personal income and that Party members in the market-oriented sectors have higher rewards than those in the non-market sectors. However, Appleton, Song, and Xia (2005) note that Party membership declined between 1995 and 2002. This could be explained by the power transition theory, which suggests that traditional power may transit to a new market environment during market reform; as a result, traditional elites and old stratification mechanisms decline and new elites and mechanisms are fostered by the new market conditions (Nee, 1996). A further empirical study was carried out by Li, Lu, and Sato (2009), who focus on the relationship between Party

membership and personal earnings in different ownership sectors. The results indicate that education rather than Party membership is the key factor for economic returns in market-driven sectors as opposed to state-owned sectors. They find a significantly positive relationship between the earnings of individuals working in the private and urban collective sectors relative to their education levels. Their study also supports the findings of Knight and Yueh (2002) who find that the returns to the Party membership also differed according to the sectors. Those Party members who are self-employed in the private sector have higher returns than those in the administrative sectors. Based on Knight and Yueh's conclusions, business owners or employees in these sectors who are Party members enjoy higher personal incomes than non-Party members.

In addition, many enterprises become philanthropic to develop and maintain political connections in China; therefore, philanthropic activities, rather than legal and formal institutions, are an important element in the development of the Chinese private sector (Su & He, 2010). McMillan and Woodruff (2002) suggest that enterprises will support philanthropic activities when there is a lack of market supporting institutions because they tend to find informal substitutes to protect themselves. According to Sanchez (2000), enterprise philanthropy has three purposes: to benefit others, to gain economic benefits by enjoying tax exemptions, and to maximise benefits in the form of political returns or better protection. This third purpose was the motivation for Chinese philanthropy, as evidenced by Su and He's (2010) survey results from 31 provinces in China. Although Chinese enterprises that donated more did not enjoy lower government fees, they could enjoy benefits from other channels, such as getting informal protection and circumventing regulations. In addition, Su and He find that there is a correlation between making donations and two variables: the self-perceived social rank of Chinese business owners and the size of the enterprise. More money is donated by the owners who have lower self-perceived social rank so as to help them feel protected and to consolidate their property rights. Owners who are former SOE managers or government officials who already had political connections tend to donate less. This finding is also noted by Li, Meng, and Zhang (2006) in their study of the reasons why Chinese entrepreneurs enter politics. They discovered that Chinese entrepreneurs who were in the provinces with weaker legal enforcement and less developed market supporting institutions are more likely to participate in politics. Also, larger and more mature enterprises have more philanthropic activities because they need more political connections and protection in order to maintain and further develop their businesses.

Being a philanthropic enterprise is not only used by business owners to pursue benefits, but is also encouraged by the Chinese government in order to increase the owners' social responsibility. The All-China Federation of Industry and Commerce took part in a public campaign in 2001 and developed the slogan, 'Be wealthy and think of the sources of wealth; enjoy prosperity and think of development'. The purpose of the campaign was to increase private entrepreneurs' awareness of their social responsibility and encourage them to contribute to social, cultural, and educational projects in

both their local communities and the poor regions in China. Such philanthropic activities were referred to by the government as a "glorious cause" (Holbig, 2002). However, some negative moral impacts are associated with the growth of private enterprises and the involvement of private entrepreneurs in political affairs (Lu, 2004). Firstly, some private entrepreneurs regard themselves as special citizens, and they bribe local officials in order to gain preferential treatment. Secondly, quite a number of private entrepreneurs show off their wealth by conspicuous spending, which has led to moral decay.

3.8 Issues Around Law Enforcement in China

An important element in the process of Chinese economic and social development is that China has strong government control over the economic and social activities through the introduction of policies and strategies (Breslin, 2011). A review of Chinese economic history in Section 3.2.1 shows that rulers in each dynasty either limited or promoted the business sector by promulgating regulations. Thus, this indicates the importance of government policies in China's growth. In his book, *The Wealth of Nations*, Adam Smith argues that the government should introduce laws and regulations with great caution and only adopt them after long and careful examination.

Currently, China's weak legal system has been criticised by many scholars. The increasing participation in international institutions, such as the WTO, as well as in international trade, has forced China to accept Western norms and regulations (Carlson, 2005; Shear, 2009). Thus, the fourth generation of the Chinese government has emphasised a strengthening of the legal system, and also called for building a society under the rule of law (Keyuan, 2006; Wu, 2005). Keyuan (2006) also thinks that the current Chinese government administration stands somewhere between the ruling approaches, which were discussed in Section 3.2.2.2; the traditional Chinese approach of the 'rule of man' and the Western approach of the 'rule of law'; and a mixed approach referred to by Keyuan as the 'rule of the Party by law'. The discussion of the different attitudes towards business contracts, discussed in Section 3.2.2.3, supports Keyuan's argument as Chinese business people embrace both the Western norm of formal contracts and traditional cultural models based on relational norms, such as trust (Adler, 2001; Dyer & Singh, 1998). In addition, Liu (2004) discusses that the Chinese government should replace the 'rule of man' way of thinking to the 'rule of law' as this could strengthen the CCP's ruling capacity. In order to do this, the Chinese government needs to be self-disciplined. Zhang (2012) finds that provincial and local government officials in China have an attitude of 'predation' in pursuing power-seeking objectives and their own wealth due to the power they have at the local level and information advantages over the central government. Therefore, the tendency for Chinese government officials to be corrupt and unwilling to comply fully with official laws (Keyuan, 2006) indicates that it will take a long time for China to establish a society based on the 'rule of law'. Jiang (1995) also points out that any failure on the part of any section of the government to observe the law could seriously undermine building the 'rule of law' in China.

In addition, Qi (2012) analyses the reasons for food poisoning incidents that have occurred in China in recent years from the legislation and governmental supervision perspective. He finds that although the Food Safety Law has been passed, the separate legislation and sectional supervision by various government departments means that enterprises can take advantage of the resulting loophole. The remedy is to set up a unified legal system, although it will take time and effort for both the central and local governments.

3.9 Reliability of Chinese Official Data

Both Chinese and Western scholars are becoming increasingly doubtful of official data. This is not only in the economic area, such as over-reported GDP data by the Chinese government (Rawski, 2001; Smith, 2001), but also in social and political areas. For example, the unemployment rate, which was 4% according to the government in contrast to the 9.4% provided by the Academy of Social Sciences, was underestimated (Wang, 2010). Similarly, the government-released figure of its expenditure was 9.47 billion Chinese *Yuan* in 2010; however, Wang Xixin, Professor of Beijing University, believes that the actual number should be around 900 billion as this number was considered more realistic (Yan, 2012). Fujikura, Kaneko, Nakayama, and Sawazu (2006) even find that the sulphur dioxide emission statistics provided by the Chinese government are not reliable.

Chow (2010) considers that one reason for the official statistics not being reliable might be due to some difficulties in collecting data. Chow and Shen (2005) give an example of the difficulty in collecting statistics on non-government education expenditure as hardly any information is gathered from Chinese people abroad. This is mainly because it is hard to do so, especially from the Chinese living in Hong Kong. In addition, Yao (1991) believes it is difficult for the central government to check the accuracy of the information provided from the basic levels because it seems to be perfect so is hard to find any errors in it.

Rawski (2001) explains the reason for local and provincial statistical bureaus reporting false statistics could be the pressure on local governments to reach official growth targets. Smith (2001) believes that the country's real economic growth rate should be around half of the official number. More recently, Shi (2011) interviewed the head of a township from the middle-west region and this report further supports Rawski's argument. The head told Shi that his job is around three areas: accompanying the leader from the higher levels to inspect his area, promoting economic development, and maintaining social stability. He further explained that promoting economic development was actually a pleasant way of saying making up false statistics. If the central government aimed for an economic growth rate of 8%, then the provincial government would require the lower level (county) government to make it 10%. The county level would then increase the target to 12%. It was impossible for the township to fulfil the task, so the head had to bribe the officials in the local tax bureau. The result was that his

township always overperformed what was required from the higher level government. The head said that almost every local government "buys good statistics" from the local tax bureaus. Thus, this has formed a vicious circle: the township governments cheat the county governments on the statistics; the county governments cheat the provincial governments; and the provincial governments cheat the central government. Meng (1999) criticises that such a 'statistical bubble', which works its way up to the top level of the government, could lead decision makers to develop wrong policies. Yuan (2008) gives an example where this might be the case. In 2004, the National Statistics Bureau reported that the GDP growth rate in the first half of that year was 9.3%. However, according to an official from the Bureau, the number reached 13.5% if all the statistics reported by all the provincial statistics bureaus were added. In addition, the difference between the National Statistics Bureau and the provincial statistics bureaus for total GDP was 19.8%.

The central government has also realised there is a problem of falsification of statistics. Zhu Rongji, former Premier of the PRC, complained in 2000 that falsification and exaggeration were rampant in China ("Chinese Premier," 2000). More recently, the government has created measures to solve the problem, and so, from the beginning of 2012, some well-performed enterprises (around 60 million nationally) will have to report their statistics to the National Statistic Centre directly (Xiao, 2011).

There is the idea that the central government may avoid 'not pretty' numbers intentionally. In a press conference, the Director of the National Statistics Bureau explained to journalists that the reason why the bureau did not release the data on the Gini coefficient (Ma & Wen, 2012) was because the Bureau knew that income data provided by the high income citizens were not correct and lower than their real earnings. Thus, the calculation of the Gini co-efficient, based on the data that the Bureau had, would be lower than the real statistics.

In addition, as discussed in the previous section, the Chinese government plays a powerful role in the Chinese economic environment. Kuijs (2011, cited in Orlik, 2011) said that the Chinese government could provide the stimulus to increase growth if it slows down dramatically. In 2008, the Chinese government released a four trillion *Yuan* economic stimulus package in order to offset the downturn in global economic conditions ("China's 4 trillion," 2008). The purpose of this package was to boost Chinese domestic demand. The money was to be invested in programmes in ten areas, such as rural infrastructure and transportation, by the end of 2010. However, since the package was completed, economic growth has actually dropped from 9.2 % in 2011 to 7.6% at the end of the second quarter of 2012, which is the first time that the Chinese economic growth rate has fallen below 8% within the last three years (Li, 2012). Thus, Li believes that such a stimulus actually brought negative impacts to the Chinese economy. The problem of excess production capacity has worsened, especially in the industries supported by the government, and money was wasted by investing in the areas that did not need to be developed. The dramatic increase in housing prices is a good example of the government's

over-investment in the real estate industry (Deng, 2010; Huang, 2012). It has resulted in inflation, which means people's purchasing power has dropped and the government has had to tighten financial policies, thus making it even harder for Chinese SMEs to get bank loans (Huang, 2012; Li, 2012). Subsequently, many Chinese SMEs lost a good opportunity to upgrade. Li (2012) suggests that the government should focus on economic restructuring rather than maintaining 'the good statistics', such as the GDP growth rate.

Thus, these findings tend to cast doubt on the effectiveness and efficiency of the government policies and assistance. Are current policies really helping the growth of SMEs? Are information and services provided by the government organisations effective and helpful to SMEs? The kinds of services or information and the opinions of the SMEs towards them are barely known. In order to improve the development of Chinese SMEs, the perceptions of their owners/managers should not be ignored as SMEs are influential players in the market and no one else has a better understanding of the kind of help they need. However, little research has been conducted to investigate the firms' impressions of the effectiveness of government policies and assistance. There is clearly a lack of information in this area.

This research will focus on the relationship between the government polices and SMEs. However, different from current research, this study pays attention to the perceptions of SME owners/managers towards the government policies and assistance. Therefore, this study will help to fill the void in the current research on Chinese SMEs, and will also be beneficial for both them and the government as it could improve the communication between these parties and, at the same time, provide useful information to the government by revealing SMEs' real opinions.

3.10 Informal Sector in China

The informal sector is also called the 'underground' or the 'shadow economy'. It includes both illegal activities, such as individuals working outside the formal wage economy or who run unregistered businesses and unreported income from legal activities (Schneider & Enste, 2000). The term 'informal sector' originates from a study by Keith Hart set in a third world context (Gerxhani, 2004) as the informal sector has a larger impact in developing countries than it does in developed countries (Charmes, 1990).

Renooy's (1990) study gives the reasons why the informal sector exists. Firstly, compared with the formal economy, the informal sector does not need to abide by formal regulations and rules, such as paying taxes. Secondly, the informal market has a higher degree of flexibility, autonomy, and freedom

(Gerxhani, 2004). Finally, there is a low entrance threshold to enter into the informal sector. Often, there is a strong linkage between the formal and informal sectors, especially in centrally planned economies (Grossman, 1982). The importance of social networks and the strong link between state and non-state activities are the two features of the informal sector in socialist countries. Kaufmann and Kaliberda (1996) further discover that these two features would remain even during the transition period.

The term 'informal sector' tends to not be used by the government in China (Zhu, 2000). However, in recent years, Chinese scholars have paid attention to two areas of the informal sector: labourers working in the informal sector (Huang, 2009) and so-called 'grey income', which is unreported income from legal activities (Wang, 2007, 2010). There are only limited statistics available on the number of labourers working in the informal sector in China. In 1978, only 1.5 million workers worked in this sector; however, the number increased dramatically to 162.8 million in 2006, which accounted for 59.4% of the formal workforce (National Bureau of Statistics, 2007). Huang (2009) discusses that the vast majority of workers in informal employment are migrant workers, who work in the construction and service industries or who open small retail stores. Thus, these migrant workers normally work long hours with very low pay and are not eligible for social welfare or being protected by the law (Zhou, 2010).

Compared with informal employment, grey income tends to attract more attention from Chinese scholars. Wang (2010) believes that grey income totalled 5.4 trillion *Yuan* in 2008, which accounted for 30% of the total disposable income of urban residents. Liu (2011) and Wang (2010) suggest that the increasing grey income was caused by some government policies and activities. They cite the example of local governments' misuse of power in asking local enterprises to pay high taxes or unreasonable fees. Some local officials even sell land at inflated prices. These examples also underline the fact that corruption is strongly associated with the informal sector (Friedman, Johnson, Kaufmann, & Zoido-Lobaton, 2000). In order to get more land, Chinese enterprises have to bribe key government officials or, in order to let their children enrol in reputable preschools, parents have to bribe the key people in the kindergartens. Having *Guanxi*, which is closely linked to bribery, to solve the problems seems to be found in every social or business activity in China (He, 2012). Thus, this proves Friedman et al.'s (2000) belief that a weak legal environment and a large shadow economy go hand in hand.

In order to crack down on unlicenced businesses, which are mainly micro-sized businesses and individual households, and create a market environment for fair competition, the State Council of China passed two laws. These are: the *Interim Regulation on Self-employed Businesses in Urban and Rural Areas* (1987) and the *Measures for Investigating, Dealing with, and Banning Unlicensed Business Operations* (2002). These laws provide legal guidance for local governments to manage small scale businesses. They also restrict self-produced items only being sold at fair trade markets or

in the regions designated by the local governments. According to these laws, unlicensed businesses that do not abide by these laws will be given severe punishments, such as their property being sealed or impounded and having to pay heavy fines. The responsibility for cleaning up unlicenced business activities lies with the Bureau of City Administration and Law Enforcement at all levels. They have the authority to give penalties to any business activities without licences (Beijing Municipal Bureau of City Administration and Law Enforcement, 2006; State Council, 1987). Currently, as with China, most countries adopt similar practices, encouraging businesses to register by penalising those that do not. In the case of Singapore, unregistered businesses are charged according to the length of default (Accounting and Corporate Regulatory Authority, 2009).

3.11 Constraints on the Development of Chinese SMEs

The previous sections have analysed the current Chinese macroenvironment and some of the factors that have a direct impact on the owners and businesses. There has been rapid progress in the Chinese SME sector over the past few decades, but it appears that there are still a number of constraints on the further development of private enterprises, especially SMEs. These can be both internal and external.

3.11.1 Internal problems.

3.11.1.1 Owners' lack of sophisticated management skills.

For SMEs operating in a transition economy, the owners need to have better capabilities in management and ability to enter into new markets. Smallbone and Welter (2001) explain the reason for this is because of the uncertain and hostile macroeconomic environment. Roberts and Tholen (1998) also find that the owners of the businesses in transition economies lack business-related skills because they do not have previous private business experience. This is certainly the case for Chinese SME owners. Many just took the opportunity to open their own businesses after private ownership was permitted by the government in the 1970s. Zeng (2005) finds that Chinese SME owners lack knowledge of business administration and have almost no experience in managing a business. However, as discussed in Section 3.6.1, Chinese entrepreneurs come from different backgrounds, and almost all have no previous experience in running a business. Therefore, the managerial methods they adopt are usually based on their experiences from both the enterprises they used to work at and from their own lives. In addition, a survey of 21 cities in 2005 conducted by the National Industry and Commerce Association shows that roughly 70% of private entrepreneurs cannot read accounting sheets, do not use IT, and do not read government documents. Furthermore, the founder of the business could not keep up with the skills needed to manage the firm as it grew. This problem is especially evident in private firms where many of the founders do not have much education and lack training (Garnaut et al., 2001).

3.11.1.2 Lack of ability in innovation.

Compared with large businesses, SMEs have some advantages in pursuing innovative activity. Mac an Bhaird (2010) suggests one advantage is that the simple structure of SMEs helps them to accept new or risky projects more easily. Sometimes large enterprises might not be interested in some innovations because they think they will not bring adequate returns to the business. However, modernisation has provided opportunities for enterprises involved in technology and innovation (Chen, Fu, & Bai, 2009). In 2005, the necessity for improving SMEs through innovation was put on the government agenda for the first time. If large Chinese enterprises are the backbone of innovation, then SMEs are its new force and are also the 'cradle' of large enterprises (Gu, 2008). Based on the information provided by Ou Xinqian (2005), the Deputy Director of the NDRC from 1978 to 2005, 74% of technological innovation and 82% of new products in China come from SMEs.

However, in reality, SMEs still have four constraints in innovation. Firstly, although 60% of all scientific researchers work in business enterprises, the majority of them are in large enterprises and only a few technical personnel work in SMEs. Secondly, SMEs do not have enough funds to develop innovations and, in addition, the banks set high standards for granting loans to SMEs. Thirdly, there is a lack of scientific intermediary organisations providing useful projects and services to SMEs. Finally, SMEs only have limited channels through which to get timely and accurate information (Hua, 2011; Ou, 2005). In addition, the size of the firm also has an impact on the usage of external business services. The larger the firm, the more likely they will use intermediary organisations (Xiao & Fu, 2009). Not all Chinese SME owners are willing to seek external help; however, Xiao and Fu's (2009) study finds that Chinese SME owners are more concerned about getting information rather than technological help.

3.11.2 External problems.

3.11.2.1 Problems related to essential production factors.

In order to build an energy-saving and environmentally-friendly society, the Chinese government clearly pointed out in 2008 that it was necessary to improve mechanisms of resource and environment price formation ("Xie Zhehua," 2008). After the government announced this policy, the prices of raw materials and fuel increased. In the 12th Five-Year Plan (2011-2015), the Chinese government reinforced the importance of building rules around the price of its resources and also recognised that reform should be deepened. The costs of raw materials for Chinese SMEs will keep increasing, and these, combined with the increases in the exchange rate, mean that the advantages that Chinese SMEs have of attracting foreign business contracts for the low prices of their resources will soon disappear. Furthermore, in order to reach the goal of reducing 10% of emissions of all industrial pollutants and 20% of unit GDP energy consumption by 2010, the government called for energy saving and has

issued many energy related regulations since 2007. Many SMEs are in industries which require high energy consumption and produce heavy pollution. They have often neglected the issues of environment protection and energy saving because of limited funds and small size. Thus, these SMEs have been under serious attack since the energy saving policies were enforced (Fan, 2011).

The difficulty in getting more land has also limited the development of Chinese SMEs. The State Council issued the *Circular on Intensifying the Land Control* in 2006, which provided stricter measures for administrating and intensifying land use. The measures, such as setting up a minimum price for industrial land allocation and the transforming of industrial land by public bidding or auction, have put SMEs at a disadvantage as they have had to compete with large businesses to get more land. In addition, the labour costs for SMEs increased dramatically after the Labour Contract Law was enacted in 2008. According to the Chinese SME development index, which was released in 2010, the SME labour demand index increased 2.5% in the second quarter of 2010 (106.8%) compared to the first quarter. At the same time, the labour remuneration index was also higher (Liang, 2010). Another report showed that, compared with 2010, the average income for employees who worked in SMEs in the Zhejiang province increased 25% in 2011's first quarter (Lv, 2011). These statistics reveal that labour costs for SMEs increased dramatically and are likely to keep increasing, which will have a strong impact on businesses' total costs.

Loans are also an issue. Since the 2008 global financial crisis began, banks have granted more loans to state-owned companies because of the government guarantees and lending policies for large SOEs and important local enterprises. In contrast, SMEs find it difficult to borrow money from banks, whether the lending policies are tightened or loosened (Pierson & Lee, 2012; Wan, 2011). Kanamori and Zhao (2004) recognise that, compared with SOEs and privatised SOEs, private SMEs were disadvantaged in two ways when applying for bank loans and getting approval from authorities. First of all, they are not treated the same as other businesses. This is because many SMEs need money urgently and tend to want to borrow short-term loans which banks are reluctant to lend. SMEs do not have close connections with local authorities either. Garnaut and Song (2001) also explain that this difficulty might be because SMEs lack credit trustworthiness compared to the government sector. In the process of economic reform, both SMEs and the government should abide by the rule of credit but, at present, both have problems in this regard. SMEs have relatively short credit records and, therefore, have difficulty in obtaining loans and other external financing. Governrnent sector credit records also need to be improved in a different sense: in particular, the credibility of local governments is one of the major impediments to the further development of SMEs.

Secondly, SMEs are disadvantaged when it comes to securing loans as there is the problem of information asymmetry between the firm and the bank. Garnaut et al. (2001) explain that this problem can be caused by several factors. Firstly, SMEs have a higher risk of default and, secondly, SMEs

usually do not want to reveal their information to the public. Therefore, many SMEs have several sets of accounts: one for the owners, one for the tax bureau, and one for both the customers and the bank. Thus, banks doubt whether SMEs are presenting their true financial position. According to a survey of 357 private enterprises in Shangdong Province in 2002, it is clear that the demand for loans to private enterprises was not satisfied since only 62% of private enterprises reported success in getting bank loans. Wan (2011) also points out that SMEs have even been squeezed out of some small counties, even though these did not have large SOEs, because the banks made loans to large enterprises in other big counties. Consequently, since the policies have been tightened, many SME owners have had to borrow money through informal channels, such as friends, relatives, or by private lending. The interest rate for private lending is very high, between 30% to 40% (Bai, 2012). Private lending in Wenzhou city has reached 110 billion *Yuan* in 2012, and 89% of families or individuals and 59.67% of enterprises are involved in private lending (Tan, 2011). Many SME owners have had to take out loans with high interest rates in order to come through the global financial crisis.

In addition, Garnaut, et al. (2001) state that another big constraint for SMEs in mainland China is the problem of enterprise arrears. Their interviews with owners reveal that arrears are a common phenomenon which can bring serious consequences. The rise in enterprise arrears can be due to a lack of serious law enforcement on violations of contract and the bad performance of firms, especially the SOEs. For SMEs, the typical arrears problem is that the debtor does not promise a timetable for repayment and pays the creditor by installments, the frequency and size of which depend on how frequently the creditor comes to demand payment. According to the research done by Garnaut et al. (2001), many SMEs provide products and services for large firms, but the owners complained that large firms were more prone to defer their payments even though they could borrow money from the banks.

Besides the difficulty in funds, SMEs have also have a problem in finding workers and technicians. Wang (2008) reports that over 50% of employees who came from the cities left SMEs within one year. The average time that young migrant workers, especially those who were born after 1980, changed their jobs was 0.45 per person per year. In addition, Liu, Hui, Lee, and Chen (2012) discover that Chinese employees leave the organisations when they cannot fulfill their promised obligations to the business owners. Chen, Tsui, and Zhong (2008) also find Chinese employees who had no family bond feeling are more sensitive about the contract breach. They choose to leave the firms if the owners cannot fulfill the contract. The change in employees' mindsets may also be explained from the psychological perspective of age and life satisfaction. In a study by Zhang and Leung (2002) on the age effect on life satisfaction, they find that the older Chinese who suffered many difficulties and hardships in Chinese modern history, such as the series of political movements, made them appreciate what they have more than the younger generations who grew up after the 1980s without enduring any

real problems. Thus, the lower life satisfaction that the younger Chinese generations have may make them more likely to look for better jobs than the one they already have.

There are several reasons behind the SMEs' labour shortage. Firstly, getting a job in government departments or government-owned enterprises is still seen as preferential in China, especially for university graduates. According to the research of two Chinese universities, 72 % of university students want to work in these two types of organisations, but only 10% are willing to work for private enterprises (National Statistics Bureau, 2011). In 2011, around 1.4 million young Chinese competed for 18,000 civil servant positions in both central and local government departments; however, only 30,000 people attended the exam in 2001 (Wang, 2011). The competition rate for a county-level government position has reached up to 323: 1 (Zhang, 2012). According to the Special Research on the Iron Rice Bowl 2010, which involved 5000 individuals, the biggest attraction of a government-related position was its stability (38.7%), followed by good remuneration (25.8%), and high social status (15.8%). Only 1.6% thought the job was related to their qualifications and matched their personalities. Secondly, the fast economic development in the old poor areas, such as the Central and East regions, has become more attractive for migrant workers. As many large enterprises have set up branches in these regions, more job opportunities have been created for migrant workers. This, in turn, makes enterprises in the traditionally prosperous regions, such as in the Zhejiang and Guangdong provinces, face severe labour shortages ("Labour shortage," 2011). Thirdly, employees' mindsets have also changed. People from the cities who worked in the privately owned companies preferred SOEs for the better welfare arrangements and stable payments. Research shows that compared with large enterprises and government organisations, the labour remuneration offered by SMEs is relatively low (Lin & Wang, 2011). Due to the rising inflation in China, workers in the cities tend to pay more attention to good salaries rather than long-term career development paths (Yang, 2011). In contrast, migrant workers' job desires were the opposite ("Labour shortage," 2011). Some of them wanted to learn more so that they could start their own businesses when they returned home, while others were reluctant to leave their hometowns for job hopping because they were married and had children.

3.11.2.2 Issues around market competition.

Aulakh, Kotabe, and Teegen (2000) note that compared to SOEs, private enterprises are at a disadvantage in market competition because of resource constraints, such as lack of financial resources, managerial skills, and innovation abilities, The resource constraints that Chinese SMEs face have been discussed in the previous section (Section 3.11.2.1). Chinese SMEs need to compete not only with other SMEs in the same industry, but also with large firms and SOEs. Storey (2009-2010) discusses that SMEs are at a disadvantage when competing with large firms because large firms have 'deep-pockets' that enable them to compete in the market. In contrast, SMEs only have limited funds, and any new competition may put them in trouble. In addition, Chinese SOEs, because of their

sufficient financial resources, sometimes use the strategy of cross subsidisation to win contracts, which causes disorder and damages the fair market competition environment (Li & Wang, 2011).

In addition, market competition may not be the same in different regions. First, the free market mechanisms can vary across regions within China (Chan et al., 2008). The local governments in less developed regions tend to have higher interference in controlling the price of raw material and products. Second, Xu, Huang, and Gao (2012) find that there is less institutional assistance available to Chinese SMEs in the less developed regions compared to those in the developed regions. In addition, the numbers of the professional business services available in the less developed regions are also much less than in areas with rapid economic growth (Atherton & Fairbanks, 2006). Thus, the SMEs in the less developed regions are disadvantaged when competing with SMEs from the same industry in the developed areas. The differences in local policies also cause Chinese SMEs to be arbitrary (Li & Atuahene-Gima, 2001).

3.11.2.3 Poor government services.

Only very few studies look at the effect of government services on the SME sector in China as these services have only formally emerged since the SME Promotion Law was enacted in 2003 (Ouyang, 2009). By interviewing officers working at the Chinese SME centres, Atherton and Fairbanks's (2006) study focuses on the establishment of Chinese SME centres and how these are run by the government. In contrast, Atherton and Smallbone's (2010) research shows how the SME supportive projects are formulated and implemented by the Chinese local governments. Both studies are taken from the government's perspective and show the vital role played by the formal institutional factor — government — on the development of Chinese SMEs. At the same time, the studies also disclose some problems that challenge the effectiveness and usefulness of the services. Similar to studies conducted on government agencies in other countries (Abdullah, et al., 2001; Clark, 1995; Jossee & Etinne, 2007), problems of poorly trained officers who lack real business experiences have also been found in Chinese government services, influencing the quality of services provided to Chinese SMEs. In addition, local governments lack a policy framework for enterprise development, which means the agencies have to directly copy the regulations and procedures that the government granted for other departments as their guidelines. Another problem associated with SMEs is the relationship between them and the local governments. Su and He's (2010) study shows that local officials do not treat all enterprises fairly. Instead, they tend to help the SMEs with which they have good relationships. This means that only select SMEs enjoy better treatment in getting key resources or bank loans.

In addition, currently, the government management system for the SME sector is ineffective. Chen et al. (2009) point out that the government does not have an independent department to administer private enterprises. Different executive authorities and law enforcement departments exercise

supervision and control according to their different duties. Also, the administrative departments in each industry are responsible for guiding, assisting, and managing operational activities for businesses within the industry. Each bureau and department, such as the tax bureau, the industry and administration bureau, the transportation bureau, the labour department, and the price department, each has its own management system. However, there is a lack of unified leadership and coordination. The government bureaus and departments tend to avoid responsibilities, especially when businesses need the government to help them solve problems. This means that even easy problems cannot be solved. In addition, most of the staff in business associations come from government departments. Thus, rather than acting as service organisations, the business associations are more like big government bureaucracies. Thus, the quality of services provided by these business associations is relatively poor (Wang & Liu, 2011).

3.11.2.4 Heavy burden of taxes and fees charged by the governments.

The local corporate states in China are directly responsible for the remarkable growth of rural enterprises in China. Local departments and officials at certain levels have a direct role in fostering the development of both local collective and private enterprises (Qian & Xu, 1993). Three problems can be caused by the close relationship between the local government and the local enterprises. Firstly, the strict control by the local governments, together with imperfections in the legal and credit markets, can cause a high degree of interference from the government through imposing unnecessary regulations or high tax rates (Guriev, 2004). Garnaut and Song (2001) discuss that the Chinese local governments' incentives for rent-seeking behaviour could limit the development of private businesses. Currently, Chinese SMEs have to pay huge annual amounts in fees that are irrelevant to the business operations. Tian (2011) categorises these fees into five groups. The first is a fee, such as a surcharge for education, social insurance, and water that is not related to the business sector. Normally, for every *Yuan* that a SME pays in tax, it needs to pay 0.5-0.7 *Yuan* in fees. Secondly, service fees are charged by the related departments. Although the charges for these fees may be unreasonable, the businesses still have to pay. Thirdly, there are fines and apportions from some law enforcement departments and their purpose is to generate revenue. Fourthly, there are costs to satisfy unreasonable demands from the law enforcement departments, such as asking for or taking goods from businesses, intentionally creating difficulties for the businesses, and paying for officials' meals out. The name for such costs is 'corruption costs'. Lastly are the time and human resource costs, which are for the numerous inspections by the government and are called 'obedience costs'. Although the situation of irrational charges from the government for Chinese large businesses is similar to SMEs, the proportion of corruption and obedience costs on the total revenues for large businesses is much less than for SMEs. According to Tian's (2011) interview with the president of the Chinese SME Association, currently, the total taxes and fees that Chinese SMEs contribute is over 30%. However, the number provided by

SME owners is much higher than the official data. One business owner said that 58% of their profits went to paying taxes and levies. For another business, taxes and fees accounted for 48% of its revenue.

3.12 A Model of Influential Factors on Chinese SMEs

Chapter 3 shows that the Chinese SME sector is influenced by a number of macro- and microenvironmental factors. Section 3.2 illustrates that Chinese history and culture have an impact on both the government and Chinese people. Section 3.3 analyses China's macroenvironment, and the microenvironment factors are discussed in section 3.4. Both the macro- and microenvironments can influence Chinese society, as can Chinese history and culture. The Chinese government uses policies to adjust social, economic, and political development. This study focuses on SMEs in the business sector. The policies that the government puts forward can be categorised into two broad groups: business sector related and non-business sector related. The analysis of the Chinese macroenvironment (Section 3.3) shows that some policies in the non-business sector can also have an indirect influence on the business sector. One example, which has been discussed in Section 3.3.3.3 is that the Chinese government introduced a policy of enrolment expansion in universities in 1999. As a result, many tertiary graduates have faced difficulties in finding work. This is an unexpected result for the government. In order to reduce the pressure on the labour market, the government has promised to give top priority to university graduates' employment. All enterprises, whether small or large, private or stated-owned, are now required to employ new graduates ("China to promote," 2009). Not only the non-business sector policies, but also policies on large businesses may also have an impact on SMEs. Many laid-off workers, because of the privatisation of SOEs, started their own businesses in order to make a living, which caused the SME sector to flourish. These two examples indicate that non-business sector policies or large businesses can also be influential factors on the development of SMEs. In addition, Section 3.4.3 discusses the Chinese SME policies and their impact on businesses. Based on this review of the literature and prior studies, this thesis proposes a model of influential factors that illustrates the relations between these factors and Chinese SMEs (see Figure 10).

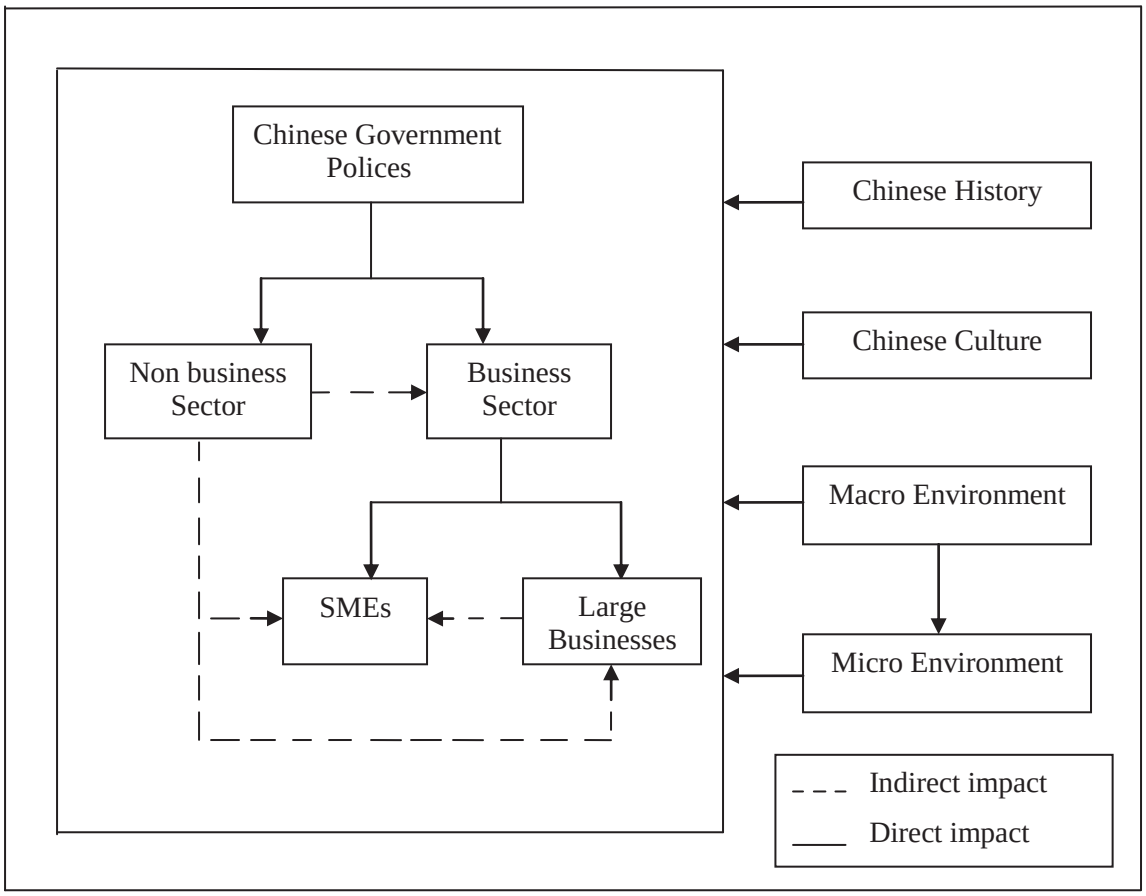

***Figure 10*. Factors influencing Chinese SMEs.**

3.13 Research Gap

The review of the Chinese SME institutional environment shows that there two problems in the understanding of government policy and Chinese SMEs. Firstly, there is a lack of research in studying the government–SMEs relationship. Because the development of SMEs by the Chinese government has been a recent phenomenon, studies have focused on the fields related to the managerial issues of Chinese SMEs. Among these, some scholars have examined Chinese SMEs from a management perspective, such as marketing strategy (Siu, 2005; Siu & Liu, 2005; Tang & Hull, 2009; Tang, Wang, & Zhang, 2007). Others have focused on human resource management practices (Cunningham & Rowley, 2007; Zheng, Morrison, & O'Neill, 2006; Zheng, O'Neill, & Morrison, 2009); management practices (Wang, Zhao, & Chen, 2009; Zhang, Cone, Everett, & Elkin, 2011); or technological innovation (Khaleel & Wei, 2011; Li, 2011; Ye, 2010). A further group of scholars have concentrated on Chinese SMEs' financing (Li, 2011; Mweta & Mori, 2012; Okura, 2008); internationalisation of Chinese SMEs (Loane & Bell, 2010; Wang & Ngoasong, 2012; Zhang, Ma, & Wang, 2012); or the importance of networks in Chinese SMEs' business operations (Wah, & Meng, 2011; Wang, & Wang,

2011; Wei, Hou, Wang, & Wang, 2011; Zeng, Xie, & Tam, 2010). Only a few studies have examined Chinese SMEs in a broader context by looking at the relationships between Chinese SMEs and the external environment, such as Tang and Hull (2012); Tang and Tang (2012); and Shi, Peng, Liu and Zhong (2008).

Thus, the second research gap that has appeared is that there is no study paying attention to the opinions that Chinese SME owners have towards the effectiveness of government policies and services. A review of the official government systems and laws shows that the current Chinese government has encouraged the growth of SMEs and tried to provide a better business environment for them through enacting policies in different areas and offering administrative assistance. All these services and information, however, are based on the government's knowledge and perceptions of the current market. Further, the laws developed by the central government, such as the SME Promotion Law and the Property Law, are based on the information provided by different bureaus and local governments. However, these departments tend to supply falsified information to the central government, and this problem has been discussed in Section 3.9. Although the Chinese government has enacted policies and established programmes and services to help SMEs, the discussion in Section 3.11 on the problems that SMEs face shows that these policies and services may not be enough.

Comparison between Chapter 2 and Chapter 3 reveals some similarities in the current literature on government policy in SMEs in general and the Chinese SME sector in particular. The first similarity is that the significance of government policy is emphasised in both areas. The rapid development of SMEs in China and other countries cannot be achieved without governments' recognition of the importance of the SME sector in their economies and also the supportive policies and services given to the SME sector. The impacts of government policy on the SME sector come not only from the direct policies and services given to the SME sector, but also from the macroenvironment policies. All the countries have provided supportive policies and services to help SMEs' further growth. In addition, all governments recognise variations between countries in external conditions and differences in patterns of SME development. Thus, rather than adapting heterogeneous measures, each government enacts policies and services to the SME sector based on the unique formal and informal institutional conditions.

The second similarity is that not only are formal institutional factors, such as laws and regulations, considered as important factors in the development of SMEs, but informal institutional factors such as social ties are also crucial for SMEs, either in receiving support from government or conducting business with their business partners, especially in less developed countries. The third similarity is the that the governments' supportive polices and services are not as useful as they claim. The main cause for this problem, the lack of communication between policymakers, academics, and practitioners, is

also found in China and other countries. The fourth similarity is that the theories studying the relationship between government and the business sector can be applied to any economy, no matter what their economic conditions. Although each country has its unique political, economic, social, and cultural environment and the behaviours of government and business people are different, the institutional players presented in each country are similar. This helps researchers to identify the similarities and differences of institutional players in different countries, and also to explain their causes.

Besides similarities, there are also some differences appearing between the two research areas. Firstly, the purposes of government policies and services are different in China from those given in developed countries. This is because the SME sector in China is at a different stage of development to other countries, especially in comparison to SMEs in developed countries. Secondly, because of the unique Chinese culture and its impact on Chinese people, much research in China focuses on the importance and influence of social ties/*Guanxi* on either the SME sector or the relation between government and the SME sector. Research in this field is of much less concern when studying SMEs in Western settings.

Thirdly, compared with studies in other countries, investigating how Chinese SME owners/managers perceive formal institutional factors has received much attention from policymakers and academia. Although this area has only gained attention from academia in the last few decades, the development of SMEs in China falls way behind other countries, thus making Chinese policymakers pay more attention to ways to encourage the development of the SME sector rather than improving the quality of policies and services. The review of the literature in Chapter 2 shows that some gaps exist in analysing policy for SMEs, and these mainly focus on how to improve policy evaluation and make it more effective. The problems to do with the policies and services provided to the SME owners come from two areas. Firstly, SME owners lack awareness of the policies and services given to SMEs. Secondly, SME owners have negative attitudes towards the government services, and the reasons for these perceptions are due to the SME owners' psychological traits, the ineffective programmes provided by the government agencies, and also less trained officers. However, these research areas that aim to improve the quality of governmental policies and services have not gotten much attention from Chinese policymakers, academics, and practitioners. In addition, no studies have been conducted in China to establish Chinese SME owners' views on government agencies. What makes the studies on Chinese services unique from others is that the opinions were given by the officers who are working in the agencies rather than by the SME owners. Only when more is known about how policy impacts on the SME sector can better recommendations and more SME–friendly policies and services be provided. In order to achieve this aim of greater knowledge, the first step is to uncover Chinese SME owners/managers' perceptions, which can provide a solid foundation for further institutional

changes that aim to improve SME performance.

The fourth difference between China and other countries is that research on policy evaluation in China lags behind other countries. Analysis of the issues related to Chinese SME policies and services still needs more evidence to uncover the impacts of policies on the SME sector. In addition, the policy evaluation adopted by Western countries may not be directly applied to China because the one party system is very different to Western political structures. Thus, more time and effort from Chinese policymakers, academics, and practitioners is required to communicate and produce an effective policy evaluation model which can be used in the Chinese context.

3.14 Summary of the Chapter

This chapter uses institutional theory as a theoretical foundation to offer an insight into the Chinese SME environment and provides a picture of the characteristics of the Chinese government and Chinese SMEs and their owners. Studying Chinese economic history and culture reveals that there are common patterns of governmental behaviour and norms and traditions of Chinese society that can all influence the business sector. The analysis of China's current political, economic, social, and technological environments illustrates that these are gradually changing, and the government and the business sector are facing challenges as a result. At the same time, changes in the external environments, such as recognition of the value of the private business sector by the government and support for SMEs, can provide new opportunities for the SME sector to grow. The factors that have a direct impact on the SME sector are also analysed in this chapter. A detailed examination of the current legislation and government administrations that affect the SME sector are provided, and a study of how Chinese SMEs adopt different strategies to deal with the unstable environment and what difficulties they encounter is also given. Figure 10 integrates the factors that concern the Chinese SME sector with three different levels of institutional theory (social-embedded, the macro-level, and the micro-level). The model shows that all these factors have either a direct or indirect impact on the Chinese SME sector. However, reviewing the current literature and comparing research conducted in China and other countries also shows that current research lacks studies on the effectiveness of government policies and services taken from the perspective of Chinese SME owners/managers and their attitudes towards the Chinese government and its policies. Thus, this research aims to fill this gap by providing an overview of government policy. In order to gather in-depth and valuable data from Chinese SME owners/managers, selecting an appropriate research method is important. The research method that was used in this research will be introduced in the next chapter.

4 Research Design and Methodology

4.1 Introduction

A number of gaps exist in the research on the relationship between the Chinese government's policies and SMEs. These have been identified and discussed in Section 3.13. This chapter presents a model of the factors that influence Chinese SMEs, and also includes the research question and the four research objectives that have been developed based on Storey's policy evaluation model, 'Six Steps to Heaven', and the discussion on SME owners' perceptions towards government policy and services given in Chapter 2. Different research methodologies are introduced, and the selected methods of conducting research in the Chinese context are discussed. The instrument design of the research and ethical considerations are also presented. The chapter ends with a description of the data collection process.

4.2 The Aim of the Research

The research focus of this thesis is the views of SME owners/managers on government policy in mainland China. The basic aim of this thesis is to develop explanations of how Chinese SME owners/managers perceive the role of government policies in relation to their businesses. Specifically, this study aims to provide an insight into how Chinese SME owners/managers use government policies and programmes to develop their businesses and to reveal the effectiveness of current government laws and regulations concerned with Chinese SMEs and the attitudes of SME owners/mangers towards them.

4.3 Research Objectives

Cooper and Schindler (2007) propose a management–research question hierarchy, which helps to clarify the research question by breaking down the original issue into more specific questions through the prompting of an actual dilemma. This three-step hierarchy is a process that involves identifying a symptom of an actual problem at the general level, then defining management questions around the dilemma. In the last step, detailed research questions emerge, which further elaborate on the management questions. The research question of this study is developed based on Cooper and Schindler's hierarchy, and the process of formulating the question is shown in Figure 11.

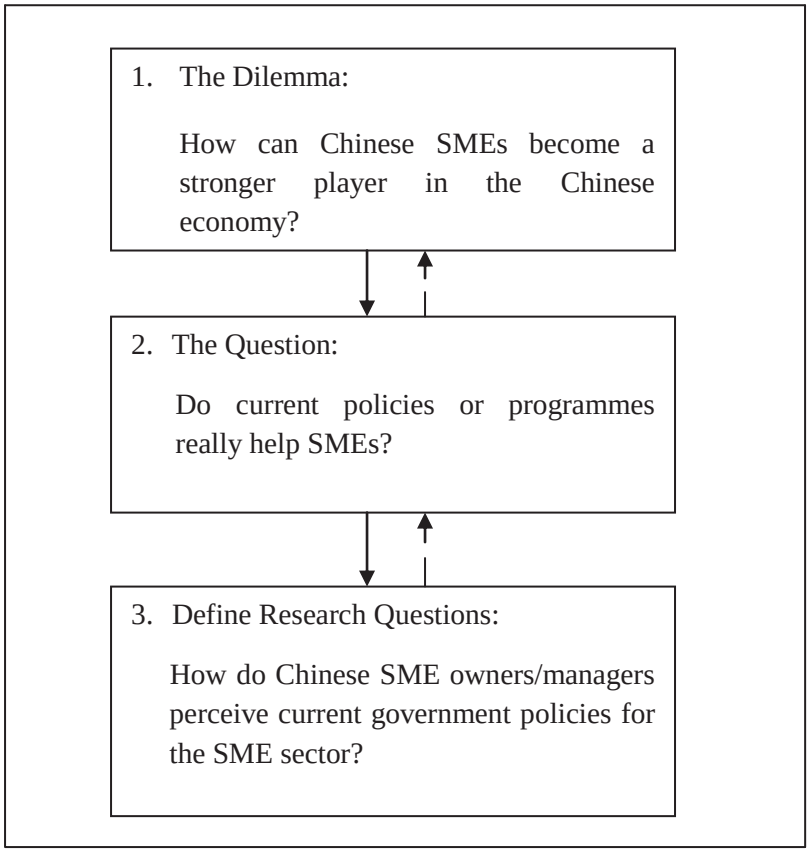

***Figure 11*. The process of formulating research questions for this thesis.**

Adapted from: Cooper and Schindler (2007).

The importance of Chinese SMEs in China's economy has been discussed in Section 1.2. The Chinese government has recently attempted to provide more support to SMEs in order to foster their further development. Thus, a general question is triggered, which is, 'How can Chinese SMEs become stronger players in the Chinese economy?' A further question, 'Do current policies or programmes really help SMEs?' is developed based on this dilemma because the government policies play a vital role in the development of SMEs in China. This has also been discussed in Chapter 3. The perceptions of Chinese SME owners/managers are of great value as they are the population directly affected by the government's policies. Therefore, the research question of this study is defined as, 'How do SME owners/managers perceive current government policies for the SME sector?' It is also important to note that the findings from this research question, which were provided through interviews with Chinese SME owners, can reveal whether the current policies or programmes are useful for SMEs. These findings may help the Chinese government to have a better understanding of the effectiveness of their policies or programmes. Subsequently, the current policies or programmes could be adjusted or new ones enacted so as to further promote the development of Chinese SMEs which, in turn, will help SMEs to play a greater role in the Chinese economy.

Cooper and Schindler (2007) further discuss that it is important to "fine-tune" (p.119) the question by further clarifying the initial research questions; this will help focus the research and enhance its direction. A key procedure in fine-tuning the question is to break the research questions down into specific levels. For this research, four research objectives are further developed to answer the research question in Figure 11. These are developed according to Storey's (2000) policy evaluation model, 'Six Steps to Heaven' (shown in Section 2.3.4), and the findings on SME owners/managers' perceptions towards government policy and services based on the review of the literature in Chapter 2. Storey's six steps model shows that an evaluation needs to provide robust evidence of policies' and programmes' impact by investigating the recipients' opinions. In order to have a more valuable evaluation, it is necessary to get information related to policy delivery and also whether the firm's performance is influenced by the policies. Similar issues are raised when reviewing the literature. Prior research indicates that the perception of the SME owners/managers towards policies and services are at different levels. Some owners are not aware of the services and others have different attitudes towards the policies and services for different reasons. Thus, by integrating the model and the results of prior research, four objectives are presented based on the government policies and programmes to investigate policy impacts on the SME sector in China. These four objectives are:

1. To determine Chinese SME owners/managers' awareness of current policies and programmes;
2. To observe their understanding of current policies and programmes;
3. To discover and document their attitudes towards these policies and programmes; and
4. To analyse their suggestions on the current or future policies and programmes.

4.4 Research Method Selection

Decisions on important issues cannot be made without investigating the relevant information. After gathering and analysing all the collected information, research can then help to correctly answer questions or choose the right solution to problems (Ghauri & Gronhaug, 2010). Gill and Johnson (1997) suggest seven stages for conducting research:

1. Identify the broad area of research;
2. Select/delineate a specific research topic;
3. Make decisions regarding research approach;
4. Formulate a research plan;
5. Collect information;
6. Complete a data analysis; and
7. Present the findings.

The first two steps help to define what the researchers are going to investigate and the specific research topic. The selection criteria for identifying these are varied. Gill and Johnson (1997) explain that these selection criteria include accessing the symmetry of potential outcomes and the value and scope of the research. Davis (1971) points out that among these, worthiness to study is the key selection criterion. Davis's point underlines the purpose of this thesis. Although Chinese SMEs have attracted a great deal of attention from academia and the Chinese government, only a few studies look at the views of Chinese SME owners towards government-related issues. By finding out Chinese SME owners/managers' perceptions, the government can adjust its policies to better assist the development of the SME sector. This section looks at the third step in Gill and Johnson's stages, which is to select an appropriate method for this research.

4.4.1 Selection of research approach

The selection of an appropriate research method is important as the selected approach will be adopted in the process of designing the research (Crowther & Lancaster, 2009). Quantitative, qualitative, and mixed methods are the three most common approaches. Creswell (2003) believes that each approach includes several strategies of inquiry. In the quantitative approach, the strategies of inquiry contain experimental designs and surveys, while those under the qualitative approach include ethnographies, grounded theory, case studies, phenomenological research, and narrative research. The mixed methods approach has three general strategies: sequential, concurrent, and transformative procedures. The features of each strategy are listed in Table 17.

Table 17

Features of Different Strategies of Inquiry

Approach	Strategies of inquiry	Features
Quantitative	Experimental designs	True experiments in which subjects are randomly assigned to treatment conditions (Keppel, 1991).
	Surveys	Cross-sectional or longitudinal studies, which use questionnaires to collect data (Babbie, 1990).
Qualitative	Ethnographies	The researchers immerse themselves in a natural setting over a period of time in order to understand and observe the target group (Agar, 1986).
	Grounded theory	Multiple stages of data collection and comparison are needed in order to develop a theory, which is grounded in the views of participants (Strauss & Corbin, 1998).
	Case studies	One or a small number of organisations or individuals are studied (Siggelkow, 2007).
	Phenomenological research	Identifying the essence of human experiences, which are concerned with a phenomenon (Moustakas, 1994).
	Narrative research	The stories of organisations or individuals are studied, and the researchers can become part of the process of transmitting these stories (Easterby-Smith, Thorpe, & Jackson, 2008).
Mixed methods	Sequential	Develop the findings of one method which follows on from another (Creswell, 2003).
	Concurrent	Quantitative and qualitative data are converged in order to analyse a research problem (Creswell, 2003).
	Transformative	Theoretical lenses are used to provide a framework for the research topics or data collection methods; sequential and concurrent data collection strategies can also be involved (Creswell, 2003).

Adapted from: Creswell (2003).

Myers (2009) considers that the research approach that should be applied depends on the nature of the study. If the purpose of a study is to find out trends or patterns which apply in different situations, quantitative research is a more appropriate approach as it can collect from a greater sample and generalise to a large population. However, if a study focuses on studying a particular subject in depth or relates to studying the social, political, or cultural aspects of people, qualitative research is a better approach as qualitative data can help researchers to understand people's perceptions or motivations. Creswell (2003) suggests that the mixed methods approach allows researchers to generalise the findings to a population and develop a detailed view of the meaning of a phenomenon, and this can prove advantageous to best understand a research problem.

By comparing the three alternatives, the most appropriate research approach for this study is the mixed method model. The purpose of this study is to seek Chinese SME owners/managers' opinions on governmental policies and programmes. By using the qualitative approach, rich and in-depth data can be collected; at the same time, quantitative tools, such as measurement questions, allow the SME owners/managers to indicate their level of agreement or disagreement with different issues. Therefore, the results can help to find out the intentionality of SME owners/managers towards different variables. In addition, the mixed method can offset disadvantages embedded in qualitative and quantitative research approaches (Myers, 2009). The in-depth research methods used in qualitative research tend to limit the total population involved in the research due to time constraints and limited funding (Howe, 1985; Myer, 2009). If using mathematical models in quantitative research, the social and cultural aspects as well as the broader context relating to interviewees are ignored. Jick (1979) states that limitations and biases embedded in any method could neutralise or cancel the biases of other methods. Thus, mixed methods were born to seek convergence across both qualitative and quantitative methods.

In addition, Chinese culture, which influences how Chinese people behave, also determines the importance of recruiting qualitative research methods in the study. Compared to Western culture and the way people express their opinions, Schlevogt (2002a) believes that the Chinese are more likely to give their views in an indirect way. Fang (1999) also points out that the expression of emotion in China is carefully controlled due to the risk of disrupting harmony and hierarchies. A straightforward manner is perceived as bad and not being well-behaved. Therefore, measurement questions allow Chinese SME owners/managers to indicate the level of agreement or disagreement on different issues, especially some subjects that they may not answer in a direct way, such as whether certain policies are useful or not. Applying the mixed method approach can help to better understand Chinese owners/managers' perceptions on government policy as it combines the advantages of both the exploratory actions embedded in qualitative research and the use of quantitative research results to legitimise the results found in the interview questions which, in turn, will help to examine the consistency of the findings.

4.4.2 Selection of mixed method strategy.

Mingers (2001) believes that all research situations tend to be complex and multi-dimensional, so it would be helpful to use a range of methods to conduct research. Mixed methods are typically used in three kinds of studies (Caracelli & Greene, 1997). Firstly, they can be used to test the agreement of results found from different methods. Secondly, they can be utilised to clarify and build on the results found from one method to another. Thirdly, they can demonstrate how the results from one research method can have an impact on subsequent methods. Based on the three strategies of inquiry in mixed methods (sequential, concurrent, and transformative), six mixed method strategies were developed by

Creswell (2003). These strategies provide a theoretical framework for the mixed method research, and they vary as to whether quantitative and qualitative data are collected concurrently or sequentially, and which of these types of data has greater emphasis.

The six mixed method strategies and their key characteristics are outlined in Table 18. They show that the mixed methods approach steps away from the boundaries between both quantitative and qualitative methods and can provide insights that cannot be collected by using a single method (Johnson & Turner, 2003). However, Morse and Niehaus (2009) note that one of the key disadvantages of the mixed research approach is that it can cost double the amount of time and money compared to the other methods. Their argument is supported by the characteristics of Creswell's (2003) sequential explanatory and sequential exploratory strategies. These two strategies request the researchers to collect quantitative and qualitative data in the two separate phases. Morse and Niehaus do suggest that this disadvantage can be offset if a different method for collecting data that can enhance the description and provide a better understanding or explanation of the problem is applied. For example, the concurrent triangulation and concurrent nested strategies analysed in Table 18 require less data collection time. Creswell (2003) also suggests that for mixed methods, combining the qualitative method of interviews, especially open-ended ones, together with the quantitative method of closed-ended measures (questionnaires) is the best way to collect data.

Table 18

Different Mixed Method Strategies

Name	Data collection	Data analysis	Use of the strategy
Sequential explanatory	Collect quantitative data first, then qualitative data.	The collection and analysis of each data are carried out at the same time.	To use qualitative results to assist in the interpretation of findings from quantitative data. The focus is to explain and interpret relationships.
Sequential exploratory	Collect qualitative data first, then quantitative data.	The collection and analysis of each data are carried out at the same time.	To use quantitative data to assist in interpreting qualitative findings.
Sequential transformative	Either qualitative or quantitative data can be collected first.	The collection and analysis of each data are carried out at the same time.	To employ the methods to serve the theoretical perspective of the researcher.
Concurrent triangulation	Collect qualitative and quantitative data concurrently.	The analyses of both data are carried out at the same time.	To use one method's strengths to offset the weaknesses embedded in another.
Concurrent nested	Collect qualitative and quantitative data concurrently. One kind of data is embedded in the other dominant method.	Both data are mixed in the analysis phase.	To study different levels or units of an organisation.
Concurrent transformative	Collect qualitative and quantitative data concurrently.	Both data are mixed in the analysis phase.	To employ the methods to serve the theoretical perspective of the researcher.

Adapted from: Creswell (2007).

For this research, the concurrent triangulation strategy under the mixed research approach is the most appropriate method for a number of reasons. Firstly, compared with other strategies, concurrent triangulation has a shorter data collection time period (Creswell, 2007). Secondly, this strategy allows researchers to confirm or cross-validate the findings of a single study, which can result in

substantiated and well-validated results (Greene, Caracelli, & Graham, 1989). By comparing the results of the two methods in the interpretation phase, any convergence of the findings can be observed, thus strengthening the validity of the responses given by the Chinese SME owners/managers towards the questions. Similarly, any divergence in the results can also be noted. Also, Morse and Niehaus (2009) state that the use of quantitative measurements in mixed methods can enhance qualitative findings by doing a comparison or confirmation, allowing the researchers to provide a description and reveal 'how many' or 'how much'. Currently, no research has been conducted in investigating the perception of Chinese SME owners/managers on government policy. The use of the concurrent triangulation strategy can help researchers to compare the data collected from qualitative and quantitative questions on the same item, which can increase the validity of the research results.

4.4.3 Selection of research method.

Acknowledging the context is a very important factor in conducting good research. The context can be grouped into two levels: the national setting and the model that the researcher will use after considering the national setting (Easterby-Smith et al., 2008). The national setting should not be neglected because diversity in language, culture, and ways of communicating can lead to misunderstandings and misinterpretations (Craig & Douglas, 2000). Therefore, it is essential for researchers who carry out cross-cultural research to have the ability to apply generalised methods and theories in countries with different cultures. According to Said's (1978) studies, many theories of economic development are constructed in Western countries; therefore, non-Western countries and institutions tend to view their own theories as being inferior. In addition, researchers need to have a good understanding of local knowledge because national and organisational characteristics and people's behaviour are all culturally related (Boyacigiller & Adler, 1991).

In the case of China, the importance of conducting research was raised several times by Mao Zedong, stemming back to the 1930s during the civil war period (Wang, 2010). Mao emphasised the notions of 'no investigation, no right to speak' in 1930 and 'untruthful investigation has no right to speak' in 1931. He further argued that it was very dangerous to make policies based on assumptions and untruthful reports (Ni, 2011). However, one of the difficulties of conducting research in China is the collecting of high-quality data. Currently, most studies on Chinese businesses rely on two kinds of data: data collected by China's Statistical Bureau and other government agencies, and data collected by academic or non-academic researchers. However, many researchers, such as Tsui, Bian, and Cheng (2006), have been raising doubts about the quality of data collected by the government bureaus and agencies. Data, such as sales and output provided by firms, may be false. There are two reasons behind this problem. One reason is that Chinese businesses, especially small or medium privately-

owned firms, have a tradition of keeping a low public profile. An old Chinese saying can properly explain the motivation of such behaviour: 'a tall tree catches the wind'. The perception is that attracting too much publicity may put firms in a comparatively dangerous situation as they may be more likely to be attacked by the government or their rivals. The other reason is that by providing false data to the government, firms can evade taxes. Due to these two reasons, data collected by academic researchers are more reliable than that of government agencies.

Thus, by considering the unique cultural setting in China, the most appropriate method for this research appears to be structured interviews for in-depth exploration of SME owners/managers' views. There were two reasons for choosing this technqie. One is that interviewing provides a way of generating empirical data about the social world by asking people to talk about their lives. Silverman (1993) suggests that interviewing helps researchers to get as close as possible to the reality that exists socially. Miller and Glassner (1997) also believe that information about social worlds is achievable through in-depth interviewing. In their experience, interviewees provide information that could rouse researchers' interests and give it in ways that either makes sense or non-sense to researchers. Glassner and Loughlin (1987) describe instances in their study when they sometimes brought up topics that were seen by the subjects as being irrelevant or were misinterpreted, and the interviewees corrected them. Therefore, an interview conversation is a pipeline for transmitting knowledge.

China has experienced dramatic changes since the economic reforms in 1978, and the qualitative research approach could help scholars to better understand the impact or development of particular subjects in China. Currently, only a limited amount of research conducted in China on Chinese SMEs use the interview technique. In order to find out how often researchers choose to use the interview technique to study Chinese SMEs, Business Source Complete was utilised to find academic journal articles generally written about Chinese SMEs from 2005 to 2012. Only ten articles exclusively adopted the interview approach to conduct research in China. However, none of these studies focus on finding SME owners/managers' perceptions of government policies. Therefore, there is not much first-hand information about them available to researchers. These studies and the areas that they focus on are given in Table 19.

Table 19

Research on Chinese SMEs Using Interview Techniques

Author	Year	Numbers of interviews	Interviewees	Research areas
Li & Edwards	2008	19	Owners; workers	Payment negotiation between owners and workers in small firms
Skoko, Ceric, & Huang	2008	25	Not given	Adoption of information communication technology
Soderman, Jakobsson, & Soler	2008	102	Executive MBA students	Internationalisation of SMEs
Zheng, O'Neill, & Morrison	2009	80	Managers	Human resource practices
Xie & Amine	2009	8	Owners	Impact of social networks on firms' internationalisation
Malik & Wei	2011	21	Managers and an official	Enhancing innovation through partership
Zhang, Cone, Everett, & Elkin	2011	64	Managers	Chinese aesthetic leadership
Wang & Ngoasong	2012	16	Managers; officials; foreign businessmen	Internationalisation process SMEs
Xiao & North	2012	57 in 2004 61 in 2009	Owners and managers	Longitudinal study on financing of high-tech SMEs
Zhu, Wittmann, & Peng	2012	82	Owners and managers	Institutional barriers in innovation

In order to fill the research gap of having a lack of first hand information from Chinese SME owners/managers, face-to-face interviews are applied in this research. The selection of the face-to-face interview is because compared with other commonly used research methods such as surveys and case studies, interviews have a high response rate and more in-depth knowledge can be obtained from Chinese SMEs. Malik (1997), Garnaut et al. (2001), and Schlevogt (2001) suggest that personal interviews are more likely to be an effective technique in China. The reason is related to the unique Chinese cultural setting that has an impact on people's attitudes towards research. Most researchers acknowledge the interactive character of the interview. This research study was developed in a

Western setting, thus the underlying principles in research design and methodology were based on Western culture. However, as the participants were Chinese SME owners/managers in China, it is important to consider cultural differences in the research design process and be careful and adjust research methods according to local culture (Ghauri & Gronhaug, 2010). Although surveys are commonly used in business and management research (Sunders, Lewis, & Thornhill, 2009), other researchers' experiences in doing survey research in China show that Chinese firms have a low response rate towards mail-out surveys (Garnaut et al., 2001; Schlevogt, 2001; Zheng, Morrison, & O'Neill, 2006; Zheng, O'Neill & Morrison, 2009). Zheng et al. (2009) had to switch from a mail survey to face-to-face interviews because of the very low response rate (less than 10%). In order to have a high survey response rate, some researchers ask the local government departments to help them collect samples (Tan & Litschert, 2006; Zheng, et al., 2006). However, the response rates are unpredictable as they can vary from 37.3% to 68% from city to city (Xiao & Fu, 2009). The case study is not preferred by researchers when conducting research in China because of the limited resources or vague profiles available on public documents regarding businesses and their owners. This is because Chinese business society has a strong preference for keeping a low profile or being secretive regarding their operational information (Siu, 2005).

When choosing the way to access the participants, Easterby-Smith et al. (2008) propose four types of research models which can be used to conduct research in different contexts. The four models and their characteristics are summarised in Table 20.

Table 20

Research Models and Their Characteristics

Model	People involved	Characteristics
Military	Teams of funded researchers	Used in large and complex projects which require substantial preparation and planning.
Private agent	Research students or lone academics	Researchers need to use their own resources, such as networking, to take whatever opportunities are available to conduct research.
Team	Groups of students or funded researchers	Researchers are interdependent; most appropriate for dealing with tight deadlines.
Investigative	General researchers	Powerful organisations or individuals try to control and interfere with the research, which requires the researchers to become opportunists in order to gather data.

The selection of the research model also needs to consider the national setting, which can determine the way resource availability affects what is possible, and also because various countries and cultures may have different views about what constitutes good research (Easterby-Smith et al., 2008). Research experience from some scholars supports Easterby-Smith et al.'s premise. Davila (1989) reveals that North American models of research, which require large samples and substantial data analysis, are largely irrelevant, both methodologically and substantively, in the context of Latin America when conducting localised management research. Thus, he had to advocate paying far more attention to case studies as they can draw more extensively upon local culture and problems. Teagarden, Glinow, Bowen, Frayne, Nason, Huo, Milliman, Arias, Butler, Geringer, Kim, Scullion, Lowe, and Drost (1995) also find that USA research methods can not be applied homogeneously when conducting a cross-national study of human resource management practices. This is because the potential for cooperation from businesses and managers varied greatly between countries, and it was simply not possible to adhere to the rigorous criteria for sampling and data collection that they had assumed from the USA. Davila and Teagarden et al.'s research experience shows that researchers can encounter some difficulties when selecting the appropriate method in order to conduct good research in different national settings. Thus, Easterby-Smith et al. (2008) believe it is important for researchers to be aware of the constraints and opportunities created by the national context in which they work.

According to the unique Chinese national setting, the private agent model is selected for this research as it is considered to be the most effective way to assess participants in China. Prior studies indicate that Chinese SMEs are reluctant to participate in research because it is time consuming, lacks interest, or is politically unwise (Duberley & Walley, 1995). Finding participants through a researcher's personal contacts is vital in conducting research in China (Ding, Akhtar, & Ge, 2006). Research conducted with 15 small-sized Chinese family business owners by the researcher in 2007 also proves that participants contacted by personal relations are more willing to be a part of research; at the same time, an interview approach is preferred (Ye & Tweed, 2010). All of them favoured participating in interviews, either face-to-face or by telephone. However, interviews with some owners/managers via telephone were interrupted, and the researchers had to rearrange the interviews with the participants. In addition, the cultural identity of being Chinese as well as a student who is studying in New Zealand did help the researcher to have better cooperation from interviewees. Identity is important, and Song and Parker's (1995) research experience shows that researchers' cultural identity is a central element in shaping what Chinese participants will disclose and also the manner in which they reveal information about themselves. Therefore, in order to obtain more reliable data from Chinese business owners, the interview approach is the most appropriate one for this study. Furthermore, Shi (2001) suggests that using a relationship network is essential for finding participants. *Guanxi*, such as respondents' family, friends, and business colleagues, can help researchers find participants by using their own extensive *Guanxi* network, which goes beyond geographical areas (Yang, 1994). These ever-

expanding *Guanxi* networks can also help researchers identify willing potential respondents who are more likely to participate (Kriz & Keating, 2010). Thus, the usefulness and effectiveness of using *Guanxi* to find participants to do interviews in China means this sampling strategy is ever-widening as different sources, such as respondents or enterprise agencies, can be asked to suggest other suitable respondents (Curran & Blackburn, 2001).

4.5 Instrument Design

4.5.1 Research questions.

The instrument design is based on the four research objectives of this study. Questions for SME owners/managers are developed based on gaps in the literature, using Cooper and Schindler's (2007) formulating process (Figure 11) as a guideline. These research questions will provide first-hand information on these owners/managers' perceptions of current policies or programmes. The instrument combines both measurement and open-ended questions. Measurement questions help to compare all interviewees' answers on a scale of preference and avoid vague answers from interviewees. As the purpose of this study is to observe SME owners/managers' opinions in regard to the government polices, open-ended questions will help to explore their responses by asking them to explain their views in detail. By combining the individual strengths of both quantitative and qualitative data collection techniques, a more accurate and richer set of data can be acquired. All the variables used in the questionnaires are retrieved from the literature on Chinese SMEs.

There are 67 questions in this research, and they can be categorised into two parts (see Appendix A for the questionnaire). The first part is to get to know the business (Section 1). Variables used in this section are adapted from the study done by Lu, Tao, and Wang (2010) and include the enterprises' and entrepreneurs' characteristics (shown in Table 21). Therefore, eight questions around getting demographic data were developed. Two additional questions were also asked in Section 1 to ascertain the difficulties that Chinese SMEs face in different stages, and they were developed based on the discussion of the constraints on the development of Chinese SMEs in Section 3.11.

Table 21

Variables Used in the Business Introduction

Category	Variable	Question in Questionnaire
Enterprise characteristics	Enterprise age	Q1 and Q2
	Enterprise size	Q8
Entrepreneurial characteristics	Age	Q3
	Gender	Q3
	Education	Q4
	Party membership	Q5
	Motivation	Q6
	Ownership	Q7
Business background	Obstacles	Q9 and Q10

Questions in the second part of this research (from Section 2 to Section 5) contain 57 questions. These are categorised based on the four research objectives: awareness, understanding, attitudes, and suggestions of SME owners/managers towards government policies and programmes. All the variables used in the questions in these four sections are based on the review of the literature about the relationship between government policy and business development (see Table 22). In each section, questions are given in an open-ended, qualitative form, followed by the quantitative measurement questions. The items in the measurement questions are evaluated using a five-point Likert rating scale, ranging from 1 ‘strongly disagree’ to 5 ‘strongly agree’. Section 2 focuses on whether SME owners/managers are aware of the current government policies and programmes, whereas the questions in Section 3 help to provide an insight into their understanding of them. Section 4 tries to find out SME owners/managers’ attitudes towards government policies and programmes, and Section 5 focuses on asking for their suggestions on current or future options.

Table 22

Summary of Variables Used by Studies on the Relationships Between the Government and SMEs

Variables	Objective and Questions in Questionnaire	Authors
Government services: Technical assistance; Training; Information; and Cost.	Awareness. Q12 – Q14 Q19 – Q21	Atherton & Fairbanks (2006); Kanamori & Zhao (2004); Servon, Fairlie, Rastello, & Seely (2010).
Coordination with non-government institutions.	Awareness. Q15 – Q18 Q22	Chou & Wang (2008); Xheneti & Smallbone (2008).
Government laws and regulations: Taxation reform; Financial reform; The Labour Contract Law; and The SME promotion Law.	Understanding. Q25 – Q28 Q29 – Q34	Garnaut, Song, Yao & Wang (2001); Lin (2007); Marechal (2009); Petersen (2004).
Financial barriers: Difficulty in accessing financial capital; and Lack of financing services for SMEs.	Awareness. Q35 – Q36	Shen, Shen, Xu, & Bai (2009); Shi, Peng, Liu, & Zhong (2008).
Implementation guidelines for laws and regulations.	Attitudes. Q37; Q48	Atherton (2008).
Clarity of the laws and regulations.	Attitudes. Q47	Zhu & Sanderson (2009).
Impact of political status.	Attitudes. Q38	Knight & Yueh (2008); Li, Lu, & Sato (2009).
Relationship with local government.	Attitudes. Q45; Q46	Duckeet (2001); Qi (1995).
External Services: Government services; and Non-government services.	Attitudes. Q42; Q43 Q52 – Q55	Atherton & Fairbanks (2006); Chan, Makino, & Isobe (2008); Fan (2003); Xu, Huang, & Gao (2012).
Human resources: Labour quality; and Employee turnover.	Attitudes. Q55; Q56	Franklin & Goodwin (1983); Lu, Tao, & Wang (2010).
Government strategies on big business.	Suggestions. Q59; Q65	Feng & Wang (2010); Martin & Tyler (1992).

4.5.2 Pilot testing of translation accuracy of the questions.

The interview questions were first developed in English and then translated into Chinese by the researcher. However, because the research was conducted in mainland China, it was important to have translation accuracy to keep the integrity of the data. The back translation method, commonly used in cross-country research, was utilised to check the accuracy of the translation (Douglas & Craig, 2007). Brislin (1986) suggests that it is necessary for questions to be translated into Chinese and then back into English to ensure accuracy of translation. Therefore, in order to reduce the mistranslation in this process, two bilinguals were asked to retranslate the Chinese questions back into English. If these did not correspond to the original, then they would have been rewritten. This checking process can help to identify and correct confusing or awkward questions and make sure that they can be understood more easily by the informants (Cooper & Schindler, 2007). As the interviewees in this study are Chinese SME owners/managers, both the interviews and the data collection were conducted in Chinese. The data then needed to be translated into English and the researcher was responsible for this.

Two senior, postgraduate, bilingual students from China performed the back translation for the questionnaires. Both have been in New Zealand for at least six years, having completed their undergraduate and postgraduate business degrees there. A translated copy of the research questions was given to them, and they were asked to retranslate them back into English. Following this, the original and retranslated English research questions were compared to note any differences. The language in both the original and translated versions were similar except for two words in four of the questions. Table 23 shows the differences between the three copies of the research questions.

Table 23

Differences Between the Three Copies of the Research Questions

Questions	Original English version	Chinese version	Back-translator 1	Back-translator 2
14, 62, 67	Programmes	活动	Activities	Activities
61	Businesses	企业	Enterprises	Enterprises

According to an authoritative Chinese-English dictionary, published by the Beijing Foreign Language Teaching and Research Press, the Chinese word, “活动”, can be translated into either ‘programme’ or ‘activity’. ‘Programme’ is explained as 活动安排，行动方案, which means a plan of activities for achieving something. ‘Activities’ is explained as 所做的事情，活动, which means something that someone does in order to achieve an aim. In the Chinese context, these two words share a similar

meaning. However, as these questions in English are concerned with projects or activities which are organised by the government, it was considered that the word ‘programmes’ was more appropriate for the context rather than ‘activitities’. For the second difference, as the two English words — business and enterprise — have the same meaning as the Chinese word “企业”, the difference is negligible. Therefore, the word ‘programmes’ in questions 14, 62, and 67 and ‘businesses’ in question 61 in the original English version were kept.

4.5.3 Pilot testing of questionnaires.

Shapiro, Kirkman, and Courtney’s (2007) study indicates that there is a big difference between academics and managers as they live in diverse worlds. Thus, the language they use can also vary. Douglas and Craig (2007) state that after the final version of the translation is approved, it is important to pretest the questions for comprehension, clarity, and coverage. In addition, the use of words, terminologies, or vague or ambiguous expressions can lead to bias (Brenner, 1985). Therefore, pilot testing is an effective method to help researchers make sure the target population can understand the research questions.

The researcher conducted five pilot interviews with Chinese SME owners by telephone. Interviewees were selected from the three targeted regions: two from Beijing, two from Jiangxu, and one from Hebei. These three municipalities and provinces: Beijing and the Jiangsu and Hebei provinces were selected because the researcher could set up *Guanxi* networks with the key government officials and business people in order to find participants. Beijing, as the capital of China, is influenced by the central government more directly than any other municipalities and provinces. Therefore, it can provide an excellent example of the relationship between SME development and government policies. Jiangsu province was the first province to start economic reforms and is now one of the richest in China. Hebei province started its economic reform later and is lagging behind the other provinces. In order to catch up with the developed provinces, both the central and local governments have tried to stimulate Hebei’s economic development. Thus, the results of this thesis can also extend knowledge on whether their location is an important factor in the performance of Chinese SMEs.

According to the conditions in China, the younger generation and people in urban areas tend to have higher education levels. In order to gather a representative sample of the business population, the samples were taken from people from varying backgrounds. The interviewees were selected from different age groups and educational experience from varying geographical areas. Two were selected from rural areas; one is in his 30s and the other is in his 50s. Three interviewees were selected from urban areas; one is in his late 20s, one is in his 50s, and one is in his 60s. These interviews each took between 30 to 60 minutes. Interviews with two individual households were around 30 minutes as some questions were not relevant to their businesses and they had no knowledge of the items, such as

the laws and regulations, government services, and their impact on the businesses. Table 24 summaries the main characteristics of the five interviewees.

Table 24

The Main Characteristics of the Five Interviewees and Their Businesses

Interviewees	Age	Education level	Location	Geographical areas
1	35	Tertiary	Beijing	Rural area
2	61	Tertiary	Beijing	Urban area
3	51	High school	Jiangxu	Rural area
4	28	High school	Jiangxu	Urban area
5	53	Middle school	Hebei	Urban area

During the five interviews, interviewees understood all the questions and did not have any concerns about them. At the end of each interview, the interviewees were also asked for suggestions about the clarity of the questions, but all agreed that the questions were clearly written and they had no problems in understanding them. Therefore, the researcher was confident that the questions were sufficiently comprehensive to be understood by all future participants. The Chinese version of the research questions was then finalised. The English and Chinese questionnaires are given in the Appendices (Appendix 1.1 and Appendix 1.2).

4.6 Ethical Considerations

Ethical issues are more complicated when conducting social research as it requires researchers to consider questions that go beyond ethics (Eriksson & Kovalainen, 2008). Greater attention paid to ethical issues by researchers reflects a respect for basic human rights in the academic community. Cavana, Delahaye, and Sekaran (2001) believe that ethical behaviour involves the researchers conducting research in good faith, paying attention to what the results indicate, surrendering the ego, and also pursuing organisational rather than self interests. To help researchers conduct ethical research, written rules and guidelines are currently available, such as the APA Ethics Code (2006) and the Massey University Code of Ethical Conduct (2010). This research was approved by the Massey University Human Ethics Chairs' Committee as being low risk, which means that it is not harmful to any person in a direct or indirect way; no particular person or group will benefit from the study; and it will not to serve as a basis for giving power to any person or group (Frost & Stablein, 1992).

The more sensitive issue in the process of research in business studies is the relationship between researchers and participants (Ghauri & Gronhaug, 2010). Bell and Bryman's (2007) study on the ethical practices for doing research also illustrates that protecting the interests of participants is the

main concern for researchers. Eriksson and Kovalainen (2008) suggest that the ethical principles that all researchers should follow need to be based on the generally accepted notion of ethics, and the fundamental judgment is whether it is considered right or wrong by society. Myers (2009) summarises that the most basic ethical principle for conducting research is: treat others as you would want them to treat you. This golden rule was translated for researchers in business and management by Maylor and Blackmon (2005, p. 281), who state: "Treat others as you yourself want to be treated and provide benefit to the organization and individuals involved in your work." Researchers should be honest and transparent in communicating about the research with the participants and show respect for people involved in the research process in terms of participants' dignity, privacy, autonomy, confidentiality, and cultural and religious beliefs (Hair, Babin, Money, & Samouel, 2003). This requires that researchers avoid using deception and coercion to get information, and participants should be notified beforehand of the use of special equipment and techniques (Churchill, 1999). The other key ethical principles for researchers in the data analysis and the writing stages include keeping data safe for a reasonable period of time and avoiding any misleading or false reporting of research findings to meet researchers' or audiences' needs (Creswell, 2003) as such actions constitute scientific misconduct (Neuman, 2000).

A particular issue related to this research is cultural sensitivity. The value of research that involves different cultures is that it can provide a better understanding of how culture influences people's behaviours and values (Oyserman, Coon, & Kemmelmeier, 2002). This requires researchers to anticipate the impact of local cultures in the research process (Ghauri & Cateora, 2006; Ghauri & Gronhaug, 2010; Oyserman et al., 2002). When designing the topic and research problem, researchers need to decide the scope and limits of the problem as the concept of one particular item may have different meanings in different countries (Ghauri & Cateora, 2006). Thus, researchers need to adapt Western research designs to accommodate different cross-cultural styles, such as in facilitation, arrangements, protocols, and patterns of participating, in order to get full participation from different cultural environments (Laverack & Brown, 2003). Certain topics may also be very sensitive to some cultures, which puts constraints on communication in terms of limiting the freedom of expression (Roy, Walters, & Luk, 2001). Also, the design of the questionnaire also needs to be customised to meet local norms. For example, Bond and Hwang's (1986) study finds hypothetical questions should be avoided when conducting research in China as Chinese people have a problem answering such questions. At the data collection process, local biases should be identified as some methods may not be preferred by local participants and, at the same time, participants may have different manners and pay attention to particular issues around participating in research (Roy et al., 2001). For this research, extra attention needs to be given to two particular issues. The first one is confidentiality, which requires that the names of informants and companies not be revealed and the data safely stored. This is because Chinese businesses have high commercial sensitivities (Schlevogt, 2001). The second issue is

cultural awareness of the way Chinese participants deliver their ideas. Chinese people prefer an indirect approach rather than a direct one when expressing their opinions (Schlevogt, 2002a).

4.7 Population and Sampling Procedures

4.7.1 Population of interest.

Chinese SMEs account for 99% of the country's enterprises. The three targeted areas have different economic conditions, and the development of the SME sector also varies. For this thesis, in order to get rich data and consider time constraints, seventy businesses from each of these areas were chosen based on the Massey University Doctoral Research Committee's suggestion. Table 25 shows the development of SMEs in these three regions in 2004.

Table 25

SME Development in Different Regions in 2004

Region	SME numbers	Employee numbers (Ten thousand)	Revenue (Billion *Yuan*)	Total assets (Billion *Yuan*)
Nationwide	2,613,976	12,775.91	269,833.43	274,236.63
Beijing	114,433	314.60	20,518.57	13,553.10
Jiangsu Province	297,858	1,347.01	26,437.63	33,275.14
Hebei Province	97,768	565.20	8,746.47	9,820.74

Adapted from: Li (2009).

Table 25 shows that Beijing had the least number of employees of the three areas. Jiangsu Province had the highest number of SMEs, employee numbers, revenue, and total assets among the three regions. SMEs in Hebei Province had the least revenue among all the areas — less than one third of Jiangsu's and less than half of Beijing's. Hebei also had the smallest value of total assets. In addition, Compared with the number of SOEs in 2009, Beijing accounted for the greatest number (73). Hebei and Jiangsu had the same numbers of SOEs (21). Conducting interviews in these areas which have different levels of SME development will show the impacts of the government policies and programmes on SMEs in these three regions. They will also note whether the current policies are as effective as the government expected and reveal what policies may be able to help the government solve any problems.

4.7.2 Sampling procedures.

Goodman (1996) and Stening and Zhang (2007) find that data collection in China is a very difficult task because it is hard to 'get in'. Therefore, Yeung (1995) suggests that opportunism and persistence are important for gaining access. The research model in this study was the private agency model, which has been discussed in Section 4.4.3, that requires researchers to take opportunities available to them and use their own resources to conduct research. In addition, the five interviewees in the pilot testing process also gave their opinions about the data collection method based on their knowledge of Chinese SME owners and government departments. All of them believed that finding participants through *Guanxi* was the best method for this research as there is a very high chance that government departments would reject or ignore a formal request for assistance, except for large, important research projects or if the researcher has *Guanxi* with key government officials. Thus, a *Guanxi* network was used as a data collection method, particularly as the researcher already had an existing *Guanxi* network that was used to make further connections with potential participants. Prior research also proves that this 'snowball' research suits conducting research in China because *Guanxi* is the norm for communicating in the Chinese business sector (Xie & Amine, 2009).

For the research conducted in Beijing and the Jiangsu and Hebei Provinces, two methods were used for finding participants. Firstly, friends and relatives of the researcher and her family were used as one access point. Secondly, the researcher was introduced to key government officials by friends or relatives, thus allowing another access point. The purpose of the research and the criteria for selecting the businesses were explained to the friends, relatives, and government officials. All the government officials were also asked to view the questionnaire before they agreed to help. Therefore, the consent form and the questionnaire were both given to the officials, and they agreed to help the researcher to find the participants after reading the documents. Different from other research that has difficulty finding participants, the most trying part of this study was to set up *Guanxi* with key government officials and business people. In order to allow them to get to know the researcher and the research project, several elaborate meals were arranged by the people who know both the researcher and the officials/business people. After the *Guanxi* was built, trust was established, and the key officials designated one or two subordinates who work in their departments to take the researcher to visit the participants' companies. The business people took the researcher to their friends' businesses and asked them to participate in the research. The sample selection relied on the officials, who were informed that the research participants needed to be the owners/managers of the SMEs. The participants they chose were the business owners with whom they had a close relationship or the businesses directly under their administration. Only a small proportion of participants were pre-notified by the officials about participating in this research. One interesting aspect was that in order to stress the importance of the research project and seek better cooperation from the business owners, the researcher was

introduced to the participants by the key government officials/business people as their niece. This proved to be effective in gaining their cooperation as the response rate was 100%.

4.7.3 Interview procedure.

The researcher was taken to the participants' offices or work places by the friends or the government officials. All the interviews were carried out in the participants' offices or work places, and each of the interviews took between 30 to 60 minutes and was recorded. The friends or the government officials gave the participants a brief introduction about the researcher's background and the study, and the information sheet and the consent form were provided at this time. These were both prepared in English, then translated into Chinese. The English and Chinese information sheets are given in Appendices 3.1 and 3. 2. The English and Chinese consent forms are given in Appendices 4.1 and 4.2. In order to make sure all the interviews were conducted with the same wording, the structure of the interview format was developed in English then translated into Chinese (see Appendices 2.1 and 2.2). However, when conducting the interviews, section 1, the questions for contacting interviewees, was skipped because the participants had been invited by the researcher's contacts and the researcher was introduced at the beginning of the meeting. Some participants raised questions about the researcher's study and their questions were answered or explained by the researcher. It was noted that the vast majority of participants did not want to spend time reading the information sheet and the consent form. All the interviews needed to be recorded, so the researcher asked the participants for permission for this to be done. All the participants agreed, although some of them were still concerned about the possibility of disclosure of the information. The researcher explained to them that the data are confidential and would be stored in the researcher's computer only; they would also be deleted after three years.

All the questions were asked following the structured interview format. Questions were repeated when people were unsure or did not hear them clearly. For the quantitative queries, most people seemed to want the questions and options to be asked rather than to read the questions for themselves. Therefore, all the questions were asked by the researcher. The statements in the measurement questions section were asked by the researcher and the five Likert scale ratings were also given verbally to the participants each time. One issue that might have had an impact on the delivery of the responses was the presence of the government officials. Around 150 participants were contacted by the government representatives. Among these interviewees, in a few cases, the government officials were the good friends of the participants, who could then give very frank responses about their perceptions of the government, including raising some negative issues. However, the majority of the interviewees had a more formal relationship with the officials and the attitude of the participants to them was very polite and respectful. This attitude may have caused some participants to modify their responses. The

business owners still made comments about problems with government policies, but very politely. Some participants who answered questions when the officials had left the room then made complaints about irrational policies or local government officials' unreasonable practices. In one case, the owner did not want to answer any questions that included the word 'government'. Therefore, the researcher had to reword the questions and make sure all the questions that were asked did not use the word 'government' throughout the interview. At the end of the interviews, many owners would take the researcher and the government official to lunch or dinner, which is typical of meetings between officials and business operators.

4.8 Translation accuracy of the script

The research interviewees were non-English-speaking Chinese SME owners. The interviewees' responses were written in Chinese first, then translated from Chinese into English by the researcher. Thus, the issue of translation accuracy was also involved in this process. In order to ensure translation accuracy of the data, two bilingual Chinese senior business graduates who had graduated from a New Zealand university were asked to help check the accuracy of the researcher's translations from Chinese into English. There were 67 research questions for each interview, of which 31 were qualitative. Interviews conducted in the Jiangsu province were considered to have more language input on the qualitative questions. Therefore, fifteen interviews from Jiangsu province (cases 56-70) were chosen for the translation check. By comparing the three versions of the translations, thirteen of the 465 responses were found to have differences. Three of the 13 responses were adjusted by both back-translators (the answer to question 38 in case 56; question 41 in case 56; and question 63 in case 65). One translation was adjusted by proofreader 1 (the answer to question 14 in case 65); nine translations were adjusted by proofreader 2 (the answer to question 7 in case 56; question 38 in case 57; question 10 in case 58; question 26 in case 59; questions 12, 44, and 63 in case 60; question 12 in case 63; and question 10 in 67). Table 26 shows the differences in translations of these 13 responses across the three versions. Further assistance from two local English speakers was given in checking the most appropriate English translation for the Chinese scripts. Among these 13 differences, the first three translations listed in Table 26 with * adopted the proofreaders' translations as they offered a more accurate interpretation. The error rate of the translation is thus 0.006% (3 out of 465), which is within the acceptable error rate.

Table 26

Differences in Chinese-English Script Translations

Number	Chinese	Original	Proofreader 1	Proofreader 2
*Case 56 (Q7)	加工行业	The processing industry.		The manufacturing industry.
*Case 65 (Q14)	别的什么用处都没有。	No other benefits at all.	No other benefits at all and helpless.	
*Case 67 (Q10)	三角债	Arrear.		Chain debts.
Case 56 (Q41)	说不上	Cannot tell.	No idea.	Do not know.
Case 56 (Q38)	生意做的好不好跟是不是党员没有关系。	Whether you are a Party member is not important for doing business.		Whether you are a Party member or not, it does not affect the way you do business.
Case 57 (Q38)	我不是党员	I am not a Party member.	I am not a Communist.	I am not a member of the Communist Party.
Case 58 (Q10)	没什么大困难	No big difficulties at the moment.		Do not have big issues at the moment.
Case 59 (Q.26)	参照合同法，自己稍作修改。	We have made some changes according to our situation.		We make minor adjustment based on our business need.
Case 59 (Q6)	污水处理	Sewage disposal.		Waste water disposal.
Case 60 (Q12)	优惠政策享受一次就没有了，所以现在没有享受到优惠政策了。	But you only can enjoy preference policies once. I am not enjoying any preference policies now.		But you only can benefit from preference policy once. I cannot get the benefits from the policy any more.
Case 60 (Q44)	现在地很难批。	The land is very hard to get these days.		It is very hard to purchase land.
Case 60 (Q63)	在外贸上有很大发展空间。	There is a major market for us in foreign trade.		There is a major potential for us in foreign trade.
Case 60 (Q60)	从另一方面说，比西方人头脑活，向怎么样就怎么样。	However, it can be an impression from another perspective that Chinese can do whatever they want because they have a supple mind.	…because they have a creative mind.	Put into a different way to say…

4.9 Techniques used in data analysis

At the data analysis stage, different techniques were employed to analyse qualitative and quantitative data. Three techniques in the SPSS statistical software were employed to analyse the quantitative data. Firstly, descriptive procedures were used to describe the characteristics of the samples. Secondly, cross-tabulation was adopted to compare different variables with the purpose of finding whether there was an association between them. Thirdly, the chi-square test for independence was further measured to explore the relationship between two variables and find out whether there was an association between them. The factor analysis was also applied to test if the data could be reduced using a smaller set of factors and to note the interrelationships among these factors. However, the results of applying a quantitative data set for the factor analysis could not match the basic requirement for the method. Thus, the factor analysis was abandoned for analysing the data.

When analysing qualitative data, two particular tactics available in the content analysis were adopted: counting and a dendrogram. *Microsoft Word* was used to manuscript the original data in Chinese and translate it into English. Key ideas for each response were identified, documented, and listed in the Tables. This method helped the researcher to be more familiar with the data as a large amount of qualtitative data had been collected. In addition, using content–analytic techniques dealing with coding, unitising, and clustering qualitative data can be very helpful (Holsti, 1969). In addition, integrating quanitative data that stemmed from qualitative data can reduce the possibility of numbers being ignored as themes and patterns may emerge from counting and comparing (Miles & Huberman, 1994). The counting tactic means the participants' perceptions of each question were clearly noted based on the frequencies listed from the highest mentioned times to the least in the Tables. For some qualitative questions, many ideas were given by the respondents. However, in the main body of the data analysis, only the top five to nine ideas are presented, which is based on Miller's (1956) study of human being's capacity for processing information. Miller suggests that people have defined abilities in receiving, processing, and remembering information due to their limited short-term memory span. He reveals that the capacity of people's immediate memory is "the magic number seven, plus or minus two". Thus, for those questions with many responses, only a portion of the ideas are given, but their complete answers can be found in Appendix 5.

In addition, a dendrogram was used because it is the most important form of clustering and is presented in a tree-like structure. It helps form categories and builds a logical chain in order to help researchers notice patterns; it also indicates differences in homogeneity or heterogeneity within the objects (Krippendorff, 1980). By using a dendrogram, Chinese SME owners/managers' perceptions were integrated into different clusters based on their similarities and differences; these help to explain

the key views emerging from the Chinese SME owners/managers' responses. At the same time, the differences within the key perceptions were also noted.

4.10 Summary of the Chapter

This chapter has explained the development of the research questions. Further, a general overview of the various methodologies of qualitative, quantitative, and mixed methods has been given, leading to the selection of the most appropriate method for conducting this research in China. The use of the interview technique to conduct research in China is the most effective method among those available, based on Chinese conditions and the unique attitudes that Chinese business people have towards research. Specific issues, such as translation accuracy and the cultural context of this research, have also been discussed. The techniques used for analysing both quantitative and qualitative data have been introduced at the end of this section. The data analysis results for each type of data will be given in the next chapter.

5 Research Results

5.1 Introduction

This chapter presents the analysis results of both the qualitative and quantitative questions. These results are integrated and shown in the following seven sections. The descriptive statistics for the enterprises and the business owners/managers are given in Section 5.2. Sections 5.3 to 5.6, inclusive, analyse the owners/managers' perceptions towards supportive government programmes and systems in the SME sector and the three laws enacted by the central government for the SME sector: the SME Promotion Law, the Property Law, the Labour Contract Law, which have all been reviewed in Chapter 3. The structure of the analysis is given based on the four objectives that have been set out in this thesis: SME owners' awareness, understanding, attitudes, and suggestions on government policies and programmes. Finally, Section 5.7 looks at the associations between different variables by using cross-tabulation and notes whether the association is significantly related by using the chi-square test.

5.2 Business Background

5.2.1 The enterprises.

Among the 210 businesses, the shortest business operating time was half a year and the longest 54 years. The average operating time was around 10.1 years (SD = 8.1), which is higher than the average life span of Chinese SMEs (3.7 years) (Hou et al., 2011). The number of businesses that have been operating within specified time frames is shown in Table 27. The number of these that have been operating for less than 10 years was slightly higher than those that have been operating for more than 10 years.

Table 27

Business Operating Times

Category (in years)	Frequency	Percentage
<10	112	53.3
≥10	98	46.7
Total	210	100.0

The ownership structure of the enterprises in the research covered almost all the categories discussed in Section 1.1. However, the greatest proportion of businesses is privately-owned (42.4%). Another two popular ownership structures are shareholding companies and individual households, both of which accounted for at least 20% of all businesses. There were only two SOEs and one collective

business involved in this study. Table 28 presents the percentage of each ownership structure of the businesses.

Table 28

Ownership Structure of the Businesses

Key Ideas	Frequency	Percentage
• Privately-owned	89	42.4
• Shareholding	61	29.1
• Individual household	43	20.5
• Joint venture	8	3.8
• Sole proprietorship	6	2.7
• SOE	2	1.0
• Collective	1	0.5
Total	210	100.0

In this thesis, the categorisation of Chinese SMEs was based on the industry specific criteria in Section 1.1 but with some modifications. According to these criteria, the employee numbers defined for micro, small, and large businesses in the industries do differ, but most of the criteria used 10 employees as the division between micro- and small-sized businesses, and 100 for dividing between small and large businesses. In order to provide a cross-sectional comparison and a general overview of the Chinese SME sector, this thesis uses 10 employees as a differentiation point for micro and small businesses, and 100 employees for small and large businesses. Based on the results, medium-sized firms accounted for almost half of the businesses (48.6%), and the percentage of large-sized businesses (26.2%) was slightly higher than the micro ones (25.2%).

5.2.2 The business owners/managers.

The respondents were either the owner or the owner's spokesperson. The vast majority of respondents (92.4%) were the owners of the businesses, and only 16 of the 210 interviews were carried out with the owners' representatives. For those businesses where the owners were not available, the managers were required to answer the questions from the owners' point of view. In order to ensure the validity of the research findings, the responses given by the 16 managers were compared with those of the owners using different variables, and the results show the managers' responses have similar patterns to the owners. Thus, the managers' responses were kept. As the owners and managers had the same perceptions towards the government policies and programmes, the term 'Chinese SME owners' is used instead of the full term 'SME owners/managers' in this chapter.

In this research, respondents who were in their 40s were the largest age group in the study (42.4%). Younger and older groups accounted for similar percentages (around 29%). Only three business owners were in their 20s and six in their 60s (see Appendix 5.1). The shortest time an owner had been operating a business was half a year and the longest was 29 years. The average operating time across the 210 business owners was 8.8 years (SD = 6.0). The majority of the businesses were started by the current owners (86.7%), and the rest of the owners bought their businesses from others.

In relation to education level (see Appendix 5.2), the results show that the largest group fell in the high school level category (33.8%). It is interesting to see that there were nine respondents in this study who had only completed primary school, although they only accounted for 4.3%. The majority of respondents (74.3%) had completed up to high school level attainment, and the rest (25.7%) had studied at university. The political status of the business owners was also observed as it may have an impact on running the business and attitudes towards government policies. Party members accounted for just over one third of the respondents (35.2%).

5.3 Awareness of Current Policies and Programmes

Sections 5.3 to 5.6 present the results of 210 interviews with Chinese SME owners on their perceptions towards government policies and progammes. These sections are ordered based on the four research objectives: SME owners' awareness, understanding, attitudes, and suggestions on the government policies. Within each section, the responses are analysed and presented in two parts: results from qualitative questions and quantitative questions. The first objective of this thesis, the SME owners' awareness of current policies and programmes, is presented in this section. This section illustrates whether the SME owners are aware of these and what they think of them. Eight qualitative questions and six quantitative questions were used for this goal. The analysis is divided into three sub-sections which analyse the owners' awareness of policies and programmes from three different aspects. They are: channels for getting information on policies and programmes, the impact of government policies, and assistance from the government.

5.3.1 Channels for getting information about policies and programmes.

To understand the SME owners' perspectives on government involvement, it is important to find out the channels that they use to keep updated on government policies and also whether the number of these channels is sufficient. One statement was used to find out if the owners needed more channels to keep them well informed about policies and programmes. The results in Table 29 show that nearly half thought they have sufficient channels. However, one quarter of the respondents was not sure.

Table 29

Perception of the Channels for Information

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Enough channels to know current policies or programmes	0.849	3.22	1.9	21.0	30.5	46.2	0.5

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

Table 30 summarises the one or more channels that each owner/manager used to find out about government policies. The responses suggest that the most popular ways for the owners/managers to become aware of related laws/regulations are through the activities organised by the government: informing the owners (37.1%) by document or phone call; and arranging training courses for the businesses (33.3%). These two categories combined accounted for 70% of the total responses. Self-exploration through the media (32.8%) and searching the internet (27.1%) were other important approaches adopted by the owners. More than 10% of the respondents reported that they did not get information through any channels. In addition, there were seven other channels mentioned by the respondents (see Appendix 5.3). Among all the given channels, consulting with government departments only accounted for 3.3%.

Table 30

Channels That Help the Owners to Be Aware of Policies

Key Ideas	Frequencies	Percentage②
• The government departments inform us	78	37.1
• The government departments organise training courses	70	33.3
• Through media	71	32.8
• Searching the internet	57	27.1
• No channels to let me know	24	11.4
• Seven other channels mentioned by the respondents	49	23.4
Total	349①	

① Many respondents gave more than one key idea.

② % based on total number of respondents rather than the frequency of ideas mentioned.

5.3.2 Impact of government policies and changes.

There were two statements that related to the impact of government policies on participants' businesses, and these results are shown in Table 31. The majority of the respondents (73.3%) agreed that the policies had a great impact on their businesses, and only about 5% thought they had no real influence. However, the responses to whether these policies had been positive for their businesses were much more divergent, with similar percentages reporting 'negative', 'positive', or 'no impact'.

Table 31

Statements Relating to the Awareness of Government Policies

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Government policies have a great impact on my business	0.687	3.76	0.5	4.8	21.4	65.2	8.1
Government policies in the last few years are good for my business	0.983	3.10	4.8	23.8	34.3	31.4	5.7

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

In addition, responses to the open-ended question on what laws/regulations have changed since they started their businesses were also given. Table 32 shows that the most common response was "*nothing has changed much*" (41%). Two common responses in the interviews were: the 2008 Labour Contract Law (15.7%) "*increased labour cost*," raising companies' employee expenditure by at least 20% (Tsoi, 2009), and policies on taxes (11.9%) that brought much higher tax rates than before. Policies on environmental protection becoming stricter (6.7%) were also identified. A reason was given by one respondent to explain how the changing government ideology is reflected in the policy which, in turn, affects the business activities:

> *Before, the government called for being poisoned rather than starvation. The government only wanted to grow the private business sector, regardless of how you ran your business. Now, the government realises the importance of environment protection for society. The government calls for energy saving and emission reduction. So, the slogan has changed to starvation rather than being poisoned. Now, the government does not support industries that pollute the environment.*

The same percentage of respondents (6.7%) could not tell which policies had changed. Of those who were not aware of the changes, one respondent explained the reason was:

I have very good and close relationships with the governmental departments. Therefore, in many cases, I do not have to follow the laws because the government departments will give my business the green light.

This respondent's outspoken comment proves that businesses that build good *Guanxi* with the government (Wank, 1995) can enjoy favourable regulatory conditions (Agrawal & Knoeber, 2001). There were another 23 areas of changes recognised by the respondents, and each accounted for a small proportion (less than 6%); the full list is shown in Appendix 5.4. Among these policies, some were related to certain industries, such as the Fire Safety Law for the manufacturing and retailing industries, while others applied to certain types of enterprises as, for example, policies on tax refunds relating to export-oriented businesses.

Table 32

Laws/Regulations That Have Changed Since the Establishment of the Businesses

Key Ideas	Frequency	Percentage②
• Nothing has changed much	86	41.0
• Labour Contract Law	33	15.7
• Tax-related regulations	25	11.9
• Cannot tell	14	6.7
• Policies on environmental protection	14	6.7
• 23 other laws/regulations mentioned by the respondents	60	28.6
Total	232①	110.5

① Many respondents gave more than one key idea.

② % based on total number of respondents rather than the frequency of ideas mentioned.

5.3.3 Assistance from the government.

Two statements shown in Table 33 explore the benefits of government assistance, and one looks at the helpfulness of the government services. The results illustrate that the number of respondents who believed the services were helpful (38.6%) was slightly lower than those who did not know. Another statement focuses on the usefulness of the government programmes. These results show that almost 40% of respondents gave negative feedback. Of the rest, those who did not know and those who believed the programmes were useful were almost equal (around 30%).

Table 33

Statements Relating to Awareness of Government Services

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Current government services are helping my business	0.839	3.11	1.0	26.2	46.2	37.6	1.0
Current government programmes are helping my business	0.906	2.92	1.9	37.6	29.0	29.5	1.9

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);

% based on 210 responses.

5.3.4 Participation in governmental organisations.

Each year the government organises different programmes or activities; therefore, it is important to look at the respondents' degree of involvement in them. The results show that, among the 210 respondents, less than half had participated (46.2%). The most common reason the owners have for not attending any activities was that they did not believe the programmes or associations were useful. This is because:

> *The government cannot provide the market information that we need, and also the government agencies do not know much about the business operations themselves. They cannot give useful advice on the problems we have.*

This participant's response shows that the Chinese Government's organised actitives do not seem to give the support that SMEs require, as has happened in other countries (Hashim et al., 2007; Tambunan, 2007).

An unpleasant experience that owners had had in the past was that of associations charging them fees without organising any activities; therefore, this was a common reason for the owners keeping away from the events. Having no channels of communication so the owners could be aware of relevant information about the activities was also mentioned by some respondents. A few respondents also stated that they did not have time to think about or a need to participate in such activities due to the small size of their businesses. All the reasons why the non-participants did not get involved in activities organised by the government organisations are listed in Appendix 5.5.

The different associations that the businesses have participated in are shown in Table 34, and a full list is provided in Appendix 5.6. The most common were the industry associations (15.7%), which the respondents considered to be channels to communicate with other enterprises or to find out about related policies. The Chamber of Commerce (8.1%) was also thought to be very helpful as the mayor

participated in the meetings. Although the Association of Private and Self-employed Enterprises (7.1%) was also popular, some respondents pointed out that its meetings were often just to let them pay fees. One response reveals the importance of providing helpful services to Chinese SMEs has not only attracted attention from government associations, but also from academia:

> *I attended a training course which was organised by the Association of Private and Self-employed Enterprises and Tsinghua University, but the course was useless. I paid around fifty thousand* Yuan *for the course, but it was not helpful at all. The professors just boasted about themselves and let us buy their books. I did not learn anything useful from the course.*

Two responses given in this research were for making charitable donations, as Su and He's (2009) study shows that Chinese enterprises' philanthropic activities can help businesses to enjoy better informal protection from the government and also increase the owners' self-perceived social rank.

Table 34

Associations Mentioned by the Participants

Key Ideas	Frequency	*Percentage
• An industry association	33	15.7
• Chamber of Commerce	17	8.1
• Association of Private and Self-employed Enterprises	15	7.1
• Association of a product	10	4.8
• Association of Entrepreneurs	7	3.3
• 8 other associations mentioned by the respondents, each accounting for less than 3% of the total frequencies	13	7.4
Total	95	

* % worked out based on the total number of respondents (210).

Some respondents also participated in programmes organised by the government. Nineteen explanations were given for this. The most common programme was studies about the industry standards or regulations, which was mentioned by seven respondents. Attending SME seminars was also named by three respondents. There were a range of programmes that respondents participated in, including training for entrepreneurs and visiting other businesses. The least attended programmes were exhibitions and studies about enterprise culture. One respondent explained that some of the reasons businesses tend to actively participate in programmes is because it is a way of keeping good relationships with and also returning favour to local governments.

The company is the key enterprise in the town. The government has given much help and support to the business, so we participate actively in all the activities organised by the local government.

5.4 Understanding of Current Policies and Programmes

This section analyses the impacts of three laws: the SME Promotion Law, the Property Law, and the Labour Contract Law, and the two important taxation and banking reforms, which have been discussed in Section 3.3.5 and Section 3.4.3. There were four qualitative questions and eight quantitative questions given to the respondents in this area. The analysis is divided into three subsections: the view of government support, the impacts of the laws, and the impacts of the reforms.

5.4.1 The view of the importance of government support.

Before exploring the impacts of the laws and reforms on the enterprises, it was decided to ascertain whether government support is a key factor for SME development for the SME owners. Table 35 shows that less than half of the respondents believed that government support was a crucial factor in developing their businesses. In addition, more than 20% did not think that the support from the government was important.

Table 35

Statement Relating to the Importance of Government Support

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
SME development largely depends on government support	0.873	2.75	1.9	21.0	30.5	46.2	0.5

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

One of the important steps that the Chinese government took in order to provide support for SMEs was the establishment of the 2002 SME Promotion Law, which granted legal status and protection for the SME sector for the first time. The different areas that the Law lays down for the central and local governments to provide support for SMEs can be found in the Literature Review (section 3.4.3.2). The Law has been implemented for more than ten years, and responses as to whether the SME owners feel that the Law has changed the government's attitude towards SMEs is presented in Table 36. These results show that the majority of the respondents (69.5%) felt that the Law did not bring about any real

changes to governmental attitudes, and only 17.6% of respondents thought the government had encouraged SME development.

Table 36

Statement Relating to the Impact of the SME Promotion Law on the Government's Attitude Towards SMEs

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
The SME Promotion Law has changed the government's attitude towards SME development	0.564	3.05	0.0	12.9	69.5	17.1	0.5

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5); % based on 210 responses.

5.4.2 The impacts of two specific laws on SMEs.

5.4.2.1 The Property Law.

The results of the impacts of the Property Law are shown in Table 37. The Property Law is seen as having a positive impact for private businesses because both their movable and immovable properties are protected by the Law and movable properties can be used to secure a loan ("China passes new Law," 2007). However, in this research, the vast majority of respondents (95.7%) found that the Law made no real difference; the small proportion who thought the Law did benefit their businesses was higher than those who gave negative responses.

Table 37

Statement Relating to the Impact of the Property Law

Statement	Std. Deviation	Mean	*SD %	D %	N %	A %	SA %
The Property Law has been beneficial to my business	0.207	3.01	0.0	1.4	95.7	2.9	0.0

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5); % based on 210 responses.

The interview question of 'Does the Property Law have positive or negative impacts?' was also given to the respondents. The results reinforced the findings from the statement question because the vast majority of respondents (95.7%) felt that the Law did not have any impact on their businesses. Five

respondents (2.4%) thought the Law was good for their businesses, with three positive impacts being mentioned by them: bringing benefits to business operations, becoming easier to get loans, and providing legal protection for the business. Three respondents did not know the impact that the Law had on their businesses (1.4%). One respondent considered that the Law did not bring benefits to the business because "*it has given the government more opportunities to create difficulties for the business.*"

5.4.2.2 The Labour Contract Law.

Table 38 illustrates that the perceptions of respondents towards the Labour Contract Law were varied. More than one quarter (33.8%) of the respondents believed that the Law did not bring any benefits to their businesses. This was 7% higher than those who found that their businesses had benefited from it.

Table 38

Statement Relating to the Labour Contract Law

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
The Labour Contract Law has been beneficial to my business	0.844	2.90	3.3	30.5	39.5	26.2	0.5

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

In addition, one interview question of whether the Law brought positive or negative impacts to the businesses was asked. The results show that, of the 210 respondents, only one fifth (20.5%) found that the impacts were good. The proportion who found that the Law had a negative impact (38.1%) and those who found there was no impact (36.7%) were almost equal. Another ten respondents (4.7%) felt that the Law had an equally positive and negative impact on the businesses. The negative and positive impacts mentioned by the respondents are analysed in Tables 39 and 40.

The negative impacts of the Labour Contract Law mentioned by the 90 respondents are listed in Table 39 (see Appendix 5.7 for the full list). Among these, increasing the burden on the business, identified by Tsoi (2009), was the most frequently mentioned impact, which accounted for 21.4%. One owner further elaborated on two areas where the burden has increased:

> *After implementing the Law, employees' salaries have increased dramatically. The company also needs to pay insurance for all employees, and the amount of reparations for work accidents has increased a lot.*

Table 39

Negative Impacts of the Labour Contract Law

Key Ideas	Frequency	*Percentage
• Increase the burden on the business	45	21.4
• Overly protects employees' rights (employees can leave at their will)	24	11.4
• Some articles are not reasonable	15	7.1
• Becomes harder to manage employees	14	6.7
• The Law loses contact with reality	13	6.2
• Five other impacts mentioned by the respondents, each accounting for less than 5%	24	11.6
Total	135	

*% based on the total number of respondents (210).

Wang (2008) discusses that one of the important purposes of the Labour Contract Law is to protect employees' rights, and this had been verified in the interviews. However, 11.4% of the respondents thought that the Law overly protected employees' rights, which has resulted in the businesses not being able to retain employees who could leave whenever they wanted without giving notice. These owners felt that the Law has changed the old owner–employee relationship in two areas. One area is related to a lack of understanding from employees, which was further explained by one business owner:

> *My company is becoming a 'training organisation'. I treat my workers nicely and also do my best to satisfy the workers' demands in order to keep the employees working for the business; however, the workers cannot understand the difficulties that I am facing. Some of their demands are really out of my control. They just leave without a word. I feel very upset about this.*

The other area is related to management. Empowering employees as the Law does is not considered as an appropriate measure for SMEs.

> *When running a business, especially small- or medium-sized businesses, it is impossible to let both the owner and employees enjoy similar rights. There always needs to be someone who has the right to be in charge; otherwise, the business will be in a mess. The Law allows employees' rights to override the owners, and some employees do not follow my orders anymore.*

These comments show that the traditional Confucian values, such as trust and harmonious relations between the ruler and the ruled (Pun et al., 2000) that previously existed in Chinese employment relationships, have gradually disappeared.

The third common impact of the Labour Contract Law was that some articles in the Law are not reasonable (7.1%). One example given by several respondents was how the general law deals with employees' traffic accidents. There are some conflict areas between the Labour Contract Law and the Transportation Law. One respondent gave an example:

> *If an employee had an accident on the way home and broke the law, according to the Transportation Law, this employee should take full responsibility. However, under the Labour Contract Law, the company should take full responsibility because the accident happened when the employee was on the way home from work.*

This shows that even though some companies need employees to work overtime during the busy season, they did not ask them to do so because they were afraid that the employees might have traffic accidents on their way home at night. These responses support Chen et al.'s (2009) discussion on the problem of a lack of unified coordination among the different government departments, and suggest that this lack can also extend to the policies enacted by the government authorities. Some other respondents' experience was that employees, mostly non-local ones, maim themselves in order to get compensation. However, the Justice Department favoured the employees and the companies had to pay compensation. In order to provide evidence that an accident has happened, many businesses have installed closed-circuit televisions (CCTVs) in their factories.

There were 6.7% of respondents who found that it became harder to manage their employees after the Labour Contract Law was enacted. The main reason for this was that the company lost the right to dismiss employees who were not working properly.

> *We cannot even dismiss employees who perform poorly because they can go to the Labour Department to sue us. The Labour Department always favours employees, regardless of whether it is our fault or not. So we will be in trouble if employees sue the company. In contrast, it is impossible for us to find employees and ask them to come back after they have left without a word.*

Also, many respondents felt that rather than employers being the people in charge, employees were becoming the boss. An example was given by a respondent:

> *Every day the workers in my business leave work around 3pm instead of at 5pm. You (the researcher) can see though the window, it is not 3pm yet, but the workers have already left the workshop and are getting ready to go home. However, I can not push*

them too hard. Currently, every business has the problem of finding workers. If I give them a penalty for leaving early, they will find jobs elsewhere. So, the Law has made employees become more rebellious. Many of us business owners feel that before the enactment of the Labour Contract Law, we did not have as many problems as we do now.

The Law losing contact with reality was also a problematic issue for 6.2% of respondents. Among these respondents, some either had a high employee turnover or offered seasonal jobs due to the industry's character. The problem of an unstable workforce meant that the businesses could not have formal contracts or provide the insurance for their employees that the Law required. In contrast, many businesses, in practice, only had oral agreements with their employees. Several respondents believed that the Law was introduced too fast and set standards too high, totally ignoring China's actual conditions and the personal qualities of the Chinese people. One key reason for developing policies that, in reality, are hard to implement is that policymakers lack knowledge of the SME operations.

The policymakers need to talk to the business owners and employees and make observations before they develop policies. Not a single official came and asked my opinions about the policy. None of them care about us business owners' opinions. They should visit the businesses to do research, just like you (the researcher) are doing now. Therefore, they can find out how the Law can be enacted fairly and how the Law can be made to protect the rights of both employees and the businesses. The officials should not just sit in their offices and create needless policies which are impossible to implement in reality. Nothing is easier than fault-finding.

Among all the other impacts, each of which each made up a small percentage of the responses, there were two distinct opinions. One was that the Law does not provide any protection for the business. The second distinct opinion was that the Law allowed more government interference in the business as seen in the growing number of supervising departments. One respondent gave a strong opinion:

T*here is no any single rule in the Labour Contract Law protecting the rights of the company except the first rule, which states, 'this contract is made based on a fair and open principle'.*

Seventy-seven out of 210 respondents gave the answer of 'no impact', which was slightly less than the answers for negative impacts. However, only 39 responses gave reasons for their opinions (see Appendix 5.8 for the full list). Of all the explanations, the most common reason was that the respondents just do what the Law requires. This could be interpreted as the Law having a certain impact on the businesses; however, respondents did not take these changes into account because they saw the changes as unavoidable. Another three responses are associated with the second most

common reason. They are: the size of the business was small; employees were relatives; and they only had oral agreements with employees. These three reasons show that the Law does not apply to three types of businesses: family businesses, and small and micro firms. Three respondents considered that the impact was the same for all businesses. They felt that it would not be a problem if the Law had the same impact on every business, which means that equality is important to them. One common characteristic among the rest of the responses is that the Law did not have any impact because the businesses already had a good relationship with their employees, so either "*the employees had already enjoyed good pay before the Law was enacted*" or the owner and the employees "*are like a family. If something happens, it can be settled through talk and discussion*." One business was set up after the Law was implemented, so the owner had not experienced working under any other conditions.

Table 40 lists the positive impacts of the Labour Contract Law. The most common benefit was that it helped to protect the rights of both employees and enterprises (9.5%). The second most mentioned reason was that it reduced employee turnover, followed by two reasons which were concerned with business operations: helping the business to standardise its business administration and securing it. One particular area identified by the respondents was the benefits the Law brought to employees: protecting the rights of employees (3.3%) and increasing the benefits for them (2.9%). One respondent mentioned that after the company provided insurance to employees, the employees then only needed to pay a small amount of money to enjoy medical care; otherwise, they would never be able to afford such treatments. Four respondents felt that the Law helped them standardise the employment system, and the same number of respondents felt it provided a legal means for the business to solve problems. There were another seven reasons given by the respondents; however, each of these only accounted for a small percentage (less than 2%). Among them, one interesting reason is that after the company carried out the requirements of the Law, "*the employees' feeling of belonging and security increased*". The Labour Contract Law allows workers in SMEs to have better welfare arrangements and payments, and the results of the research are in accordance with Yang's (2011) finding that Chinese workers now pay more attention to better salaries due to the unstable economic conditions. As one respondent explained, the feeling of belonging and security made the employees want to keep working for the company which, in turn, reduced employee turnover (see Appendix 5.9 for the full list).

Table 40

Positive Impacts of the Labour Contract Law

Key Ideas	Frequency	*Percentage
• Protects the rights of employees and enterprises	20	9.5
• Reduces employee turnover	11	5.2
• Standardises the business administration	7	3.3
• Secures the business operation	6	2.9
• Protects the rights of employees	6	2.9
• Increases the benefits for workers	5	2.4
• Seven other areas mentioned by the respondents, each accounting for less than 2%	17	8.1
Total	72	

*% based on the total number of respondents (210).

5.4.3 The impacts of two important reforms.

5.4.3.1 The taxation system reforms.

Garnaut et al. (2001) suggest that the results of the taxation reforms allow both the central and local governments to collect their own taxes, which not only encourages local governments to improve their economic performance, but also increases the tax revenue for the central government. However, the results in Table 41 show that more than 80% of the respondents felt that the reforms did not bring any positive changes to their businesses and, of those, 28% felt it was negative. The proportion finding the impacts were negative was almost two times those who felt the reforms were beneficial to the businesses.

Table 41

Statement Relating to the Impact of Taxation Reforms

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Taxation reform has been really good for my business	0.674	2.86	1.0	27.6	55.7	15.7	0.0

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5); % based on 210 responses.

The responses to the interview question on the impacts of the taxation reforms also reinforced the results of the statement question. More than half of the respondents (55.7%) found that there were no impacts on the businesses. Furthermore, the proportion of those who felt the reforms brought negative impacts (32.38%) was almost three times higher than those who found the reforms were good for the business (11.43%). Only two respondents were not sure whether the reforms were good or not.

Many reasons were given by the respondents to explain why they did not notice any changes, and some are shown in Table 42 (see Appendix 5.10 for the full list). The most common reason was that the taxes after the reforms were the same as before (42.9%). Four respondents thought that the reforms were not a problem if they had the same impact on all businesses. Five other reasons were also mentioned by the respondents, but each of these only accounted for less than 1%. However, some of these were interesting. One was that the local government could not be bothered to collect taxes from the business because her business was too small and could not pay as much tax to the government as larger businesses could. In addition, another business owner gave a frank and straightforward explanation, which was that his business would not be able to survive if he followed the taxation policies. His response can imply two points. Firstly, the taxation policies could limit the development of business operations and, secondly, there were many businesses not using the government's code of conduct to guide their operations.

Table 42

Reasons Why the Taxation Reforms Did Not Impact the Businesses

Key Ideas	Frequency	*Percentage
• Taxes are the same as before	90	42.9
• Pay taxes as required	13	6.2
• They have the same impact on all businesses	4	1.9
• Five other reasons mentioned by the respondents, each accounting for less than 1%.	5	2.5
Total	112	96.7

*% based on the total number of respondents (210).

There were 68 negative responses to the question on taxation reform, and some of these are noted in Table 43 (see Appendix 5.11 for the full list). The major impact was that the tax rates increased (31%). Two consequences of increased tax rates were also mentioned by some respondents, which were that the burden on the business increased (2.9%) and revenue was reduced (4.4%). Qian and Xu's (1993) and Tian's (2011) studies show that the local governments can use their power to require businesses to pay unreasonable fees. Two impacts given by the respondents related to how the local governments execute the law. The main area where the respondents were not satisfied, which also ranked as the

second common impact among all the responses (8.8%), was that the local governments forced the businesses to pay irrational and unnecessary taxes in order to help them enjoy various benefits. One reason for this may be the pressure that local governments are under to reach official growth targets (Rawski, 2001; Shi, 2011). An example given by one respondent suggests that taxes have been reduced; however, in practice, they have increased as local governments can force businesses to provide false data in order to reach the goals given by the government at higher levels:

> *The local government may ask a business to pay the next quarter's taxes in order to fulfill an assigned task from the higher level government. If the assigned task to the local government is to collect 100 billion Chinese* Yuan *in taxes and they can collect more than this, officials in the higher level of government will be pleased. However, if the amount of taxes collected is less than 100 billion Chinese* Yuan*, officials will be displeased, thus impacting on both higher- and lower-ranked officials' careers.*

In addition, another business owner was forced to increase the price of his products because the Tax Bureau wanted to collect more taxes. Because the owner did not follow this instruction, the Tax Bureau kept coming and checking the books until they found some fault and fined the business.

Table 43

Negative Impacts of the Taxation Reforms Given by the Respondents

Key Ideas	Frequency	*Percentage
• Tax rates have increased	65	31.0
• The government forces the business to pay extra taxes to help them enjoy added benefits	6	2.9
• Burdens on the business have increased	6	2.9
• The types of taxes have increased	6	2.9
• Five other impacts mentioned by the respondents, each accounting for less than 2%	9	5.4
Total	92	43.8

*% based on the total number of respondents (210).

Another concern brought up by one respondent was that tax rates are charged differently in different regions, causing unfair competition. In order to reduce the regional economic disparity, the Chinese government has offered preferential tax policies to less developed regions ("China offers," 2004). However, these preferential policies have negatively impacted some businesses. The respondent explained that in his province (Hebei province), one kwh was charged at 60 cents, but in Henan province, the government only charged 40 cents. Labour and electricity were major costs for the

business, so the higher power price put his business at a disadvantage when competing with businesses from other regions. That some articles in the Taxation Law seem to be out of touch with reality was also mentioned by two respondents, with a comment like:

> *The Law states that an enterprise's entertainment expenses can have a 65% tax deduction. However, the Law also states that these expenses cannot exceed 5% of total annual sales. For small businesses, 5% of annual sales for entertainment expenses is definitely not sufficient. I have asked some big business owners, and they say 5% is not sufficient for them either.* Guanxi *is so important, and this is an actual condition in China. For every business, large expenses, such as invitations to dinner or giving gifts, are needed for* Guanxi.

This response also supports Luo's (2008) finding that a close relationship exists between *Guanxi* and corruption in China. Another two respondents complained that the high taxes made the nation richer, but the people poorer.

The 24 respondents who believed that reform had brought positive impacts to their businesses gave 26 reasons for this stance. Among these responses, half related to tax rate reductions. However, one respondent added that some taxes and fees were only reduced after the financial crisis began in 2008. Five respondents mentioned that there were some tax exemptions as, for example, businesses in the service industry no longer needed to pay certain types of taxes. Five participants each mentioned one positive impact. For example, one respondent enjoyed tax preferences after the tax reform (see Appendix 5.12).

5.4.3.2 The banking system reforms.

Along with taxation reform, the banking system has also experienced some major changes. Table 44 demonstrates that the majority of respondents (69%) stated the reform was neither good nor bad for their businesses, and less than one fifth found that their businesses had benefited from the reform Most respondents (70%) did not experience any change after the banking reform, which supports the findings of the statement question. Around one quarter (22.4%) recognised that the reform brought positive effects to the businesses. Those who found that the changes were unhelpful accounted for less than 10%. Only one respondent (0.5%) could not tell whether the impacts were positive or negative.

Table 44

Statement Relating to Banking Reform

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Banking reform has been really good for my business	0.565	3.08	0.0	11.9	69.0	18.6	0.5

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

Among the 147 respondents (70%) who believed that their businesses did not experience any changes after the banking reforms, only 14 reasons were offered. The most mentioned reason (5) was concerned with getting loans from the banks. Pierson and Lee (2012) and Wan (2011) recognise that SMEs always have difficulties in borrowing money from banks, no matter how the lending policies change. The responses given by the interviewees support their argument as borrowing money is still as difficult as before. The second most popular reason (mentioned by four respondents) was that the banks were snobbish, which shows that in China, who you know is more important than what you know (Yueng & Tung, 1996).

> *Only those businesses that run well can get loans. Actually, these businesses do not need financial support because their accumulation of funds is enough. For the businesses that are not running well, some really need funds to solve problems in their operations, and others have good projects that require financial support, but it is impossible for either of them to get loans from the banks.*

The third main reason was that the reforms had the same impact on all businesses. Although the banking reforms did not really affect these businesses, one owner believed that the reforms should go further because "*the banks are the service institutions. However, the services they provide and the quality of the services are still bad.*"

Forty seven respondents thought that the reforms positively affected their businesses for several reasons. The most mentioned area (mentioned by 22 respondents) was that getting loans had become easier, followed by services becoming more convenient. Some respondents elaborated that those who could easily access loans were prominent and successful businesses. This further enforces the notion that only good businesses are granted bank loans. Faster and more efficient services was also pointed out by 19 respondents. As the businesses deal with large amounts of money every day, two opinions focused on the bank services provided. The first opinion (four responses) was that the services became

safer as businesses did not need to carry large amounts of cash. The second, mentioned by three respondents, was that online banking made money transactions more convenient.

Seventeen responses were given on the negative impacts of the banking reforms. The inefficiency of services was the most common area mentioned by five respondents, and they complained that the waiting time had increased due to the poor and inefficient service. Four respondents also considered that getting loans had actually become harder as a result of the reforms. Both poorly performing businesses and those in certain industries, such as the chemical industry, could not get loans. Two respondents' comments show that the government can not only encourage the growth of some industries, but can also suppress the development of others. For example, the government does not allow banks to give loans to internet cafés, and developments in the chemical industry have not been encouraged by the government in recent years either. Thus, two business sectors could not get bank loans as the banks need to heed government directives. These examples show the essential role that the government plays in national economic development as it can use policies to provide for a better environment or to encourage the development of certain industries (Aldrich, 1990; Wang, 2011). The procedures becoming more complicated was mentioned by three respondents, followed by an increase in bank fees (two responses). Rises in interest on loans was also given by one respondent. The problem of unfair treatment of SMEs by local officials, identified by Su and He (2010), is also found in this research. One respondent felt that the banks treated large and small customers differently and imposed unfair stipulations on small businesses. In addition, one complaint made by an individual household was that some deals were lost because they were not allowed to use an EFTPOS machine, which allows customers to pay by bank card.

5.5 Attitudes Towards Current Policies and Programmes

Having previously analysed the respondents' understanding of some important policies and reforms, this section evaluates their attitudes towards current government SME policies and programmes. There were eight qualitative questions and 11 quantitative questions given to the respondents. The analysis covers three attitude areas: towards the government and the Party, towards SME laws and regulations, and towards government services.

5.5.1 Attitudes towards the government and the Party.

5.5.1.1 The attitude that the government has towards the SME sector.

In recent years, the government has been actively encouraging the development of SMEs, such as relaxing lending policies and providing them with special funds. Thus, one statement question (Table 45) and one interview question were given to gain a general impression from the respondents as to

whether the government is actually encouraging SME development. The results show that the largest number of responses (40.9%) fell in the category of disagreement. Only one third of respondents thought the development of SMEs had been encouraged by the government.

Table 45

Opinions of the Owners on the Government's Attitudes Towards SMEs

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
In recent years, the government has encouraged SME development	0.873	2.89	1.4	39.5	28.6	30.0	0.5

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

A similar interview question was also given to the respondents, and the results show that the majority (68.6%) did not find any changes in support or encouragement from the government, which was almost 30% higher than the responses given in Table 45. Many respondents explained that, although the policies were good for SMEs, they could not be implemented by lower government levels. The lower the government level, the less likely the policies would be carried out. Some respondents also found that whether the business could get support from the government depended on the industry it was in. Individual households and businesses in the service sector could not get any help from the government at all; they were completely on their own.

In addition, many respondents felt that the government still paid too much attention to larger businesses. Large businesses having advantages in many aspects, such as getting resources and land, has been discussed by scholars (Feng & Wang, 2010; Pierson & Lee, 2011). In this research study, one respondent was particularly concerned about the different prices of land offered by the local government to large businesses and SMEs, which shows the attitude the government has towards SMEs:

> *The local government sold land to larger companies for 10,000 RMB per mu (equal to 666.7 square metres approximately); however, the price for SMEs was much higher, at several hundred thousand RMB per mu. So, the government actually does not want to give the land to SMEs; only large businesses or SOEs can get land. They would rather keep the land unsold than sell to us.*

Some respondents even felt that rather than offering support, the government actually stifled SME development. The survival of a private clinic belonging to one respondent had been getting more difficult because the government had encouraged cooperative medical services, where fees would be

shared between the government and the patients if people attended government-appointed hospitals. Since the policy was launched, the number of patients at the private clinic had dropped dramatically.

Only around one quarter of respondents (31.4%) felt the changes were positive. Table 46 lists the areas where the respondents felt the government was being helpful to SMEs (see Appendix 5.13 for the full list). The most common area was in funding. In recent years, the government has made an effort to help SMEs solve the problem of financing by granting them more loans (Chen & Li, 2011; Gong & Duan, 2012). Many respondents have benefited from this easier access to bank loans and the looser financing policies. Another 4.8% stated that the government had been creating more supportive policies than before. For example, the government had encouraged SMEs to get listed on the stock market and also to attend exhibitions held outside China. Improved government services, particularly the giving of help when they had problems, was also mentioned by 2.9% of the respondents as, for example, the local Technology Bureau helped one respondent solve their computer problems. Reduced tax rates were also mentioned by 2.4% of the participants. Specific government assistance in two areas was each cited by two respondents: the first area was in getting more land, and the second was in supporting businesses which had advanced or new technologies. SMEs are now considered as having advantages in developing innovation (Mac an Bhaird, 2010), and Chinese SMEs are also recognised as a new force in this area (Gu, 2008). Some respondents, with the help of local government, had designed products with intellectual property rights.

Table 46

Areas Where the Respondents Found the Government Provided More Help

Key Ideas	Frequency	*Percentage
• Easier to get loans	14	6.7
• More supportive policies	10	4.8
• The services provided by the government have improved	6	2.9
• Tax rates have been reduced	5	2.4
• Four other areas mentioned by the respondents, each accounting for less than 3%	6	3.0
Total	42	20.0

*% based on the total number of respondents (210).

In addition, one respondent stated that the establishment of a Chamber of Commerce, initiated by the local government, improved communication with the businesses. Another respondent recognised that the market environment had improved due to the government making some efforts to shut down illegal small businesses. Although the government was providing SME support in many areas, one respondent believed in the need for less government interference:

Along with the growth of my business, there are more administrative requirements set down by the local government. Just like a Chinese saying, 'shoot the bird which takes the lead', I do not want my business to develop further because I am not interested in the extra paperwork and doing extra tasks assigned by the government.

Thus, different to past studies of Western small businesses that found many were interested in growth (Gundry & Welsch, 2001; Storey, 1994), the interference from government means Chinese small businesses lack interest in growing their businesses. In addition, another respondent believed that government and business should each do their own jobs in the market economy: "*The 'invisible hand' of the market would look after the business sector, and a chaotic situation could develop if the government interfered."*

In recent years, the central government has decentralised some of its power to the local governments in order to ensure policies are better adapted to local conditions. Therefore, one statement and one question was on whether the local government plays a more important role than the central government in the development of SMEs. Not surprisingly, the largest number of respondents (54.3%) believed that such a relationship is very important (shown in Table 47). However, the percentage of responses giving a neutral answer was also relatively large (42.5%).

Table 47

Statement Related to the Connection with Government

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Building relationships with local government is important	0.643	3.53	1.0	2.4	42.5	51.4	2.9

*SD = Strongly disagree(1); D = disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

In addition, the responses to the interview question relating to the relationship with the government showed similar results to the statement question (Table 48). Since 1982, more power has been given to the local governments, who are better able to enact laws to suit the local conditions (Zhai, 2004). The research results show that more than half the respondents (57.1%) agreed that the local government was more important. In contrast, only one quarter believed that the central government was more important. Another three opinions were also held by some respondents. More than ten percent believed that both the local and central governments were equally important.

The policies from the central government and the implementation of the policies by the local government are both important. The central policies are macroscopical guidance. The local government gives specific guidance. They both have impacts on the business sector.

The proportion of those who could not answer the question was 3.3%. In addition, there were a number of respondents (2.4%) who felt that neither the local nor the central governments was important to their businesses. All these five businesses were individual households. For them, "*we rely on ourselves; there is no big impact from the local and central policies.*"

Table 48

Opinions on Which Level of Government (Local or Central) is More Important for SMEs

Key Ideas	Frequency	*Percentage
• Yes, the local is more important	120	57.1
• No, the central is more important	54	25.7
• Both have the same impact	24	11.4
• Do not know	7	3.3
• Neither has an impact	5	2.4
Total	210	100

*% based on the total number of respondents (210).

The reasons given by the respondents as to why the roles of either the central or local governments were more crucial were also explored. Table 49 displays the reasons for those who felt that the local government was more important. The most common response was that the local government had the right to administer the businesses directly (26.7%), and this reflects Wu's (2012) discussion on the intertwining relationship between politics and the business sector in China. From another viewpoint, the local governments' rights could mean that "*the local government department could bring troubles to the enterprise.*" One example given by the respondents was that government officials came to their businesses every day and frequently gave them tasks to do. In addition, they had to please them as well.

I had to buy more than ten extra cartons of expensive cigarettes a few days ago as the local area (Jiangsu province) has the custom of giving two boxes of cigarettes to each person who visits the business. All the cigarettes had already been given away to the officials within the last few days. You can see how often the officials come to the business. They also come to the business before lunch time, so we have to host lunch for them. They can choose to come in the morning or after lunch, but they want to eat

something nice and do not want to pay for their own, so they always come right before lunch time.

Besides being the administrator, the local government also plays the role of executor of the central government's policies. Thus, it could "*make decisions on how and when it will execute the central policies*" (9.5%). An old Chinese saying was used by some respondents to give a vivid explanation: "*knowing the direct administrator is better than knowing the local governor.*" Some concerns focused on the problems of implementing the central policies. Many respondents referred to the local government as "*the local emperor"* because "*the emperor of the kingdom can hardly ensure his orders are being fully carried out and also being supervised across the territory*". Thus, respondents found that the central policies were implemented differently by the various local governments.

The local government has become more powerful and does not follow the central government's directives. The central government ordered the local government to stop demolition projects. However, the local government is still requisitioning the land from the locals and demolishing buildings.

Table 49

Reasons Why Local Government is More Important For Business Development

Key Ideas	Frequency	*Percentage
• It directly administers the businesses	56	26.7
• It has the final say on how and when it will execute the central policies	20	9.5
• It has the right to make local policies and decisions	18	8.6
• It has a better understanding of local situations	7	3.3
• Close relationship with the local will help the businesses	6	2.9
• It is the direct beneficiary of the development of the business	1	0.5
Total	107	

*% based on the total number of respondents (210).

There were 8.6% respondents who considered the local government had the right to make local regulations. Along with the transfer of power from the central government to the lower levels ("Local legislation," 2003), even in the same city, rules can vary in different counties. One respondent found that the fees and taxes charged by the local government were higher than in other areas, and this made the business lose its advantages in market competition. Some other respondents complained that the local government would rather sell land to real estate developers than manufacturers. Many businesses needed land to expand their businesses; however, their applications were refused by the government,

even after waiting for long periods of time. In contrast, the property developers' applications would be accepted in much shorter times. There were two reasons behind this phenomenon. Firstly, the price paid by the developers was higher than the manufacturers and secondly, the government could get greater benefits in a shorter time by selling the land to the developers and such achievements were very important for the government heads. Although the State Council (2006) requires local governments to take stricter measures for administrating land control, the latter tend to ignore this and only consider how to improve their achievements when in power. Respondents complained that the local government sold the land to property developers because the government could receive payments from developers, although just for two years.

> *The attitude of local government affects the growth of the enterprise. The local government has the authority to make decisions on whether it would let you develop or not. If the government did not want you to operate the business, it could make up some reasons to make you close down.*

For 3.3% of respondents, there were benefits from the delegation of power to the local government (Zhai, 2004), with reasons like "*the local government knows what the local businesses need and want*" and "*the local policies are more practical and more suitable for the local conditions*." Another six respondents considered keeping a close relationship with the local government officials was vital for the development of the enterprises (Fan, 2002b; Zhang & Zhang, 2006). "*Just like the old saying goes: the more friends you have, the easier the things can be done*," one respondent added. Only one respondent believed that the local government was more important because it was the direct beneficiary if the local economy grew, thus meaning it would be more likely to take measures to help the business sector.

However, there were 50 responses to explain why the central government had greater impact, and these can be categorised into three areas. First, 32 respondents believed that the policies or decisions made by the local government followed the central policies. The National Development Strategy, a five-year plan, is adjusted every five years by the National Congress and gives developmental strategies for key sectors and areas the government will focus on ("Five-year plans," 2011). Thus, some respondents explained that the roles that the central policies and development directions play were to give direction to the local governments. Second, the central government had the power to impact market change and industry development. Lastly, small-sized businesses or individual households "*do not have many contacts with the local government, but the central policies have a direct impact on the businesses.*"

5.5.1.2 The role of Party membership.

The relationship between political status and operating a business is an interesting area to look at. Therefore, the question of whether being a Party member has an impact in running a business was asked. In China, Party members are the advanced elements in Chinese society who work actively in the organisations; however, they do not have the right to enjoy privileges beyond their job-related powers (Communist Party of China, 2006b). The results of the statement question (Table 50) show that more than 55% of respondents did not find being a Party member brought benefits to their businesses. The percentage of the respondents who thought it had a positive impact (21.5%) and those who chose the neutral answer (22.4%) were similar.

Table 50

Statement Related to the Importance of Being a Party Member

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Being a Party member is beneficial for SMEs	1.004	2.50	15.2	41.0	22.4	21.0	0.5

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

One interview question was also given to the respondents on this topic. Among the 210 respondents, 63.8% felt that being a Party member would not impact the businesses, which was almost three times higher than the responses given for the statement question (22.4%). Only one quarter of the responses (24.8%) fell into the category of positive impacts. The remaining proportion (11.4%) did not know. None of the respondents found that being a Party member could cause problems to the businesses.

There were 123 responses given to explain why being a Party member did not have any impacts in running businesses (shown in Table 51). Around one third of respondents felt that other than political status, there were 22 more important factors for running a successful business. Among these, the owner's abilities and business sense ranked as the most important factors for business success, followed by technical skills of the owner. The rest of the factors can be grouped into four areas: the owner, the employees, the products, and the image of the company. The owner's role in building external relationships and being a competent leader are essential for five owners, and this reinforces the importance of *Guanxi* for Chinese businesses (Tang et al., 2008). Three respondents recognised that employees were the key factor, and they focused on three different areas: employees' work performance, their experience, and their skills. The quality of the products and good reputation of the company were mentioned as important as well. However, Knight and Yueh (2008) and Li et al. (2009)

note a positive relationship between Party membership and economic returns. This research found that rather than political factors, business- or personal-related elements were more important to the respondents. As one participant said, "*When the business is not running well, being a Party member will not make your business better*."

Table 51

Reasons Why Being a Party Member Does Not Impact the Business

Key Ideas	Frequency	*Percentage
• Running a business relies on other factors rather than political status	72	34.3
• Non-Party members have been allowed to run the business	28	13.3
• The quality of the Party members is the same as non-Party members	16	7.6
• Political status is only important for working in the state-owned or governmental organisations	7	3.3
Total	123	

*% based on the total number of respondents (210).

More than 10% of respondents gave the reason that non-Party members were also allowed to run a business. This means that in running a business, Party members do not enjoy any more privileges than non-Party members. In some businesses, either individual households or small-sized businesses, no one was a Party member. Although Party members should be the advanced elements in their organisations (Communist Party of China, 2006b), 7.6% of respondents found that, among the employees or leaders in the business, "*the personal qualities of the Party members were just the same as those of non-Party members*." What is more, some Party members were even worse. Seven respondents pointed out that the roles Party members could play in businesses were very limited because "*Party members belonged to a political category and they have more responsibilities to society. It made no difference to the economic sphere.*" However, some respondents added that being a Party member was crucial for two identities: SOEs and government departments. This means that the importance of political status is only highlighted in government-related areas.

Although many respondents found that being a Party member did not make any difference to the business, 62 responses were given to explain why being a Party member could bring benefits to a business. The most common benefit (28) was that Party members played an exemplary role for other employees and other employees could be influenced by their behaviour and attitudes. For this statement, there were two different opinions. Some respondents felt that the exemplary role that "*the Party members played is limited to certain areas, such as giving donations to poverty-stricken employees, which is not business-related*." Other respondents found their exemplary role in the company was evident everywhere. One respondent from the SOE expressed that Party members are

the backbone of the SOEs. Having better personal qualities than non-Party members was the second most common response (10 respondents) because Party members "*have nobility in thought*." The reason that Party members "*could put the general interest above personal interest*" was also mentioned. In addition, Party members having a distinct work attitude was commonly mentioned and was expressed in the following areas: more enthusiasm, more serious attitude towards work, and being more responsible. These respondents show that Party members carried out their responsibilities as set out in the Constitution of the Communist Party: work actively and serve the people wholeheartedly (Communist Party of China, 2006c).

As some business owners were Party members, they found their political status had some privileges. Although the Constitution of the Communist Party clearly states that Party members should not enjoy privileges beyond their job-related powers, some business owners benefitted from being Party members. For example, one respondent could participate in some government meetings. Another found that "*the public consider Party members had better personal prestige*." Also, having a position in the local government gave them the right to speak. They would be listened to and their opinions could well be accepted. An example was given by one respondent:

> *I am a member of the local Party committee. This title lets me set a higher standard for myself. It also gives me the right to speak. I can also report the problems in my area to the government and my words will be listened to. A few months ago, the government had wanted to close the school and the hospital in the local area, so making it very inconvenient for the villagers to be educated and visit the doctor. After I reported to the government, the decision was changed and both the school and hospital were retained.*

5.5.2 Attitudes towards current policies and programmes.

5.5.2.1 Respondents' understanding of current policies.

Since the government has paid more attention to SME growth, many laws and regulations have been enacted. Therefore, the perceptions that the respondents have of SME laws and regulations are worth investigating. This was done in three ways. Firstly, it is important to find out whether these laws and regulations can be understood by SME owners. Table 52 shows that the majority of the respondents (67.1%) could easily understand SME laws and regulations, and only 1% reported that they had difficulty.

Table 52

Statement Related to the Owners' Understanding of the Policies

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
I can easily understand laws and regulations concerning SMEs	0.514	3.66	0.5	0.5	31.9	67.1	0.0

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5); % based on 210 responses.

Secondly, the perceptions of respondents as to whether the implementation guidelines for SME laws and regulations are clear were sought, and these results are shown in Table 53. The answers for this question were varied. Unexpectedly, the highest proportion (61.4%) gave the answer of 'quite clear'. Some respondents stressed that they did not know every SME laws and regulation; however, those laws they did know were quite clear. In contrast, the responses of 'do not know' accounted for 45%, with comments like "*we just do whatever the government asks us to do*." There were only two respondents who did not know about the laws because they had lawyers to help them to deal with law-related issues. Only 7.1% of responses gave the answer of 'clear'. Some respondents emphasised that although the current laws were comprehensible, they were not detailed enough. One respondent added that every time new policies were issued, the relevant government department would send officers to show them the policies. Therefore, the government could fine the businesses if they broke the laws in the future. The proportion of those who believed that the guidelines were not very clear only accounted for 1%.

Table 53

Opinions on Whether the Implementation Guidelines for SME Policies Are Clear

Key Ideas	Frequency	*Percentage
• Quite clear	129	61.4
• No idea as they do not know about these laws	96	44.8
• Clear	15	7.1
• Not very clear	2	1.0
Total	242	

*% based on the total number of respondents (210).

The third aspect is to examine whether there is enough guidance available to the respondents in implementing these laws and regulations. The results in Table 54 reveal that only 42.9% of

respondents thought the guidance available to them was enough. The rest of the responses were almost equally shared by not enough guidance and 'neither'.

Table 54

Statement Related to the Owners' Understanding of the Policies

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
I have enough guidance in implementing SME policies	0.886	3.12	1.9	27.6	27.6	42.4	0.5

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5); % based on 210 responses.

5.5.2.2 Attitudes towards the usefulness of government policies and programmes.

For SME owners, the most important issue is the helpfulness of current policies and programmes in relation to their businesses. Thus, four questions related to this were given. Table 55 shows that most respondents could not tell whether the policies and programmes were useful or not. Furthermore, the results also reveal that the policies were considered more helpful than the programmes to the businesses as the percentage of responses recognising the usefulness of the policies (34.8%) was more than 10 % higher than those who found the programmes were good for the businesses (21%).

Table 55

Statements Related to the Owners' Understanding of the Usefulness of Policies and Programmes

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Overall, current policies are very useful for my business	0.821	3.10	2.4	21.0	41.9	33.8	1.0
Overall, current programmes are very useful for my business	0.772	2.84	1.0	35.7	42.4	20.5	0.5

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5); % based on 210 responses.

In addition, another two interview questions were asked to find out which policies or programmes are recognised by the respondents as being either obstacles to the growth of the business or helpful. Many responses were given on which policies were not good for the business operations (see Appendix 5.14). The most common two answers were: 'cannot tell' and 'none of the policies'. There was one respondent who explained: "*Laws cannot restrain the*

development of enterprises in China because the vast majority of Chinese entrepreneurs started their businesses by using unlawful practices," which is also Wu's (2010) finding. There were also two interesting comments given by the respondents. One response was "*not dare to say,*" and the other one was 'too many'.

In addition, the most named law for this question was the Labour Contract Law (13.8%), followed by high tax rates (6.2%). Besides these two areas, the policy on limiting the electricity usage (3.8%) and high commodity price (3.3%) also concerned respondents. Unreasonable taxes and fees charged by the government, discovered by Tian (2011), are also mentioned by some respondents.

> *We are willing to donate our money to society; however, the government should not shirk its responsibilities to enterprises and force businesses to donate. Also, the government should not impose unreasonable fees on SMEs. The government makes the burdens and pressures that the enterprises endure increase.*

There were also 2.4% who felt that the tax for land usage was not reasonable. One respondent gave a further explanation: "*I have already bought the land; however, the government still asks me to pay the usage fee.*" In addition, the land usage fee also kept increasing, which some respondents found hard to accept.

Another interview question was given to observe the respondents' opinions on whether current programmes and policies are beneficial for the businesses. Of the 210 respondents, only one third (30%) found their businesses obtained benefits from the existing programmes and policies. Around 40% of respondents (38.6%) felt that none of the programmes and policies was helpful. The rest (31.43%) could not answer the question.

The programmes which were useful to the businesses were also mentioned by some respondents (see Appendix 5.15). The most useful programme was training courses on safety issues, which included production safety and fire control safety. Training courses on government policies that were being introduced were also helpful. The programmes, such as organising trade exhibitions and business forums, were welcomed because "*these activities are organised by the government, which is more authoritative.*" Two respondents found that visiting other businesses and communicating with each other brought benefits to their businesses. The same proportion related to the area of providing job training for employees. There were some other programmes mentioned by respondents, but each made up a small percentage. One unique programme was held in the Heibei province, where the county government organises an event rewarding important taxpayers from the business sector at the end of each year. The respondent found that the programme was very useful because it not only meant gaining recognition from the government, but also motivated entrepreneurs to work harder.

There were 13 responses given on the policies which are helpful to the businesses. The most useful were the tax-related ones. The example given by the respondents was the policy on tax refunds. Allowing small businesses to get loans and the policy on cracking down on counterfeit goods were also each mentioned by two respondents. The State Council in 2002 released the *Law to Ban Unlicensed Business Operations* in order to provide a fair competitive environment. The government also established the Consumer Protection Bureau under the jurisdiction of the State Administration for Industry and Commerce to ensure fair competition and also supervise product quality (Consumer Protection Bureau, 2012). Each year on March 15, the international day for protecting consumers' rights, the government organises activities to provide education for people to identify genuine and counterfeit products. The consumers can also call a special number, 315, to complain or inform the government of counterfeit products all year round (Consumer Protection Bureau, 2012). One respondent found that these activities provided a better operating environment for the business. There were five other policies mentioned by the respondents. Except for policies on land coordination and company law, three other policies were specific to the respondents' industries. For example, one gained benefits because of the increased requirements for environmental protection as the company manufactured products related to this area.

5.5.3 Attitudes towards government services.

Government agencies should be the organisations that provide the most helpful assistance and the latest, most comprehensive, and accurate information on government policies and programmes for the business sector. In order to examine whether this assistance and information does meet the demand of SMEs, several questions were given to the respondents in the areas of training assistance and information provided by the government.

5.5.3.1 Assistance for the business operation.

Two statement questions (Table 56) were given to find out whether the business owners received enough technical and training assistance from the government. The results show that more than 60% of the respondents consider that there is a lack of assistance from the government. Only 11% of businesses thought the government did a good job providing technical assistance, and over 60% thought it was inadequate. Just over half the respondents stated that they did not receive enough training assistance from the government.

Table 56

Statements Related to Government Assistance to SMEs

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Enough technical assistance is provided by the government	0.755	2.42	5.2	58.1	25.7	11.0	0.0
Enough training assistance is provided by the government	0.807	2.64	2.9	48.1	31.0	18.1	0.0

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

5.5.3.2 Consultation with the government agencies.

In order to find out the usefulness of these agencies for SMEs, the first area that needs to be observed is the perception of the respondents on the helpfulness of the information provided by the government agencies. Table 57 shows that around one third of respondents (33.4%) found that the information was useful for their businesses. However, there was also one quarter of respondents (25.2%) who did not think the information was useful.

Table 57

Usefulness of the Information Provided by the Government Services

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Information provided by the government benefits my business	0.809	3.08	1.4	23.8	41.4	32.4	1.0

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

Moreover, the respondents' utility of the agencies is another area worth examining within the role that the government agencies play. The responses to the interview question show that the government agencies were not considered the best way to get information as, of the 210 participants, the majority (71.9%) did not have contacts with these agencies. In fact, only 28.1% had consulted with the agencies about a business operation.

Fourteen respondents included explanations as to why they had not been to any government agencies. The most common reason, mentioned by four respondents, was the government agencies did not have

knowledge of their industry and could not provide information on market demand. Some respondents believed that, rather than government policies, most of the important decisions that the business made were based on "*the market fluctuations.*" However, except for two small businesses, on which "*the government policies did not have impacts,*" another two respondents felt that in "*running their business, they solely relied on themselves*". Besides the lack of knowledge of the market, two respondents also added that "*the agencies are not familiar with the business operation and management. Therefore, the agencies cannot give useful suggestions to them."*

In addition, according to the experiences of two respondents, the government agencies did not like small businesses to bother them. The reason was, "*the government thinks we can resolve the problems by ourselves. If we go and look for help from the government, the government will have a bone to pick with us.*" Thus, they felt the agencies, run by the government, would have the same attitudes towards them: "*They will not give me any help even I go to ask for help.*" These comments show that local officials do not treat all enterprises fairly (Su & He, 2010). One respondent did not have any idea of which government departments or agencies provided consultations for their business. Another response, also based on previous experience, was that the services provided by the government-operated organisations were very inefficient.

An interview question was also asked to measure how helpful the business owners had found the government agencies' information. Of the 210 respondents, the majority of the respondents (71%) could not answer the question because they had never consulted with the agencies. Of the remaining responses, the proportion of those who stated the agencies were helpful (21.4%) was three times higher than those who found the services were not good (7.6%).

Some respondents explained why they felt the recommendations given by the agencies were helpful, and others also said why they did not. There were 42 responses explaining why the opinions given by the government agencies were useful, and they can be placed in two categories. Firstly, the most common set of reasons (27) was that the government agencies are well-informed about the laws and regulations.

> *The businesses can know the latest policies and direction of the government's development plans from them. I went to the agency and consulted with the officer about some issues related to the policy. Through the conversation, I found out that there was a reward policy for which my company qualified. So I applied, and the business benefited from the policy. If I did not communicate with the government agency, I would not have known of this policy.*

Also, the information provided by the agencies was thought to be more valuable and effective. This is because some of the information given by the agencies had originated from the experiences of other

businesses and, therefore, their recommendations were more valuable and effective in helping them resolve their own problems. The second set of reasons built on this first set as the commentary made by these respondents related to successful solutions. This group (15 responses) felt that questions that the business had on the policies were solved with the help of the agencies, such as the questions on taxation.

However, 15 responses were given to explain why they thought the agencies were not helpful. These fell into three areas. Firstly, seven respondents found that the agencies could not provide helpful suggestions for the problems relating to their business operations. Although many scholars (Aldrich, 1990; Wang, 2011; Yang & Shi, 2011) have found that there is a close relationship between the government and the development of industry in Western countries and China, some respondents believed that in a market economy, businesses relied on themselves to survive. Secondly, receiving information or recommendations from a government agency that did not solve their business problems was mentioned by another seven respondents. For example, some respondents wanted the agencies to help the business get more land; however, the agencies could not solve this problem. Lastly, there was one respondent who complained that *"what the agencies said was all nonsense."*

The last area that the study examined with regard to the government services is the perception of the respondents on the cost of the services (Table 58). The most common perception (44.8%) was that the charges were acceptable. However, one fifth of respondents found that the costs were too high.

Table 58

Statement Related to Government Assistance to SMEs

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
The cost of government services is affordable	0.816	3.14	2.9	17.1	44.8	33.8	1.4

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5); % based on 210 responses.

5.6 Suggestions

The aim of this section is to seek suggestions from the respondents on the current or future policies for stimulating further growth in the SME sector. There are six qualitative questions and four quantitative questions in this part. These can be categorised into three areas: the government's attitude towards large businesses, suggestions on the policies and programmes, and general comments.

5.6.1 Government's attitude towards large businesses.

After the privatisation of many SOEs in the 1990s, the Chinese government only focused on large and very large enterprises (Hughes, 2002). However, acknowledging the important role that the SME sector plays in the national economy, the government has started to put more effort into the development of SMEs. Therefore, questions concerning the government's attitude towards large businesses were asked. The results of the statement question (Table 59) show that almost all respondents felt that the government focused too much on big companies. Only 2.4% of respondents did not state their opinion. None of the respondents disagreed with the statement.

Table 59

SME Owners' Opinion on the Attitudes of the Government Towards Big Businesses

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
The government has put too much effort into big businesses	0.497	4.27	0.0	0.0	2.4	68.1	29.5

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5); % based on 210 responses.

The results of the interview question in this area reinforced the findings of the statement question. Although the status of SMEs has increased dramatically over the past 60 years and they are now recognised by the government as the driving power of China's economic growth (Cunningham, 2011), the vast majority of the respondents (95.7%) felt that the government was more focused on large businesses. However, one respondent stated that many SME owners thought the government focused on SMEs although, rather than on the SME sector as a whole, the government only attached importance to SMEs working in hi-tech industries. Another respondent gave his understanding on this situation: "*from the government's perspective, the contribution that 100 small businesses makes cannot compete with one large business.*" One respondent expressed his incomprehension of this greater effort as he felt that the large companies were already hugely profitable, yet the government still implemented wide preferential policies to support them.

5.6.2 Suggestions for policies and programmes.

5.6.2.1 Suggestions regarding current policies.

The statement question (Table 60) was looking at the necessity of changing existing policies. The results show that the majority of respondents (62.4%) gave neutral answers. However, the responses

that fell into the 'agree' category (33.8%) were almost ten times higher than those indicating changes were not needed (3.8%).

Table 60

Statement Related to Suggestions on Government Policies and Programmes

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
Existing policies need to be changed in order to help SMEs	0.658	3.36	0.0	3.8	62.4	27.2	6.2

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

In addition, when considering the effectiveness of government policies, it should not be assumed that all policies are always good for all businesses. Thus, the respondents were asked about which laws they thought needed to be changed in order to stimulate the development of SMEs. Table 61 lists some areas given by the respondents (see Appendix 5.16 for the full list). More than half the respondents (61%) expressed that there was no need to change current policies. Some respondents could not answer the question. Others thought the changes in the current policies were not needed, and one respondent explained that even if suggestions were made, they would not have any impact on the government's decision. Thus, they would rather follow the government's instruction. Some other respondents believed that there is already a lot of legislation for SMEs; however, most of them did not follow the legislation in practice. Thus, the most crucial issues were whether the laws were fair and reasonable, whether the policies could be implemented, and whether people would follow the laws.

Table 61

Responses on Which Laws or Policies Need to be Changed

Key Ideas	Frequency	*Percentage
• None	128	61.0
• The Labour Contract Law needs to be changed	33	15.7
• Tax rates should be reduced	15	7.1
• Solve the problem of unreasonable charges	7	3.3
• The policy on limiting electricity usage	7	3.3
• 14 other ideas mentioned by the respondents, each accounting for less than 3%	39	18.9
Total	229	

* % based on total number of respondents (210).

For those policies which the respondents thought needed to be changed, the Labour Contract Law was the most popular (15.7%). The negative impacts of the Labour Contract Law, such as worker management difficulties and increased labour costs, have been discussed previously. Some of these areas, such as overly-protected employees' rights, the rules in handling traffic accidents, and the contrast between the Law's basic expectations and the businesses' real situations, were again emphasised by the respondents. Although the respondents wanted the government to amend the Law, some did not expect this would happen and said, "*The government also knows this Law has many problems. However, the government does not care*." Policies related to tax rates were identified as a concern by 7.1% of respondents. This included issues such as duplicated taxes, high tax rates, and high individual income tax. Unreasonable charges and limitation of electricity usage were another two areas of concern.

All the other responses each accounted for less than 3%. Some of these included the problems of the government's arbitrary charges and abuses of power, unstable commodity prices, unfair market competition, and difficulties in getting loans. One respondent believed that government policy should be stabilised, with a comment that "*the policies are changed frequently, which makes it hard for companies to operate their businesses.*" One respondent pointed out that the same polices are different in regions, which allowed for unfair market competition and this, in turn, caused unethical behaviours from both the owners and officials:

> *Many businesses have no choice but to undertake illegal activities, such as tax evasion and bribes, in order to survive in a competitively unfair environment. The government officials can increase their own wealth by accepting these activities. The businesses maintain good relationships with local officials by entertaining them with lavish dinners and giving generous gifts in order to persuade them to use their products.*

5.6.2.2 Suggestions for new policies.

Respondents were also asked about whether they thought the government could do more for SMEs. One statement explored respondents' perceptions for introducing new SME policies, and the results are displayed in Table 62. The responses fell almost equally into the three categories of 'disagree', 'neither', and 'agree'. The respondents who did not state a clear opinion were only 2% less than the other two categories.

Table 62

Statement Related to Suggestions on Further Government Policies

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
New policies need to be introduced in order to assist SMEs	0.607	3.25	1.4	29.5	28.6	30.0	0.5

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5);
% based on 210 responses.

Figure 12 shows the dendrogram for the policies that respondents thought the government could introduce in both the business and non-business sectors. Some respondents made more than one suggestion. Among the total 218 suggestions, only 46 mentioned the areas that the policies should act on. The majority of policies fell into the business area (33), which was concerned with three components: the business operation, market competition, and government support. The most needed section was government support (16), which accounted for half of the responses, followed by market competition (13).

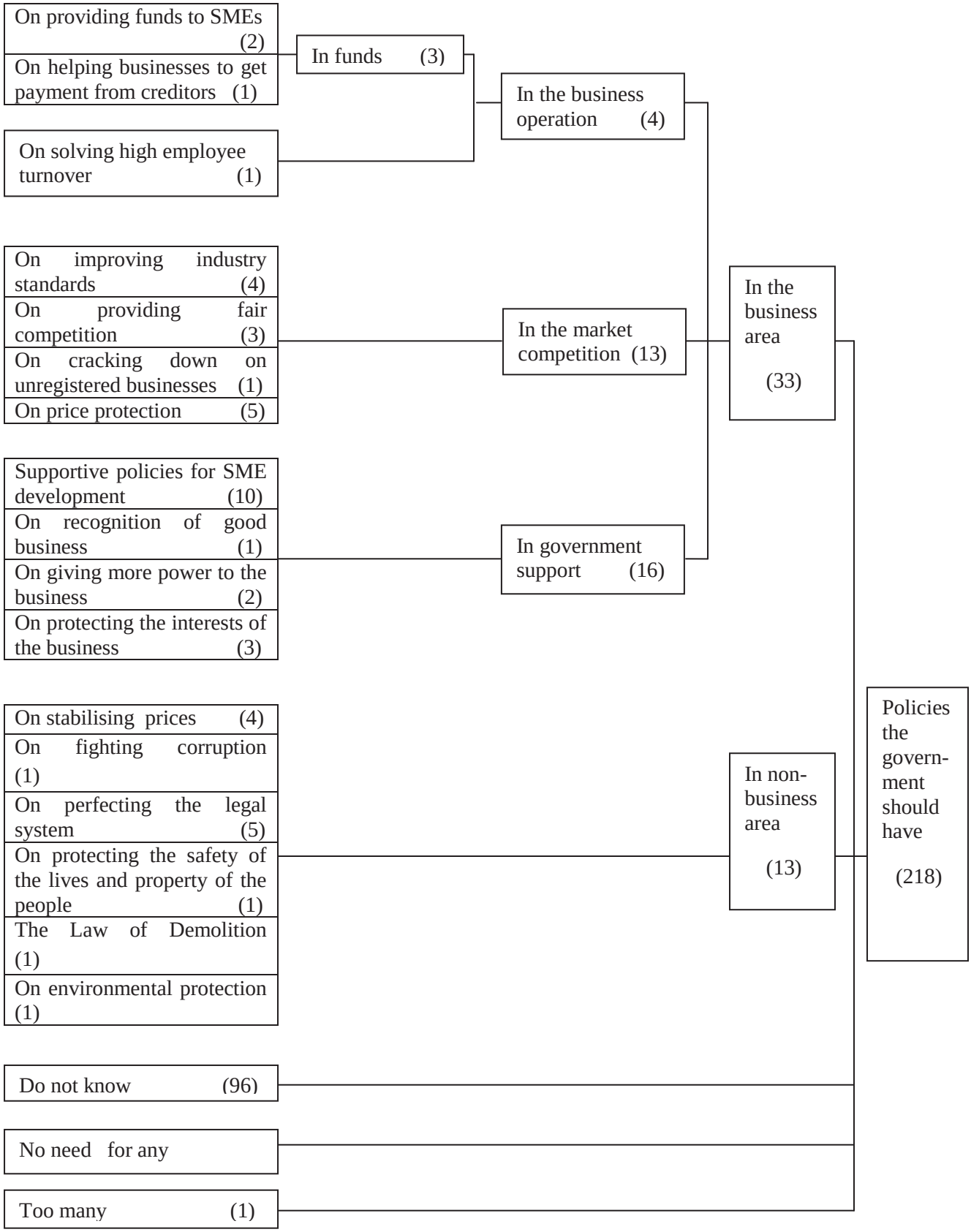

Figure 12. **Dendrogram showing the policies and laws respondents thought the government should introduce in both the business and non-business areas.**

Table 63 lists all the responses from highest to lowest. Nearly half the respondents (45.7%) did not give any opinion at all. They either had not thought about it or could not think of any new policies they wanted. Another 35.7% of respondents found that new policies were not needed because they thought the decision was out of their hands, so they just followed the existing policies. Only one respondent said that further changes were not necessary as the current policies were good enough (see Appendix 5.17 for the full list). Many (10%) wanted to have more supportive policies from the government. There were six other ideas given by the respondents, but each of them only made up a very small percentage (less than 3%).

Table 63

Laws and Regulations the Government Should Introduce

Key Ideas	Frequency	Percentage②
• Do not know	96	45.7
• No need for any more	75	35.7
• Supportive policies for SMEs	10	4.8
• Six other ideas mentioned by the respondents, each accounting for less than 3%	12	5.7
Total	193①	

① Many respondents gave more than one key idea.

② % based on total number of respondents rather than the frequency of ideas mentioned.

The respondents also pointed out some specific areas which they hoped the government could act on. Some of these included policies on empowering the business, promoting environmental protection, and recognising good businesses. One respondent gave a reason why the government should empower businesses:

> *Any business should be able to adjust its strategies to cope with market changes. Privately-owned businesses are very sensible about changes in the market and could react quickly. Thus, the government should not interfere with the businesses' operating methods and let them make decisions based on the market changes.*

Another respondent wished to get acknowledgement from the government because, although his business made contributions either in taxation or in public welfare each year, he felt there was no recognition of this.

5.6.2.3 Suggestions for new programmes.

Respondents were also asked about what new programmes they needed from the government in order to improve their business performance. Table 64 looks at the need for new programmes, and most of the responses (57.6%) stated 'neither disagree nor agree'. However, the respondents who wanted new programmes to be introduced (33.3%) were four times higher than those who did not want new programmes.

Table 64

Statement Related to Suggestions for New Government Programmes

Statement	Standard deviation	Mean	*SD %	D %	N %	A %	SA %
New programmes need to be introduced in order to assist SMEs	0.716	3.29	0.5	8.6	57.6	28.1	5.2

*SD = Strongly disagree(1); D = Disagree(2); N = Neither(3); A = Agree(4); SA = Strongly agree(5); % based on 210 responses.

The results of the interview question (Table 65) reinforced the findings from the statement question, where about half of the respondents (48.1%) gave neutral answers. There were various reasons for such a response. One is that some respondents did not think they would get help from the government and, as one respondent said, "*due to the size of my business, no matter how many programmes are out there, it will never be my turn to participate*." The small size of the businesses also means the programmes are not needed by some owners. In addition, according to the experiences of some respondents, providing workshops was a revenue-raising activity for the government, so they would prefer to find useful ones themselves. Another response was "*it is out of our hands*," which shows a negative attitude towards government-related matters. One respondent complained that the government should put the promises they have already made into practice and then the performance of SMEs would greatly improve. These examples show that government programmes, such as the National SME Galaxy Training Project, do not, in reality, apply to small-sized enterprises. In contrast, some businesses prefer not to have too much interference from government because:

> *Every company has different needs. The company can look for training agencies or learn from the internet based on their own needs. Therefore, it is better to leave it to the business.*

Table 65

Responses as to What Programmes the Government Should Set Up

Key Ideas	Frequency	Percentage②
• No need	101	48.1
• Do not know	34	16.2
• Establish a platform or unions for entrepreneurs to communicate	15	7.1
• Provide training for employees	14	6.7
• Any programmes that can benefit the business are welcome	12	5.7
• Courses for senior management	7	3.3
• 13 other ideas given by the respondents, each accounting for less than 3%	37	17.9
Total	225①	

① Many respondents gave more than one key idea.

② % based on total number of respondents rather than the frequency of ideas mentioned.

Another 16% of respondents could not answer the question about what type of assistance they wanted the government to provide. Together with those who answered 'no need', almost two thirds of respondents did not have any desire for new programmes from the government. Among the remaining responses, establishing a platform or union for the businesses to communicate was the respondents' most needed programme (7.1%). This was because they will help enterprises to "*exchange information*," "*share experiences and help each other*," and "*cooperate with businesses from other provinces.*" Programmes that provided employee training could benefit the businesses and were popular responses. Some programmes to provide training for senior management, help in accessing funds, technology, up-to-date information, and finding talent and business partners were each mentioned by at least five respondents (2%).

For the rest of the responses, which only accounted for very small numbers, there were two interesting suggestions (See Appendix 5.18 for the full list). In recent years, migrant workers have become a top concern for the government as they are an important part of the work force yet can also be a threat to social stability (Lewis & Xue, 2003). One response was concerned about services for migrant workers, as large numbers of them could be a problem for keeping social order. One respondent suggested that the government should establish some service facilities for migrant workers, such as reading rooms and entertainment places. These would not only increase the personal qualities of migrant workers, but also help stabilise society. Another response emphasised the importance for owners of organising fieldtrips to other countries. However, the respondent mentioned that there were such activities

available, but the purpose was just for sightseeing. One respondent explained the reason for organising such events was:

> *There are patterns in development. Western countries are more advanced than China, and whatever the problems that Western countries are facing, China will face the same problems one day. So the government should organise more fieldwork in other countries, which can give ideas for the future direction of the businesses.*

5.6.3 General comments from the respondents.

When asking for general comments on the Chinese SME environment, most respondents commented on more than one area. There were a total of 405 comments made about the SME environment. A dendrogram, presented in Figure 13, summarises these comments into six categories based on their commonalities. The most comments were given as to the current business environment (97), followed by the SME survival environment (80). The problem of lack of essential resources accounted for 75 responses, and there were 73 responses given to the market. For the comments concerned with the government (45), two areas were mentioned by the respondents: government attitudes towards SMEs and government policies. A detailed analysis of the key ideas presented in the dendrogram is given after Figure 13, based on the common characteristics and sequence.

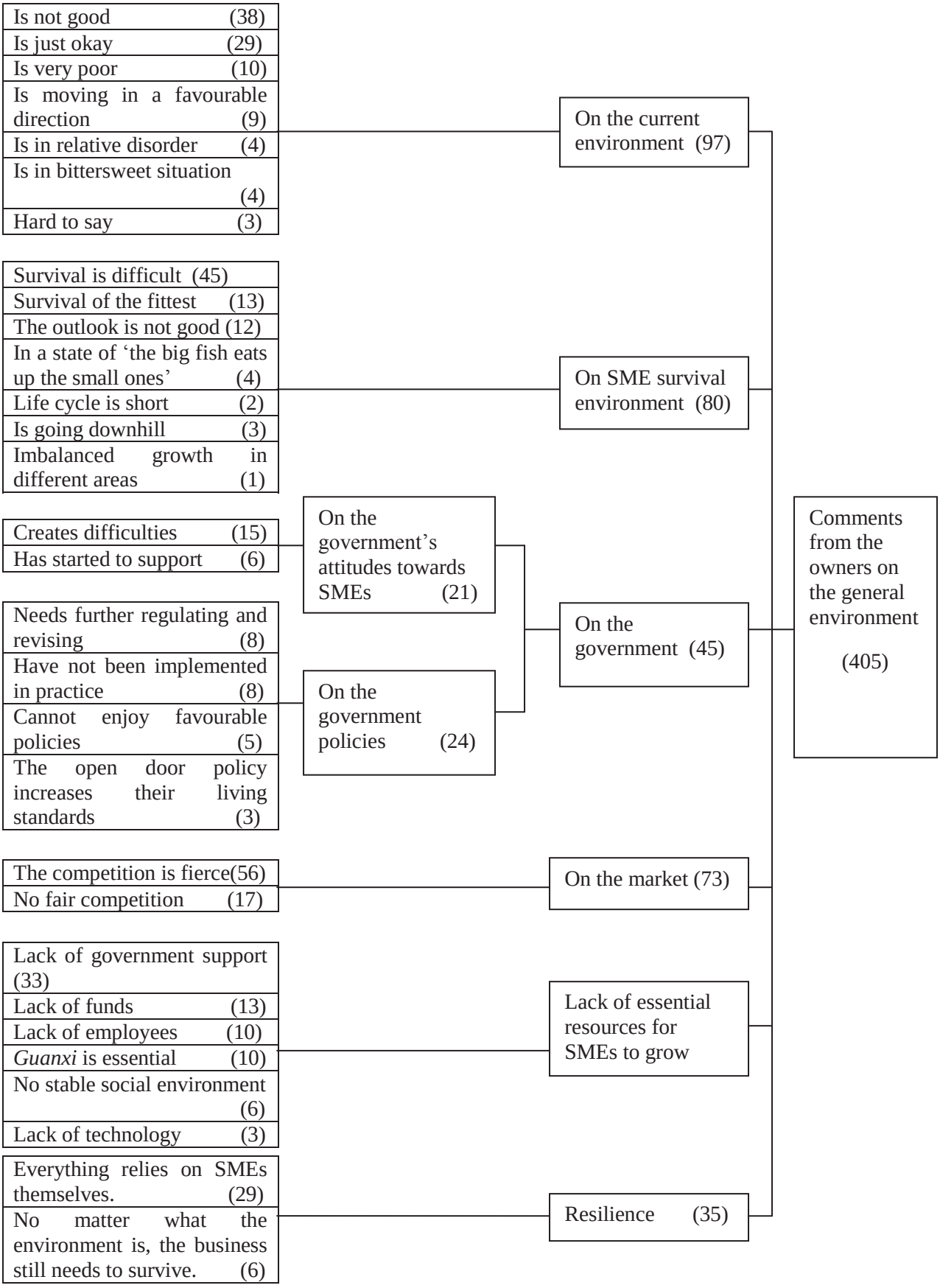

***Figure 13*. Dendrogram showing the owner's comments on the SME environment.**

Table 66 lists all the responses given by the respondents in sequence. The most common comment was made in relation to market competition, where 26.67% of respondents found that competition was fierce. Some of the businesses were facing competition not just from domestic rivals, but also from famous international companies. The impacts of these international companies on domestic companies tended to be dramatic because "*both customers and employees prefer them to Chinese SMEs*." Although competition is severe, some respondents explained how they hold their ground: through high quality products derived from good technologies and equipment and *Guanxi*, which "*makes everything become so easy if you have it*." The importance of relationships for SMEs to survive was pointed out by 4.3% of respondents (see Appendix 5.19 for the full list).

Table 66

General Comments on the Chinese SME Environment

Key Ideas	Frequency	Percentage②
• The competition is fierce	56	26.7
• The survival of SMEs is difficult	45	21.4
• The environment is not good	38	18.1
• Lack of government support	33	15.7
• The environment is just okay	29	13.8
• Everything relies on SMEs themselves	29	13.8
• No fair competition environment	17	8.1
• 23 other comments given by the respondents	158	75.2
Total	405①	

① Many respondents gave more than one key idea.

② % based on total number of respondents rather than the frequency of ideas mentioned.

The results also show that keeping the business going was a major issue for more than one fifth of respondents (21.4%) who felt that SME survival was difficult. The reasons behind this were the increasing wages of employees, commodity prices, and costs of raw materials; however, the businesses could not increase the prices for their products in order to keep their position in the market. This means "*the business can only survive with small profits and large sales volume*." This is a common strategy adopted by Chinese SMEs (Bei, 2011; Wu, 2010). There were also several comments relating to the Chinese SME environment. The most common was that it was not good (18.1%). A further 13.8% of respondents recognised that the environment was just acceptable, and these either had a very good relationship with the government or their products and services, such as those in the processing industry or providing environmental protection products, were better than their competitors. The importance of relationships was emphasised by many respondents, and this again

demonstrates the extent of *Guanxi* as discussed in Chapter 3. One respondent realised that in China, "*you could not do anything unless you knew some important people or you were in power*." Those who thought the environment was very poor accounted for 4.8%, and 4.3% of respondents considered the environment was moving in a favourable direction. Another 1.9% of respondents felt that the environment was in relative disorder. To sum up, none of the respondents was satisfied with the current environment.

The comment that government support was lacking accounted for 15.7%. Some respondents complained that, "*Even though the government kept saying they would support SMEs, they only say this verbally; there is no action*," and "*All we can depend on are ourselves; the local government does not give any help and is useless*." This may be due to the government still embracing the 'rule of man' way of thinking and some officials being unwilling to enforce the laws unless businesses bribe them (Keyuan, 2006). There were some areas noted where respondents thought SMEs needed support from the government, such as giving more assistance to small enterprises, helping SMEs with financing, getting projects, and finding workers and land. In addition, one specific area that was pointed out by the respondents was the problem of the government's limit on electricity usage, which hindered business expansion.

Among all the other responses, which each accounted for a small percentage, some insightful comments were given by the respondents. Firstly, some felt that the government created difficulties for SMEs with comments like, "*I have no hope for the Communist Party's policies*", "*To the government, SMEs only have duties and no rights*," and "*The problem of the local government departments abusing their powers is very serious.*" Some common entrepreneurial characteristics, such as being innovative, proactive, and aggressive, are identified by McGrath and MacMillian (1992) and Tan (2002). However, more comprehensive abilities are required for Chinese entrepreneurs as one respondent expressed his feeling from his experience in running his business:

> *Running a business nowadays is such a tiring job. The government asks you to protect vulnerable groups (employees) and also to make donations for many reasons. So, in China, for entrepreneurs, half of their body is human, 1/6 is animal, 1/6 is economist, 1/6 is politician…. This shows that Chinese entrepreneurs need to combine all these things together. For other countries, doing business is simple because they do not need to pay attention to many irrelevant matters.*

Secondly, an unfair environment was also a hurdle that many SME owners said they were facing due to high levels of malicious competition, which reduced profits as prices were forced down. One respondent complained that people just did whatever they wanted to. There was also a lack of unity for businesses in the same industry. In addition, SMEs were in a disadvantaged position when participating in public tenders due to the high criteria imposed for bidding (Wang & Liu, 2011). One

respondent found that the public biddings were not run in a legal, fair, and open way. SMEs had to pay a lot more to obtain the same resources that large businesses could get, so their costs were much higher. The respondent also believed that the main cause for this was the state system. Because of the problems discussed above, many respondents called for the government to provide an orderly and fair market environment for SMEs.

Thirdly, some respondents gave their opinion on the outlook for SMEs, which was not good or "*looks black*". This is because the government has not fully recognised the importance of SMEs in the Chinese economy despite what they claim.

> *Although the government affirms the status of SMEs, it has not thought through how to support and develop the SME sector. Many business owners in the manufacturing industry have closed down their businesses and are speculating on the stock market or in real estate due to tax burdens, malicious competition, and fluctuations in exports. Moreover, the government has allowed foreign investment into the industry, again highlighting the fact that the government only wants short-term benefits without looking at the long-term impacts on the national manufacturing industry. Without any government support, the national manufacturing industry will collapse.*

In addition, some respondents also had the same opinion and worried that small-sized Chinese enterprises would be eliminated or merged with bigger companies. This ties in with the beliefs of Anderson (1982) and Hoselitz (1959) who discuss that small businesses will eventually be taken over by larger ones.

> *I think one day there will be no Chinese SMEs because there are many problems in small businesses, such as the production of fake commodities and tax evasion, and these disrupt the market and threaten big companies.*

Fourthly, a lack of employees was a problem for some respondents. They recognised that the key for how well the enterprise would perform depended on how they nurtured the talents of their staff. Effective human resource management is vital for enhancing company performance and increasing competitive advantage so that employees' abilities cannot be copied by competitors (Noe, Hollenbeck, Gerhart, & Wright, 2007). The workforce was also recognised by the respondents as being as important as funds for their businesses. Two respondents, from different angles, explained why their businesses had the problem of a shortage of workers. One respondent believed that it was because of family views:

> *Today, parents do not want their children to leave home and live their own lives. The family education is wrong; the parents do not want their child to have a tough time*

working, especially in the North (of China). So, if children cannot find a good job, they would rather stay at home and be fed by their parents than accept hard or low paid jobs. This mentality also makes the workers become very fussy and lazy. It also restrains the further development of businesses as having skilled employees is now a key for business growth.

This shows that the traditional Chinese value of the importance of family in Confucianism (Pun et al., 2000) and Taoism (Fei, 1992) still has a huge impact. Also, Chinese people from the north and south have very different personalities, as mooted by Lin (1938), and this also has an impact on the business sector.

In contrast, another respondent had the opposite opinion on the reason for the lack of employees, which was that people could easily find jobs in China:

I have made several business trips to the USA and, by comparing Chinese and American workers, I found that American workers are more conscientious than the Chinese. In China, the situation is the opposite. Bosses have to beg workers to do their jobs. Also, while workers have been educated not to smoke in Chinese factories and employers have posted 'no smoking' signs on the wall, the workers still smoke. If the owners want to fine or punish them, they would just leave the next day. It is very interesting that 1.3 billion people in China are not afraid of losing their jobs.

His responses support Zeng's (2005) discussion on the 'rule of man' being embraced by Chinese people and the 'rule of law' embedded in Western culture. Therefore, owners are very frustrated at not being able to find a way to manage employees.

There were another two interesting comments offered by the respondents. First, several were concerned with the unstable social environment, which has more of an impact on individual households than other sized businesses. Second, some respondents thought that the current environment for SMEs was a bittersweet situation, full of both opportunities and challenges. This was because China was in transformation, both in both economic systems and structural change, which is reflected in state policies, principles, and plans. However, the respondent admitted that the key to success was in the SMEs' hands and depended on whether SMEs could grasp the opportunities or not. For SMEs, "*the prospects are bright; the rod has twists and turns*." Although policy changes may benefit SMEs, some respondents worried that the government's new development plan would cause the problem of "*robbing Peter to pay Paul*." This was seen in the situation ten years ago when production of low cost products was over-emphasised and over-supplied:

The government has put much effort into promoting businesses to produce high quality

products with high technologies. However, there are businesses needed to produce products for the low-end market. If all the businesses make products for the high-end market, they would produce too many to be sold.

5.7 Relationship Between Variables

This section evaluates relationships between variables. A cross-tab analysis and chi-square test of independence were applied to identify the relations between variables, and statistical results are presented.

5.7.1 Business operating time versus other variables.

The relationship between business operating time and 30 variables was examined. The full list of these links is shown in Appendix 6.1 and are arranged based on the four objectives of this study: awareness, understanding, attitudes, and suggestions. Table 67 only lists the significant results (from highest to lowest) that business operating time had with five variables. The longer the business had been operating, the more benefits it enjoyed from the SME Promotion Law, the more guidance it received from the government on SME policies, and the easier it was for them to gain access to loans. In addition, the longer the business had been operating, the more urgently they wanted the existing policies to be changed and the more likely they needed new policies to be introduced by the government. Detailed analysis of these five significant associations are given in Appendices 6.2 to 6.6.

Table 67

Significant Association Between Business Operating Time and Five Other Variables

Variables	Objective	Chi-square	*P*
Getting financial capital	Understanding	19.907	.000
Need for changing existing policies	Suggestions	9.188	.002
Need for introducing new policies	Suggestions	9.025	.011
Impact of the SME Promotion Law	Understanding	6.995	.030
Guidance in SME-related policies	Attitudes	6.549	.038

5.7.2 Education level versus other variables.

Statistical analysis is also applied to examine the relation between education level and two variables: the age of the respondent and the ability of the respondent to understand the policies. However, no significant associations were found (results are listed in Appendix 6.7).

5.7.3 Enterprise size versus other variables.

The relationship between enterprise size and 28 variables was analysed, and the results are presented in Appendix 6.8. There were 21 significant associations (shown in Table 68), which are categorised and discussed in four sections based on the objectives. The relationship column indicates whether larger SMEs receive positive impacts with different variables. A negative relationship means that smaller SMEs, rather than larger SMEs, enjoy more positive impacts from the variables. Among these associations, the majority of results meet the expectation that larger businesses tend to enjoy more benefits than smaller ones in six respects. Firstly, more information channels on policies or programmes are available for larger businesses. Secondly, the government services, programmes, and support are more helpful as businesses grow. Thirdly, the SME Promotion Law and Labour Contract Law have brought more positive impacts to the bigger enterprises. In addition, the larger the businesses, the more benefits they enjoy from the taxation reform, and they have greater availability of financial services and easier access to financial capital. Fourthly, government encouragement for the SME sector was more recognised by the larger businesses. Fifthly, the larger the businesses, the more important the relationship between them and the government became; being Party members could also bring more positive impacts to the businesses. Finally, larger businesses had more guidance in SME-related policies and training assistance from the government, and they also enjoyed more benefits from the current policies.

However, the results also indicate that there were two exceptions where the smaller businesses had more advantages or positive attitudes than larger SMEs. The larger the business, the less expectation they had of the government introducing both new policies and programmes. Thus, small businesses need more government help in their operations in the form of these policies and programmes. Compared with business operating time, the size of the enterprise clearly does play an important role in many aspects when running a business. Detailed analysis of each significant association is given in Appendices 6.9 – 6.30.

Table 68

Significant Associations Between Enterprise Size and Other Variables

Variables	Objective	Chi-square	*P*	Relationship
Government services	Awareness	28.630	.000	Positive
Government programmes	Awareness	23.027	.000	Positive
Impact of the policies	Awareness	8.143	.017	Positive
Information channel	Awareness	11.646	.020	Positive
Impact of the policy change	Awareness	11.104	.025	Positive
Impact of the Labour Contract Law	Understanding	31.868	.000	Positive
Access to financial capital	Understanding	24.042	.000	Positive
SMEs' dependence on government support	Understanding	19.830	.001	Positive
Impact of taxation reform	Understanding	14.795	.005	Positive
Impact of the SME Promotion Law	Understanding	12.455	.014	Positive
Impact of banking reform	Understanding	11.274	.024	Positive
Financial services	Understanding	10.811	.029	Positive
The government has encouraged SME development	Attitudes	24.868	.000	Positive
Training assistance	Attitudes	17.709	.001	Positive
Impact of current policies	Attitudes	12.983	.011	Positive
Impact of current programmes	Attitudes	10.858	.028	Positive
Benefits of being a Party member	Attitudes	11.365	.023	Positive
Usefulness of government information	Attitudes	11.035	.026	Positive
Building relationship with the government	Attitudes	6.345	.042	Positive
Need for introducing new policies	Suggestions	10.283	.006	Negative
Need for introducing new programmes	Suggestions	7.712	.021	Negative

5.7.4 Political status versus other variables.

In this section, the analysis focuses on whether being a Party member could have an impact on business-related areas, or whether the Party members had a different perception of government policies from the non-Party members. A chi-square test of independence was performed to examine the relation between political status with 15 variables (see Appendix 6.31 for the full list), and only five significant associations were found; these are ordered based on the significant results from highest to lowest (Table 69). The Party members were more likely to believe that the development of SMEs depended on government support, and they also seemed to understand the policies more easily than non-Party members. The Party members were also more likely to believe that being a Party member was beneficial for their businesses, and they had a higher desire for changes to be made to the existing policies than the non-Party members. Detailed analysis of each significant association is given in Appendices 6.32 – 6.35.

Table 69

Significant Associations Between Political Status and Other Variables

Variables	Objective	Chi-square	*P*
Perception that being a Party member is good for SMEs	Attitudes	13.681	.001
Understanding the policies	Attitudes	9.411	.005
SMEs largely depend on government support	Understanding	10.407	.009
Government encouragement	Attitudes	8.858	.012
Need for changing existing policies	Suggestions	7.503	.023

5.7.5 Regions and other variables.

SMEs in the three selected regions have been placed at different development and performance levels, as discussed in section 4.8.1. SMEs in the Jiangsu province had the highest revenue and total assets among the three regions, followed by Beijing, while those in Hebei province had the least revenue and total assets. Thus, these three regions could be ranked in order from the highest level of SME development to the lowest. By looking at the relationships between the SME location and the other variables, it can be seen whether the SME development conditions in different regions have an impact on the development of the SME sector and the government attitudes towards it. Thus, the relationships between the regions and 29 variables were examined; Appendix 6.36 shows all the results, which are arranged based on five categories: business background, awareness, understanding, attitudes, and

suggestions. Table 85 only lists 21 significant associations. Detailed analysis of each significant association is given in Appendices 6.37 – 6.58.

The results in Table 70 show that for the business owners, the better SME development environment in a particular region, the higher the education level of the SME owners. In addition, the results also indicate SMEs in the less developed regions, rather than those in the better SME developed regions, are more satisfied with the government services and policies. These findings are indicated as 'Negative' in the relationship column in Table 70. There can be many reasons for this. Firstly, SMEs in the less developed regions are more satisfied with information channels, government services, and government programmes. A more positive attitude towards the impact of policy change is also given from the participants in the less developed regions. Secondly, SMEs in the less developed regions had a more positive attitude towards the laws and the banking and taxation reforms. Thirdly, more positive attitudes were also found from SME owners in less developed regions towards government encouragement, the impact of current policies and programmes, government assistance, and charges for government services, and they also had a better labour quality. Lastly, SME owners in the less SME developed regions had less need for the government to change current policies and introduce new ones. However, two exceptions were found where SMEs in the wealther regions had advantages over those in the less developed regions. These are both related to the financing area and are indicated as 'Positive' in the relationship column in Table 70. The richer the regions, the easier it was for SMEs in these areas to access financial capital; adequate financing services were also available to them. More detailed analysis of each significant association will be discussed in the following sections.

Table 70

Significant Associations Between Region and Other Variables

Variables	Objective	Chi-square	*P*	Relationship
Government services	Awareness	57.611	.000	Negative
Government programmes	Awareness	43.112	.000	Negative
Impact of the policy change	Awareness	32.692	.000	Negative
Information channel	Awareness	15.429	.004	Negative
Impact of the SME Promotion Law	Understanding	32.708	.000	Negative
Impact of the Labour Contract Law	Understanding	42.480	.000	Negative
Impact of taxation reform	Understanding	33.147	.000	Negative
Impact of banking reform	Understanding	22.338	.000	Negative
Financing services	Understanding	31.548	.000	Positive
Access to financial capital	Understanding	34.067	.000	Positive
Guidance in SME-related policies	Attitudes	44.648	.000	Negative
Impact of current policies	Attitudes	33.357	.000	Negative
Impact of current programmes	Attitudes	28.002	.000	Negative
Benefits of being a Party member	Attitudes	26.327	.000	Negative
Technical assistance	Attitudes	20.284	.000	Negative
Training assistance	Attitudes	29.484	.000	Negative
The government has encouraged SME development	Attitudes	16.732	.002	Negative
Cost of government service	Attitudes	15.001	.005	Negative
Usefulness of government information	Attitudes	12.667	.013	Negative
Need for introducing new policies	Suggestions	25.390	.000	Negative
Need for changing existing policies	Suggestions	12.091	.017	Negative

5.8 Summary of the Chapter

In this chapter, descriptive statistics for the participants and their enterprises are introduced. The results of the four objectives of the thesis—SME owners' awareness, understanding, attitudes, and suggestions towards government policies and programmes—are integrated and analysed. Qualitative findings, by using cross-tabulation and chi-square, are also used to test the relationship between the different variables. The next chapter will discuss the key findings of the thesis's four objectives raised from the results presented and analysed in this chapter.

6 Discussion

6.1 Introduction

In Chapter 5, both qualitative and quantitative results have been integrated and presented based on the four objectives set out in this thesis: the Chinese SME owners/managers' awareness of current policies and programmes, their understanding of these policies and programmes, their attitudes towards them, and also their suggestions for improvements. This chapter presents the main findings emerging from the research results on the perceptions that the Chinese SME owners/managers have on the government policies. The discussion is structured and provided based on the research results shown in Chapter 5 and prior research findings given in Chapter 2 and Chapter 3. This chapter starts by discussing the key results of the four objectives. The roles of the Chinese government in the SME sector in the eyes of Chinese SME owners are then given. The influence of a key informal institutional factor in China—*Guanxi*—is also provided, followed by additional issues gleaned from this research study. The chapter ends with a revised model of the factors influencing Chinese SMEs that is based on the research findings presented in this chapter, combined with the review of the literature on the relation between government policies in general and China in particular in Chapter 2 and Chapter 3.

6.2 Awareness of Current Policies and Programmes

6.2.1 Awareness of policies.

The results from this research show that Chinese SME owners' awareness of government policies and programmes has improved in recent years compared with Yu and Bell's study in 2007. Only 20% of SME owners had limited ways of knowing or finding out about policies according to this research study; in contrast, there were low levels of awareness towards regulations in Yu and Bell's study. Only 21% of Chinese SME owners were aware of environmental legislation, and 39% of labour legislation. Yu and Bell (2007) explain that this could be because of SME managers' low levels of concern about regulations and also the media and government's failure to circulate information about them. However, the findings of this study show that the reasons proposed by Yu and Bell (2007) are not accurate. Firstly, Chinese SME owners/managers tend to use different channels to get information about government policies and programmes. Besides government infoming businesses, the owners have also become more proactive in finding information by themselves through exploring the media, searching the internet, and consulting with other people. This means the owners' concern in regard to the SME policies has increased. Thus, more than half of the respondents believe that there are enough channels for them to know about current policies.

Secondly, government officials do fulfil their duties. This is shown by the results of this study that show that the government's informing businesses of new and changed policies and organising training courses are the most popular ways for Chinese SME owners/managers to be aware of policies and programmes. However, significant associations were also discovered between the information channel and the size of the business (P = .020) and the information channel and location of the business (P = .004). These results indicate that larger SMEs have more information channels than smaller businesses, and SMEs in regions with a better business environment need more information channels than those in regions with less SME development.

However, although local governments have improved their practices in passing on government policies to the business sector, this does not mean that they do so fairly. The findings of this research reveal an informal insitutional factor that can have a great impact on the Chinese SME owners/managers' ability to be aware of government policies and programmes. This informal institutional factor is one of the key elements in Chinese culture, which is *Guanxi. Guanxi* plays an important role in deciding when the information will be released from government officers to businesses. Prior research in both China and other countries shows that having good relationships with government can help SME owners get better services and resources from the government, such as more information about government policies and funding (Hite, 2000; Peng, 2004; Welter & Smallbone, 2006). The results of this study are consistent with their findings. Further, this study also finds that Chinese SMEs with good relationships with local governments are better treated when it comes to accessing key resources.

Prior research fails to answer how better treatment from the government can influence SME behaviours, but it has been identified in this thesis. The earlier the businesses know about the policies, the more time they will have to adjust their operations to meet the new requirements. The results of this research also find that, in reality, the results of such close relationships go beyond merely gaining key resources, as found by other research conducted in China (Cao, Qian, & Weingast, 1997) and other countries (Shane & Cable, 2002). *Guanxi*, which is closely associated with reciprocity of favour exchange and is highly developed in China, has both strengths and weaknesses for the development of the SME sector. The negative impacts are that when *Guanxi* is built between the business sector and the politicial area, the issue of unfairness can be raised as the information and resources may not be distributed fairly to all the businesses by the government officials. What is worse, the findings of this research show that *Guanxi* can go beyond unfairness and cause the problem of illegal actions by the government officials as businesses that have a very close relationship with the government are even allowed to break the law. Thus, both the businesses and the executors of the laws ignore the legal requirements.

The government has set up services for Chinese SMEs and also launched several programmes to support their development. However, for Chinese SME owners, government services and departments are not their first choice for seeking help unless they have to complete legal procedures; this is in keeping with the decisions made by SME owners in other countries (Berry & Sweating, 2006; Jay & Schaper, 2003). The results of this study indicate that Chinese SME owners prefer solving problems by themselves or finding informal organisations because only around one quarter of them went to government agencies for assistance. This finding is consistent with the research undertaken by Dyer and Ross (2007) and Curran (2000) in the Western context, where SME owners' psychological traits of seeking autonomy and independence restrain them from seeking external help.

In addition, the research findings show that the SME owners believe the size and the location of SMEs are key factors in approaching government services. Only larger SMEs can enjoy and benefit from these services and departments as highly significant associations (P =.000) were found between the size of the business and the positive impacts of government services and programmes. Also, SMEs in regions with stronger SME development can benefit more than those in regions that had less SME growth. This means that government agencies in regions with better SME development provide more useful services and programmes to local SMEs.

6.2.2 Awareness of government services and programmes.

The findings also prove that Chinese SME owners do not desire to participate in any government or non-government organisations. This is because Chinese SME owners find government organisations cannot provide market-related information and training courses that meet the businesses' demands, which is in accordance with Atherton and Smallbone's (2010) and Atherton and Fairbanks' (2006) findings that Chinese government organisations lack knowledge of SME needs, although these are interpreted from the government's perspective. What is more, besides Tian's (2011) summaries of five types of unreasonable fees paid by the Chinese SMEs, the research results surprisingly find that the government also uses organising activities or programmes as a way of increasing their income. Rather than benefitting from the activities and programmes in which they willingly participate to upskill, in many cases, Chinese SME owners end up paying money for a return of little value. Those who do participate in government programmes do so because they receive much help and support. Participating in government programmes is also a way of currying favour with the government, implying that a closer relationship is built between the government and these firms. This is different from Osathanunkul's (2011) study that shows that the use of government assistance for Thai SMEs is related to the owners' characteristics and the nature of the businesses.

Besides the inefficient and insufficient information and programmes provided by the government organisations, this thesis also finds that government officials have negative attitudes towards Chinese

SME owners, which reinforces SMEs' negative impressions of them. Therefore, besides the two elements (psychological traits and ineffective programmes) that make SME owners in other countries prefer not to use government services, in China there is a third element: the bad attitudes of the officials. These three reasons mean Chinese SME owners prefer to use their own connections to find potential partners or go to informal organisations to look for training courses that meet their businesses' specific needs.

Similar to the results conducted in other countries (Audretsch, 2007; Lerner, 2010), providing innovative support to the SME sector is also given by the Chinese government. This thesis also finds that government organisations help Chinese businesses set up external networks, which is consistent with support provided by governments in other countries (Doloreux, 2004; Fukugawa, 2006). The research results show that helping Chinese SMEs have technical cooperation with universities is the major area that the Chinese government emphasises. However, an additional finding of this thesis is that there is also a condition for Chinese SMEs to enjoy effective support, which is that only businesses that produce innovative products can enjoy such help. The Chinese government's innovative poicy has the same problem as Mason and Brown's (2013) and Nauweladers and Wintjes' (2002) discussion on governments' bold generalisation of innovative support. The issue of the importance of considering the managerial and organisational abilities of the firms, which is raised by Cobbenhagen (1999), is also ignored by the Chinese government.

SMEs' participation in community projects is also part of this study. However, Chinese SME owners have two opposing opinions on such philanthropic activities. First, some owners are willing to support charitable activities. However, these owners normally have better-run businesses than the majority of the SMEs in the region, so they have enough funds to contribute to community projects. In addition, even though these businesses are quite large and successful, the owners are also aware that without local community and government support, their businesses would not operate as well. The awareness of the social responsibilities of the Chinese SME owners found in this thesis supports Holbig's (2002) discussion that philanthropic activities in China have a "glorious cause". Thus, their activities can be seen as returning favour to the local community; there is a reciprocal relationship in their philanthropic activities. Second, other owners treat philanthropic activities as a burden. There are two reasons for such an opinion. Some business owners found that giving support to different community groups and projects is the government's responsibility. However, the government wants to shift the burden to the business sector and requests that they make donations. Also, SMEs are sometimes forced by the local government to make contributions, thus encouraging negative attitudes towards the government. These owners are happy to make contributions to the local community, but the government should not force them to do so. Thus, this finding is in accordance with Wong, Wei, and Tjosvold's (2012) suggestion that Chinese government officials tend to simply order businessmen to follow their commands rather than encouraging them to cooperate.

6.3 Understanding of the Policies

6.3.1 Impacts of government support on the SME sector.

From the Chinese SME owners' point of view, the Chinese government certainly plays a positive role in entrepreneurial growth by removing regulatory restrictions on the private business sector and encouraging the development of SMEs. This finding supports Smallbone and Welter's (2001) discussion on the government's role in promoting SMEs and also in creating the organisational context in which private enterprises can operate (Ring, Bigley, D'Aunno, & Khanna, 2005). This view on the importance of government support in SME development is, however, significantly associated with two factors: the size of the business (P = .001) and the owners' political status (P = .005). Section 6.2.1 shows that the larger the size of the business, the more support it could receive from the government. Thus, it is not surprising that the owners of larger SMEs consider that the role the government plays in the SME sector is very important. The owners' political status also has an impact on the role that the government plays in the development of SMEs, but is different in that larger SME owners have more trust and confidence in the government. A more detailed discussion of the impacts of these policies and reforms is given in the following sections (6.3.2 and 6.3.3).

In addition, this thesis also finds that after 30 years of development of the SME sector, government support for Chinese SME owners is not seen as a crucial factor in developing their businesses. Less than 50% of them agreed that government support was important, and this supports the findings given by Smallbone and Welter (1999). Smallbone and Welter's study shows that firms set up in transition countries can survive and sometimes even grow despite government because of the firms' creativity and flexibility in adapting to the changing external environments.

6.3.2 Impacts of three laws concerned with Chinese SMEs.

Three important laws (the Labour Contract Law, the Property Law, and the SME Promotion Law), enacted by the government with the purpose of providing a better environment and protection for the business sector, do not actually achieve their desired outcomes. Among these three laws, the SME Promotion Law and the Property Law do not have any major impact on Chinese SMEs. The SME Promotion Law is considered by both the government and the SME sector to be a significant step in receiving government recognition of developing SMEs (Ouyang, 2009). However, in reality, the finding of this thesis discovers that Chinese SME owners found there was no change in their businesses before or after the Law was enacted. This is the same with the impact of the Property Law, which had no effect in the ease of obtaining loans for the vast majority of Chinese SMEs. In contrast, the impacts of the Labour Contract Law are very complex. More than 30% of respondents believed

that the Labour Contract Law negatively impacted their businesses, compared with 1.4 % for the Property Law. In addition, around one quarter (26.7%) of respondents felt that the Labour Contract Law brought positive impacts to the businesses, which was almost ten times higher than for the Property Law. Thus, this raises the question of why these laws, which were enacted by the government with good intention and high expectation, had neutral and negative impacts on Chinese SMEs. The results of this research find that the key reason is the government's lack of knowledge of Chinese SMEs, and it also reveals that the government needs to listen to the voice of the SME owners when developing policies so that they can be more effective.

The Labour Contract Law is a good example of explaining the negative impacts that the government's lack of knowledge of Chinese SMEs' operations and situations can bring to the SME sector. The major complaint is that the Law increases SMEs' financial burdens, which supports Tsoi's (2009) study on labour cost increases due to the Law. Two unexpected findings on the impacts of the Law are also discovered in this study, and they are: the Law overly protects employees' rights and unreasonable articles in the Law cause more problems for SMEs. Chinese SME owners think that the Law sets a very high standard which is beyond their abilities to achieve. They also believe that it is not applicable to the Chinese SME sector. In addition, currently, the majority of the Chinese SME workforce is less educated. The government did not take into consideration the fact that the quality of the Chinese SME workforce is very low because the majority is migrant workers from poor regions. They leave companies whenever they want, without giving any notice. The attitude of workers towards the owners is different from the older generations due to the culture changing from being trust-based to becoming more materialistic. Credibility is also now low. These findings also support Leung's (2008) discovery that current Chinese culture is becoming money orientated. Chinese SME owners, in this research study, also recognise that employees these days are not very grateful, which is different from the old days when employees with traditional Chinese values had a stronger family feeling for the enterprises and the owners (Liu et al., 2012). This thesis found that the younger generations in China are more money motivated, and they desire a higher standard of living than the older generations. Thus, younger employees are less attached to the businesses where they work. Many owners felt that the Law, by overly protecting employees, makes it hard for companies to manage new employees as they can leave when they want and often do not work as hard as they should. Some employees, who came from poor rural areas, have even harmed themselves in order to get high compensation from the companies.

Thus, the rights granted to the workforce by the Labour Contract Law make it hard for businesses to manage their employees, and the harmonious relations and trust between employers and employees are broken. In the SME sector, relationships between owners and employees are based more on Confucian traits, such as trust, harmony, and the maintenance of correct relationships (Hofstede & Bond, 1988). The Law has made the old trust-based relationships diminish.

There are two areas where Chinese SME owners find that the Law loses contact with the Chinese SMEs' reality. First, the findings of this thesis show that SME owners and even some employees prefer not to have written contracts. This is because the written contract can make both parties invest more time and energy into sorting out the new situations they face and the new problems that may occur. Tong and Yong's (1998) study that notes Chinese business owners are flexible in management is supported by these findings. Furthermore, some businesses have seasonal workers who only work for two or three months at a time. The high employee turnover means that it is not possible for business owners to register employees with the Labour Department. These workers are about to finish their jobs and leave before the registration procedure is completed. However, the Law requires Chinese business owners to have contracts with all their workers, thus adding to the owners' problems.

Second, some articles in the Law need to be amended because they contradict other laws. The Labour Contract Law requires the company to take full responsibility if an employee has an accident on the way home, no matter who caused it. However, based on the Transportation Law, employees should take responsibility. In order to avoid employees having traffic accidents on their way home at night, some business owners do not ask their employees to work overtime during the busy season. Thus, the findings of the SME owners' views on the impacts of the Labour Contract Law suggest that the policies made by the government lack consideration of the potential impacts on all the possible parties that the Law can affect. Also, the government lacks first-hand information and knowledge of the business operations when making business-related policies. However, the findings of this research show that there are two positive impacts on Chinese SMEs brought about by the Law. Firstly, the Law protects the rights of both employees and enterprises and, secondly, some businesses' employee turnover has reduced because having legal contracts makes employees feel secure and protected.

The three laws described in this section either have no major impacts or complex impacts on SMEs. However, the results of this research found that the positive impacts on SMEs of the SME Promotion Law and the Labour Contract Law are significantly associated with two factors: the size and location of the business. Larger SMEs enjoy more benefits from the SME Promotion Law (P =.014) and the Labour Contract Law (P =.000), and so, too, do SMEs in a region with less SME development (the SME Promotion Law (P =.000) and the Labour Contract Law (P =.000)).

The Social Security Law 2010 was not formally implemented at the time the researcher conducted the interviews, although Chinese SMEs had already started paying a certain amount of fees for the social security system. Some SME owners complained that the fees are too high and have become a burden for them. This finding is similar to Storey's (2009-2010) study on UK SMEs where SMEs sometimes view legislation as a burden because of the increased cost of compliance. The Social Security Law 2010 means that the burden for Chinese SMEs is even heavier than the old practices because all

enterprises need to pay five types of fees. Currently, China's social welfare payments are the largest among 181 countries (Bai, 2010; Huo et al., 2010).

6.3.3 Impacts of two systems: Taxation and banking.

The research results show that the taxation and banking reforms do not have a large influence on the SME sector. Comparing the impacts of the two reforms, the majority of the respondents did not notice any changes to their businesses. This finding is different from studies in other countries where favourable tax policies are positivily related to SMEs' behaviours (Bruce & Mohsin, 2006; Staber, 1999). However, the taxation reforms brought more negative impacts (28.6%) to the businesses, which was three times higher than the banking reforms. The negative impacts of the taxation reform found in this study support Tian's (2011) finding that many Chinese SMEs bear a huge burden when paying tax rates and fees.

Tian (2011), like Kanamori and Zhao (2004) and Pierson and Lee (2012), also shows that Chinese SMEs have a problem in accessing loans, and the findings of this study are in agreement with this. The banking reform and all the other measures that the government has adopted in order to provide financial support to SMEs do not actually make it easier for them to access loans. There are, however, two exceptions. One is when some businesses have *Guanxi* with banks, and another is when SMEs are in industries that are supported by the government. No matter whether businesses are able to benefit from the preferential policies or not, *Guanxi* can guarantee they are able to enjoy these policies. This finding is in accordance with Ahlstrom and Bruton's (2006) and Le et al.'s (2006) discussions that personal relationships with bankers in emerging countries is a key to help SMEs get loans.

The two factors, the size of the business and its location, which are significantly associated with the positive impacts the laws brought to SMEs, also play an important role for SMEs on whether they can benefit from taxation and banking reforms and their ability to access financial services and capital. Taxation reform (P = .005) and banking reform (P = .024) brought more positive impacts to larger SMEs, which can also enjoy more financing services (P = .029). The positive impacts of taxation reform mainly come from tax rate reductions (discussed in section 5.4.3.1). Thus, it can be assumed that larger businesses enjoy more tax cuts than smaller enterprises. Easier access to loans is the most positive impact that the banking reform has had on SMEs (see section 5.4.3.2), particularly for larger ones, and an extremely significant association is also found between the size of the business and its ability to access financial capital (P = .000). In addition, the location of SMEs is strongly associated with the impacts of taxation and banking reforms and financial services available in the region (P = .000). SMEs in a region with a better SME development level, rather than enjoying more positive impacts, find less positive impacts from the two reforms. This is because the regions with better SME development tend to enforce higher tax rates for local SMEs than those regions with poor SME

development levels. The banking services in regions with better SME development can not satisfy local SMEs' demands any more than the regions with less SME development. However, SMEs in regions with a higher SME development level are able to enjoy better financing services and have easier access to financial capital.

6.4 Attitudes of Chinese SME Owners

6.4.1 Attitudes towards government.

Surprisingly, although the government states that it has encouraged the development of the SME sector, the majority of Chinese SME owners (69.5%) have not noticed this and their attitudes towards government support are complicated. There are several reasons for these attitudes. The main issue is concerned with how the policies have been introduced. First, Chinese SME owners find that the policies cannot actually be implemented at the local level. This finding indicates that decentralisation means the central government loses the power to oversee economic development at the local level. Chinese local governments earned around half of the total government revenue; however, 80% of China's total expenditure is used by local governments (National Bureau of Statistics of China, 2010). Thus, local governments have to adopt some measures to keep up with local development and achieve the GDP growth rate set by the central government (Zhang, 2012). The results of this thesis show that local governments sometimes ignore the central government's policies in order to increase revenue as, for example, the central government has ordered local governments to stop demolition projects. This finding is consistent with Wu's (2010) argument that selling the land to large enterprises and property developers is the fastest and easiest way for the local governments to improve the local GDP growth rates. Thus, the major issue of law enforcement in China found by this thesis is not just caused by Keyuan's (2006) and Wu's (2005) discussions on the dominance of the ideology of 'the rule of man', but the cooperation between central and local governments is also an important factor in the success of the policies.

Zhang (2012) believes that the central government should not have tight control and needs to let go of the thinking 'do it all' in order to have better cooperation from local governments. However, this thesis finds an opposite opinion from the SME owners who believe that the decentralised power has made the local governments do whatever they want and become 'local emperors'. This opposing view relates to an old Chinese saying: 'the mountains are high and the emperor is far away'. Although the legal system is not perfect, how local governments implement the current policies plays a more vital role in the development of the SME sector according to this thesis. Thus, contrary to Zhang's (2012) opinion that the central government should give more power to the local governments, this thesis raises the issue of how to make local governments, which have greater powers to administer their jurisdictions, better cooperate with the central government.

Besides the local government not following the central government's directives, this thesis also finds that the local governments use their power to increase their own wealth, which supports Zhang's (2012) observation. The results in this study show that the local government officials require Chinese SMEs to pay unreasonable fees and also create intentional difficulties for businesses in order to collect more fines. In addition, some respondents complained that the government instituted too many exorbitant taxes and miscellaneous levies. The businesses had to pay these not only to the central and local governments, but also to the county level government as well. This heavy burden from local government is common in China as one key reason for the TVEs' decline in the mid-1990s was because heavy taxes, fees, and requirements from local governments made the enterprises' profits drop (Chow, 2002). Now, such behaviour from local government has become a major problem for Chinese SMEs. Thus, it is not surprising that Chinese SME owners recognise that the local government, rather than the central government, plays a more important role in their development. By having direct administrative rights and more decentralised power, the local government acts as 'the local emperor' in making decisions and administering the business sector.

Wank's (1995) contention that, of the two business strategies used by business owners in dealing with local governments (having a close relationship with or staying away from local governments), trying to have as little contact with them as possible is the preferred option for Chinese SME owners/managers. The results of this thesis support Wank's (1995) finding because interference from officials from different departments means Chinese SMEs have to devote much time and money to treating those officials. However, the findings also show that the Chinese SMEs that can buy more land are those that have a close relationship with the local government bureaucrats. Hence, corruption can be closely associated with *Guanxi*. These findings support Chen et al.'s (2010) discussion that anti-corruption is associated with a country's economic development levels. At the same time, corruption has become one of the characteristics of developing countires (Shleifer & Vishny, 1994).

The results of this thesis indicate that the question should be changed to how far the government should stay away from Chinese SMEs to be good for the development of the SME sector. This is different from Wu's (2010) opinion of how far entrepreneurs should stay away from politics to be safe for their businesses. The findings of this research show that, currently, interference from the local government is a big problem for the development of Chinese SMEs. These owners do want to grow their businesses, but they do not want to have more interference from the government, which is in accordance with North's (1997) belief that individual perceptions of the justice of the rules can affect performance.

However, these results also find that the attitudes towards government are significantly associated with two factors: the size of the business and its location. An extremely significant association (P = .000) between the size of SMEs and the government's encouragement was found, and larger SMEs

not only realise more encouragement from the government, but also recognise that building relationships with the local government is more important (P = .042) than do smaller-sized businesses. In addition, SMEs in a region with poorer SME development have more encouragement from the government than those in a region with better SME development because a significant association was found between the region and government encouragement of SMEs (P = .002).

6.4.2 Attitudes towards political status.

The SME owners do not think that being a Party member can make any difference to their business operations. The three most important elements they consider necessary for running a business are the owner's abilities, business sense, and technical skills. However, the findings of this thesis do not support Li et al.'s (2009) research that the owners' education level is the key factor. Thus, the political status and the standards that are set in order to become a Party member are not as important for Chinese SME owners as they are for people who work in government-related organisations. The only privilege for business owners who are Party members is that they can enjoy having more opportunities for contact with the local government. However, this study did not find that having such contact brings any benefits to their businesses, which is opposite to Knight and Yueh's (2002) finding that the Party member is associated with better personal income.

The findings of this study do show that having Party members within a business can bring some positive impacts. Chinese SME owners recognise that the characteristics of Party members are of a higher quality than non-Party members, which indicate that even in a market economy, Party members are still considered as advanced elements of different social strata as stated in the Constitution of the Communist Party of China (Communist Party of China, 2006c) for two main reasons. First, SME owners who are Party members have a better understanding of government policies than those who are not Party members because a significant association was found between SME owners' Party membership and their ability to understand policies (P = .005). Second, Party members work harder and more diligently and are also more willing to make personal sacrifices for the benefit of others. Thus, their positive work ethic can influence other workers. A highly significant association between political status and the positive impacts that Party members can bring to the business was found (P = .001). Chinese SME owners who are Party members have a stronger belief than non-Party members that being a Party member can bring benefits to their businesses (P = .000). This result indicates that Chinese SME owners who are Party members have noticed that Party members' positive work attitudes can influence other non-Party workers.

6.4.3 Attitudes towards government policies.

The findings on the attitudes towards the clarity of the laws and regulations concerning the SME sector and also their implementation guidelines are different from Zhu et al.'s (2010) study. In their study, Chinese SME owners found the policies to be very confusing. However, this study found that the majority of interviewees were easily able to understand these laws and regulations, although not all were clear as to the implementation guidelines. The main reason for this is that it is not necessary for them to know about the guidelines; they just need to follow the local government's orders.

Currently, the government policies and programmes provided for the SME sector are not considered to be very useful by the owners/managers. The complaints from Chinese SMEs owners are concerned with both the local and central governrnents. At the local level, the law enforcement from the local government officials and the policies made by the local government are major concerns for SMEs. The attitudes towards the central government policies are also not very positive. There are three key reasons why these policies are not as effective as they should be. First, this research finds similar results to those of Zhu and Sanderson's (2009) study that there is a lack of concrete regulations, and the policies are not always coordinated, which can be can be very problematic for Chinese SMEs. Further, policies can sometimes be in conflict with each other, mainly the central government ones. According to this investigation, the major concern from Chinese SME owners seems to be around the conflicting articles between the Traffic Law and the Labour Contract Law on the issue of dealing with traffic accidents.

Second, this thesis finds that the decisions made by the central government may create difficulties for SMEs. Yang (2007) discusses that the Chinese government is often ruled by Party policies, meaning some decisions are made by the top Party leaders; in addition, the rules for Chinese entrepreneurs are provided by the formal institutions (Smallbone & Welter, 2012). The findings of this thesis suggest that such a decision-making process can cause developmental barriers for Chinese SMEs because these policies lack consideration of the private business sector, and entrepreneurs are still not able to negotiate with the government. Many respondents complained about the policies on environmental protection. One found that the requirements for energy saving and emission reductions had put a lot of pressure on businesses. Nevertheless, all the business owners understood that these requirements had to be carried out to benefit society. In relation to this stance, Spence (2008) believes that Chinese economic development may be rooted in the Chinese government's quick responses to unpredictable development trends. However, hasty government responses can sometimes be problematic for businesses. The complaint from the respondent focused on how the government should carry out the policies. Premier Wen Jiabao stated in the Copenhagen Climate Change Summit (in December 2009) that China would have a 40% cut in emissions during the period of the eleventh Five-Year Plan (2006

– 2010). After the Summit, energy-saving policies started to be implemented around August 2009, which meant there were only four months left for the government to reach the 40% target. The findings of this thesis show that in order to fulfill this goal, the electricity supply was cut in many provinces, both to industry and, in some areas, to residences. For Jiangsu province, electricity was supplied for nine days and cut for five. This supports Fan's (2010) argument that Chinese SMEs have been under serious attack since the emissions' reduction policies were carried out. This thesis also shows that the unrealistic policies have forced Chinese SME owners to adopt illegal practices as some owners unlawfully bought electric generators, which were even worse for the environment due to the emission of carbon dioxide produced by the diesel.

This example shows that the Chinese government, when making policies, lacks consideration of the impacts on different parties. Every business has different needs and it is impossible for the government to make policies which can satisfy all of them. Zeng (2011) discusses that policies that can solve problems for the most can be called good policies. However, the research results reveal that sometimes the Chinese government does not consider the impacts of its policies on all the parties affected. In addition, the government still has the mindset of using extreme measures to solve problems in order to achieve certain targets or solve problems. The government should not be extreme left wing or extreme right wing as either of these stances can have difficult consequences. Nevertheless, this has happened in PRC history and brought disaster to China. The Cultural Revolution in Mao's reign tried to destroy extreme right thinking, such as capitalism, in China; however, it became an extreme left movement, which put Chinese economic and social development in ruin (Yu, 2005).

The participation in the global economy and the joining of the WTO have opened up the Chinese market to foreign businesses (Wu, 2008). The government has also opened certain markets, such as financial institutions and the security equipment industry, to foreign companies. One issue that was raised in this study is that the government seems to ignore the protection of national industry. For example, one business owner, whose business is in the Chinese security equipment industry, complained that the government had allowed foreign companies to enter the industry a few years ago. What worries him is that now all the important government organisations are using these foreign products. This owner felt that the current government's decision to open up some industries showed it did not think about protecting and nurturing national industry. Opening the security equipment industry to foreign companies has also put national security under threat because some foreign countries could possibly put listening devices or other equipment in their security products. In the modern China period, the development of national industry was destroyed in the 1920s when Western countries, such as Britain, the USA, and Japan, forced the Chinese government to open its market to them (Fang, Ma, Geng, & Gong, 2010).

The third reason found by this thesis as to why these policies are not as useful as they could be is that some policies lose contact with the real conditions that Chinese SMEs face, such as low quality of labour, which put the SMEs in a difficult situation. Thus, the supposedly ideal government polices are not able to be implemented. One negative consequence caused by these kinds of policies is that they force both the local government and businesses to adopt illegal or unreasonable practices to reach the high goals set by the government. Radaev (1994) believes that in transition economies, an inadequate legal system can become a major hurdle for entrepreneurs. However, this is certainly not the case in China as Wu (2008) finds that one important reason for the fast development of Chinese private businesses is the imperfect business sector legal system. The legal system is improving, but many policies are unrealistic and contradict each other, which creates more difficulties for the Chinese businesses. Therefore, Chinese SMEs still tend to use illegal practices when operating their businesses, taking advantage of legal loopholes to do so. Some respondents reported that, among all the policies, they only benefited from those cracking down on unlicenced businesses or businesses using illegal practices because these policies were creating a better market environment for fair competition. For those SME owners who have benefited from the government policies, their businesses are either large in size or in a region with better SME development. The larger the business, the more positive the impact they receive from current policies (P = .011). SMEs in the less SME-developed regions also found more positive impacts of government policies (P = .000) and were also more satisfied with the guidance in SME-related policies (P = .000) they received from the government than those in the better SME-developed regions. These results indicate that, currently, policies enacted by the government are more concentrated on SMEs that have developed to a certain size, and they are also more effective in helping SMEs in less developed regions.

6.4.4 Attitudes towards government services.

The findings of this research indicate the Chinese SME owners prefer government training and assistance due to the limited abilities of the owners in having enough time and resources to train their employees by themselves or find non-government organisations that provide such assistance. This finding supports Caniels and Romjin's (2005) belief that SMEs need external support. However, the results of this thesis show that Chinese SME owners are not satisfied with the services provided by the government. Besides the lack of experienced officials revealed by Atherton and Smallbone (2010) and inefficient programmes (Abdullah et al., 2001), the findings of this thesis also show that Chinese SME owners consider there is lack of technical assistance and training programmes provided by the government. This means that the government assistance in China is not sufficient, which is consistent with Tambunan (2007) and Hashim et al.'s (2007) studies that the government services can not meet the SMEs' requirements. More complaints about insufficient government assistance are given by SMEs in the regions with higher levels of SME development. Thus, the finding of this thesis suggests

that the government services in these areas need to be updated to better cater to the rapid development of the local SMEs. This opinion given by the respondents on the government services is in accordance with Atherton and Fairbanks's (2006) finding on how the Chinese officials see the services provided by them to the SME sector. However, this thesis shows that officials working in the government services do have a thorough understanding of policies and government programmes, and are also aware of their changes and updates. The key issue for the Chinese SME owners is that this information is not made available to all SMEs unless businesses go and consult with the officials.

The size and location of the businesses are also key factors as to whether they can receive government services and how useful they may be. The larger the businesses, the more benefits they can gain from government programmes (P = .028), the more training assistance they can receive (P = .001), and the more useful is the information provided by the government agencies (P = .026). SMEs in a region with poorer SME development are more satisfied with technical and training assistance provided by the government (P = .000), and the information provided by the local government is more useful to them than in regions with better SME development (P =.000). This means that the current programmes, services, and information provided by the government are designed to help larger SMEs. However, these programmes, services, and information can only meet the demands of SMEs in the less developed regions. SMEs in the better SME development regions require better sevices and more effective information from the government.

6.5 Suggestions

6.5.1 Government's attitudes towards large businesses.

It is not surprising that this research also finds that the SME owners recognise that the government still gives priority to large businesses, regardless of how much it states that it has put more emphasis on the SME sector (Feng & Wang, 2010). Feng and Wang discuss that for countries in economic transition, the government tends to allocate economic resources to larger businesses. This study also finds the local legislative enforcement favours the larger businesses within the SME sector because of their significant contribution to local development. As their businesses develop, some Chinese SMEs, especially medium-sized businesses, require more land to expand. This finding supports Thitapha's (2002) argument that SMEs in developing countries are constrained by insufficient infrastructural resources. However, land is a resource that is difficult to access in other countries, and the finding of this research shows that the SME owners' difficulty in getting land is particular to China. It is hard for them to get land because the local governments normally only sell land to large enterprises. Land is now the most valuable state-controlled asset and has become a major channel for corruption (Deng, Zhang, & Leverentz, 2009). Similar findings are also given in Yu and Bell's (2007) study. The findings of this study also reveal that as well as the larger-sized businesses, Chinese SMEs in hi-tech

industries have attracted positive attention from the government. This is because they are in accordance with the central government's strategy to upgrade the business sector's ability in technological innovation. This supports Walder's (1995) discussion on the central government playing a role in managing the industrial economy. Based on their experiences, Chinese SME owners also notice the problem with the local governments' investment policies. Local governments prefer big businesses or projects rather than providing land or resources to Chinese SMEs. Thus, Chinese SME owners complained that the majority of the government's tax income was from SMEs; however, there was no single policy to grant any rights to SMEs.

6.5.2 Suggestions regarding policies.

The key obstacle for the development of Chinese SMEs is the underdeveloped regulatory and legislative framework (Atherton, 2008). However, Chinese SMEs do not have a strong desire to change the existing policies or demand new ones from the government. The vast majority of them think that making policies is the government's responsibility and they cannot influence the government's decisions in any way. Thus, they just follow the rules. However, some policies that SME owners wish the government would change include: the overly-protected employees' rights and the rules in handling traffic accidents in the Labour Contract Law; a reduction in the financial burden caused by high tax rates and unreasonable charges; and the unfair market competition. However, the dismissive attitudes expressed by the government make Chinese SME owners feel that there is no hope for them to be able to suggest any changes because the government would not listen and does not care. In addition, some Chinese SME owners also want greater recognition because no matter how much they contribute to local development, the government just takes it for granted. Thus, Chinese SME owners also need to feel they are valued by the government.

Some respondents also gave more insightful comments on the need for improving the legal system. One explained that the current legal system gave opportunities for unscrupulous businessmen and, nowadays, it only restrained ordinary people. This supports Smallbone and Welter's (2001) findings on SME development in transition countries that SMEs can grow despite government. The higher the rank of the officials, the less they were restrained by law. This may possibly be associated with Wang and Sun's (2008) finding that the higher the rank of corrupted officials, the more illegal economic returns they received in China. In addition, currently, laws tend to focus on business activity, yet many problems are not caused by businesses. For example, one respondent explained that his business wanted to buy disused tyres from drivers. However, many drivers could not provide invoices for the tyres, meaning the business had to find ways of getting invoices. Sometimes they had to buy false invoices if there was no other option, but had to take full responsibility for these if the tax bureau found out about them.

Chinese SME owners show similar attitudes towards the introduction of new policies. There are two possible reasons for this. First, they think that these are beyond their control and are the government's responsibility. Thus, they do not think much about policies but focus more on running their own businesses. The larger SMEs, however, have more of a desire for the government to introduce new policies, particularly ones that are more supportive of SMEs. Second, some Chinese SME owners think that the performance of the SME sector can be improved if the current policies are properly enforced by the local government. This finding emphasises the important role played by local governments in the development of the SMEs (Qian & Xu, 1993). The results of this research also indicate that, presently, the key problem with the local government is not a matter of how many policies the government can enact for the SME sector, but whether these policies can be enforced properly and fairly.

Smallbone and Welter (2012) discuss that neither the government nor Chinese entrepreneurs have much interest in finding the best institutional rules because both prefer to explore what can be done within the rules that exist. The findings of this research support their discussion from the Chinese SME owners' perspective. Some negative perceptions towards the government were found in this thesis in the areas of irrational government policies and the misconduct of local government officials. The largest burden for Chinese businesses comes from government intervention. Even individual households frequently had their business operations disturbed by the government charging unreasonable fees or fines, which made the SME owners scared to see them. In addition, some studies show that there is a strong link between government officials' misuse of their power and corruption activities (Keyuan, 2006; Zhang, 2011). This phenomenon is also observed in this thesis. The findings of this thesis also commonly appear in other transitional countries and support Frye and Shleifer's (2001) and Walder's (1995) discussions on the Chinese government's use of the helping-hand model, in which the illegal practices of the government officials and corruption are commonly found, to manage SMEs.

Furthermore, Chinese SME owners' suggestions on policies differed depending on four factors: business operating time, the size of the business, the location of business, and the owners' Party membership. The results show that the longer the business has been operating, the more urgently it wanted the existing policies to be changed (P = .002), and the more needs it had in hoping the government would introduce new policies in order to have further growth (P = .009). More policies are also demanded from larger SMEs (P = .006); further, SMEs in a region with less SME development have more desire for changes in existing policies (P = .000) and introducing new policies (P = .017). In addition, Chinese SME owners who are Party members have a greater recognition that the exsiting SME-related policies should be changed than those who are not Party members (P = .023). The findings prove that current policies cannot foster the further development of larger SMEs and SMEs in the better SME development regions.

6.5.3 Suggestions regarding programmes.

Similar results can also be seen from the SME owners' suggestions for new government programmes. However, the majority of them do not have any opinion on this matter as they do not need such government programmes because of the small size of their businesses and the existing ones are not useful. Therefore, they prefer to independently find programmes provided by non-government organisations. Establishing a platform or union for the businesses to communicate was the respondents' most needed programme. This could help enterprises to exchange information, share experiences and help each other, and cooperate with businesses from other provinces. This finding supports Curran and Blackburn's (1994) discussion on the importance of interpersonal networks for SMEs. Further, offering training for senior management is important for many Chinese SME owners. This is because the managerial skills that they are using are not suitable as their businesses grow and proves that Chinese SME owners lack sophisticated management skills, as seen in Zeng's (2005) study. In addition, larger SMEs require more programmes introduced by the government as a significant association was found between the size of the business and the need for introducing new programmes (P = .021). These results indicate that current programmes provided by the government cannot meet the demands of larger businesses' development.

6.5.4 Comments on the Chinese SME environment.

Comments from the Chinese SME owners show that they are not satisfied with the current SME environment. In addition, fierce rivalry is now a top concern for Chinese SMEs as they face competition from both domestic rivals and international companies. The strong competition, together with the increasing wages of employees and costs of raw materials, makes the survival of Chinese SMEs difficult. In order to carry on, Chinese SME owners have to lower their prices, improve the quality of their products, or use *Guanxi* to get business contracts. Thus, the results of this research expand Tang and Hull's (2011) discussion on the strategies used by Chinese SMEs (cost-control and innovation). Chinese SMEs also use an informal institutional factor—*Guanxi*—as a strategy to develop their businesses. Thus, this supports North's (1990) discussion that informal institutions are also an essential element in firms' growth. Also, the role of informal institutions depends on a country's institutional context (Sheng et al., 2011). This thesis shows that for a country like China, which has a strong cutural heritage and a weak formal infrastructure, the role of informal institutions has become more important.

Chinese SME owners' general view of the SME environment is also negative. Peng and Heath (1996) note that the perceptions that Chinese SME owners have towards China's changing environment are important because SMEs can have a profound impact on the success of China's economic transition into an entrepreneurial economy driven by the market. However, the results of this research indicate

that the current SME environment makes it hard for Chinese SMEs to make their contribution to China's economic transition. This is because the government support of the SME sector is not carried out in reality, and the government officials still use the 'rule of man' approach to administer the business sector (Lin, 2007). The misue of administrative power from the local government also creates difficulties for the growth of Chinese SMEs, which is also found by Keyuan (2006). Not only do Chinese SME owners have negative attitudes towards the current SME environment, but also for the outlook of the SME sector. The major concern of Chinese SME owners is about government policies. Aldrich (1990) and Wang (2011) consider that the environment can be designed or changed by the government through enacting policies in order to provide a better and more desirable environment for business, and Chinese SME owners' perceptions support their belief.

However, Chinese SME owners found the government policies lack a thorough consideration because the government only wants to have short-term benefits without looking at the long-term impacts. Lack of overall perception and long-term planning in the development of the Chinese SME sector means the SME environment is in a bad condition. This research finding shows the importance of government in providing supportive infrastructure to the SME sector (Qian, 2003) and also supports Atherton and Fairbanks' (2006) discussion on the Chinese government's policies' and services' lack of a coherent and clear rationale. Thus, Chinese SME owners have a strong belief that the only one who can help them is themselves. The results of this research also show that Chinese SME owners concentrate on the business operation, such as funding and technology, rather than on other social areas as their own business functions is an area where they need the most help from the government.

6.6 The Roles the Chinese Government Plays in the SME Sector

The findings of this research show that the Chinese government, as with governments in other countries, influences the development of the SME sector though a factor of formal institutions: policy (Jetjar & Acs, 2013; North, 1990). From the perspective of the Chinese SMEs, government policies have a great impact on them. The larger the business, the more positive the policy impacts (P =.017). Thus, this supports the Bolton Committee's (1971) discussion that policies have different impacts on firms of different sizes. In addition, the Chinese government plays an active and important role in delivering the latest information on government policies and programmes to Chinese SMEs. The findings of this thesis support Wong, Wei, and Tjosvold's (2011) discussion that the Chinese government still has great power in the socialist market. The results also show that compared with central government, local government is more important in the eyes of Chinese SME owners. The main reason for this is the intertwined relationship between politics and the business sector in China.

Deregulation gives more incentives to local governments to develop local business sectors; in addition, greater knowledge of local firms helps the local governments to provide more effective measures for

firms (Qian & Xu, 1993). This local development state model is a key to the success of Chinese economic development (Duckeet, 2001). However, the results of this research show that this model that provides the local governments' direct administration rights over the business sector has now become an obstacle for Chinese SMEs. The local government departments can cause trouble for the firms, such as paying unreasonable fees and lowering product prices, if the latter cannot satisfy government officials' demands. Thus, Chinese SMEs have to maintain a good relationship with the local government in order to avoid potential and significant difficulties. In addition, owners who have a good relationship with the government get better treatment for their businesses as, for instance, easier access to loans. Such *Guanx*i between businesses and the government has caused unfair market competition and corruption. The findings of this thesis support Qian's (2003) belief that decentralisation makes the local government become a regulator of the region; there is also a closer relationship between local government and the SME sector in countries that use the helping hand model to manage the business sector (Dennis, 2011).

For the Chinese SME owners, the main reason they feel the policies do not fulfil the purposes the government stated is because the policymakers do not have knowledge of the current status of the SME sector when they make policies; therefore, the policies either have no real impacts or are hard for SMEs to implement. Further, policy effectiveness is also connected to the Chinese culture as law enforcement relies on local government to implement the policies, which indicates the importance of the informal institutions in China. The relationship between the businesses and the local government officials has an impact on how the policies will be enacted and what treatment the businesses will receive. Thus, currently, the rule of man thinking embedded in Chinese people and the rule of law ideology promoted by the government both exist in China, and they both have an influence on the business environment. Thus, the importance of socially-embedded institutional factors such as culture on the business sector as discussed by North (1990) and Pejovich (1999) is supported by this thesis.

North (2005) and Peng (2003) discuss that the weak legal system in transitional countries makes the informal institutions appear to be more important, and their arugment is supported by the Chinese context. The findings of this thesis further reveal the consequences of stronger informal institutions and weaker formal instutitions on the SME sector. One of the negative impacts is that it leads to government officials' misuse of both the rule of man and the rule of law approaches. The misconduct of the officials has also created unfair market competition. Currently, the major complaint from the Chinese SMEs is not of the competition between the SMEs and the large businesses as found in other studies (Feng & Wang, 2010; Zhong, 2012); in contrast, it comes from the SME sector itself. Chinese SMEs that have a better relationship with the government can enjoy better treatment, such as easier access to resources and information, or sometimes they can break the law to operate under the

permission of the local government. Thus, many owners call for a fair business environment because they want to be treated equally.

6.7 The Importance of *Guanxi* in China

The findings of this research show that the informal institutional factor of *Guanxi* has an impact on firms' behaviours and the owners' strategic decisions, which supports the argument of the role of informal institutions in transitional countries given by Smallbone and Welter (2009), Keister (2009), and Wright et al. (2005). Chinese SME owners need to adjust their strategic management practices and develop multiple growth strategies, including those used in the West (cost-leadership and differentiation) (Porter, 1993) and a traditional Chinese strategy (*Guanxi*) in order to meet the changing environment. During the transitional period, the imperfect legal system and poor law enforcement encourage Chinese SMEs to keep adopting the traditional strategy of having a good relationship with local governments. *Guanxi*, as a strategy, involves establishing networks between businesses and also businesses and the government. This research finds that often, information provided by the government services is not useful to SMEs, thus making the traditional strategy of *Guanxi* more important for Chinese SME owners to communicate with other business people in order to get efficient market information and find potential business partners.

In addition, the findings of this thesis show how *Guanxi* can be important for the Chinese SME owners to build up their social capital because it can provide them with useful information and also improve their external relationships. The results of this research show that the development of SMEs largely relies on the business owners' strategic decision making. Some owners have built good relationships with government officials and also organise and participate in activities in the county rather than keeping a distance from the local government like most SME owners in China. Thus, these results show that of the two strategies proposed by Wank (1995) on the relation between firms and local government, building a close relationship with government is seen by Chinese SME owners as a more effective option than staying away. In turn, the government pays more attention to the development of the business by keeping it informed about policies and business-related activities. Thus, *Guanxi* with the local government and a good reputation in the local community have become important sources of social capital for businesses, and a lot of useful information is obtained through these channels. In addition, this research study not only supports previous studies that suggest that good relations with local government can help SMEs enjoy better resources (Agrawal & Knoeber, 2001; Cheng, 2005; Faccio, 2006), but also found that it can reduce the obstacles created by government officials.

Besides the relationship between government and SMEs, the findings of this thesis also show that Chinese SME owners notice that there is a lack of cooperation and trust between businesses within the

same industries. For example, they all know the lowest prices they should set up for the products and they have an agreement of not further reducing these. However, some owners ignore the agreement in order to sell more products. Therefore, all the other players have to reduce their prices, and this has made the businesses struggle to earn revenue. Thus, the results of this thesis show that the traditional Chinese business value of self-loss in terms of reciprocation, which has been discussed by Yueng and Tung (1996), has diminished. The loss of this value is also considered by the Chinese SME owners as a key factor for causing chaotic market competition.

6.8 Additional Findings

6.8.1 Issues around competition.

Along with the growth of the SME sector and its increased participation in the global economy, Chinese SME owners find that they face fiercer competition. Competition for low prices no longer brings business success. Thus, the findings of this thesis show that Chinese SME owners have a need to improve their competitive ability by providing better-quality products and more innovative technologies. However, there are two problems related to the current competitive situation in China.

The first problem is that Chinese competition is not freely determined by changes in the market. The purpose of building a socialist market economy since Deng's era is to manipulate the market through supply and demand. However, the intertwined relationship between the government and the business sector, especially large businesses, means that the government does not put emphasis on the development of Chinese SMEs, which causes the second problem—disordered market competition in the SME sector. The finding of this thesis reveals that regional differences are an important reason for unfair market competition in China. Many preferential policies were issued with the purpose of promoting the economic growth of less developed regions (Zhou, 2012), but Chinese SMEs in the regions without any preferential policies were forced to reduce their prices in order to compete with those firms with better policies that could produce goods at a lower cost. Cost-control strategies are still the key approach that Chinese SMEs use (Tang & Hull, 2011). The consequence of adopting a cost-control strategy is that if one firm reduces its price, all the other businesses in the same industry have to reduce their prices as well; otherwise, they will lose their market share. Continual cost reduction also means that the quality of the products cannot be guaranteed because firms have to use cheaper raw materials to produce the same products (Wu, 2010).

Another reason for the unfair market competition is that Chinese SME owners in the same industry lack cooperation and trust. This thesis finds that many Chinese SME owners only concentrate on their short-term gains by selling cheaper products (Li & Zhang, 2007). Some SME owners complained that although they had an agreement with other business owners in the same industry on setting the lowest

retail price for the products, other business owners ignored the agreement in order to get more contracts by further lowering their prices. Thus, the owners who followed the agreed price had no choice but to lower their prices as well in order to survive. Pyke (1992) discusses the importance of both competition and cooperation between SMEs to help them gain a competitive advantage through collaboration. However, in China, the importance of cooperation is ignored by the majority of Chinese SME owners. Regarding the question of whether any Chinese private enterprises can become one of the Focus 500 Companies, Duan Yongji, the Deputy Chairman of the National Association of Industry and Commerce, gave the clear answer of 'No'. He points out that the reason for this is that in China, the government puts all its effort into controlling and administering enterprises, while the businesses themselves are willing to take any measure in order to survive (Yu, 2005).

The government's ignorance and fierce competition cause SME owners to have a negative outlook on the development of the Chinese SME sector. Chinese SME owners find that the central government does not really put any effort into promoting them. In addition, it lacks strategic and long-term perspectives when making policies. The purpose of the policies made by the central government is to keep GDP growth high; however, the consequences of these policies are that they cause imbalanced development among industries and the market and the local government's unsystematic developmental strategies. In addition, the interference from the local government causes SMEs to have resistant and annoyed attitudes towards the government.

6.8.2 Regional differences.

Three regional differences are found in this thesis.The first one is that the characteristics of people in the north and south are different. In ancient times, northern China was the place where many wars occurred, and southern China is famous for the prosperity of private businesses (Wu, 2012b). Thus, Lin (1938) discusses that people in the north and south have different characteristics due to the different social development in these two regions. This study's findings support Lin's discussion. Although the private sector was only allowed in the late 1970s, more people in the Jiangsu province started their own businesses earlier than in Beijing and Hebei province. People in these latter two regions preferred to work in SOEs or TVEs. The first impression that the researcher had after completing interviews with SME owners in each region was that Chinese SME owners in Jiangsu province have more experience and more interest in developing their businesses. They adopt a more active role in getting information and resources by using different measures. In addition, a highly significant association (P = .000) is found between SME owners' education level and the SME development environment in the region. This indicates that people with a higher education level can more effectively use their knowledge and skills in starting their businesses in a better business environment. Moreover, there is a closer relationship between the businesses and the government officials in Jiangsu than in the other two places. Treating government officials who visit the

enterprises with lunch or dinner or offering them two packs of cigarettes of a certain brand (no matter whether the visitors are male or female) have already become norms in Jiangsu. In contrast, Chinese SME owners in Beijing and Hebei province, although they still treat the officials politely and some offered lunch to the officials and the researcher, it is obvious that the distance between the SME owners and the officials is greater than in Jiangsu. This supports the model proposed by Peng (2004) that informal norms can be built on connections. This research goes one step further to discover that informal norms can be developed not only between potential business partners, but also between the business sector and the political sphere.

The second difference is that policies are implemented differently in different regions. Beijing is the only region among the three that was not affected by the policy of limited electricity usage. SMEs in Jiangsu and Hebei had their industrial electricity cut for five days and only supplied for nine days, but SMEs in Beijing were not affected by such a policy. In Hebei, the local government even cut commercial power. Aidis's (2005) study of SME owners in Lithuania finds that business location can shape small businesses: SMEs located in smaller cities or rural areas are more affected by formal barriers, such as implementation of business regulations, too many tax inspections, corruption, and lack of information. The results of this thesis indicate that Aidis's findings also apply to Chinese SMEs. However, Beijing being the capital certainly has an impact on the businesses and the owners/managers. Chinese SME owners in Beijing expressed more concerns with the political issues in China. This is not surprising as people in Beijing are more exposed to information about the government and political issues.

Third, the results from the location of the businesses show that the impacts of government programmes and services on Chinese SMEs are different in the regions with different SME development levels. Chinese SMEs in the higher SME development region (Jiangsu) are less satisfied with programmes and services provided by the government. This result indicates that the government programmes and services provided there cannot meet the local SME demand because SMEs are more sensitive to market changes and also have faster business development.

6.8.3 Size matters.

The results of this research find that the size of the businesses has a significant impact on Chinese SMEs' ability to access government information and services. Larger SMEs have more information channels to know about government policies and also receive greater benefits from them as a significant association was found between enterprise size and the information channels they had (P = .020). In addition, extremely signicant associations were found between the size of the business and the helpfulness of government services and programmes (P = .000). The main reason for these results is that currently, the government programmes and services are aimed primarily at larger businesses.

Micro- and small-sized businesses are not eligible to participate in these services. However, some, due to their small size, have no need to participate. This means that smaller businesses have no need for contact with institutions; however, smallness of size can also become an obstacle for getting loans (Kanamori & Zhao, 2004; Wan, 2011) and other government services. The larger the business, the more impact the government policies have on the business.

Significant associations were found between the size of the business and the positive impacts of the two laws and two reforms, and an extremely significant relationship was found between the enterprise size and the positive impact of the Labour Contract Law. The Labour Contract Law demands that business owners have contracts with their employees, which can protect both business owners' and their employees' rights and also clarify both parties' duties. However, micro- and small-sized businesses tend to adopt informal contracts because of their smaller number of employees; therefore, the Law will have less of an impact on them than on larger companies. In addition, this thesis also finds that the SMEs' labour quality and employee turnover is also significantly associated with business size, especially labour quality, with an extremely significant association between the size of the business and the quality of its workers (P = .000). However, different from findings discussed in this section whereby larger SMEs enjoy more benefits, when concerned with labour-related issues, smaller businesses have more advantages. Owners of smaller businesses are more satisfied with their labour quality and also have very low employee turnover, perhaps due to the fact that some businesses in this research are owner–operators. Also, some smaller business owners hire their relatives to work for them, so employee turnover is again lower than in larger ones.

6.8.4 Issues found from the research experience.

One of the key findings of this research is the problem of poor law enforcement. The reason for this problem can be traced back to Chinese society's moral degeneration. Deng's economic reform shifted Chinese people's focus from building a communist society in Mao's era to seizing economic benefits. Although many business practices are still deeply influenced by traditional culture, at present, the Chinese try hard to become government servants in order to seek better social status and payments by using any means possible, such as buying government positions or government officials using their power to bring their relatives into government departments. These phenomena are very common in China today. When conducting this research in Jiangsu province, a young driver told the researcher that his family was trying to buy a village head position for him. However, he was not sure that he could get it as other candidates might have given more money or have had a closer relationship with officials of a higher rank. Some government officials who accompanied the researcher are also the relatives of officials of a higher rank. Feng (2011) conducted an in-depth study that looked at the relationship of government officials in one county government and finds that they are all related in some way to officials of higher ranks. This thesis also found similar behaviours to those in Feng's

(2011) study. The researcher was taken to the SMEs in three different regions by government officials, some of whom are the relatives of the head of the local government. This finding supports Butterfield's (1983), Yang's (1994), and Chen et al.'s (2004) studies on China that suggest it is a relation-oriented society. This study also confirms Yao's (2002) belief that interpersonal relationships serve as an important means for political ends. In addition, some government officials claim that they are not corrupt; however, they demand meals or products from the businesses because they have the power to directly administer them. Some business owners complained to the researcher about the government officials' behaviour when the officials were not present. However, the only thing they can do is complain because they are in a vulnerable position and have no power to change the situation.

6.8.5 Influence of the West.

One issue raised by the respondents is that Western management would not work in China; Ye and Tweed's (2010) study also shows that Chinese business owners do not consider that adopting Western management practices would benefit their companies. This is due to the cultural differences between China and the West. One respondent gave a good explanation of the difference: "*Western people have much simpler minds than Chinese as whatever they say goes. In contrast, Chinese are more flexible or, to put it another way, Chinese have their own ideas*." The findings of this research support Faure's (2008) and Robinson's (2008) findings that Chinese practices are influenced by Chinese culture and are thought to be more important and preferred by Chinese owners, even though Western management practices have been adopted in Chinese firms. Thus, although the Chinese government has called for building a society with the rule of law (Wu, 2008), Chinese people will not necessarily follow the rules as the rule of man is still deeply embedded in their thinking. In addition, cultural changes will take a long time to achieve. The focus of this thesis is not on the difference in management practices between China and the West; however, it is important to note that the difference does exist and, especially for Chinese SMEs, the Chinese culture, such as *Guanxi* and trust, still has a strong impact on the way that Chinese SME owners run businesses and deal with the government, business partners, and their employees.

6.9 Adjustment of the Model of Influential Factors on Chinese SMEs

Based on the review (Chapter 3) of the influential factors on Chinese SMEs from three levels of institutional factors, a model was presented in Section 3.12 (p.139) to show the factors that have an impact on the Chinese SME sector. By discovering the perceptions of Chinese SME owners towards government policies, the findings of this thesis show that many influential factors noted in Section 3.12 are mentioned by the SME owners, except for one of the two socially-embedded institutional factors: Chinese history.

In addition, new relationships are found between the factors. Another socially-embedded institutional factor, Chinese culture, especially *Guanxi*, penetrates into every aspect of Chinese society and has huge impacts on the way Chinese think and do things in both business and non-business-related areas. *Guanxi* is a source that can bring both benefits and problems to Chinese society. In terms of the business sector, it has a significant impact on how the policies can be enforced by government officials which, in turn, has a great impact on the business operation. Also, *Guanxi* can influence firms' ability to access resources and government programmes. In addition, Chinese culture not only plays an important role in the relation between firms and government, but it is also important for firms within the same industries. Another significant element of Chinese culture, trust, has impacts on the relation between firms and also business owners and their employees. Thus, a revised model based on Chinese SME owners' perceptions is given in Figure 14.

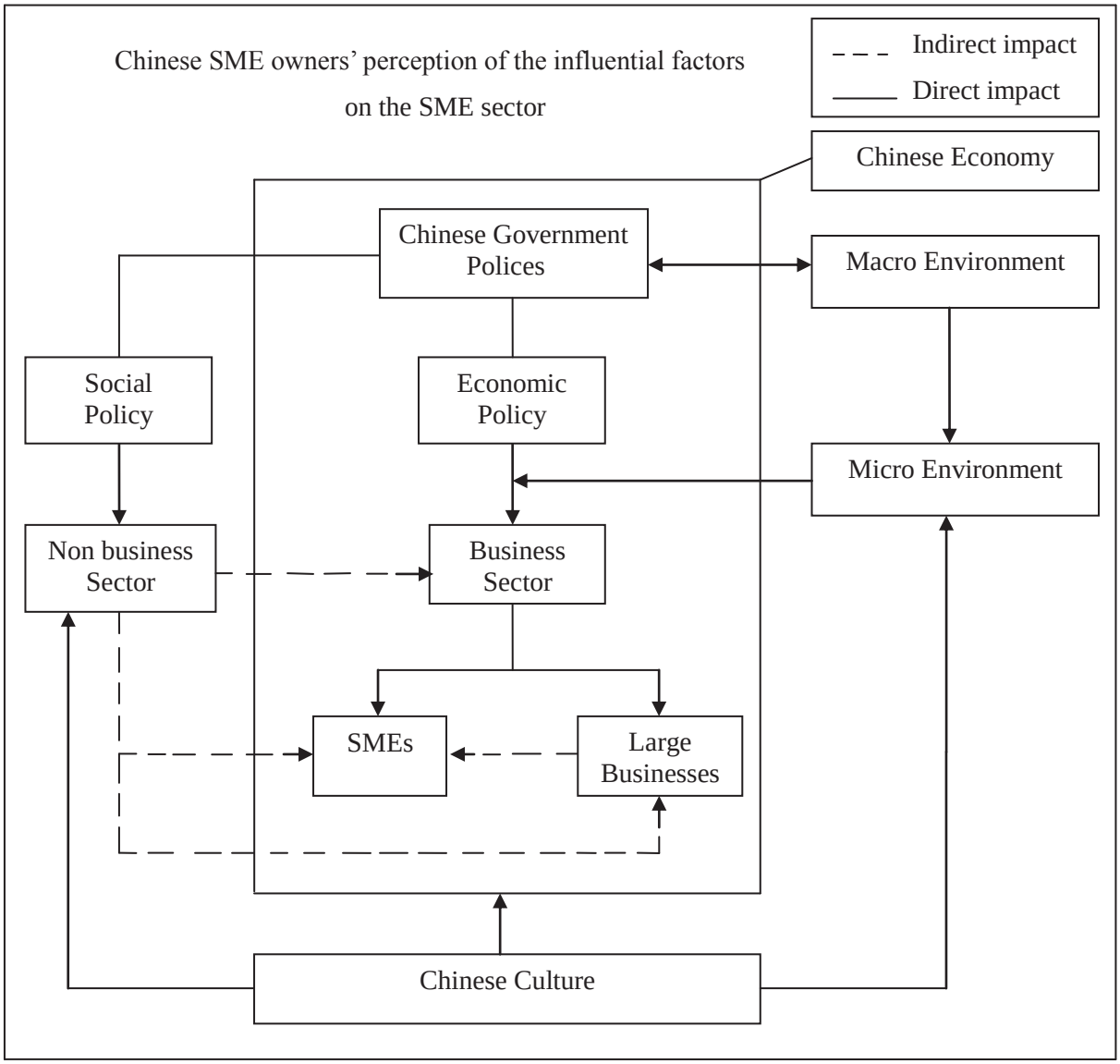

***Figure 14*. Factors influencing Chinese SMEs – revised model.**

Smallbone and Welter (2012) suggest that in transition economies, institutions provide the rules for entrepreneurs. The macroenvironment and government policies are correlated with each other. This is certainly the case for China. For example, environmental protection has become increasingly important for society, so the Chinese government uses its power to issue different policies, which is a key formal institutional factor to reduce pollution. Thus, the business sector, as a key pollutant, is influenced by the policies as they need to upgrade their facilities in order to produce less pollution. In addition, the government's limiting of industrial electricity also hugely influences business operations. Microenvironmental factors, such as people's motivation in starting a business, are also influenced by the macroenvironment. Many Chinese SME owners started their businesses when the economic reform began and the government relaxed private business sector policies and also privatised SOEs and TVEs.

Government policies do certainly have a huge impact on Chinese SMEs. However, the results of this thesis show that, in China, along with the decentralisation from the central government to the local level, the local government policies also play an important role in developing SMEs. It appears that the development of the Chinese SME sector is a result of the interrelationship between formal and informal institutions. Networking, an informal institutional factor, with government officials is an important and influential feature. Sheng, Zhou, and Li (2011) find that Chinese firms in regions with developed market intermediaries place less importance on building political connections as they can receive the resources they need from market agencies. However, the results of this thesis show that even in developed regions with better market intermediaries, such as in Jiangsu region, political connections are still very important. A better relationship can help those firms have less troubles with government officials and better information and solutions provided by them. Some well-performed SMEs can also get full support from the government, including allowing the firms to ignore certain government policies. In addition, ineffective government services, especially those to do with market changes, mean Chinese SMEs prefer to use their own connections to get first-hand information.

This thesis finds that local governments have an important role in the way they implement policies for the SMEs in their areas. One of the key findings is that *Guanxi*, one of the important concepts of Chinese culture, has a great impact on how the laws will be enacted at the local level. Some business owners who have a close relationship with local government officials can be better treated by the government and, in some cases, some businesses, especially the key businesses in the region, can even ignore the law when operating their businesses with local government permission. This is because the local government knows that the better the performance of these businesses, the better the local economic performance and the greater the rewards for the local government from the government at the higher level. Thus, the policies cannot be fairly enforced on all the businesses by the local government officials. By building good *Guanxi* with government, firms can have easier access to resources and also get better protection, helping them reduce transaction costs. Thus, these research results show that informal social connections can substitute for formal ones in improving business performance and the officials' career path in China's transitional period. The weak Chinese formal institutional framework provides a ground for the more important role of informal institutions in the Chinese business sector as these two aspects complement each other within the Chinese institutional context.

In addition, such a relationship in China has now gone beyond being purely relation-based and is closely associated with corruption. The local government officials' behaviour is not regulated by the rule of law and is still influenced by the Chinese cultural concept of the rule of man. *Guanxi* is deeply rooted in Chinese culture and has become an important factor in running businesses successfully. In addition, this thesis also finds that the unique Chinese cultural concept of the rule of man still has a strong impact on Chinese society and can also lead to ignorance of the legal system from both

government officials and business owners. In addition, how polices are implemented and services provided is also connected to Chinese culture as law enforcement relies on the local governments to implement the policies. The relationship between the businesses and the local government officials certainly has an impact on how the policies will be enacted and what treatment the businesses will receive. Many complaints about government officials' misconduct and difficulties created by them show that the rule of man thinking still has a great influence on the business sector, even though the government has tried to establish a society based on the rule of law. Thus, currently, traditional Chinese culture that emphasises *Guanxi* and trust is still embedded in Chinese people and the rule of law ideology promoted by the government both exist in China and both influence the business environment. Therefore, informal institutions play an important role in China's transitional period.

6.10 Summary of the Chapter

In this chapter, the gap between the central government's understanding of the SME sector and the real situation that Chinese SMEs are facing has been identified through discussion of the four objectives set out in this research. The SME owners' views on the impact of the formal institutional factor of government policies and the informal institutional factor of *Guanxi* are also illustrated. Additionally, the gap between the intentional purposes for policies and their actual outcomes has also been discovered. The key findings of this study show that, from the Chinese SME owners' perspective, *Guanxi* is an important element, not only in business and social areas, but also in how government policies will be enforced by the local government officials. Thus, based on the results of this research on SME owners' perception towards government policies, a revised model of the factors influencing Chinese SMEs (Figure 10) is displayed in the model given in Section 6.9 (Figure 14). This leads to the next chapter in which the conclusions of the study and the implications for different interest groups are given based on the key findings of this research.

7 Conclusions and Implications

7.1 Introduction

In the previous chapter, the key findings of the four research objectives set out in this thesis have been reported. A summary of the thesis is given in Section 7.2 of this chapter, followed by the limitations of this research. Implications of this thesis for policymakers, academia, and the SME owners, and recommendations for further research are also offered, based on the discussion chapter. These implications demonstrate the usefulness of this research study in assisting the future growth of Chinese SMEs. This chapter also provides suggestions for further research that could find out more about how government policies can help the development of the Chinese SME sector even more.

7.2 Summary of the Thesis

The goal of this thesis is to investigate the views of SME owners/managers on government policies in mainland China. The thesis provides a holistic picture of the factors that can impact Chinese SMEs and the unique development of the SME sector and Chinese entrepreneurs in PRC history. Studied through an institutional lens, a variety of instutitional factors associated with the impact of the Chinese SME sector are analysed. Rich data was collected through 210 face-to-face interviews in three different regions, based on the four research objectives relating to this goal: Chinese SME owners' awareness, understanding, attitudes, and suggestions on government policies and programmes related to the SME sector. Many significant findings were found by analysing the data, which give more of an insight into the understanding of SME owners/managers' perceptions towards government policies. The Chinese government has encouraged the development of the SME sector and more support has been granted to Chinese SMEs. However, from the Chinese SME owners' perspective, the support from the government in the forms of policies and programmes is not very effective as they are designed with a lack of real understanding of the situation that Chinese SMEs are in.

An important message delivered in this thesis is that the perception of Chinese SME owners towards the current and future development is not positive. The Chinese economy has reached the pinnacle of developmental prosperity, even though there are still some problems that need to be addressed. From the government's perspective, the SME sector is recognised as being an essential component of the Chinese economy, contributing greatly to China's GDP, taxation, employment, and exports. The government has also changed its attitudes towards private businesses from totally banning them to full encouragement. However, the findings of this thesis show that the perception of Chinese SME owners towards the future of the SME sector is opposite to that of the government. The owners think the survival of SMEs is becoming more difficult and that the business environment is worsening. From

the SME owners' perspective, the SME sector is in the winter season, bearing little fruit. This then raises the question: what causes Chinese SME owners to have such a pessimistic perception? The answers are given in the findings of this thesis and are related to the impacts of formal and informal institutional factors on both the government and the SME owners' perceptions and behaviours.

Several issues have repeatedly come up throughout this thesis from both academia and the research participants' perspectives which could provide the answers to such a question. These issues are: *Guanxi* and government officials' misuse of their power. These two issues show that the informal institutions rather than formal ones play a more important role in the China context. The cultural institutional factor, *Guanxi*, has filtered into every aspect of Chinese society and is currently a vital factor for Chinese SMEs' success. Having *Guanxi* with key government officials means that businesses can easily get business contracts and loans, have less government interference, and can even run their businesses without following the regulations. Having *Guanxi* with key businessmen can assist SMEs in building a larger personal network, which helps them get business deals or set up connections with potential business partners. However, the political status of Chinese SME owners does not help them to build *Guanxi* with key government officials. On a positive note, workers who are Party members can bring to the business their hard-working attitudes, which can be a good example for other employees, and they also have more faith in the government.

Furthermore, the government says that the SME sector plays a vital role in the Chinese economy and support needs to be given; however, in reality, the government still treats the Chinese SMEs as a means of accumulating wealth. For the central government, large businesses and SOEs are still their main focus, and some policies and supports given by the central government lack consideration of the current conditions that Chinese SMEs face. Thus, what the government wants is not necessarily what the government gets. The local government officials keep interfering in business operations in order to get benefits by using their power to demand money or good treatment from SMEs. Thus, an important issue raised from this thesis is deciding how close a relationship the government should have with the business sector. In addition, although the policies and support have been given from the top level, local governments, in many cases, do not implement them properly. In addition, local government officials still have considerable power over the business sector; thus, Chinese SME owners have to work with government officials to satisfy their unreasonable requirements. These kinds of examples were commonly given by the participants and many are cited in Chapter 5. This also implies that the disregarding and prejudicial attitudes of the government towards Chinese SMEs still exist and that the important role that SMEs play in the Chinese economy has not been fully recognised. Thus, this thesis not only discovers the opinions of Chinese SME owners, but also finds out why Chinese SMEs behave the way they do. Although policies on starting businesses have been relaxed, the policies and the problem of unlawful practices by local government officials have increased, which causes more difficulties for SMEs to further face.

Aside from the unlawful practices of the local government officials, another major concern of Chinese SMEs is the chaotic market competition environment. This environment is caused not only by businesses in the informal sector, but also by competitors within the same industries. Currently, the government's measures for addressing the informal sector have improved the competition environment to a certain degree; however, the major competition issues stem from businesses in the same industry. The government has not developed any policies to regulate this business competition environment, and businesses in the same industry can not reach a consensus about products' lowest prices either as many of them are eager to reduce prices in order to survive. Thus, there is an urgent call for the Chinese government to create a better and more orderly market environment for the business sector.

This research also reveals that the external environments have a great impact on the development of Chinese SMEs. The external environments are shaped and created by the government through the formal institutions of policies and regulations, and the flourishing and decline of an industry are not only determined by market demand but also by the government's prognosis for that industry and its development plan. Although the government policies and services were found to not be very effective for the SME sector, this does not mean that they have not helped any particular types of SMEs. Chinese SMEs in the high and new technology industries have enjoyed more benefits, such as easier access to funds and more local government encouragement, than SMEs in other industries because the Chinese government has changed the SME developmental guidelines from mass production to becoming competitive. In addition, the current government services and policies are more suitable for SMEs in the regions with less economic and SME development. This also implies that the government services in the regions with better SME development environments need to be refined so they can be more focused on the needs of the SMEs that are growing rapidly.

This research shows that there are many actions that need to be taken in order to help the growth of the SME sector. Chinese business culture and Chinese SME owners' behaviours are also changing, which is a result of the changing role of informal and formal insitutions. On the one hand, market liberalisation has increased Chinese business people's awareness of seeking fair competition and being competitive; on the other hand, the grey areas and loop holes in the legal system have meant that illegal practices of both the officials and business people have flourished. Thus, the development of Chinese SMEs cannot be achieved solely on the SME sector's effort; it can only be reached through cooperation between the government, academia, and the SME owners. The review of the development of Chinese economic history has shown that the Chinese dynasties that had liberal business sector policies had better economic development. The PRC is now also experiencing fast economic development because of its marketisation and encouragement of the private business sector. The Chinese business sector, whether is is in ancient or modern times, has never gone against the government; in contrast, it was the business owners who always gave financial support to the

government when it was in trouble. Therefore, the government should provide a better environment for SMEs in order to help them to increase their contribution to the economy. However, this mission cannot be fulfilled by the government alone but, again, will need input from academia and the SMEs as well. Thus, the following sections will show some limitations of this research followed by illustrating how policymakers, academics, and the SME owners can make efforts and also coordinate with each other in order to improve Chinese SMEs' performance.

7.3 Limitations

The findings of this thesis, although significant, do have limitations. One limitation is that the findings only represent a very small proportion of Chinese SMEs. Another limitation is associated with time and resource constraints as this study relies on a sole researcher. In addition, the central government has given more power to local governments to make detailed policies in order to meet the local conditions. Thus, the policies can be different at the regional, city, or even township levels. The businesses in this research study were selected from one municipality (Beijing) and two regions (Hebei and Jiangsu). Therefore, they cannot represent all the characteristics of SMEs and the opinions of their owners across all regions. Also, business location has been identified as an important factor in the development of SMEs because government services and programmes and local business culture are different among the three target regions in this research. However, these differences and local business culture may not be duplicated to other regions in China as each region has different economic and cultural conditions.

Furthermore, the results show that the policies developed by the government are different, depending on the sector. SMEs involved in producing highly technological and innovative products and environmental protection items enjoy preferential policies and are better treated by the government and banks. However, with the purpose of finding the general perception of Chinese SME owners towards government policies, this thesis did not categorise SME owners/managers' opinions by sector.

Lastly, this research used *Guanxi* connections to find participants. Although this has been identified as a strength for having a high participant rate for doing research in China, it can also be a weakness for indiscriminate sampling as the government officials and the key business people may choose business owners with whom they are quite close. Therefore, the participants in this research may not have been randomly selected by the officials and the business people. In addition, the presence of government officials in some interviews may have affected the participants' responses. The topic of this thesis is related to government, and the sensitivity of the business sector towards government-related issues in China is very high. Although a few business owners spoke their minds regardless of the officials' presence, the majority showed very polite attitudes towards them. Thus, some negative responses towards government policies might not have been disclosed by the participants.

7.4 Contributions

7.4.1 Contributions to the existing body of knowledge.

This research has provided insights into the policies and services from the owners' perspective and also uncovered the reasons behind such attitudes. In addition, currently, there are no studies that have looked at the perceptions of Chinese SME owners on government policies and services. This research is the first study to provide insights into the opinions that Chinese SME owners have towards three important national SME laws and government services provided by the government. It also provides a linkage between the government and the SME sector. The opinions given by the SME owners can help the government to understand the real situation that Chinese SMEs are currently in as well as see why the policies and services are effective or not so as to make adjustments to them. The findings of the research also demonstrate that the development of the SME sector does not just rely on the SME sector itself, but the government, academia, and the SME owners all have their own responsibilities and also need to cooperate with each other in order to achieve better development.

7.4.2 Contributions to theory.

This research offers a model which reveals the factors that have an impact on the SME sector from the owners' perspective in the China context. The findings show that in the transitional period, the SME owners consider informal institutions to be more important than formal ones. This model can be further applied and tested in countries that have been through institutional changes to show if local culture has a similar impact on SME operations and what differences there may be. In addition, this study provides further evidence for the worth of using institutional theory to study the SME sector in countries in transition. The findings of this research show the relationship between institutions and the SME sector and help to expand current understanding of the role of formal and informal institutions in the development of SMEs and the impacts on SME owners' behaviours. This study also helps to learn how the ethnically-bound SME owners connect and react to changes in the external environments.

7.4.3 Contributions to methodology.

This research indicates that interviews are a powerful technique to reveal the reality of situations and get insightful information when doing research in China. It also shows the importance of considering cultural sensitivity at the stage of methodology design. The study confirms that the unique characteristics of Chinese culture mean that using *Guanxi* is a more effective way to ensure researchers not only get a high response rate, but also insightful information.

7.5 Implications

The findings of this thesis answer the question of what Chinese SME owners/managers think of government policies and programmes. From the Chinese SME owners/managers' perspective, many of the current policies and programmes are not very helpful to SMEs. The reasons for this are mainly due to the government's poor understanding of the Chinese SME sector, which makes the policies and programmes ineffective, and the government officials' misuse of their power, which creates difficulties for Chinese SMEs to have normal operations. The Chinese SME sector can have a better performance in the national economy if the problems raised from these two areas are addressed. However, this can not be carried out by the Chinese government or Chinese SMEs on their own, but requires the government, academia, and Chinese SMEs to work together in order to help Chinese SMEs become stronger players in the economy. Thus, this section will show the implications for these three parties based on the findings of this thesis.

7.5.1 Implications for policymakers.

As an emerging economy and a country in a transitional period, the role of the Chinese government is more important as it is the government that sets out the rules to direct the development of the country. At the same time, the Chinese SME sector is also a new area for the Chinese government. Thus, the government bears more responsibility in helping the growth of the SME sector. The results of this thesis show that some policies are hard, in reality, for Chinese SMEs to implement. The development of the Chinese SME sector is still in its infancy so, therefore, the government's desire to use policies to improve Chinese SME operations to the level of Western SMEs is not realistic. The policies should be made based on the current conditions that Chinese SMEs are in with the purpose of adjusting the illegal practices and improving their competitive advantages. So how can the real conditions of Chinese SMEs be discovered? A simple and effective solution was given by Mao Zedong in 1931: conducting research. Mao explained that what is happening in the real world is not something that can be imagined by sitting in an office or reading reports based on unreliable data. Research should be conducted in more detail by having contact with those directly affected. Thus, researchers should not be afraid of the challenges of doing on-the-spot investigation (Ni, 2011). This means the local government should talk directly to the businesses to help the government have a better understanding of the business operations and adjust their policies to the current situation. Without a better understanding of the SME sector, the different SME perspectives from the local government and the business owners will continue. Also, the laws considered by the government to be important measures to help SMEs actually have the opposite effect on Chinese SMEs. Discussions between government and business could also allow for collecting and reporting accurate SME data by the local government

to the central government. This means that the central government also needs to talk directly to Chinese SMEs, especially before enacting any important laws.

A better process for developing SME policies should be one that allows participation and input from the SMEs themselves. For example, the members of the Small Business Advisory Group in New Zealand are all business owners or managers, and they are the people who know the SME sector best. Thus, for the government, this group is a voice of the SME sector, and it can provide first-hand information on SMEs and give recommendations to the New Zealand government. The government can adjust their policies based on the information provided by the group. Thus, it is also important for the Chinese government to give SMEs a channel to express their opinions and their key concerns, and thus, help make policies more effective, either in helping Chinese SMEs to solve problems or in standardising their operations. Along with the decentralised power to local governments, local governments need to listen to local SME owners' advice and recommendations so that local governments can provide effective policies, services, and programmes that meet the local SMEs' conditions.

The government can also cooperate and give more support to academia to take on the responsibility of conducting research. Thus, the government could reduce some of its burdens and focus on designing more effective policies, services, and programmes based on the data provided by the academics. In addition, although currently, the Chinese government provides training courses and educational programmes for SMEs, the majority of them adopt a 'one-size-fits-all' approach, despite the specific characteristics of each industry. This approach can be suitable for the general issues around SME operations, such as safety issues, accounting, and business management. However, Fay (2000) warns that this approach will not work for the diverse characteristics of the SME sector. More sector-specific support should be organised regularly by the government by cooperating with the industry associations. Thus, it is necessary to set up a partnership between the government and the SME sector. Government officials can get to know more about their business partners and then adjust their SME policies based on the social and economic conditions. In addition, small-sized enterprises should also be informed and encouraged to participate in this training. Thus, SMEs can get up-to-date information on their industries and also be provided with a good opportunity to communicate with the government and other businesses within the same industry.

In addition, training for SME owners should be provided by the government. The Chinese SME sector is continuing to grow and is becoming more actively involved globally, so it needs to compete with foreign businesses in both domestic and foreign markets. However, the education level of business owners is low, and they also lack managerial skills. The government should, therefore, provide

training for business owners to improve their skills and knowledge to meet the growth of their businesses.

It is also important for the current government to bring trust back to the business sector. A better way of building trust is to understand each other through communication. Communication among the Chinese government, academia, and the Chinese SME sector is important and is needed for the benefit of both the country and Chinese SMEs. When these three parties work together closely, the real SME sector situation can be recognised by the government and academics. Thus, academia can work with the other two parties to provide a better solution. The government, then, can adjust or enact policies and provide better services to the SME sector in order to help them grow. A better business environment cannot be created based on only one player's understanding of the environment. Only a better understanding and more communication among all three players—the Chinese government, academia, and the SME sector—can provide a more balanced perspective in order to produce a better business environment. In addition, similar to the Chinese economy, which is in a transition period and has its own unique characteristics, Chinese SMEs are also in a state of change and have a distinct business culture. The Western business models cannot be fully adopted by Chinese SMEs. The cooperation and information sharing among these three parties can also identify the models that are more suitable for the SME sector in the unique Chinese economic environment. In addition, the Chinese Government, both central and local, should have cautious consideration when making policies. Currently, the government only pays attention to the GDP growth rate, and the measures they take often ignore the opinions from the business sector and lack consideration of the impacts of those measures on the business sector, which could cause them both more problems.

In addition, it is important for the government to rebuild the morality of society and bring back traditional values through education. Poor law enforcement, associated with corruption, becomes a major hurdle for the development of Chinese SMEs. The interference from the local government officials makes Chinese SMEs spend large amounts of time and resources in maintaining good relations with the local government. One key outcome of such a problem is that, as Wu (2012) discusses, Chinese society is becoming a materialistically-orientated society and traditional Confucianism values are fading. The lack of a belief system is affecting moral values and encouraging corruption. Chinese traditional culture and building a society based on the rule of law do not contradict each other. The five virtues set out in Confucianism—benevolence, righteousness, politeness, wisdom, and trustworthiness—also emphasise how to be a righteous person where personal relationships are not built on materialism and the misuse of personal power is not a rightful behaviour. Although personal experiences and perceptions may influence a person's ideology, the central government has an important role in shaping the realm of ideology through education and propaganda. Some government training has been carried out in certain departments, such as city and county-level

police chiefs in Beijing being given training on the use of the rule of law (Min & Yu, 2012) and also classes on teaching traditional Chinese values being taught to primary school students. These measures are a good start to adjust people's consciences. Such training should extend to all government officials, no matter what level of government and which department they work in. In addition, the central government should also take serious measures to punish corrupt officials and those who misuse their powers. Education for young generations is also important. Just like Mao Zedong said: 'young people are like the sun at seven or eight o'clock in the morning'. They are the future of China. Educating young people of traditional Chinese culture does not mean denying or refusing other cultures, individualism, materialism, and all the other concepts which are different from Chinese culture. Teaching traditional Chinese culture is about teaching young people how to become righteous people and to behave morally.

7.5.2 Implications for academia.

For academia, this thesis expands the understanding of Chinese SMEs' perceptions towards government policies. Although the Chinese market economy and the SME sector have developed fast, they are still in a transitional period and at an immature stage. Thus, when the legal and market systems are not perfect, Chinese SMEs trust themselves more than relying on government support.

This thesis also broadens the knowledge of the real situation that Chinese SMEs are in by revealing the perception of Chinese SME owners. A model has been proposed in Section 6.9 (p.255), which illustrates the influential factors on the SME sector from the SME owners/managers' point of view. Different from the model given based on reviewing the current studies on the Chinese SME sector (Figure 10, p.139), Chinese SME owners/managers do not believe that the patterns of Chinese economic history will have any impact on the SME sector. For them, the policies issued by the central government can be carried out at the local level, but how the local government implements these policies has a great impact on their businesses. Thus, policy effectiveness is an essential factor for the development of Chinese SMEs. In addition, *Guanxi* is also an aspect which is not only shaping Chinese society (both the business and non-business sectors) in how people behave, but is also a cause of the poor law enforcement in China. *Guanxi* is such an important element for Chinese SMEs to survive and succeed. Those who have a close *Guanxi* with government officials in different departments can enjoy many privileges over other SMEs. Once *Guanxi* is established between the government and the business sector, legal processes and lawful behaviour can be ignored.

In addition, compared with large enterprises, Chinese SMEs are still at a disadvantage, not only in getting resources due to their limited ability, but also the way in which they are treated by the local governments. This research shows that from the Chinese SME owners/managers' point of view, Many

Chinese SMEs want to have a fair competitive environment. However, due to the imperfect legal system and the strong *Guanxi* culture, they have to follow the informal norms and try to set up connections with the government. One way of doing this is through bribing or gift giving. In addition, the strong traditional culture of the rule of man that exists in the business sector means that Western management practices and the Western way of doing business cannot be easily accepted and implemented by Chinese SME owners.

Academia can play an active role in linking the government and the Chinese SME sector. Much research is carried out by academia each year on the SMEs in China and in other countries. Chinese SMEs are at an early stage, and many experiences can be learned from other countries. Academia should work closely with the government to provide for the development of SMEs and also offer them possible solutions.

This thesis also demonstrates that face-to-face interviews are a very effective research technique for studying Chinese SMEs. They can collect rich, insightful information from the business owners, which may not be given in conducting survey research. In addition, as Silverman (2004) points out, experiences and feelings gained from the qualitative approach to research can also provide additional value to the researcher. The experience and the contact with reality can provide more first-hand information on SME owners/managers' behaviours, their attitudes and the way they talk to government officials, and the interactions between the officials and the owners. Such information can not usually be found in any quantitative studies or published documents. However, the prerequisite is that *Guanxi* with key government officials or business people should be built up in the planning stage. Some commonly-accepted behaviours that are embedded in Chinese culture, such as having dinner with key people or gift giving, are involved in the process of building connections. Western academia may experience a degree of culture shock when conducting research in China.

Another theoretical implication is that insitutional theory is an effective theory in studying SMEs in emerging economies. Factors that influence the SMEs' behaviour not only come from the formal institutional factors, such as laws and regulations, but also from informal institutions. This research study shows that informal institutions have a great impact on not only the business owners' decisions and actions, but also the researchers' decisions in the research process. It also shows that understanding and considering the cultural context of a country are keys for researchers to gain legitimacy and access to resources.

7.5.3 Implications for practitioners.

Many businesses try to keep their distance from government officials as much as they can. However, some important information about the government's supportive policies may be missed. Although the government effectively informs businesses about the latest policies, many supportive policies and programmes are not given to businesses unless they have a relationship with the officers who are in charge or if they go to the departments to consult.

Furthermore, the Chinese legal system is in the process of being improved. The government and employees are paying more attention to adopting legal practices to solve problems. Therefore, Chinese SME owners need to realise that they should also change their mindset on the way they interact with the government and also change from the traditional Chinese cultural practices (the rule of man) to legal-based practices (the rule of law). Also, the changing Chinese culture, from more collectivist to being individualist and more materially oriented, certainly has an impact on the behaviours of young employees. Thus, the Chinese SME owners/managers may need to change their traditional mindset and practices on managing their businesses. In order to have a better and stronger employee–employer relationship, the owners should build a strong business culture and also have better communication with their employees.

In addition, owners need to upgrade their businesses or apply multiple strategies in order to survive. Using illegal practices or lowering prices to get more of a market share will only make their survival harder and worsen the industry and the SME sector. For businesses that are involved in producing items with advanced technologies, cooperation with the government and universities or other institutions can help them to develop innovative products to increase their competitive advantage. In China, manufacturing businesses will always be an important sector due to the low labour costs and large population. For these businesses, rather than adopting the strategy of lowering prices, increasing product quality, producing goods that meet the demand of the market, or having innovative products according to their business conditions should be their major concerns.

Currently, the industry associations in China are not fully carrying out their responsibilities as they should be. The activities organised by the associations cannot solve any of the real problems that businesses face. Chinese SME owners do not realise that other businesses in the same industry are not merely rivals, but also associates. The competition regulations for the business sector in China have not been enforced; thus, businesses just want to have more market share, no matter how low the prices of their products are. Such a strategy has put all businesses in the industry at risk. Thus, the industry associations should play both the role of mediator and organiser to produce commonly-accepted rules for businesses in the industry to follow. They should also set the lowest prices for the industry.

Business owners in these groups realise that their success can only be achieved by working with other businesses and acting as a group. Thus, it is important for Chinese SME owners in each industry to reach an agreement on setting the lowest prices for products in their industries and letting the 'invisible hand' take care of the survival of their businesses, rather than using the current practices that damage market competition.

The industry associations should also act as representatives for businesses in the industry to play a more active role in communicating with the government and other institutions. An old Chinese saying goes: 'the fire burns high when everybody adds wood to it'. The SMEs' voices can only be heard when they act together. Although every business may face different problems and the demands from businesses in various industries are also diverse, the responsibility of the industry associations is to unify businesses in order to collectively identify urgent problems that need to be solved. They also need to pinpoint areas that require support from the government. Thus, this coherent power and assessment from the business sector will also help the government to identify any areas they need to work on so that, ultimately, both parties benefit.

In addition, the practitioners should realise the importance of cooperation with their competitors in the same industry. The problem of disordered market competition is caused not only by the lack of policies to regulate the market, but also by the lack of trust and coordination with other businesses. As China is still in a transitional period where the legal system is not perfect, the SMEs need to work together to confront common problems. This concept is, in fact, not new to China. In the late Ming and Qing dynasties, Chinese merchants who were from the same region had their own groups, such as the Huizhou merchants (*Huishang*) and Shanxi merchants (*Jinshang*) (Han, 2006). The prosperity of these merchant groups came from their cooperation, which was based on trust and cooperation. The story of *Huishang* and *Jinshang* is well known by all Chinese businessmen. Thus, the SME owners should use an industry association as a platform to cooperate with other competitors on how to regulate the market competition activities and set up the lowest retail prices in order to have a normal market competition environment.

7.6 Further Research

Based on the inadequacies of the research design and the time constraints of the study, four suggestions are made for further research. Along with the government introducing new policies and giving more support to Chinese SMEs, a longitudinal study is required to find out the impacts of the amended policies or new programmes and policies for the SME sector. In addition, a longitudinal study on the practices used by Chinese SME owners is also important. The government has issued some policies, such as the Labour Contract Law and the Social Security Law, to use the rule of law to regulate the relationship between employees and employers. The findings of this thesis show that

many Chinese SME owners/managers cannot cope with the changing institutional environment, and the practices based on Chinese culture are still preferred and largely used in Chinese SMEs. Thus, a longitudinal study should be carried out to further investigate whether the management practices influenced by traditional Chinese culture could be changed in the future, along with the government's emphasis on the rule of law.

Further qualitative studies are also needed to identify what the real impacts of government measures are on SMEs. The more studies carried out in this field, the richer the data will be on Chinese SMEs' behaviour and the reasons why it occurs. More research would provide useful information to the government and allow both the central and local governments to adjust their policies to better administer or further foster the SME sector.

Also, micro businesses are defined in the latest SME criteria released by the Chinese government in 2011. The government tries to give more support to the development of micro- and small-sized businesses. Therefore, further research is needed for understanding the characteristics and needs of Chinese micro businesses, and which way and what kind of policies can promote their development.

This research aimed to find the perception of Chinese SME owners/managers on government policies in mainland China, and the results indicate that Chinese culture, especially *Guanxi*, has an impact on how government policies will be practised by the local government officials in the business sector (see Figure 14, p.255). Hofstede (1991) states that culture is different in each country, and that culture, as a socially-embedded element, can influence how people think and behave. Human beings are also social beings. This means people behave in a social context and they are influenced by the unique culture in their country. The Western term, 'social networks', equivalent to *Guanxi* in China, is perceived as social capital and can bring benefits to actors (Galunic, Ertug, & Gargiulo, 2012). Therefore, it is worth further testing to see whether social networks or other unique aspects of national culture, as influential factors, could have an impact on the effectiveness of policy enforcement in other countries by influencing people's relationships and behaviour.

7.7 Summation

Why are people getting more interested in studying China? It is because China, as an emerging economy, has experienced rapid economic development in the transitional period, and also because of the unique way that culture influences Chinese people's ways of thinking and behaving. However, this does not mean the findings of this thesis cannot be applied to other economies. Agarwala (2002) says that China gives the best example of a country that has adopted Western economic concepts. However, China has also made decisions based on its own social, political, and economic conditions, rather than

directly using the Washington Consensus. Thus, the key to China's success is due to its economic reform with 'Chinese characteristics'. Although the Chinese model cannot be directly adopted by other countries, it provides a basis for other communist countries, such as Vietnam and Cuba, to reform and open up their economies. It can also be important for other Asian countries, such as India, the Philippines, and Indonesia, where a similar relation-based culture can be found, to learn from the Chinese experience. The government plays an important role in guiding the development of the SME sector by improving the legal system and enhancing law enforcement. In addition, the experience of the Chinese SMEs also shows that practical policies and programmes are important for the business sector in economies in transition. The policies should meet the conditions of businesses; otherwise, they can have the opposite effect. The situation is just like an old Chinese saying, 'while water can keep a boat afloat, it can also overturn it'. In this case, the policies are the water that can make businesses (the boat) either move faster or capsize.

8. References

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9. Appendices

Appendix 1: Research Questions

1.1 Research questions in English

Business background

1) How long has the business been operating?
2) How long have you been running it?
3) Which age group are you in: 30s, 40s or 50s?
4) What is your education level?
5) Are you a Chinese Communist Party member?
6) Why did you want to start (or buy) this business?
7) What is the ownership structure of your business?
8) How many employees do you have?

Changes in influential factors in running businesses

9) Were there any obstacles you faced when starting the business? Tell me about them.
10) What is the biggest challenge you face now?

Awareness of current policies and programmes

11) How do you find out about government laws/regulations relating to your business?
12) What government laws/regulations have changed since you started your business?
13) Did you get any help from any government agencies when you started your business? If yes, which one(s)? And in which areas(s)?
14) Have you attended any programmes or associations which were organised by the government to help SMEs? If yes, which ones? If not, why not?
15) Have you attended any informal organisations? If yes, which ones? If not, why not?
16) Do government agencies provide services to help you to cooperate with educational institutions or other informal organisations? Which ones? How do they help?
17) In your opinion, which is more efficient, governmental or informal organisations?
18) Which one is less costly, governmental or informal organisations?

Now, I will give you some statements. Each statement has a scale that ranges from 1 to 5. They are: 1-strongly disagree, 2-disagree, 3-neither disagree nor agree, 4-agree, and 5-strongly agree. Please circle the one number that best reflects your opinion for each statement.					
	Strongly disagree	Disagree	Neither	Agree	Strongly agree
19. There are more than enough channels to help me get all the information I need on current policies or programmes.	1	2	3	4	5
20. Current government services for SMEs are really helping my business.	1	2	3	4	5
21. Current government programmes for SMEs are really helping my business.	1	2	3	4	5
22. Compared with informal institutions, government institutions are the best channel for me to build new connections with potential partners.	1	2	3	4	5
23. Government policies have a great impact on my business.	1	2	3	4	5
24. The changes in government policies in the last few years are really good for my business.	1	2	3	4	5

Understanding of current policies and programmes

25) Can you tell me the impact of The Property Law on your business? Does it have positive or negative impacts, and why?

26) Can you tell me the impact of The Labour Contract Law on your business? Does it have positive or negative impacts, and why?

27) Can you tell me of the influence of the reforms in the taxation system on your business? Are the changes good or bad? And why?

28) Can you tell me of the influence of the reforms in the banking system on your business? Are the changes good or bad? And why?

Here are more statement questions. Each statement has a scale that ranges from 1 to 5. They are: 1-strongly disagree, 2-disagree, 3-neither disagree nor agree, 4-agree, and 5-strongly agree. Please circle the one number that best reflects your opinion for each statement.					
	Strongly disagree	Disagree	Neither	Agree	Strongly agree
29. SME development largely depends on government support.	1	2	3	4	5
30. The SME Promotion Law has brought positive change in the government's attitude towards SME development.	1	2	3	4	5
31. The Property Law has been beneficial for my business.	1	2	3	4	5
32. The Labour Contract Law has been beneficial for my business.	1	2	3	4	5
33. Taxation reform has been really good for my business.	1	2	3	4	5
34. Banking reform has been really good for my business.	1	2	3	4	5
35. The government provides sufficient financing services.	1	2	3	4	5
36. Accessing financial capital is very easy.	1	2	3	4	5

Attitudes towards current policies and programmes

37) Do you think the implementation guidelines for SME laws and regulations are clear?

38) Do you think being a Party member has an impact on running your business? Why? Why not?

39) Do you think the local government plays a more important role than the central government in the development of SMEs? Why? Why not?

40) Currently, which laws and regulations do you think are not good for your business? Why?

41) Which policies or programmes do you think are useful? Why?

42) Have you been consulted by any government agencies for advice on current or future policies or programmes?

43) Do you think their opinions or suggestions are very helpful? Why?

44) Do you think the government has been changing to help to protect and encourage the development of SMEs over the last few years? In which area/s?

Here are also some statements relating to this issue. Each statement has a scale that ranges from 1 to5. They are: 1-strongly disagree, 2-disagree, 3-neither disagree nor agree, 4-agree, and 5-strongly agree. Please circle the one number that best reflects your opinion for each statement.					
	Strongly disagree	Disagree	Neither	Agree	Strongly agree
45. In recent years the government has actively encouraged the development of SMEs.	1	2	3	4	5
46. Building a good relationship with local government is very important for my business.	1	2	3	4	5
47. I can easily understand laws and regulations concerning SMEs.	1	2	3	4	5
48. I have enough guidance in implementing laws and regulations relating to SMEs.	1	2	3	4	5
49. Overall, current policies are very useful for my business.	1	2	3	4	5
50. Overall, current programmes are very useful for my business.	1	2	3	4	5
51. Being a Party member is beneficial for SMEs.	1	2	3	4	5
52. There is enough technical assistance available from the government services for SMEs.	1	2	3	4	5
53. There is enough training assistance for SMEs provided by the government services.	1	2	3	4	5
54. Information provided by the government services benefits my business.	1	2	3	4	5
55. The cost of government services to SMEs is reasonable and affordable.	1	2	3	4	5
56. I am very satisfied with the labour quality available for my business.	1	2	3	4	5
57. My employee turnover is very low.	1	2	3	4	5

Suggestions

58) Are there any areas other rather than growth for which you need help from the government?

59) Currently, on which sector does the government place more emphasis, big businesses or SMEs? And why?

60) Which laws or legislation do you think should be changed in order to stimulate the growth of SMEs?

61) Which new laws/regulations, in both business and non-business areas, do you think the government should introduce?

62) What programmes should the government set up to help SMEs?

63) Do you have any general comments about the Chinese SME environment?

The last few questions are statement questions. Each statement has a scale that ranges from 1 to 5. They are: 1-strongly disagree, 2-disagree, 3-neither disagree nor agree, 4-agree, and 5-strongly agree. Please circle the one number that best reflects your opinion for each statement.

	Strongly disagree	Disagree	Neither	Agree	Strongly agree
64. Existing laws/regulations urgently need to be changed in order to help SMEs.	1	2	3	4	5
65. The government has put too much time and resources into the development of big businesses.	1	2	3	4	5
66. It is very important to be introduced to new laws/regulations in order to be able to improve the performance of SMEs.	1	2	3	4	5
67. It is very important to be introduced to new programmes in order to improve the performance of SMEs.	1	2	3	4	5

1.2 Research questions in Chinese

1 企业概况

您能否简单介绍一下您的企业:

1) 企业已经运营多少年了? 从事哪个行业?
2) 您经营这个企业有多少年了?
3) 您在何年龄段, 30, 40, 或50?
4) 您的学历是什么?
5) 您是党员吗?
6) 您为何想要创办(或收购)这个企业?
7) 您企业是何种所有制?
8) 您的企业有多少员工?

2 对企业运营的影响因素的变化

9) 在企业创办之初,您面临哪些障碍? 请告诉我都是什么.
10) 您现在面临的最大挑战是什么?

3 对现行政策的了解

现在,我要问的问题是关于您对政府对中小城市企业态度及政策有何见解.

11) 您是如何知道与您企业相关的政府政策/法规的?
12) 从您开始创办企业,哪些政策/法规发生了改变?
13) 当您创办企业的时候,您是否从政府机构得到了帮助? 如果是,哪些机构? 哪些方面?
14) 您是否参加过任何政府组织的为了帮助中小企业的活动或协会? 如果有, 哪些?如果没有, 为什么?
15) 您是否参加过任何的非正式的民间机构? 如果有, 哪些? 如果没有, 为什么?
16) 政府机构是否协助您与教育机构或其它民间机构合作?
17) 在您看来,政府机构还是民间组织更有效率?
18) 政府机构和民间组织哪一个比较便宜?

现在我给您一些陈述. 请根据您这些陈述的赞同程度进行选择.每个陈述都有五个选择.

它们是: 1-非常不同意; 2-不同意; 3-既不同意也不不同意; 4-同意; 5-非常同意.

19) 有足够的渠道帮助我得到现行政府政策及项目的消息。
20) 现在政府对中小企业的服务对我的企业非常有帮助.

21) 现在政府对中小企业的项目对我的企业非常有帮助.

22) 与民间机构相比,政府组织是我与潜在的合作伙伴建立联系的最佳方式.

23) 政府政策对我的企业有非常大的影响.

24) 近几年,政府政策的变化对我的企业非常有帮助.

4 对现行政策和活动的了解

25) 您能告诉我物权法对您企业的影响吗?是消极还是积极的影响?为什么?

26) 您能告诉我劳动合同法对您企业的影响吗?是消极还是积极的影响?为什么?

27) 您能告诉我税制改革对您企业的影响吗?这些改变是好还是坏?为什么?

28) 您能告诉我银行系统的改革对您企业的影响吗?这些改变是好还是坏?为什么?

这还有一些陈述. 请根据您这些陈述的赞同程度进行选择.每个陈述都有五个选择.

它们是: 1-非常不同意; 2-不同意; 3-即不同意也不不同意; 4-同意; 5-非常同意.

29) 中小企业的发展对政府支持的依靠相当大.

30) 中小企业促进法在政府对中小企业发展的态度上带来了积极影响.

31) 物权法对我的企业有益.

32) 劳动合同法对我的企业有利.

33) 税制改革对我的企业非常有利.

34) 银行系统改革对我的企业非常有益.

35) 政府提供足够的融资服务.

36) 获得金融资本非常容易.

5 对现行政策和活动的态度

37) 您认为中小企业法律法规的实施指南清楚吗?

38) 您认为身为党员对运营您的企业有影响吗?为什么有?为什么没有?

39) 您认为当地政府在对中小企业的发展上比中央政府起到更重要的作用吗?为什么是?为什么不是?

40) 目前,您认为哪些法律和法规对您的企业没有益处?为什么?

41) 您认为哪些政策或活动非常有用?为什么?

42) 你是否咨询过任何的政府机构关于现行或未来政策或活动的建议?

43) 您认为他们的意见建议非常有帮助吗?为什么?

44) 您认为最近几年政府变得保护和帮助中小企业的发展吗?在哪些方面?

这里有一些陈述. 请根据您这些陈述的赞同程度进行选择.每个陈述都有五个选择.

它们是: 1-非常不同意; 2-不同意; 3-即不同意也不不同意; 4-同意; 5-非常同意.

45) 近些年,政府积极的鼓励中小企业的发展.

46) 与当地政府建立良好关系对我的生意非常重要.

47) 我非常容易就能明白与中小企业相关的法律法规.

48) 在实施与中小企业相关的法律法规上我有足够的指导.

49) 总体来说,现行政策对我的企业非常有帮助.

50) 总体来说,现行计划对我的企业非常有帮助.

51) 身为党员对中小企业有益.

52) 政府服务对中小企业提供了足够的技术帮助.

53) 政府服务对中小企业提供了足够的培训帮助.

54) 政府服务所提供的信息对我的生意有帮助.

55) 政府服务对中小企业的收费合理并能负担得起.

56) 我对我企业劳动力素质感到很满意.

57) 我的员工流动太高.

6 建议

58) 除了在企业发展方面, 还有哪些方面你需要政府的帮助?

59) 目前, 政府对哪个领域更为重视,大型企业或中小企业?

60) 哪些法律法规您认为需要修改,以便刺激中小企业的发展?

61) 在企业或非企业领域, 您认为政府需要颁布哪些新的法律法规?

62) 政府需要建立哪些新的活动帮助中小企业?

63) 您对中国的中小企业环境有何评价?

这还有一些陈述. 请根据您这些陈述的赞同程度进行选择.每个陈述都有五个选择.

它们是: 1-非常不同意; 2-不同意; 3-即不同意也不不同意; 4-同意; 5-非常同意.

64) 为了帮助中小企业,现有的法律法规需要急迫地改变.

65) 政府在大型企业的发展上投入过多的时间和资源.

66) 为了帮助中小企业的业绩, 颁发新的法律法规是非常重要的.

67) 为了帮助中小企业的业绩,组织新的活动是非常重要的.

Appendix 2: Structured Interview Format

2.1 Structured interview format in English

1. Introduction

1.1 Contacting interviewees

"Hello, my name is Lei Ye. I am a student from Massey University, New Zealand. May I speak to Mr./Ms…., the business owner?"

If the owner is available, then go to the next section (section 1.2): Introduce myself and state the purpose of the research.

If the owner is not available, the question will be: "Can I speak to the senior manager of the firm?"

If both people are not available, the question will be: "Do you know when the owner is available? Can you please tell the owner that a Chinese PhD student, studying in New Zealand, called and I will call him/her again?"

1.2 Introducing myself and the purpose of the study

"Hello, Mr/Ms… My name is Lei Ye, and I am a PhD student from Massey University, New Zealand. I am a friend of …, and I am doing research on the views of SME owners/managers on government policy in mainland China. My research attempts to find out SME owners/managers' perceptions of current government policies, and in which area the government can improve its policies to help the development of SMEs. Your participation will make a contribution to developing a better understanding of the government administration of SMEs in China. Results from this research will be published and be available to academics as well as policymakers. I would like to make a time to interview you about this subject. Would you like to participate in this project?"

If the answer is 'Yes', then go to the next section (section 1.3): Set the interview time.

If the answer is 'No', then thank them for their time and say good bye.

1.3 Setting the interview time

"Thank you for agreeing to participate in my research. The interview can be completed either face-to-face or by telephone and it will take 30 to 60 minutes. Which would be best for you?"

If a face-to-face interview is selected, the following questions will be asked:

- When will you be free?
- Where do you want to do the interview?

The conversation will end with: "Thank you. I will meet you at (place) on (time and date)."

If the telephone interview is selected, the following question will be asked:

- Are you free now?

  If participants choose to do the interview right now, then go to the next section (section 2, Interview topics).

  If participants choose to do the interview at some other time, I thank them for their time and remind them I will call them at (time) on (day).

2. Interview topics

"Thanks for participating in my research. Before we do the interview, there is an information sheet which clarifies the purpose of this study and a consent form that tells you of your rights. You can read them now. If you are comfortable with the information provided in the two forms and would like to participate in this research, it is required by the Massey University Human Ethics Committee that I receive your consent. You may keep the information sheet. Could I please request you sign the consent form which I will need to keep?

Thank you. Now, I am going to ask some questions about your business background and your opinions on government policies and programmes and related issues."

2.1 Business background

1) How long has the business been operating?
2) How long have you been running it?
3) Which age group are you in: 30s, 40s or 50s?
4) What is your education level?
5) Are you a Chinese Communist Party member?
6) Why did you want to start (or buy) this business?
7) What is the ownership structure of your business?
8) How many employees do you have?

2.2 Changes in influential factors in running businesses

9) Were there any obstacles you faced when starting the business? Tell me about them.
10) What is the biggest challenge you face now?

2.3 Awareness of current policies and programmes

Now, I am going to ask some questions about your perception of government attitudes and policies towards the development of SMEs.

11) How do you find out about government laws/regulations relating to your business?

12) What government laws/regulations have changed since you started your business?

13) Did you get any help from any government agencies when you started your business? If yes, which one(s)? And in which areas(s)?

14) Have you attended any programmes or associations which were organised by the government to help SMEs? If yes, which ones? If not, why not?

15) Have you attended any informal organisations? If yes, which ones? If not, why not?

16) Do government agencies provide services to help you to cooperate with education institutions or other informal organisations? Which ones? How do they help?

17) In your opinion, which is more efficient, governmental or informal organisations?

18) Which one is less costly, governmental or informal organisations?

Now, I will give you some statements. Each statement has a scale that ranges from 1 to 5.
They are: 1-strongly disagree, 2-disagree, 3-neither disagree nor agree, 4-agree, and 5-strongly agree.
Please circle the one number that best reflects your opinion for each statement.

	Strongly disagree	Disagree	Neither	Agree	Strongly agree
19. There are more than enough channels to help me get all the information I need on current policies or programmes.	1	2	3	4	5
20. Current government services on SMEs are really helping my business.	1	2	3	4	5
21. Current government programmes on SMEs are really helping my business.	1	2	3	4	5
22. Compared with informal institutions, government institutions are the best channel for me to build new connections with potential partners.	1	2	3	4	5
23. Government policies have a great impact on my business.	1	2	3	4	5
24. The changes in government policies in the last few years are really good for my business.	1	2	3	4	5

2.3 Understanding of current policies and programmes

Next I will ask you some questions on your understanding of current policies and programmes.

25) Can you tell me the impact of The Property Law on your business? Does it have positive or negative impacts, and why?

26) Can you tell me the impact of The Labour Contract Law on your business? Does it have positive or negative impacts, and why?

27) Can you tell me of the influence of the reforms in the taxation system on your business? Are the changes good or bad? And why?

28) Can you tell me of the influence of the reforms in the banking system on your business? Are the changes good or bad? And why?

Here are more statement questions. Each statement has a scale that ranges from 1 to 5.
They are: 1-strongly disagree, 2-disagree, 3-neither disagree nor agree, 4-agree, and 5-strongly agree.
Please circle the one number that best reflects your opinion for each statement.

	Strongly disagree	Disagree	Neither	Agree	Strongly agree
29. SME development largely depends on government support.	1	2	3	4	5
30. The SME Promotion Law has brought positive change in the government's attitude towards SME development.	1	2	3	4	5
31. The Property Law has been beneficial for my business.	1	2	3	4	5
32. The Labour Contract Law has been beneficial for my business.	1	2	3	4	5
33. Taxation reform has been really good for my business.	1	2	3	4	5
34. Banking reform has been really good for my business.	1	2	3	4	5
35. The government provides sufficient financing services.	1	2	3	4	5
36. Accessing financial capital is very easy.	1	2	3	4	5

2.4 Attitudes towards current policies and programmes

There are some questions about the influence of government policies and programmes.

37) Do you think the implementation guidelines for SME laws and regulations are clear?

38) Do you think being a Party member has an impact on running your business? Why? Why not?

39) Do you think the local government plays a more important role than the central government in the development of SMEs? Why? Why not?

40) Currently, which laws and regulations do you think are not good for your business? Why?

41) Which policies or programmes do you think are useful? Why?

42) Have you been consulted by any government agencies for advice on current or future policies or programmes?

43) Do you think their opinions or suggestions are very helpful? Why?

44) Do you think the government has been changing to help to protect and encourage the development of SMEs over the last few years? In which area?

Here are also some statements relating to this issue. Each statement has a scale that ranges from 1 to5. They are: 1-strongly disagree, 2-disagree, 3-neither disagree nor agree, 4-agree, and 5-strongly agree. Please circle the one number that best reflects your opinion for each statement.					
	Strongly disagree	Disagree	Neither	Agree	Strongly agree
45. In recent years the government has actively encouraged the development of SMEs.	1	2	3	4	5
46. Building a good relationship with local government is very important for my business.	1	2	3	4	5
47. I can easily understand laws and regulations concerning SMEs.	1	2	3	4	5
48. I have enough guidance in implementing laws and regulations relating to SMEs.	1	2	3	4	5
49. Overall, current policies are very useful for my business.	1	2	3	4	5
50. Overall, current programmes are very useful for my business.	1	2	3	4	5
51. Being a Party member is beneficial for SMEs.	1	2	3	4	5
52. There is enough technical assistance available from the government services for SMEs.	1	2	3	4	5
53. There is enough training assistance for SMEs provided by the government services.	1	2	3	4	5
54. Information provided by the government services benefits my business.	1	2	3	4	5
55. The cost of government services to SMEs is reasonable and affordable.	1	2	3	4	5
56. I am very satisfied with labour quality available for my business.	1	2	3	4	5
57. My employee turnover is very low.	1	2	3	4	5

2.5 Suggestions

The last section deals with your suggestions for improving government laws/regulations. Please answer the following questions:

58) Are there any areas other rather than growth for which you need help from the government?

59) Currently, on which sector does the government place more emphasis, big businesses or SMEs? And why?

60) Which laws or legislation do you think should be changed in order to stimulate the growth of

SMEs?

61) Which new laws/regulations, in both business and non-business areas, do you think the government should introduce?

62) What programmes should the government set up to help SMEs?

63) Do you have any general comments on the Chinese SME environment?

The last few questions are statement questions. Each statement has a scale that ranges from 1 to 5. They are: 1-strongly disagree, 2-disagree, 3-neither disagree nor agree, 4-agree, and 5-strongly agree. Please circle the one number that best reflects your opinion for each statement.

	Strongly disagree	Disagree	Neither	Agree	Strongly agree
64. Existing laws/regulations urgently need to be changed in order to help SMEs.	1	2	3	4	5
65. The government has put too much time and resources on the development of big businesses.	1	2	3	4	5
66. It is very important to be introduced to new laws/regulations in order to be able to improve the performances of SMEs.	1	2	3	4	5
67. It is very important to be introduced to new programmes in order to improve the performance of SMEs.	1	2	3	4	5

3. Ending

"That is the end of our interview. Thank you so much for your time and effort. If you have any concerns or want a script of the summary of the interview, please contact me by telephone or e-mail. I may contact you in the future if any further questions arise."

2.2 Structured interview format in Chinese

1. 介绍调研项目

1.1 寻找受访者

“您好, 我叫叶蕾. 我是一名在新西兰梅西大学学习的学生.我可以跟这家企业的所有人…先生/女士通话吗?”

如果企业所有人不在,问题即为 “我能跟经理通话吗?”

如果两者都不在,问题即为”你知道所有人什么时间在吗?您能否告诉他一名在新西兰学习的中国博士生给他打了电话, 我还会再跟他联系?”

1.2 介绍自己及调研项目

“您好, ...先生/女士. 我叫叶蕾. 我是在新西兰梅西大学学习的博士生. 我是...先生/女士的朋友. 我在做关于中国中小企业所有人/经理对政府政策的看法的调研. 调研的目的是为了发现中小企业所有人/经理对现行政府政策的看法, 以及政府在哪些政策上需要改进,以便帮助中小企业的发展. 调研结果将会发表在学术期刊上, 学术专家及政府决策者都能够有机会看到此篇文章. 因此您的参与将能够帮助加深政府对中小企业的管理. 我希望能跟您定个时间进行采访. 不知您是否愿意参加此次调研?

如果愿意, 进行下一个步骤---约定访谈时间

如果不愿意, 表示感谢并道再见.

1.3 约定访谈时间

“访谈将通过面谈或电话访问的方式进行. 时间约在 30 到 60 分钟之间. 您希望采用那种方式参与?”

如果选择面谈,问题即为 – “您何时有空?”

“您希望在哪里进行访谈?”

“谢谢, 我会在(时间)在(地点)拜会您.

如果选择电话访问, 问题即为 – “您现在有时间吗?”

若有时间, 进行下一个步骤.

若没有时间, “您何时有时间?”

“我会在(时间)再给您打电话. 谢谢您. 再见.”

2. 访谈话题

“非常感谢您参与我的调研. 在采访前, 希望您能现在阅读一下关于此次调研的信息单以及参与表. 主要是要您了解调研的目的以及您的权力.如果您对这两份文件的内容没有异议,并愿意参与此次访谈, 根据梅西大学人类道德委员会的要求,需要您在参与表上签字, 我会保留这份文件. 您若需要可以保留信息单. 谢谢.

现在,我将问一些跟您的企业及您对政府政策的观点相关的问题.”

2.1 企业概况

您能否简单介绍一下您的企业:

1) 企业已经运营多少年了?

2) 您经营这个企业有多少年了?

3) 您在何年龄段: 30, 40, 或 50?

4) 您的学历是什么?

5) 您是党员吗?

6) 您为何想要创办(或收购)这个企业?

7) 您企业是何种所有制?

8) 您的企业有多少员工?

2.2 对企业运营的影响因素的变化

9) 在企业创办之初,您面临哪些障碍? 请告诉我都是什么.

10) 您现在面临的最大挑战是什么?

2.3 对现行政策的了解

现在,我要问的问题是关于您对政府对中小城市企业态度及政策有何见解.

11) 您是如何知道与您企业相关的政府政策/法规的?

12) 从您开始创办企业,哪些政策/法规发生了改变?

13) 当您创办企业的时候,您是否从政府机构得到了帮助? 如果是,哪些机构? 哪些方面?

14) 您是否参加过任何政府组织的为了帮助中小企业的活动或协会? 如果有, 哪些?如果没有, 为什么?

15) 您是否参加过任何的非正式的民间机构? 如果有, 哪些? 如果没有, 为什么?

16) 政府机构是否协助您与教育机构或其它民间机构合作?

17) 在您看来,政府机构还是民间组织更有效率?

18) 政府机构和民间组织哪一个比较便宜?

现在我给您一些陈述. 请根据您这些陈述的赞同程度进行选择.每个陈述都有五个选择.它们是: 1-非常不同意; 2-不同意; 3-即不不同意也不同意; 4-同意; 5-非常同意.

19) 有足够的渠道帮助我得到现行政府政策及项目的消息.

20) 现在政府对中小企业的服务对我的企业非常有帮助.

21) 现在政府对中小企业的项目对我的企业非常有帮助.

22) 与民间机构相比,政府组织是我与潜在的合作伙伴建立联系的最佳方式.

23) 政府政策对我的企业有非常大的影响.

24) 近几年,政府政策的变化对我的企业非常有帮助.

2.4 对现行政策和活动的了解

25) 您能告诉我产权法对您企业的影响吗?是消极还是积极的影响?为什么?

26) 您能告诉我劳动合同发对您企业的影响吗?是消极还是积极的影响?为什么?

27) 您能告诉我税制改革对您企业的影响吗?这些改变是好还是坏?为什么?

28) 您能告诉我银行系统的改革对您企业的影响吗?这些改变是好还是坏?为什么?

这还有一些陈述. 请根据您这些陈述的赞同程度进行选择.每个陈述都有五个选择.它们是: 1-非常不同意; 2-不同意; 3-即不不同意也不同意; 4-同意; 5-非常同意.

29) 中小企业的发展对政府支持的依靠相当大.

30) 中小企业促进法在政府对中小企业发展的态度上带来了积极影响.

31) 产权法对我的企业有益.

32) 劳动合同法对我的企业有利.

33) 税制改革对我的企业非常有利.

34) 银行系统改革对我的企业非常有益.

35) 政府提供足够的融资服务.

36) 获得金融资本非常容易.

2.5 对现行政策和活动的态度

37) 您认为中小企业法律法规的实施指南清楚吗?

38) 您认为身为党员对运营您的企业有影响吗?为什么有?为什么没有?

39) 您认为当地政府在对中小企业的发展上比中央政府起到更重要的作用吗?为什么是?为什么不是?

40) 目前,您认为哪些法律和法规对您的企业没有益处?为什么?

41) 您认为哪些政策或活动非常有用?为什么?

42) 你是否咨询过任何的政府机构关于现行或未来政策或活动的建议?

43) 您认为他们的意见建议非常有帮助吗?为什么?

44) 您认为最近几年政府变得保护和帮助中小企业的发展吗?在哪些方面?

这里有一些陈述. 请根据您这些陈述的赞同程度进行选择.每个陈述都有五个选择.它们是: 1-非常不同意; 2-不同意; 3-即不不同意也不同意; 4-同意; 5-非常同意.

45) 近些年,政府积极的鼓励中小企业的发展.

46) 与当地政府建立良好关系对我的生意非常重要.

47) 我非常容易就能明白与中小企业相关的法律法规.

48) 在实施与中小企业相关的法律法规上我有足够的指导.

49) 总体来说,现行政策对我的企业非常有帮助.

50) 总体来说,现行计划对我的企业非常有帮助.

51) 身为党员对中小企业有益.

52) 政府服务对中小企业提供了足够的技术帮助.

53) 政府服务对中小企业提供了足够的培训帮助.

54) 政府服务所提供的信息对我的生意有帮助.

55) 政府服务对中小企业的收费合理并能负担得起.

56) 我对我企业劳动力素质感到很满意.

57) 我的员工流动太高.

2.6 建议

58) 除了在企业发展方面, 还有哪些方面你需要政府的帮助?

59) 目前, 政府对哪个领域更为重视,大型企业或中小企业?

60) 哪些法律法规您认为需要修改,以便刺激中小企业的发展?

61) 在企业或非企业领域, 您认为政府需要颁布哪些新的法律法规?

62) 政府需要建立哪些新的活动帮助中小企业?

63) 您对中国的中小企业环境有何评价?

这还有一些陈述. 请根据您这些陈述的赞同程度进行选择.每个陈述都有五个选择.它们是: 1-非常不同意; 2-不同意; 3-即不不同意也不同意; 4-同意; 5-非常同意.

64) 为了帮助中小企业,现有的法律法规需要急迫地改变.

65) 政府在大型企业的发展上投入过多的时间和资源.

66) 为了帮助中小企业的业绩, 颁发新的法律法规是非常重要的.

67) 为了帮助中小企业的业绩,组织新的活动是非常重要的.

Appendix 3: Information Sheet

3.1 Information sheet in English

MASSEY UNIVERSITY
COLLEGE OF BUSINESS
KAUPAPA WHAI PAKIHI

Te Kunenga ki Pūrehuroa

School of Management
Private Bag 11222, Palmerston North 4442, New Zealand T +64 6 356 9099 extn 2361 F +64 6 350 5661 http://management.massey.ac.nz

The views of SME owners/managers on government policy in mainland China

INFORMATION SHEET

Researcher(s) Introduction

My name is Lei Ye. I am conducting research on the views of SME owners/managers on government policy in mainland China. The purpose of this project is to find out SME owners/managers' perceptions of government policies and what government policies or programmes those business owners/managers expect in order to improve SME performance. I am conducting this research to fulfill the requirements for a PhD (Management) from Massey University.

Project Description and Invitation

The purpose of the research is to explore what SME owners/managers think about the effect of current Chinese government policies and programmes on SMEs. The research is expected to show what SME owners/managers' opinions are and areas where they need help from the government. By doing structured interviews, it is possible to investigate SME owners/managers' understanding of and attitudes towards government policies and programmes. This research will also seek suggestions on current or future policies and programmes.

Participant Identification and Recruitment

You may have been approached to help with this project in one of the following ways:
- From contact details supplied by the local industry association
- From contact details given by the local government
- By personal contact

Participants will be either the owner or manager of a SME business in mainland China. A total of 210 participants will be selected from Beijing, Hebei, and Jiangxu provinces. A total of 70 participants will be selected randomly from each province. These regions are at different economic development levels, so the results can demonstrate the various impacts of the government policies on SMEs.

Project Procedures

Each interview will take around 30-60 minutes, depending on the different participants. The interview will be recorded on tape. You will be contacted by telephone first. If you are willing to participate, the time and location of the interview will be decided by you. The information sheet and the consent form will be given to you at the beginning of the interview. There is no conflict of financial interest or role involved in this research. I will keep your identity and all information concerning the project confidential.

Data Management

The interview material will be analysed and grouped into related categories. Analysing the similarities or differences in these data will help to achieve the purpose of this study, namely what SME owners/managers think about government policies and in which area they want the government to give them further support.

Data and audio files will be stored in the researcher's personal laptop and personal USB for three years. It will then be deleted. The thesis will be available from the Massey University library. A summary of the results will also be available at your request. In addition, if a publishable paper is written that summarises the project, a copy will also be made available to you if you so request.

Participant's Rights

You are under no obligation to accept this invitation to join the research project. If you decide to participate, you have the right to:

- decline to answer any particular question;
- withdraw from the study within 7 days;
- ask any questions about the study at any time during participation;
- provide information on the understanding that your name will not be used unless you give permission to the researcher; and
- be given access to a summary of the project findings when it is concluded.

I also understand that the interview will be recorded and I can ask for the audio tape to be turned off at any time during the interview.

Project Contacts

If you wish to contact me or my supervisors at any time regarding the project, then please use the following details:

Researcher	Lei Ye	Ph: (++64) +6 350 5799 Ext 7225 Email: L.Ye1@massey.ac.nz
Supervisors	David Tweed	Ph: (++64) +6 360 5799 Ext 2805 Email:D.M.Tweed@ Massey.ac.nz
	Paul Toulson	Ph: (++64) +6 350 5799 Ext 2389 Email: P.Toulson@ massey.ac.nz

The Committee Approval Statement

This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher(s) named above are responsible for the ethical conduct of this research.

If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher(s), please contact Professor John O'Neill, Director, Research Ethics, telephone (++64) +6 350 5249, email humanethics@massey.ac.nz.

3.2 Information sheet in Chinese

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中国大陆中小企业企业主/经理对政府政策的看法

信息单

研究员介绍

我叫叶蕾.我目前在对中国大陆中小城市企业企业主/经理对政府政策的看法进行调研.此课题的目的是为了获知中小企业所有者/经理对现有政府政策的看法以及期望哪些对中小企业有所帮助的政策能够实施.此次调研是为了完成在新西兰梅西大学的管理学博士学位.

研究课题相关信息

此次调研是从中小企业企业主/经理的角度出发,研究政府现行的中小企业政策及活动对企业有何种影响.通过调研,期望能够展现中小企业所有者/经理的真实观点及看法,并且发现在哪些方面他们需要得到政府的帮助.运用面谈的方式,期望发现中小企业所有者/经理对政府政策及活动的理解以及态度.此次调研还要呈现中小企业企业主/经理对现有及未来政府政策及活动的建议.

参与者条件及录用

您是以三种途径与调研员取得联系帮助调研的:

1: 当地工业联合会提供的联系方式

2: 当地政府提供的联系方式

3: 中间人介绍

参与者必须是在中国大陆的中小企业的企业主或是经理. 210 位参与者将从北京,河北省以及江苏省中选出.每个地方将任意的选出 70 位参与者.由于三地的经济水平不同,调研结果能够发现政府政策对中小企业发展的影响.

调研程序

有与调研对象的不同, 访谈将进行 30 到 60 分钟.访谈将被录音. 研究员会通过电话与您取得联系.如果您愿意参与,面谈的时间和地点由您决定.信息单和参与同意书将在面谈的最开始给您.此次调研不设计任何经济利益.我会对您的身份及所有涉及此次调研的信息保密.

数据管理

采访信息会被分析及整理.数据的相同点或不同点能够帮助此次调研达到其预期的目的, 发现中小企业企业主/经理是如何看到政府政策以及在哪些方面他们需要政府的帮助.

数据及录音文件将会在研究员私人电脑及个人用 USB 中存档三年.三年之后它们会被删除.论文可在梅西大学图书馆得到.如果您需要,调研的结果会提供给您.另外,若调研的结构将用于文章的发表,您若需要也将提供给您.

参与者的权利

您有权利不参加此次调研.如有您参加,您有以下的权利:

1. 拒绝回答任何一个问题
2. 在七天之内可回绝参与调研
3. 参与过程中在任何时间问任何与调研相关的问题
4. 姓名将不被公开,除非得到您的批准
5. 能够了解到调研的结果
6. 访谈将被录音,并且在访谈其间您可以让研究员关掉录音.

调研项目联系方式

若涉及到调研的相关问题,您希望与我或我的导师联系,请通过以下联系方式与我们取得联系:

研究员	叶蕾	电话: (++64) +6 350 5799 Ext 7225 邮箱: L.Ye1@massey.ac.nz
导师	David Tweed Paul Toulson	电话: (++64) +6 360 5799 Ext 2805 邮箱:D.M.Tweed@ Massey.ac.nz 电话: (++64) +6 350 5799 Ext 2389 邮箱: P.Toulson@ massey.ac.nz

委员会认可说明

此次调研已经通过同行审查被评估为低风险.因此,调研并未被大学人类道德委员会评估.上面所给出的研究员对此次调研的道德行为负责.

如果您对调研的道德行为有任何的不满,并希望与除研究员以外的人员联系,请您联系 John O'Neill 教授,调研道德主管,电话(++64) +6 350 5249 邮箱 humanethics@massey.ac.nz

Appendix 4: Consent Form

4.1 Consent form in English

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The views of SME owners/managers on government policy in mainland China

PARTICIPANT CONSENT FORM

I have read the Information Sheet and have had the details of the study explained to me. My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I (agree) / (do not agree) to participate in this study.

I (agree) / (do not agree) to the interview being sound recorded.

I (wish) / (do not wish) to have a copy of my answers returned to me.

I agree to participate in this study under the conditions set out in the Information Sheet.

Signature: ..... **Date:** .....

Full Name - printed .....

4.2 Consent form in Chinese

MASSEY UNIVERSITY
COLLEGE OF BUSINESS
KAUPAPA WHAI PAKIHI

Te Kunenga ki Pūrehuroa

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中国大陆中小企业企业主/经理对政府政策的看法

参与同意书

我已经阅读了信息单并且课题的详细信息已经向我作出了说明. 我对问题给出了另我满意的答案, 我知道在今后我也许会被咨询更多的相关问题.

我(同意)/(不同意)参与这个调研.

我(同意)/(不同意)此次面谈被录音.

我(希望)/(不希望)把我给的答案以书面的形式给我一份.

以信息单中所给出的条件为基础,我同意参加此次调研.

签名_____ 日期_____

全名_____

Appendix 5: Qualitative Data

Table 1

The Age Profile of the Respondents

Category		Frequency	Percentage
Younger	In 20s	3	1.4
	In 30s	59	28.1
Middle	In 40s	89	42.4
Older	In 50s	54	25.7
	In 60s	6	2.9
Total		210	100.0

Table 2

Education Level of the Respondents

Category	Frequency	Percentage
Primary school	9	4.3
Middle school	41	19.5
Technical school	35	16.7
High school	71	33.8
Undergraduate	33	15.7
Master's	21	10.0
Total	210	100.0

Table 3

Channels that Help the Owners to Know About the Policies

Key Ideas	Frequencies	*Percentage
• The government departments inform us	78	37.1
• The government departments organise training courses	70	33.3
• Through media	71	32.8
• Search the internet	57	27.1
• No channels to let me know	24	11.4
• The government distributes documents	14	6.7
• Read related books	10	4.8
• Communicate with other people	7	3.3
• Consult with related government departments	7	3.3
• The business association informs us	6	2.9
• Their lawyers deal with these issues	4	1.9
• The parent company runs training courses	1	0.5
Total	349	166.2

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 4

Laws/regulations That Have Changed Since the Business was Established

Key Ideas	Frequency	*Percentage
• Nothing has changed much	86	41.0
• The Labour Contract Law	33	15.7
• Tax-related policies	25	11.9
• Cannot tell	14	6.7
• Policies on environmental protection	14	6.7
• Safety-related laws	8	3.8
• Many policies have changed	8	3.8
• Government's attitudes towards the development of the industries	4	1.9
• The price of commodities	4	1.9
• Policies on tax refunds	3	1.4
• Whether can enjoy preferencial policies	3	1.4
• Requirements from The Bureau of Health and Disease Prevention have become more strict	3	1.4
• Land-related policies	3	1.4
• In quality control	3	1.4
• Credit policies	2	1.0
• The Company Law	2	1.0
• Provisional measures on administration of enterprises	2	1.0
• Exchange rate	2	1.0
• In electricity usage	2	1.0
• The Fire Safety Law	2	1.0
• Establishing or eliminating of government departments	2	1.0
• The Bidding Law	1	0.5
• The price of raw materials	1	0.5
• Market prices	1	0.5
• Registration system	1	0.5
• Training courses provided by the government	1	0.5
• Export policies	1	0.5
• The government support of SMEs	1	0.5
Total	232	

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 5

Reasons Why the Owners Did Not Want to Attend Activities Led by the Government

Key Ideas	Frequency	*Percentage
• They are not helpful to my business	12	5.7
• The association does not organise any activities, just lets us pay fees	7	3.3
• Nobody informs us	6	2.9
• No time to think about it	3	1.4
• No need due to the small size of the business	3	1.4
Total	31	14.8

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 6

Associations Mentioned By the Participants

Key Ideas	Frequency	*Percentage
• Association of an industry	33	15.7
• Chamber of Commerce	17	8.1
• Association of Private and Self-employed Enterprises	15	7.1
• Association of a product	10	4.8
• Association of Entrepreneurs	7	3.3
• Association of Industry and Commerce	4	1.9
• Association of Environmental Protection	2	1.0
• Labour Union	2	1.0
• Business Roundtable and Coordinator	1	0.5
• Association of Consumers	1	0.5
• Association of Quality Control	1	0.5
• Association of Joint Communication	1	0.5
• Chamber of Youth Entrepreneurs	1	0.5
Total	95	45.2

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 7

Negative Impacts that the Labour Contract Law Brings to the Businesses

Key Ideas	Frequency	*Percentage
• Increases the burden on the business	45	21.4
• Overly protects employees' rights (employees can leave at their will)	24	11.4
• Some articles are not reasonable	15	7.1
• Becomes harder to manage employees	14	6.7
• The Law loses contact with reality	13	6.2
• Restrains the development of the business	6	2.9
• The Law does not provide any protection for the business	6	2.9
• Increases employee turnover	6	2.9
• Makes it harder to hire workers	5	2.4
• Increases government interference in the business	1	0.5
Total	135	

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 8

Reasons Why the Labour Contract Law Did Not Have Any Impacts

Key Ideas	Frequency	*Percentage
• Do what the Law requires	15	7.1
• Only have a few employees	5	2.4
• Employees are relatives	5	2.4
• Use oral agreements	5	2.4
• It has the same impact on every business	3	1.4
• Employees already are treated well by the owner	3	1.4
• Employees have been working in the company for a long time	2	1.0
• The business was just set up	1	0.5
Total	39	18.6

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 9

Reasons Why the Labour Contract Law is Good for the Businesses

Key Ideas	Frequency	Percentage
• Protects the rights of employees and enterprises	20	9.5
• Reduces employee turnover	11	5.2
• Standardises the business administration	7	3.3
• Secures the business operation	6	2.9
• Protects the rights of employees	6	2.9
• Increases the benefits for workers	5	2.4
• Standardises the employment system	4	1.9
• Uses the Law to solve problems	4	1.9
• Specifies obligations for both parties	3	1.4
• Restricts both sides of parties	2	1.0
• Provides sense of belonging and security for employees	2	1.0
• Reduces the enterprise's burden	1	0.5
• Easy to recruit employees	1	0.5
Total	72	34.2

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 10

Reasons Why the Taxation Reforms Do Not Have Impacts on the Businesses

Key Ideas	Frequency	*Percentage
• Taxes are same as before	90	42.9
• Pay taxes as required	13	6.2
• It has the same impact on all businesses	4	1.9
• Some taxes have increased, others have decreased. However, the total amount has not changed	1	0.5
• We understand that the government also needs expenditure	1	0.5
• The industry is tax-free	1	0.5
• The government cannot be bothered to collect taxes from us due to the size of the business	1	0.5
• Not strictly following the law	1	0.5
Total	112	53.3

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 11

Negative Impacts of the Taxation Reforms Given by the Respondents

Key Ideas	Frequency	*Percentage
• Tax rates have increased	65	31.0
• The business is forced by the government to pay the amount of taxes in order to help them to enjoy benefits	6	2.9
• Increases the burden on the business	6	2.9
• The types of tax have increased	6	2.9
• The revenue has reduced	3	1.4
• The nation has become richer, the people have become poorer	2	1.0
• Some articles in the law lose contact with reality	2	1.0
• Tax rates are charged differently in different regions, which results in an unfair competition environment	1	0.5
• The law is not fair as it tends to protect the rich	1	0.5
Total	92	43.8

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 12

Lists of Positive Impacts That the Taxation Reforms Bring to the Businesses

Key Ideas	Frequency	*Percentage
• Tax rates have reduced	13	6.2
• Some taxes have been exempted	5	2.4
• Good for the development of the business	4	1.9
• Helps to have a better understanding of the tax law	1	0.5
• Promotes a fair tax-paying environment	1	0.5
• Enjoy tax preferences	1	0.5
• The revenue has gone up	1	0.5
Total	26	12.4

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 13

Areas Where the Respondents Found the Government Has Provided More Help

Key Ideas	Frequency	*Percentage
• Become easier to get loans	14	6.7
• Have more supportive policies	10	4.8
• The services provided by the government have improved	6	2.9
• Tax rates have been reduced	5	2.4
• Give help in getting land	2	1.0
• Give help in developing high-tech products	2	1.0
• Established the Chamber of Commerce to improve communication between the businesses and the government	1	0.5
• Provided a better market environment	1	0.5
Total	42	20.0

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 14

The List of Which Laws or Regulations are Obstacles to the Businesses

Key Ideas	Frequency	*Percentage
• Do not know	76	36.2
• None	62	29.5
• The Labour Contract Law	29	13.8
• Taxes are too high	13	6.2
• Limitation on electricity usage	8	3.8
• Commodity price has increased too much	7	3.3
• Too many	6	2.9
• Tax for the land usage	5	2.4
• Unreasonable charges	4	1.9
• Procedures in the government departments are too complicated	2	1.0
• Policies on environmental protection	2	1.0
• Regulations on getting loans	1	0.5
• Charges for electricity and water	1	0.5
• To show ID when going to internet bars	1	0.5
• The Consumer Protection Law	1	0.5
• The Insurance Law	1	0.5
• The Traffic Law	1	0.5
• Not dare to say	1	0.5
• Opening the market to foreign companies	1	0.5
• The policies made by the local government are not proper	1	0.5
Total	223	

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 15

The List of Which Programmes are Beneficial to the Businesses

Key Ideas	Frequency	*Percentage
• Training courses on safety issues	6	22.22
• Training courses on government policies	4	14.81
• Organising trade exhibitions	2	7.41
• Organising the business forum	2	7.41
• Organising the visiting of other businesses	2	7.41
• Job skill training for employees	2	7.41
• Training courses for the business culture	1	3.70
• Medical check-ups for employees	1	3.70
• Helping the businesses to cooperate with universities	1	3.70
• Special funds for opening up overseas markets	1	3.70
• Installation of natural gas for the business	1	3.70
• All programmes are helpful	1	3.70
• Training for receptionists to get the certificate	1	3.70
• Reward the most tax contributors of the year	1	3.70
• Special funds for high tech projects	1	3.70
Total	27	100.0

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 16

Responses on Which Laws or Legislation Need to be Changed

Key Ideas	Frequency	*Percentage
• None	128	61.0
• The Labour Contract Law needs to be changed	33	15.7
• Tax rates should be reduced	15	7.1
• Solve the problem of unreasonable charges	7	3.3
• The policy of limiting electricity usage	7	3.3
• Stabilising the commodity price	6	2.9
• Promoting reasonable and fair competition	6	2.9
• Too many need to be changed	4	1.9
• The government should implement the current legislations in the right way	4	1.9
• Getting loans	4	1.9
• Reducing interference from the government	3	1.4
• Some insurance rates should be reduced	2	1.0
• Providing simpler procedures	2	1.0
• Policies should be made based on the actual situations of SMEs	2	1.0
• Stabilising the market	2	1.0
• Providing stable policies	1	0.5
• Providing quality standards	1	0.5
• Providing legal rights for the businesses	1	0.5
• Letting the government conduct their rights following the law	1	0.5
Total	229	

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 17

Responses on What Laws and Regulations the Government Should Introduce

Key Ideas	Frequency	*Percentage
• Do not know	96	45.7
• None needed	75	35.7
• Supportive policies for SMEs	10	4.8
• In empowering the business	3	1.4
• In preventing unregistered businesses	2	1.0
• In recognising good businesses	2	1.0
• In promoting environmental protection	2	1.0
• In preventing corruption	2	1.0
• The Law of Demolition	1	0.5
Total	193	

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 18

Responses on What Programmes the Government Should Set Up

Key Ideas	Frequency	*Percentage
• None needed	101	48.1
• Do not know	34	16.2
• Establish a platform or unions for entrepreneurs to communicate	15	7.1
• Provide training for employees	14	6.7
• Any programmes that can benefit the business are welcome	12	5.7
• Courses for senior management	7	3.3
• In providing funds	6	2.9
• In providing professional talents	6	2.9
• In technology	6	2.9
• In introducing projects to the business	5	2.4
• In providing up-to-date information	3	1.4
• Organising business trips	3	1.4
• In setting up the enterprise culture	2	1.0
• Setting up service facilities for migrant workers	1	0.5
• In helping the business to find workers	1	0.5
• Protecting the interests of the business	1	0.5
• The government should have less interference in the business	1	0.5
• In organising exhibitions or other activities to promote sales	1	0.5
• In cleaning up loans in arrears	1	0.5
Total	225	

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Table 19

General Comments on the Chinese SME Environment

Key Ideas	Frequency	*Percentage
• The competition is fierce	56	26.7
• The survival of SMEs is difficult	45	21.4
• The environment is not good	38	18.1
• Lack of government support	33	15.7
• The environment is just okay	29	13.8
• Everything relies on the SMEs themselves	29	13.8
• No fair competition environment	17	8.1
• The government creates difficulties for SMEs	15	7.1
• Lack of funds	13	6.2
• The survival of the fittest	13	6.2
• The outlook for SMEs is not good	12	5.7
• Relationships are very important for SMEs to survive	10	4.8
• Lack of employees	10	4.8
• The environment is very poor	10	4.8
• The environment is moving in a favourable direction	9	4.3
• Need further regulating and revising	8	3.8
• Supportive policies have not been implemented in practice	8	3.8
• The government has started to support SMEs	6	2.9
• No matter what the environment is, the business still needs to survive	6	2.9
• Lack of stable social environment	6	2.9
• SMEs do not have opportunities to enjoy favourable policies	5	2.4
• In a state of 'the big fish eats up the small ones'	4	1.9
• In a bittersweet situation	4	1.9
• The environment is in relative disorder	4	1.9
• Hard to say	3	1.4
• The development of SMEs is going downhill	3	1.4
• The Open Door Policy helps people to increase their living standards	3	1.4
• Less advanced technology	3	1.4
• Life cycle of Chinese SMEs is short	2	1.0
• The development of SMEs is not balanced in different areas	1	0.5
Total	405	

* % worked out based on total number of respondents (210) rather than the total number of frequencies.

Appendix 6: Results of Cross-tabulations

Table 1

Business Operating Time Versus Other Variables

Variables	Objective	Chi-square	*P**
Information channels	Awareness	.967	.617
Government services	Awareness	.636	.727
Government programmes	Awareness	2.259	.323
Building connections by government institutions	Awareness	.695	.706
Impact of the policies	Awareness	.126	.939
Impact of the policy changes	Awareness	1.803	.406
Importance of government support	Understanding	2.849	.241
Impact of the SME Promotion Law	Understanding	6.995	.030*
Impact of the Property Law	Understanding	1.787	.409
Impact of the Labour Contract Law	Understanding	.315	.854
Impact of taxation reform	Understanding	.975	.614
Impact of banking reform	Understanding	.628	.730
Financing services	Understanding	3.425	.180
Access to financial capital	Understanding	19.907	.000*
The government has encouraged SME development	Attitudes	3.098	.212
Building relationships with the government	Attitudes	.261	.718
Guidance in SME-related policies	Attitudes	6.549	.038*
Enjoy benefits from current policies	Attitudes	.851	.654
Enjoy benefits from current programmes	Attitudes	.284	.868
The role that Party members play in the business	Attitudes	.332	.847
Technical assistance	Attitudes	.880	.644
Training assistance	Attitudes	5.736	.057
Usefulness of government information	Attitudes	2.637	.267
Cost of government services	Attitudes	.803	.669
Quality of labour	Attitudes	.508	.776
Employee turnover	Attitudes	4.793	.091
Government attitudes towards large business	Suggestions	N/A: 4 cells have expected count less than 5	
Need in changing existing policies	Suggestions	9.188	.002*
Need in introducing new policies	Suggestions	9.025	.011*
Need in introducing new programmes	Suggestions	3.381	.184

*The relation between variables was significant

Table 2 shows that the positive impact brought by the Promotion Law differed, depending on the business operating time (*P*=.030). The longer the business had been operating, the more benefits it enjoyed from the Law. The majority of all businesses stated that the Law did not have any impact on their businesses; in addition, it had more of a negative impact on businesses which had been running for more than ten years, which was almost three times higher than businesses operating less than ten years. For businesses which had been running less than ten years, the participants who found the Law had positive impacts was around three times higher than those who found the impacts were negative. In contrast, of the businesses which had been running for more than ten years, the proportion finding the Law was not good for the business was slightly lower than those who found the Law brought positive impacts to their businesses.

Table 2

Business Operating Time * Positive Impact of the SME Promotion Law

Category		The SME Promotion Law			
		Disagree	**Middle**	**Agree**	**Total***
Operating time	<10 yrs	7.1%	74.1%	18.8%	100.0%
of the business	≥10 yrs	19.4%	64.3%	16.3%	100.0%
Total		12.9%	29.0%	17.6%	100.0%

* 210 respondents answered the questions.

Table 3 demonstrates that the longer the businesses had been operating, the easier it was for them to gain access to loans. The relation between these variables was highly significant (*P* = .000). The percentage of respondents who disagreed with the statement that getting financial capital was easy in the over ten years category was 20% higher than the category of under 10 years. In addition, the proportion of those who agreed that getting financial capital was easy was three times higher for businesses operating for more than ten years.

Table 3

Business Operating Time * Ease in Getting Financial Capital

Category		Financial capital			
		Disagree	Middle	Agree	Total*
Operating time	<10 yrs	75.0%	18.8%	6.3%	100.0%
of the business	≥10 yrs	44.9%	40.8%	14.3%	100.0%
Total		61.0%	29.0%	10.0%	100.0%

* 210 respondents answered the questions.

The association between business operating time and the guidance it receives is shown in Table 4. The results show that the longer the company had been in business, the more guidance on SME policies they received from the government (P = 0.38). Those from the more than ten years category who found that there was enough guidance available to the business was around 20% higher than for businesses operating for less than ten years. In addition, the proportion finding that the guidance was enough in the more than ten years category was two times higher than those who did not think the guidance was enough. For the businesses that had been operating for less than ten years, the same proportion went to both the 'disagree' and 'agree' categories.

Table 4

Business Operating Time * Enough Guidance in SME-Related Policies

Category		Guidance in policies			
		Disagree	Middle	Agree	Total*
Operating time	<10 yrs	34.8%	30.4%	34.8%	100.0%
of the business	≥10 yrs	23.5%	24.5%	52.0%	100.0%
Total		29.5%	27.6%	42.9%	100.0%

* 210 respondents answered the questions.

Table 5 shows that the longer the business had been operating, the more urgently they wanted the existing polices to be changed. The relationship between these two variables was highly significant (*P* = .002). The test was performed twice due to one of the assumptions being violated. The results show that the majority of respondents were not sure whether existing policies should be changed. However, the percentage given by the less than ten years category was 20% higher than the more than ten years

category. In addition, those who wanted existing policies to be changed from the more than ten years category was almost two times higher than the businesses operating for less than ten years.

Table 5

Business Operating Time * Changes in Existing Policies

Category		Need for changes in existing policies		
		Middle	**Agree**	**Total***
Operating time	<10 yrs	75.9%	24.1%	100.0%
of the business	≥10 yrs	55.1%	44.9%	100.0%
Total		66.2%	33.8%	100.0%

* 210 respondents answered the questions.

Businesses which had been operating for more than ten years were more likely to need new policies to be introduced by the government (P = .011) (shown in Table 6). Due to the responses in the 'disagree' category from two time frames only accounting for a very small number, cross tab analysis was re-performed. The results show that the majority of respondents did not know whether new policies should be introduced or not. Also, the proportion of those who thought new policies were needed in the more than ten years category was two times higher than those in the less than ten years category.

Table 6

Business Operating Time * Importance of Introducing New Policies

Category		New policies		
		Middle	**Agree**	**Total***
Operating time	<10 yrs	81.3%	18.8%	100.0%
of the business	≥10 yrs	64.3%	35.7%	100.0%
Total		73.3%	26.7%	100.0%

* 210 respondents answered the questions.

Table 7

Education Level versus two variables

Variables	Objective	Chi-square	*P*
Age of the respondents	Background	1.613	.446
Understanding the policies	Attitudes	2.503	.114

Table 8

Enterprise Size Versus Other Variables

Variables	Objective	Chi-square	*P*
Information channel	Awareness	11.646	.020*
Government services	Awareness	28.630	.000*
Government programmes	Awareness	23.027	.000*
Building connections by government institutions	Awareness	4.909	.086
Impact of the policies	Awareness	8.143	.017*
Impact of the policy change	Awareness	11.104	.025*
SMEs' dependence on government support	Understanding	19.830	.001*
Impact of the SME Promotion Law	Understanding	12.455	.014*
Impact of the Property Law	Understanding	4.279	.370
Impact of the Labour Contract Law	Understanding	31.868	.000*
Impact of taxation reform	Understanding	14.795	.005*
Impact of banking reform	Understanding	11.274	.024*
Financing services	Understanding	10.811	.029*
Access to financial capital	Understanding	24.042	.000*
The government has encouraged SME development	Attitudes	24.868	.000*
Building relationships with the government	Attitudes	6.345	.042*
Guidance in SME-related policies	Attitudes	7.489	.112
Impact of current policies	Attitudes	12.983	.011*
Impact of current programmes	Attitudes	10.858	.028*
Benefits of being a Party member	Attitudes	11.365	.023*
Technical assistance	Attitudes	5.121	.275
Training assistance	Attitudes	17.709	.001*
Usefulness of government information	Attitudes	11.035	.026*
Cost of government service	Attitudes	2.946	.567
Need to change existing policies	Suggestions	.791	.673
The government's attitude toward large enterprises	Suggestions	N/A: 6 cells have expected count less than 5	
Need to introduce new policies	Suggestions	10.283	.006*
Need to introduce new programmes	Suggestions	.192	.021*

*The relation between variables was significant

There were five significant relationships found between the enterprise size and the variables under the objective of awareness. Table 9 shows that the larger the business, the more satisfied the SMEs were with the information channels that they currently had (P = .020). The responses from the micro businesses tended to be spread evenly across the 'disagree', 'middle', and 'agree' categories. The positive attitude from the medium businesses (60%) was two times higher than for the micro businesses, and around half of the small business owners were satisfied with the channels they had.

Table 9

Enterprise Size * Enough Information Channel

Category		Information Channel			
		Disagree	Middle	Agree	Total*
Enterprise size	Micro	30.2%	37.7%	32.1%	100.0%
	Small	17.6%	34.3%	48.0%	100.0%
	Medium	25.5%	16.4%	60.0%	100.0%
Total		22.9%	30.5%	46.7%	100.0%

* 210 respondents answered the questions.

The relationship between the enterprise size and the helpfulness of the government services was extremely significant (P = .000). Table 10 illustrates that the larger the size of the business, the more helpful were the government services. Around 50% of micro businesses did not find that the government services helped their businesses; in contrast, only one quarter of small businesses and 10% of medium businesses had the same opinion. The majority of medium and small businesses found that the government services were good, and the proportion from the medium-sized businesses (60%) was more than 20% higher than the small-sized ones, and more than three times higher than the micro businesses.

Table 10

Enterprise Size * Good Government Services

Category		Government services			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise size	Micro	49.1%	34.0%	17.0%	100.0%
	Small	24.5%	37.3%	38.2%	100.0%
	Medium	10.9%	29.1%	60.0%	100.0%
Total		27.1%	34.3%	38.6%	100.0%

* 210 respondents answered the questions.

An extremely significant association (P = .000) was found between the enterprise size and the usefulness of government programmes (shown in Table 11). More than half of the micro businesses (54.7%) found that the government programmes did not help their business operations, which was more than two times higher than those who benefited from the programmes. In contrast, a similar proportion of the medium businesses (54.5%) believed that the programmes were really useful, which was two times higher than the responses from micro and small businesses.

Table 11

Enterprise Size * Useful Government Programmes

Category		Government programmes			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise size	Micro	54.7%	24.5%	20.8%	100.0%
	Small	38.2%	37.3%	24.5%	100.0%
	Medium	27.3%	18.2%	54.5%	100.0%
Total		39.5%	29.0%	31.4%	100.0%

* 210 respondents answered the questions.

Table 12 illustrates that there was a significant association between the enterprise size and the impact of the government policies on the businesses (P = .017). The majority of the respondents agreed that the policies had a great impact on them. The larger the business, the more they realised that the policies had a greater impact. The chi-square test was performed twice because the cell of the three sized groups in the 'disagree' category all had less than 5 expected counts. Thus, the 'disagree' category was integrated into the middle category.

Table 12

Enterprise Size * Great Impact From Government Policies

Category		Impact of government policies		
		Middle	**Agree**	**Total***
Enterprise size	Micro	35.8%	64.2%	100.0%
	Small	29.4%	70.6%	100.0%
	Medium	12.7%	87.3%	100.0%
Total		26.7%	73.3%	100.0%

* 210 respondents answered the questions.

Table 13 shows that there was a significant association between the size of the enterprises and the positive impacts brought by the changes in the policies over the last few years (P = .025). The larger the enterprise, the greater the awareness of the positive impacts brought by the policy changes. However, for micro businesses, the majority of them (47.2%) did not recognise any positive changes brought by the policies. In contrast, the attitudes from the small businesses were spread evenly across the three opinions (33.3%).

Table 13

Enterprise Size * Positive Impact of the Policy Change

Category		Policy change			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise Size	Micro	24.4%	47.2%	28.3%	100.0%
	Small	33.3%	33.3%	33.3%	100.0%
	Medium	23.6%	23.6%	52.7%	100.0%
Total		28.6%	34.3%	37.1%	100.0%

* 210 respondents answered the questions.

The perception that SME development depended on government support differed according to the business size (P = .001) (shown in Table 14). The larger the enterprise, the more they believed that the role of the government was significant for SME development. For micro businesses, only 3.8% believed that SME growth relied on the government, and the majority disagreed with the statement. The small enterprises had a similar opinion to the micro businesses; however, one fifth of them recognised the important role that the government played in SME development. Although the majority

of medium enterprises (38.2%) fell into the middle category, around one third of respondents found that the government was vital for the SME sector, which accounted for the highest proportion among the three sized groups.

Table 14

Enterprise Size * Dependence on Government Support

Category		Government support			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise size	Micro	64.2%	32.1%	3.8%	100.0%
	Small	40.2%	35.3%	24.5%	100.0%
	Medium	29.1%	38.2%	32.7%	100.0%
Total		43.3%	35.2%	21.4%	100.0%

* 210 respondents answered the questions.

Table 15 demonstrates that the larger the business, the more benefits it enjoyed from the SME Promotion Law (P = .014). However, the majority of the respondents did not notice any impact of the Law. The micro businesses accounted for the least proportions in both the answer of 'agree' and 'disagree'. The medium businesses accounted for the highest proportion for recognising the positive impact of the SME Promotion Law (27.6%), which was three times higher than the micro businesses and 10% higher than the small businesses.

Table 15

Enterprise Size * SME Promotion Law

Category		The SME Promotion Law			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise size	Micro	5.7%	86.8%	7.5%	100.0%
	Small	16.7%	65.7%	17.6%	100.0%
	Medium	12.9%	60.0%	27.3%	100.0%
Total		12.9%	69.5%	17.6%	100.0%

* 210 respondents answered the questions.

An extremely significant relationship was found between the enterprise size and the positive impact that the Labour Contract Law brought to the businesses (P = .000). The results (given in Table 16) show that the micro-sized category enjoyed the least benefits from the Law (7.5%) among the three groups, and the majority (71.7%) of respondents chose the middle answer, which was two times higher than the other two groups. In contrast, the response from those who did not benefit from the Law from the small- and medium-sized enterprises accounted for the same proportion; however, the percentage of the respondents who disagreed in the middle category was only slightly higher than those who agreed.

Table 16

Enterprise Size * Labour Contract Law

Category		The Labour Contract Law			Total*
		Disagree	Middle	Agree	
Enterprise size	Micro	20.8%	71.7%	7.5%	100.0%
	Small	38.2%	28.2%	33.3%	100.0%
	Medium	38.2%	29.1%	32.7%	100.0%
Total		33.8%	39.5%	26.7%	100.0%

* 210 respondents answered the questions.

Table 17 illustrates that the larger the business, the more benefits they enjoyed from the taxation reform (P = .005). Although the majority of the respondents did not recognise that the taxation reform brought any changes, the medium businesses accounted for around one quarter (23.6%) of respondents that benefited from the reform, which was almost two times higher than the micro and small businesses. The small businesses had the largest proportion (39.2%) among the three categories of finding that the taxation reform was not good for their businesses, which was around two times higher than the micro and medium businesses.

Table 17

Enterprise Size * Taxation Reform

Category		Taxation reform			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise size	Micro	15.1%	71.7%	13.2%	100.0%
	Small	39.2%	48.0%	12.7%	100.0%
	Medium	21.8%	54.5%	23.6%	100.0%
Total		28.6%	55.7%	15.7%	100.0%

* 210 respondents answered the questions.

A significant association was also found between the enterprise size and the banking reform which brought positive impacts to the businesses (P = .024). Similar to the results of the taxation reform, Table 18 shows that the majority of businesses did not recognise that the banking reform had any impact on their businesses. The medium-sized category accounted for the largest proportion (25.5%) in recognising the impacts were positive, which was eight times higher than the lowest percentage, given by the micro-sized category. At the same time, the medium-sized group also had the least proportion in finding the reform had negative impacts on their businesses (9.1%); the largest proportion was given by the micro-sized category.

Table 18

Enterprise Size * Banking Reform

Category		Taxation reform			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise size	Micro	13.2%	83.0%	3.8%	100.0%
	Small	12.7%	63.7%	23.5%	100.0%
	Medium	9.1%	65.5%	25.5%	100.0%
Total		11.9%	69.0%	19.0%	100.0%

* 210 respondents answered the questions.

Table 19 shows that the larger the business, the more the owners felt that the government provided sufficient financing services (P = .029). The results show that the medium-size category (23.6%) had a slightly higher proportion than the other two categories in finding that the services were insufficient; half the responses from the medium-sized category considered that the financing services were

sufficient. The majority of respondents from the micro-sized category (50.9%) were given to the middle answer, which was almost 20% higher than the small-sized category and three times higher than the medium-sized category.

Table 19

Enterprise Size * Financing Services

Category		Financing service			Total*
		Disagree	Middle	Agree	
Enterprise size	Micro	17.0%	50.9%	32.1%	100.0%
	Small	16.7%	31.4%	52.0%	100.0%
	Medium	23.6%	23.6%	52.7%	100.0%
Total		18.6%	34.3%	47.1%	100.0%

* 210 respondents answered the questions.

An extremely significant association (P = .000) was observed between the enterprise size and the ability to acquire financial capital. The larger the business, the more easily they were able to access finance. Table 20 illustrates that the majority of the businesses found it was difficult to access loans. However, one quarter of the medium enterprises found it was easy to get loans, which accounted for half the proportion of those who found it was difficult. In contrast, none of the micro businesses thought accessing funds was easy and only 6.9% of the small businesses could access loans easily. More than 60% of businesses from these two groups did not get loans easily.

Table 20

Enterprise Size * Access to Financial Capital

Category		Financing service			Total*
		Disagree	Middle	Agree	
Enterprise size	Micro	60.4%	39.6%	0.0%	100.0%
	Small	63.7%	29.4%	6.9%	100.0%
	Medium	56.4%	18.2%	25.5%	100.0%
Total		61.0%	29.0%	10.0%	100.0%

* 210 respondents answered the questions.

Table 21 shows that there was an extremely significant association (P = .000) between the size of the enterprises and their perceptions of the government's encouragement towards the development of

SMEs. The larger the business, the more they recognised the encouragement given by the government The medium-sized businesses had the largest proportion in finding that the government encouraged SME development (49.1%), which was almost three times higher than the proportion given by the micro-sized category. In the micro-sized group, those who thought that the government discouraged SME growth and those who gave a neutral answer had the same proportion (43.3%). The largest proportion that found a lack of encouragement from the government came from the small-sized category (50.0%).

Table 21

Enterprise Size * Encouragement from the Government

Category		Government encouragement			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise size	Micro	43.4%	43.4%	13.2%	100.0%
	Small	50.0%	20.6%	29.4%	100.0%
	Medium	21.8%	29.1%	49.1%	100.0%
Total		41.0%	28.6%	30.5%	100.0%

* 210 respondents answered the questions.

There was a mild significant association found between the enterprise size and the importance of building a good relationship with local government (P = .042). The larger the business, the more they recognised it was important to build such a good relationship. The chi-square test was performed twice because three cells (33.3%) accounted for less than five. The test was re-performed by grouping the ‘disagee’ category into the middle one (shown in Table 22). More than half the responses from the micro-sized group (56.6%) were given to the middle answer. In contrast, for small- and medium-sized enterprises, the highest percentage fell into the category of those who perceived that the relationship with the government was important. Furthermore, for the medium-sized businesses, two thirds of the respondents found it was important, and half of the small businesses found it was essential.

Table 22

Enterprise Size * Relationship with the Government

Category		Relationship with the government		
		Middle	Agree	Total*
Enterprise size	Micro	56.6%	43.4%	100.0%
	Small	47.1%	52.9%	100.0%
	Medium	32.7%	67.3%	100.0%
Total		45.7%	54.3%	100.0%

* 210 respondents answered the questions.

Table 23 illustrates that the larger the businesses were, the more they felt that the current policies were useful to their businesses. A significant association was found between these two variables (P = .011). More than half of the medium-sized businesses (52.7%) found that they benefited from the current policies, which was around two times higher than the middle answer and three times higher than those who found the impacts were negative. The micro-sized businesses considered they benefitted the least from the current policies (22.6%), and the majority of the micro- and small-sized businesses either did not find the current policies had any impact or could not answer the question.

Table 23

Enterprise Size * Positive Impact of Current Policies

Category		Current policies			
		Disagree	Middle	Agree	Total*
Enterprise size	Micro	22.6%	54.7%	22.6%	100.0%
	Small	26.5%	42.2%	31.4%	100.0%
	Medium	18.2%	29.1%	52.7%	100.0%
Total		23.3%	41.9%	34.8%	100.0%

* 210 respondents answered the questions.

The usefulness of current programmes differed according to the enterprise size (P = .028). Table 24 shows that the larger the businesses were, the more benefits they could gain from the current programmes. Around one third of the medium-sized businesses stated that the current programmes were useful; in contrast, only one fifth of the small-sized businesses and 9.4% of the micro-sized businesses held the same opinion. For the micro- and small-sized businesses, the perception that the

programmes were not useful was much higher than those who agreed with the statement, especially for the micro-sized enterprises, which was almost five times higher compared with the small-sized businesses which was two times higher.

Table 24

Enterprise Size * Usefulness of Current Programmes

Category		Current programmes			Total*
		Disagree	Middle	Agree	
Enterprise size	Micro	43.4%	47.2%	9.4%	100.0%
	Small	38.2%	42.2%	19.6%	100.0%
	Medium	27.3%	38.2%	34.5%	100.0%
Total		36.7%	42.4%	21.0%	100.0%

* 210 respondents answered the questions.

Table 25 shows that the larger the business, the more that the respondents considered having Party members in the businesses to be beneficial (P = .023). Although the majority of the respondents did not find that being a Party member was beneficial for their businesses, those who thought the opposite came from the medium-sized group, which was almost 10% higher than the small-sized group and four times higher than the micro-sized group. In contrast, the micro-sized group had the highest disagreement with the statement (66%), which was seven times higher than those who agreed.

Table 25

Enterprise Size * Benefits of Being a Party Member

Category		Party member			Total
		Disagree	Middle	Agree	
Enterprise size	Micro	66.0%	24.5%	9.4%	100.0%
	Small	58.8%	20.6%	20.6%	100.0%
	Medium	41.8%	23.6%	34.5%	100.0%
Total		56.2%	22.4%	21.4%	100.0%

* 210 respondents answered the questions.

A highly significant association was found between the size of the enterprise and the training assistance provided by the government (P = .001) (shown in Table 26). The larger the business, the more they were satisfied with the amount of training assistance available to them. Although the majority of the respondents did not think that the current training assistance from the government was enough, the highest satisfaction came from the medium-sized group (30.9%), which was two times higher than the small-sized group and four times higher than the micro-sized one. The most dissatisfaction with training assistance was given by the micro-sized group (69.8%), which was almost ten times higher than those who found training assistance was enough.

Table 26

Enterprise Size *Training Assistance

Category		Training assistance			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise Size	Micro	69.8%	22.6%	7.5%	100.0%
	Small	44.1%	39.2%	16.7%	100.0%
	Medium	45.5%	23.6%	30.9%	100.0%
Total		51.0%	31.0%	18.1%	100.0%

* 210 respondents answered the questions.

Table 27 indicates that there was a significant association between the enterprise size and the usefulness of information provided by the government services (P = .026). The larger the business, the more useful was information. The majority of the respondents gave a neutral opinion; however, among those who gave their views, those who found the information was useful (33.3%) was slightly higher than those who did not agree. Almost half of the medium-sized enterprises (49.1%) found the information was useful, which was more than two times higher than the micro-sized enterprises. The highest proportion of finding the information was not useful came from the micro-sized firms (3.4%).

Table 27

Enterprise Size * Usefulness of Government Information

Category		Government information			
		Disagree	**Middle**	**Agree**	**Total***
Enterprise size	Micro	34.0%	45.3%	20.8%	100.0%
	Small	23.5%	45.1%	31.4%	100.0%
	Medium	20.0%	30.9%	49.1%	100.0%
Total		25.2%	41.4%	33.3%	100.0%

* 210 respondents answered the questions.

Two significant associations were found under the suggestion section. The chi-square test was performed twice for Table 28 and Table 29 because more than 33.3% of cells counted for less than five. The test was re-performed after the 'disagree' category was integrated into the middle category. Table 28 shows that the larger the businesses were, the less expectation they had of hoping that the government would introduce new policies (P = .006). The majority of the respondents could not answer or did not care about whether the government should introduce new policies or not. However, the micro businesses had the highest expectation among the three groups (37.7%), which was slightly higher than the medium-sized group, and two times higher than the small-sized group. The small businesses held the largest proportion in holding the neutral point of view (83.3%).

Table 28

Enterprise Size * Need for Introducing New Policies

Category		Existing policies		
		Middle	**Agree**	**Total***
Enterprise size	Micro	62.3%	37.7%	100.0%
	Small	83.3%	16.7%	100.0%
	Medium	65.5%	34.5%	100.0%
Total		73.3%	26.7%	100.0%

* 210 respondents answered the questions.

Table 29 shows that the larger the enterprises were, the more expectations they had in hoping the government would introduce new programmes (P = .021), which was opposite to the attitude towards new policies (Table 28). The majority of the respondents could not answer the question or did not care

about whether new programmes should be introduced or not. However, almost half of the medium-sized businesses wished that the government could introduce new programmes, which was more than 10% higher than the small-sized group and three times higher than the micro-sized businesses.

Table 30

Enterprise Size * Need for Introducing New Programmes

Category		New Programmes		Total*
		Middle	Agree	
Enterprise size	Micro	85.4%	14.6%	100.0%
	Small	66.7%	33.3%	100.0%
	Medium	52.7%	47.3%	100.0%
Total		73.3%	33.3%	100.0%

* 210 respondents answered the questions.

Table 31

Political Status Versus Other Variables

Variables	Objective	Chi-square	*P
Education level	Background	2.814	.139
Information channel	Awareness	5.883	.053
Government services	Awareness	3.087	.214
Government programmes	Awareness	4.269	.118
Building connections by government institutions	Awareness	4.149	.126
Impact of the policies	Awareness	.327	.849
SMEs largely depend on government support	Understanding	10.407	.009*
Access to financial capital	Understanding	3.759	.153
Government encouragement	Attitudes	8.858	.012*
Building relationship with the government	Attitudes	1.256	.334
Understanding the policies	Attitudes	9.411	.005*
Perception of being a Party member is good for SMEs	Attitudes	13.681	.001*
Need for changing existing policies	Suggestions	7.503	.023*
Need fpr introducing new policies	Suggestions	3.700	.119
Need for introducing new programmes	Suggestions	5.180	.075

*The relation between variables was significant.

The results in Table 32 show that the Party members were more likely to believe that the development of SMEs depended on government support (P = .009). For the non-Party members, the view that government support was not important for SMEs accounted for more than 50%, which was more than 20% higher than the Party members. In addition, 27% of the Party members believed that support was vital, compared with 18.4% given by the non- Party members.

Table 32

Political Status of the Respondents * SMEs Largely Depend on Government Support

Category		Government policies			
		Disagree	Middle	Agree	Total*
Party member or not	Yes	28.4%	44.6%	27.0%	100.0%
	No	51.5%	30.1%	18.4%	100.0%
Total		43.3%	35.2%	21.4%	100.0%

* 210 respondents answered the questions.

A significant association was found between the political status of the respondents and their attitudes on whether the government has encouraged the SME sector (*P* =.012). Table 33 indicates that the respondents who are the Party members realised the encouragement from the government on the development of SMEs more than those who did not join the Party. Around one third of the Party members did not find any encouragement, which was 10% less than those who recognised the encouragement. In contrast, only one fifth of the non-Party members (23.5%) had the same opinion.

Table 33

Political Status of the Respondent * Encouragement from the Government on the SME Sector

Category		Government encouragement			
		Disagree	Middle	Agree	Total*
Party member or not	Yes	32.4%	24.3%	43.2%	100.0%
	No	45.6%	30.9%	23.5%	100.0%
Total		41.0%	28.6%	30.5%	100.0%

* 210 respondents answered the questions.

The Party members seemed to understand the policies more easily than non-Party members (*P* = .005). A chi-square test was performed; however, one assumption was violated because two cells (33.3%) expected a count of less than five. The test was re-performed by joining the 'disagree' category into the 'middle' one and the results are shown in Table 33. The majority of respondents found that they could easily understand the policies, regardless of their political status. However, the proportion from the Party member category was 20% higher than the non-Party members. In contrast, a higher proportion of non-Party members gave the 'middle' answer.

Table 33

Political Status of the Respondent * Easily Able to Understand the Policies

Category		Understanding of the policies		
		Middle	**Agree**	**Total***
Party member or not	Yes	21.6%	78.4%	100.0%
	No	41.9%	58.1%	100.0%
Total		34.8%	65.2%	100.0%

* 210 respondents answered the questions.

The Party members were more likely to believe that being a Party member was beneficial for their businesses (P = .001) (shown in Table 34). The majority of respondents found being a Party member did not bring any benefits to their businesses. For those who found that the Party members could bring positive impacts to their businesses, the proportion from the Party member category (35.1%) was two times higher than the non-Party member category.

Table 34

Political Status of the Respondent * Being a Party Member is Beneficial for SMEs

Category		Benefits from the status			
		Disagree	**Middle**	**Agree**	**Total***
Party member or not	Yes	50.0%	14.9%	35.1%	100.0%
	No	59.6%	26.5%	14.0%	100.0%
Total		56.2%	22.4%	21.4%	100.0%

* 210 respondents answered the questions.

The Party members had a higher desire for changes to be made in the existing policies than the non-Party members (P = .023). Table 35 shows that only 3.8% of the non-Party respondents felt that they did not want the existing policies to be changed. Additionally, the majority of the respondents gave a neutral answer. However, for those who felt that the existing policies needed to be changed, the responses given by the Party member category was almost 20% higher than the non-Party member category.

Table 35

Political Status of the Respondent * Existing Policies Need to be Changed

Category		Existing policies			
		Disagree	**Middle**	**Agree**	**Total***
Party member or not	Yes	5.4%	50.0%	44.6%	100.0%
	No	2.9%	69.1%	27.9%	100.0%
Total		3.8%	62.4%	33.8%	100.0%

* 210 respondents answered the questions.

Table 36

Regions Versus Other Variables

Variables	Objective	Chi-square	*P**
Business operating time	Background	4.745	.093
Education level	Background	25.577	.000*
Information channel	Awareness	15.429	.004*
Government services	Awareness	57.611	.000*
Government programmes	Awareness	43.112	.000*
Building of connections by government institutions	Awareness	6.689	.153
Impact of government polices	Awareness	6.855	.144
Impact of the policy changes	Awareness	32.692	.000*
The government has encouraged SME development	Understanding	9.171	.057
Impact of the SME Promotion Law	Understanding	32.708	.000*
Impact of the Property Law	Understanding	N/A: 6 cells have expected count less than 5	
Impact of the Labour Contract Law	Understanding	42.480	.000*
Impact of taxation reform	Understanding	33.147	.000*
Impact of banking reform	Understanding	22.338	.000*
Financing services	Understanding	31.548	.000*
Access to financial capital	Understanding	34.067	.000*
The government has encouraged SME development	Attitudes	16.732	.002*
Building relationships with the government	Attitudes	4.490	.106
Guidance in SME-related policies	Attitudes	44.648	.000*
Impact of current policies	Attitudes	33.357	.000*
Impact of current programmes	Attitudes	28.002	.000*
Benefits of being a Party member	Attitudes	26.327	.000*
Technical assistance	Attitudes	20.284	.000*
Training assistance	Attitudes	29.484	.000*
Usefulness of government information	Attitudes	12.667	.013*
Cost of government service	Attitudes	15.001	.005*
Need for changing existing policies	Suggestions	12.091	.017*
Need for introducing new policies	Suggestions	25.390	.000*
Need for introducing new programmes	Suggestions	4.205	.379

*The relation between variables was significant.

Table 37 shows that the participants' education level differed according to region (*P* = 000). The regions that had higher SME development also had participants with higher education levels; however, participants in Beijing had a higher education level compared to those in the Jiangsu province. In

Beijing, the percentage of participants who had studied at university was slightly lower than those who had studied to high school level. In contrast, the vast majority of participants in both Hebei and Jiangsu had only completed high school. Participants in the region with the lowest SME development (Hebei) had the least number of people who had graduated from university.

Table 37

Region * Education Level

Category		Education level		Total*
		≤ High school	＞High school	
Location of SMEs	Lower (Hebei)	87.1%	12.9%	100.0%
	Medium(Beijing)	52.9%	47.1%	100.0%
	Higher (Jiangsu)	82.9%	27.1%	100.0%
Total		74.3%	25.7%	100.0%

* 210 respondents answered the questions.

Four significant relationships were found between the region and the variables under the objective of awareness. Table 38 shows that the stronger the SME development in a region, the fewer information channels the businesses thought they had (P = .004). The participants in the Hebei province were most satisfied with the information channels available to them (58.6%); however, more than one quarter of them did not think that had enough channels, which was higher than the other two regions. Among the three regions, the participants in Beijing had the most dissatisfaction regarding the number of information channels available to them.

Table 38

Region * Information Channel

Category		Enough information channels			Total*
		Disagree	Middle	Agree	
Location of SMEs	Lower (Hebei)	27.1%	14.3%	58.6%	100.0%
	Medium (Beijing)	22.9%	42.9%	34.3%	100.0%
	Higher (Jiangsu)	18.6%	34.3%	47.1%	100.0%
Total		22.9%	30.5%	46.7%	100.0%

* 210 respondents answered the questions.

An extremely significant association was found between the region and the usefulness of current government services (P = .000) (shown in Table 39). In the region with the highest level of SME development, the businesses found that government services were less useful to them. Around two thirds of businesses (65.7%) in Hebei thought the services were good, which was almost three times higher than those in Beijing and Jiangsu. In Beijing, half of the participants did not think the services were useful, which had the highest percentage among the three regions. In contrast, in Jiangsu, those who found the services were useful and those who did not, had similar proportions (around 20% each).

Table 39

Region *Government Services

Category		Government services			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	8.6%	25.7%	65.7%	100.0%
	Medium (Beijing)	50.0%	21.4%	28.6%	100.0%
	Higher (Jiangsu)	22.9%	55.7%	21.4%	100.0%
Total		25.2%	48.6%	26.2%	100.0%

* 210 respondents answered the questions.

Table 40 demonstrates that the participants in the highest SME developed region were less satisfied with the programmes provided by the government (P = .000). More than half of the participants (55.7%) in Hebei province thought that the programmes were helpful, which was almost two times higher than those in Beijing and seven times higher than those in Jiangsu. In Beijing, half of the respondents found the programmes did not give the businesses any help, which was slightly higher than those in Jiangsu. However, the Jiangsu participants who found that the programmes were not good were five times higher than those who found them helpful.

Table 40

Region * Government Programmes

Category		Government programmes			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	24.3%	20.0%	55.7%	100.0%
	Medium (Beijing)	50.0%	20.0%	30.0%	100.0%
	Higher (Jiangsu)	44.3%	47.1%	8.6%	100.0%
Total		39.5%	29.0%	31.4%	100.0%

* 210 respondents answered the questions.

An extremely significant association was also found between the location of the businesses and the perception of changes in government policies in the last few years (shown in Table 41). Businesses in the region with the highest SME development found the policy changes less beneficial for them (*P* = .000). Only around 15% of the businesses in Jiangsu felt that the changes were good for them, whereas one quarter of those in Hebei and half those in Beijing though this. In addition, only around 15% of the participants in Hebei found that the changes were not good, about one fifth of those who found that the changes benefitted their businesses. In contrast, in Jiangsu, those who found the policy changes were not good for their businesses was three times higher than those who found that the changes had positive impacts.

Table 41

Region * Impact of the Policy Change

Category		Impact of Policy Change			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	14.3%	25.7%	60.0%	100.0%
	Medium (Beijing)	28.6%	34.3%	37.1%	100.0%
	Higher (Jiangsu)	42.9%	42.9%	14.3%	100.0%
Total		28.6%	34.3%	37.1%	100.0%

* 210 respondents answered the questions.

There were six significant associations found under the objective of understanding. Table 42 illustrates that the participants in the region with better SME development found that the SME Promotion Law had a less positive impact on their businesses (*P* = .000). The majority of respondents

gave a neutral answer. However, only 2.9% of participants in Hebei found that the Law had a negative impact on their businesses, which only accounted for one ninth of those who agreed. In contrast, over one third of participants in Jiangsu found that the Law caused the government to have negative attitudes towards SMEs, which was two times higher than those who found the impacts on the government's attitudes were positive.

Table 42

Region * SME Promotion Law

Category		SME Promotion Law			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	2.9%	78.6%	18.6%	100.0%
	Medium (Beijing)	4.3%	74.3%	21.4%	100.0%
	Higher (Jiangsu)	31.4%	55.7%	12.9%	100.0%
Total		12.9%	69.5%	17.6%	100.0%

* 210 respondents answered the questions.

An extremely significant association (P = .000) was found between the regions with different levels of SME development and the positive impact that the Labour Contract Law had on the businesses. The higher the SME development in the region, the more the Law had negative impacts on the businesses. Table 43 illustrates that in Jiangsu, half the participants found that the Law brought negative impacts to their businesses, which was more than ten times higher than those who found the impacts were good (4.3%). In contrast, more than half of the participants in Hebei felt the Law was good, which was three times higher than those who disagreed. The positive attitude from the participants in Hebei was two times higher than those in Beijing, and almost 12 times higher than those in Jiangsu.

Table 43

Region * Labour Contract Law

Category		Labour Contract Law			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	17.1%	31.4%	51.4%	100.0%
	Medium (Beijing)	34.3%	41.4%	24.3%	100.0%
	Higher (Jiangsu)	50.0%	45.7%	4.3%	100.0%
Total		33.8%	39.5%	26.7%	100.0%

* 210 respondents answered the questions.

A further important association (P = .000) was also discovered between the regions the businesses are in and the impact on them of the taxation reform (shown in Table 44). The better the SME development level in the region, the fewer the positive impacts that SMEs experienced. Although the majority of the participants did not think the reform had any impacts on them, more than one fourth of the participants in Hebei found the reform was good for their businesses while, in contrast, only 1.4% from Jiangsu had the same attitudes. In Jiangsu, the participants who found the reform brought negative impacts (47.1%) were almost 34 times higher than those who found the reform was good. For participants in Beijing, those who found the changes were not good accounted for one quarter, which was 10% higher than those who thought the changes were positive; in contrast, the participants in Hebei who disagreed that the reform was good (10%) only accounted for one third of those who benefited from the reform.

Table 44

Region * Taxation Reform

Category		Taxation reform			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	10.0%	62.9%	27.1%	100.0%
	Medium (Beijing)	28.6%	52.9%	18.6%	100.0%
	Higher (Jiangsu)	47.1%	51.4%	1.4%	100.0%
Total		28.6%	55.7%	15.7%	100.0%

* 210 respondents answered the questions.

Table 45 shows that the relationship between the regions and the positive impact of the banking reform was also noteworthy (P = .000). The banking reform results are similar to those found from the impact of the taxation reform, in which the majority of the participants thought the reform did not have any impacts. Jiangsu had the least proportion of participants who considered the reform to be beneficial among the three regions (7.1%), which was slightly lower than those who found that the reform had negative impacts. However, the participants in Hebei had more positive attitudes towards the banking reform, as those who agreed the reform was good (22.9%) was more than five times higher than those who disagreed, and also three times higher than those in Jiangsu.

Table 45

Region * Banking Reform

Category		Banking reform			Total*
		Disagree	Middle	Agree	
Location of SMEs	Lower (Hebei)	4.3%	72.9%	22.9%	100.0%
	Medium (Beijing)	21.4%	51.4%	27.1%	100.0%
	Higher (Jiangsu)	10.0%	82.9%	7.1%	100.0%
Total		12.9%	69.0%	19.0%	100.0%

* 210 respondents answered the questions.

Table 46 shows that the businesses that were in the higher SME development level had enough financial services (P = .000). These results are opposite to the findings on banking reform, which had more negative impacts on the businesses in the regions with better SME development (Table 47). The majority of the participants (70%) in Jiangsu found the financing services were sufficient, which was 16 times higher than those who felt the services were not so. In contrast, less than half the participants in Hebei and one quarter of those in Beijing found that there were enough financing services available to them.

Table 46

Region * Financing Services

Category		Sufficient financing services			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	24.3%	30.0%	45.7%	100.0%
	Medium (Beijing)	27.1%	47.1%	25.7%	100.0%
	Higher (Jiangsu)	4.3%	25.7%	70.0%	100.0%
Total		18.6%	34.3%	47.1%	100.0%

* 210 respondents answered the questions.

A major result was found between the regions with different SME development levels and the businesses' ability to access financial capital (P = .000). Different from the results discovered in Table 46, in which the majority of respondents felt that the government provided sufficient financing services, in access to financial capital (Table 47), the majority of respondents found that it was difficult for them to get loans. However, only one third of the respondents in Jiangsu had this perception, which was around half of the percentage given by respondents in Beijing and Hebei. The results also show that Jiangsu province had the smallest difference between the 'agree' and 'disagree' responses (only two times), whereas the agree responses in Beijing were 23 times less than those who disagreed. The participants in Beijing had the most difficulty in accessing capital (2.9%) among the three regions, which accounted for one fifth of Hebei and one sixth of Jiangsu.

Table 47

Region * Access to Financial Capital

Category		Access to financial capital			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	78.6%	11.4%	10.0%	100.0%
	Medium (Beijing)	68.6%	28.6%	2.9%	100.0%
	Higher (Jiangsu)	35.7%	47.1%	17.1%	100.0%
Total		61.0%	29.0%	10.0%	100.0%

* 210 respondents answered the questions.

Ten significant associations were found between the regions with different levels of SME development and the variables under the objective of attitudes. Table 48 shows that the respondents from the regions with better SME development found that the government gave less encouragement to SMEs (P = .002). Only 15% of the participants in Jiangsu felt that the government encouraged SME development, which accounted for half of the responses given in Beijing, and one third of Hebei. In addition, in Jiangsu, the number who believed the government discouraged SME growth was three times higher than those who felt encouragement from the government. In contrast, the situation was opposite in Hebei, as people who found the government to be encouraging was slightly higher than those who felt discouragement.

Table 48

Region * Government Encouragement

Category		Government encouragement			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	37.1%	17.1%	45.7%	100.0%
	Medium (Beijing)	37.1%	32.9%	30.0%	100.0%
	Higher (Jiangsu)	48.6%	35.7%	15.7%	100.0%
Total		41.0%	28.6%	30.5%	100.0%

* 210 respondents answered the questions.

Table 49 shows that the better SME development that the region had, the more the participants felt that the government provided guidance in SME policies. Around 10% of the participants in Jiangsu found that the guidance was not enough, which accounted for one third of Beijing, and one quarter of Hebei. In addition, the majority of the participants in Jiangsu found that the guidance was enough (72.9%), which was almost three times higher than Beijing and Hebei.

Table 49

Region * Guidance in Policies

Category		Guidance in policies			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	45.7%	25.7%	28.6%	100.0%
	Medium (Beijing)	31.4%	41.4%	27.1%	100.0%
	Higher (Jiangsu)	11.4%	15.7%	72.9%	100.0%
Total		29.5%	27.6%	42.9%	100.0%

* 210 respondents answered the questions.

Table 50 demonstrates that the participants in the regions with higher SME development level enjoyed less benefits from the current policies (P = .000). Only around 15% of the participants in Jiangsu found the policies useful, whereas the percentage of disagreement was two times higher in comparison. In contrast, in both Hebei and Beijing, more participants found that the policies were good, especially for SMEs in Hebei, in which 60% of them benefited from the current policies and which was two times higher than those in Beijing and four times higher than Jiangsu.

Table 50

Region * Impact of Current Policies

Category		Current policies			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	14.3%	25.7%	60.0%	100.0%
	Medium (Beijing)	24.3%	45.7%	30.0%	100.0%
	Higher (Jiangsu)	31.4%	54.3%	14.3%	100.0%
Total		23.3%	41.9%	34.8%	100.0%

* 210 respondents answered the questions.

An interesting association (P = .000) was also found between the regions with different SME development levels and the benefits that SMEs enjoyed from the current programmes. Table 51 shows that the participants in the regions with higher levels of SME development experienced fewer benefits from the current programmes. Only 5.7% of participants in Jiangsu found that the current programmes were useful; in contrast, one fifth of the participants in Bejing and more than one third of the

participants in Hebei benefited from the programmes. In addition, Beijing had the highest percentage (48.6%) finding the programmes were not useful.

Table 51

Region * Impact of Current Programmes

Category		Current programmes			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	24.3%	38.6%	37.1%	100.0%
	Medium (Beijing)	48.6%	31.4%	20.0%	100.0%
	Higher (Jiangsu)	37.1%	57.1%	5.7%	100.0%
Total		36.7%	42.4%	21.0%	100.0%

* 210 respondents answered the questions.

Table 52 indicates the participants' views on the statement of "being a Party member is good for the businesses" differed according to the regions with different SME development levels (P = .000). The majority of participants found that being a Party member was not beneficial to their businesses, and the largest proportion was given by those in Jiangsu (71.4%), which was around 20% higher than Beijing and 30% higher than Hebei. The participants in Hebei benefited most from being Party members, which was two times higher than Beijing, and around eight times higher than Jiangsu.

Table 52

Region * Being a Party Member

Category		Benefits of being a Party member			
		Disagree	**Middle**	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	42.9%	17.1%	40.0%	100.0%
	Medium (Beijing)	54.3%	27.1%	18.6%	100.0%
	Higher (Jiangsu)	71.4%	22.9%	5.7%	100.0%
Total		15.2%	22.4%	21.4%	100.0%

* 210 respondents answered the questions.

Table 53 illustrates that the participants in the region with the higher SME development level were less satisfied with the amount of technical assistance available to them (P = .000). The majority of the participants did not think that the government provided enough technical assistance to them; Beijing

had the highest proportion (75.7%). For those who found that the assistance was sufficient, Hebei had the highest proportion (15.7%), which was only slightly higher than Jiangsu province.

Table 53

Region * Enough Technical Assistance

Category		Enough technical assistance			Total*
		Disagree	Middle	Agree	
Location of SMEs	Lower (Hebei)	68.6%	15.7%	15.7%	100.0%
	Medium (Beijing)	75.7%	20.0%	4.3%	100.0%
	Higher (Jiangsu)	45.7%	41.4%	12.9%	100.0%
Total		63.3%	25.7%	11.0%	100.0%

* 210 respondents answered the questions.

A highly significant association (*P* = .000) was found between the regions with different levels of SME development and the amount of training assistance available to SMEs (shown in Table 54). Jiangsu had the highest disagreement towards having enough training assistance provided by the government, which was around 25% less than Hebei and half the proportion in Beijing. In addition, more than one quarter of the participants in Hebei found that the assistance was enough, which was the highest proportion among the three regions. Also, the biggest difference between the 'agree' and 'disagree' responses was given by the respondents in Beijing.

Table 54

Region * Enough Training Assistance

Category		Enough training assistance			Total*
		Disagree	Middle	Agree	
Location of SMEs	Lower (Hebei)	54.3%	20.0%	25.7%	100.0%
	Medium (Beijing)	68.6%	21.4%	10.3%	100.0%
	Higher (Jiangsu)	30.0%	51.4%	18.6%	100.0%
Total		51.0%	31.0%	18.1%	100.0%

* 210 respondents answered the questions.

Table 55 shows that the participants in the better SME development region found that the information provided by the government was less useful (P = .013). Only one fifth of the participants in Jiangsu found that the information was helpful, which is only half the proportion given in Hebei. In addition,

the number of participants in Jiangsu who found the information useful was around 10% higher than those who did not find it so. In contrast, in Hebei, the number of participants who agreed that the information was useful was three times higher than those who felt the information was unhelpful.

Table 55

Region * Usefulness of Government Information

Category		Government information			Total*
		Disagree	Middle	Agree	
Location of SMEs	Lower (Hebei)	14.3%	40.0%	45.7%	100.0%
	Medium (Beijing)	31.4%	35.7%	32.9%	100.0%
	Higher (Jiangsu)	30.0%	48.6%	21.4%	100.0%
Total		25.2%	41.4%	33.3%	100.0%

* 210 respondents answered the questions.

A significant association (P = .005) was found between the regions with different SME development levels and the cost of the government services in these regions (Table 56). The participants in the better SME development regions thought that the cost of services charged by the government was less reasonable and affordable. Less than one third of the participants in Jiangsu felt that the charges were reasonable, which was only slightly higher than those who found the charges hard for them to accept. In contrast, more than half of the participants in Hebei found that the prices were fair, which was more than two times higher than those who found the prices charged by the government to be too high.

Table 56

Region * Cost of Government Services

Category		Cost of government services			Total*
		Disagree	Middle	Agree	
Location of SMEs	Lower (Hebei)	20.0%	28.6%	51.4%	100.0%
	Medium (Beijing)	18.6%	57.1%	24.3%	100.0%
	Higher (Jiangsu)	21.4%	48.6%	30.0%	100.0%
Total		20.0%	44.8%	35.2%	100.0%

* 210 respondents answered the questions.

Two significant associations were found between the regions with different levels of SME development and the variables under the objective of suggestions. The chi-square test was performed

twice for Table 57 and Table 58 because more than 33.3% of cells counted for less than five. The test was re-performed after the 'disagree' category was integrated into the 'middle' category. Table 57 shows that the better the SME development the region had, the more need from the participants to change the existing policies (P = .017). The majority of the participants were not sure about whether the policies should be changed or not. However, those in Jiangsu who felt the policies should be changed was two times higher than in Hebei. In addition, the proportions of those who were not sure in Jiangsu was around 10% higher than those who wanted the policies to be changed. In contrast, in Beijing, those who were not sure about the answer were two times higher than those who agreed to change existing policies; furthermore, Hebei shows three times the difference between the two opinions.

Table 57

Region * Change in Existing Policies

Category		Change in existing policies		
		Middle	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	77.1%	22.9%	100.0%
	Medium (Beijing)	67.1%	32.9%	100.0%
	Higher (Jiangsu)	54.3%	45.7%	100.0%
Total		66.2%	33.8%	100.0%

* 210 respondents answered the questions.

Similar to the results regarding attitudes towards the existing policies, Table 58 demonstrates that the participants in the regions with higher SME development showed more desire for new policies to be introduced (*P* = .000). However, the majority of the participants did not know whether the new policies should be introduced or not. The participants in Jiangsu who wanted new policies (47.3%) was only slightly less than those who gave neutral responses. In contrast, in Hebei, only around 15% of respondents wished the new policies to be introduced, which accounts for one fifth of the respondents who gave a neutral response.

Table 58

Region * Need for New Policies

Category		Need in new polices		
		Middle	**Agree**	**Total***
Location of SMEs	Lower (Hebei)	85.4%	14.6%	100.0%
	Medium (Beijing)	66.7%	33.3%	100.0%
	Higher (Jiangsu)	52.7%	47.3%	100.0%
Total		73.3%	33.3%	100.0%

* 210 respondents answered the questions.