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Marketing in Chinese Small and Medium Enterprises (SMEs): The State of the Art in a Chinese Socialist Economy

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ABSTRACT. This paper adopts the context-embedded approach to examine the marketing practices of 307 small and medium enterprises (SMEs) in the People''s Republic of China by comparing the survey findings with that of Hong Kong and Guangdong SMEs. Chinese SMEs focus on regional markets to avoid direct competition with Hong Kong SMEs in the international markets and also their Guangdong counterparts in the turbulent nationwide market. To market their own brands, Chinese SMEs have to analyze the market and use superior marketing strategies in the competitive markets. Chinese SMEs do not attain the superior competitive positions as that of their Guangdong counterparts, but they use customer satisfaction surveys and claims investigation to help develop excellence in product performance. Also, Chinese SMEs have to provide value-added products and services and also a well-rounded marketing competitive strategy to gain market shares. The traditional state-owned enterprise structure in China facilitates the development of hierarchical organizational structure and joint decision making process. Thus, care should be taken in assuming that marketing tools and techniques are equally applicable across all places, even in similar cultural contexts. Socio-cultural influences and mediating environmental factors should be considered when attempting to understand the marketing practices of Chinese small firms, specifically when China is in transition to a socialist market economy.

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1. Introduction

Since 1978, China has adopted a series of reform measures and open door policies aiming at transforming China from a centrally planned state to a socialist market economy. Consequently, the political, legal, social and cultural environments of China have become chaotic. During the transition, the central government decentralized decision-making power to enterprises and gave them greater rights to control. Nevertheless, government planning still existed, such as interference in market activities, setting the institutional determinants – the political and economic institutions established by the government to shape a firm''s incentive systems and thus influenced its behaviour and performance, and formulating policies that encouraged distorted firm behaviour like concentration on government-guided production planning only. Thus, the performance of Chinese enterprise is determined not only by environmental factors in the market economy, but also by institutional and environmental influences (Li, 1998).

As of to date, most of the research studies on Chinese enterprises concentrate on large state-owned enterprises or joint ventures only. The importance of Chinese small and medium enterprises (SMEs) is inevitably neglected. SMEs in the People''s Republic of China have played a very important role in the nation''s economic growth and employment (The Bureau of SMEs, 1999). According to the Bureau of SMEs (1999), in 1998, Chinese SMEs not only dominated the economy of China in terms of number of firms (0.1575 million – 95.42% of total industrial enterprise establishment with independent accounting systems), but also contributed a large share to industrial output value (RMB¥3975.953 billion – 58.70% of total gross industrial output) and sales revenue (RMB¥3600.435 billion – 56.13% of total sales revenue). SMEs also played a very important role in stabilizing the society. From 1978 to 1996, about 230 million labour, transferred from rural to urban areas, was hired by SMEs. Notably, industrial SMEs absorbed 73% of total hired employment (The Bureau of SMEs, 1999). Be that as it may, privately-owned SMEs in China respond promptly to environmental changes (Tan, 2001) and make good use of personal contact networks (Siu, 2001) to develop competitive edges over their large state-owned counterparts. However, those research findings are not coherent enough to depict and explain Chinese entrepreneurship in general and small firm marketing practices in particular.

2. Literature review

To date, scholarly publications on the management of SMEs in China are few and piecemeal. Some researchers have adopted macro, non-managerial perspectives, such as regional studies (Anyansi-Archibong et al., 1989; Chang and MacMillan, 1991), urban development (Gold, 1989), political studies (Wang, 1990), sociology (Solinger, 1984a, 1984b, 1992) and economic development (Tuan et al., 1986; Young, 1991). Also some management researchers conclude that factors, such as the competitive environment (Nolan and Dong, 1990), psychological traits (Guo, 1990) and the entrepreneurial spirit (Siu et al., 1993; Kirby and Fan, 1995), are essential to the success of SMEs in China. Reviewing literature finds that in recent years there has been a great deal of interest in marketing activities of small firms in a variety of cultural contexts, for example, Ireland (Fuller, 1994), New Zealand (Taylor and Brooksbank, 1995), Singapore (Kau and Ch''ng, 1990), Australia (Ogunmokun and Fitzroy, 1995), India (Kinra, 1995), Finland and Sweden (Moller and Anttila, 1987). Also, there are some studies related to Chinese environment, for example, Taiwan (Horng and Chen, 1998), Hong Kong (Siu and Kirby, 1999a, Siu, 2000a) and China (Siu, 2000b, 2001).

Horng and Chen (1998) reveal that the market orientation of SMEs in Taiwan is a critical determinant of its business performance. However, the MARKOR scale adopted by Horng and Chen was developed from a sample of large-scale American companies and managers (Narver and Slater, 1990; Kohli and Jaworski, 1990; Kohli et al., 1993). The applicability of the western instruments to Chinese SMEs is dubious (Lin and Siu, 2002). Ngai and Ellis (1998) also argue that company performance is related to marketing practices, not to market orientation, in Hong Kong, a Chinese society.

Notably, Siu and Kirby (1999a) use an institutional approach to contrast the marketing practices of American (Dunn et al., 1986) and Chinese (Hong Kong) SMEs and also adopt Carson''s (1990) small firm marketing performance model to construct a conceptual framework of the marketing performance and activities of Chinese SMEs in Hong Kong. Hong Kong SMEs perform as ''production arms'' of the overseas buyers under the original equipment manufacturing (OEM) system. In this system, the American and European buying houses with their own designs and brands come to Hong Kong to find manufacturers that can produce and ship the products. Thus, Hong Kong SMEs place emphasis on producing the products according to the overseas buyers'' specific requirements – in most cases low price and prompt delivery. Nevertheless, Hong Kong previously was, and now is, a very Chinese city with British characteristics and the conceptual framework model may not be applicable to SMEs in China.

Siu (2001), in comparison with the marketing practices of British (Brooksbank et al., 1992), finds that SMEs in Mainland China rely heavily upon personal contact networks in doing business. Interestingly, the personal contact networks or networking concept is commonly applied to examine entrepreneurial growth (Johannisson, 2000). Dodd and Patra (2002) however compare the personal contact networks of Greek entrepreneurs to those of other countries (Canada, Japan, Italy, Northern Ireland, Sweden, the UK, and the USA) and find that generic behaviour across borders cannot be assumed and cultural issues have to be taken into consideration. Coincidentally, Aldrich (2000) suggests to advance entrepreneurship theory by examining entrepreneurship in regions other than North America thoroughly. This proposal matches with the argument of moving from using the context-free models, that is applicable to any social, cultural or political context, to adopting context-embedded approaches, which involve context as an independent or moderating variable, to contribute indigenous research to global knowledge (Johannisson et al., 2002; Tsui and Lau, 2002). Thus, this paper attempts to advance new knowledge in international entrepreneurship by providing insight into the specific marketing practices of Chinese SMEs in China.

3. Research objectives

The research findings of Siu (2000a) suggest that the broad western small firm marketing principles may not be fully applicable to, and suitable for, the Chinese socio-cultural environment, for example Hong Kong. However, Hong Kong is a laissez-faire Chinese economy with British characteristics. The applicability of Siu''s (2000a) findings is unclear. Specifically, no major research study has been undertaken to examine exactly how and to what extent the socialist Chinese SMEs have managed to survive, grow and succeed in a transit economy. And more specifically, how do they make marketing decisions, promote their products and maintain competitiveness? Siu (2000b) uses the quota sampling approach to examine the marketing practices of 87 small firms (employment size less than or equal to 100) in Guangdong, the economic hub of South China and one of the pioneer provinces in absorbing western management technology. However, to what extent the findings based on the non-probability sampling approach and one province can be extended to SMEs of the whole nation is unknown. Also, according to the catch-up hypothesis proposed by the social economists (for example Abramovitz, 1986), some countries/regions are viewed as "leaders", which are able to bring into production a large backlog of unexploited technology. Those which are behind the leaders are regarded as "followers" by the hypothesis and they have the opportunities to "catch up" or to make a larger leap. Thus, based on the catch-up hypothesis, it is postulated that the marketing practices of SMEs in coastal cities or provinces of China (for example Guangdong and Hong Kong) would be different from that of the inner cities. However, there is no research on the regional development and marketing practices in China.

Acknowledging the importance of cultural influences, Siu''s (2000a, 2000b and 2001) attempts to build a theory that embraces both eastern and western research. However, Siu''s direct comparative approach suffers from the major defect of not being able to disentangle or isolate the mediating variable – cultural values. This research intends to explore insights gained from Siu (2000a, 2000b and 2001) and to provide a clearer, more systematic, picture of the marketing practices of SMEs in China. Thus, the present study embraces the contingency approach used by Siu (2000a, 2000b) to identify different types of performing companies. The two studies were purposively selected to form a base to compare the similarities and differences between marketing practices in SMEs in China (the present study) and Hong Kong (a laissez-faire Chinese economy with British characteristics) and Guangdong (the economic hub of South China and one of the pioneer provinces in absorbing western management technology) so as to minimize the influences of cultural values. It is expected that this context-specific approach will contribute to international entrepreneurship knowledge.

Specifically, the objectives of this research are to:

(1) examine the extent to which marketing has actually been adopted by small firms in China, a socialist market economy;
(2) identify the role of marketing in relation to the firms'' performance;
(3) compare and contrast the findings with similar studies in Hong Kong (Siu, 2000a) and Guangdong (Siu, 2000b); and
(4) determine the applicability of the western marketing paradigm to the situation in China and the possible impacts of regional development on marketing practices.

4. Hypothesis

In order to advance the small firm marketing theory, this research follows the integrative approach proposed by (Siu, 2000a) – blending the marketing process model (Brooksbank, 1990) and the contingency model (Brooksbank et al., 1992) to identify the differences between the strategic marketing practices of the higher and lower performing SMEs in China. The six marketing stages specifically related to SMEs, proposed by Brooksbank (1990) relating to the adoption of a marketing philosophy, the conducting of a strategic analysis, the development of marketing objectives, the formulation of a marketing strategy, the designing of a marketing organization and the implementation of strategic control, are distilled and used as a framework for analysis. Within this framework, six specific hypotheses relating to the differences between the strategic marketing practices of the higher, average and lower performing firms, have been formulated in the context of Chinese SMEs.

4.1. *Hypotheses relating to business philosophy*

Researchers (Silin, 1972; Wong, 1988, 1991; Yau, 1988) find that Chinese owner-managers believe that success will not be solely influenced by marketing, but by doing favors for others, trust, creditworthiness and establishing social networks. Siu (2000a) argues that marketing enjoys the supreme priority in the higher performing Hong Kong SMEs. Siu (2000b) reveals that the higher performing Guangdong SMEs place emphasis on prior analysis of market needs.

H1: The higher performing Chinese SMEs adopt the market orientation in their overall business approach.

4.2. *Hypotheses relating to strategic analysis*

Haley (1997) argues that successful Chinese firms use personal contact networks to do business and they do not follow the western strategic planning approaches. Siu (2000a) finds that though the higher performing Hong Kong SMEs use strategic marketing planning approaches, they neither undertake comprehensive situation analysis, nor make greater use of strategic planning tools, compared with their lower performing counterparts. Siu (2000b) discovers that Guangdong SMEs appear to be more proactive in planning for the future, but they make little use of both formal and informal marketing research tools.

H2: The higher performing Chinese SMEs are less strategic marketing-planning oriented than the lower performing Chinese SMEs.

4.3. *Hypotheses relating to marketing objectives*

Redding (1982) and Yau (1988) find that Chinese firms adopt a long term orientation in doing business. Research findings (Wilson and Pusey, 1982; Redding and Wong, 1986) suggest that Chinese firms tend to set conservative instead of offensive or aggressive corporate objectives. Management researchers (Haley and Tan, 1996; Haley, 1997) suggest that Chinese owner-managers adopt defensive strategies by using personal contact networks as a competitive advantage against foreign multinational corporations, local non-network firms, and new entrants without established community experience and connections. Siu (2000a) reveals that the higher performing Hong Kong SMEs set long term profit objectives. However, Siu (2000b) does not find any relationship between company performance and the degree of taking a more aggressive stance in the focus or achievement of marketing objectives in Guangdong SMEs.

H3: The higher performing Chinese SMEs set longer-term defensive profit objectives than the lower performing Chinese SMEs.

4.4. *Hypotheses relating to marketing strategy*

Haley (1997) proposes that Chinese firms compete with specialized knowledge and information, produce goods in an "information void" environment that they create and perpetuate, and provide perceived benefits to customers. Siu (2000a) finds that the higher performing Hong Kong SMEs compete on the basis of basic value to the customers, rather than price and they are more innovative in new product development and business practices. The research findings of Siu (2000b) tend to suggest that the higher performing Guangdong SMEs use market expansion, rather than cost reduction, to attain marketing objectives, compared with their lower performing counterparts.

H4: The higher performing Chinese SMEs use innovative and value-added competitive marketing strategies more frequently than the lower performing Chinese SMEs.

4.5. *Hypotheses relating to marketing organization*

Siu (2000a) reveals that Hong Kong SMEs have a simple organizational structure. In contrast, Siu (2000b) reveals that higher performing Guangdong SMEs have a more organized structure for marketing. Notably, Redding and Richardson (1986) and Redding and Wong (1986) find that the open or participative communications seem not to be found in Hong Kong firms. Haley and Tan (1996) argue that committee meetings rarely occur in Chinese firms and Chinese owner-managers often make key decisions without consulting anyone. Siu (2000b) suggests that higher performing Guangdong SMEs use open communication flows within their marketing organization. However, Siu (2000a) finds that Hong Kong SMEs do not use flexible marketing communication methods.

H5: The higher performing Chinese SMEs use "open" and "flexible" communications instead of "structured" or "fragmented" communications.

4.6. *Hypotheses relating to marketing control*

Redding and Ng (1982) reveal that, under the influences of "face", Chinese firms tend to use less objective control measures. Haley and Tan (1996) argue that explicit control measures are rarely found in Chinese SMEs. The Chinese decision-makers, as suggested by Haley (1997), tend to exhibit personal, rather than professional management characteristics. The marketing planning activities may be classified as ad hoc and reactive and reflect the idiosyncratic style of Chinese owner-managers, specific the owner-manager"s personal knowledge of the market assumes importance, not that of the firm nor the marketing manager. Thus, the marketing control systems in Chinese SMEs tend to be vague. However, Siu (2000a) finds that the higher performing Hong Kong SMEs make greater use of marketing control devices, compared with their lower performing counterparts. Also, Siu (2000b) discovers that the higher performing Guangdong SMEs use marketing information systems more frequently than their lower performing counterparts.

H6: The higher performing Chinese SMEs make greater use of marketing control devices and systems than the lower performing Chinese SMEs.

5. Research methods

The data were collected in 2001 by personal interviews with a sample of 780 industrial SMEs, which were pre-screened according to the classification for SMEs proposed by Brooksbank (1991), generated randomly from a sampling frame developed by the National Census Bureau of China. Specifically, the questionnaire of Siu (2000b) was adopted. 404 interviews with the chief marketing executives or owner-mangers from cities, namely Chongqing (43), Dalian (21), Shunde (31), Shanghai (40), Shenzhen (36), Wuhan (39), Wenzhou (47), Xian (32) and Zhongshan (59), Tianjin (30) and Suzhou (26) were successfully undertaken. The 11 cities were selected according to the size (large, medium and small), location (north, south, east, west and central), degree of economic development (Shanghai, Wuhan, Xian) and degree of abundance of SMEs (Wenzhou, Shunde, Suzhou).

403 questionnaires were further screened by the criteria proposed by Brooksbank (1991) for SMEs. Firms with fewer than 500 employees and an annual turnover less than or equal to RMB Yuan 300 million (US$30 million) were selected. However, Siu and Martin (1992) suggest that inter-sectoral business diversification of SMEs is commonplace in Chinese societies. Accordingly, the product strategy proposed by Brooksbank (1991) was not adopted as one of the screening criteria. Also, listed companies were not selected as they no longer possessed the SME characteristics, as suggested by Osteryoung and Newman (1993). Thus, 97 questionnaires were discarded and 307 firms were eventually included as a database for extraction and analysis.

The instrument was developed from the literature (in particular Brooksbank et al., 1992; Siu 2000a, 2000b) to collect information on basic company details, marketing practices and the performance of small firms. Specifically, issues relating to the adoption of a marketing philosophy, the conducting of a strategic analysis, the development of marketing objectives, the formulation of a marketing strategy, the designing of a marketing organization and the implementation of strategic control are included in the questionnaire. To understand the adoption of a marketing philosophy, the role of marketing in corporate planning and company approach to marketing are asked in the questionnaire. The strategic analysis approaches are determined by the extent of strategic marketing planning, the importance attached to comprehensive situation analysis, the awareness and usage levels of marketing planning tools, the approach to planning for the future, and the use of in-company research and commissioned-in market research. Time horizon of profit objectives and the nature of marketing objectives are two dimensions adopted to determine the development of marketing objectives. To examine the marketing strategies, the achievement of marketing objectives, the superiority in product performance, product design, after sales service, company/brand reputation, distribution outlet, finance and credit, personal selling, agency support, product quality, advertising and price, and approaches to new product development and business practices are included in the questionnaire. To study the designing of a marketing organization, information about structure and communications within the marketing organization is collected. The usage rates of customer satisfaction survey, claims investigation, lost order analysis, research into market share movement, marketing intelligence gathering systems and special marketing software packages are solicited to determine the implementation of strategic marketing control.

Characteristics of the respondents are shown in Appendix 1. About 50% of the respondents produce single products. A majority of them (over 85%) manufactures industrial products. Over three quarter (77.6%) of the respondents were established after 1979. About 40% are private enterprises. Given that Chinese-owned small firms are extremely sensitive about revealing financial data publicly (Huang, 1997; Ang and Schmidt, 1999), this study employed less-intrusive self-reported measures. Respondents were classified according to self-assessed measures, using information supplied on the questionnaire. Though self-assessed measures tend to be biased, Dess and Robinson (1984) believe that in the absence of other objective criteria, self-assessed measures could serve as appropriate and reliable alternative indicators. Also, Bamberger et al. (1989) argue that in cases in which comparisons of cross-industry organizational performance are influenced by external economic factors, self-assessed measures may be even more appropriate than objective measures. Further, research (Dollinger and Golden, 1992; Powell, 1992) reveals that measures of self-reported organizational performance are positively related to objective measures of firm performance. Thus, respondents were asked to report how, in their last financial year, their companies had performed (1 = "better", 2 = "the same", 3 = "worse" or 4 = "don"t know") relative to major competitors on the following criteria: profit, sales volume, market share, and return on investment. Those with a rating of one for all criteria were classified as "higher performers". "Average performers" performed variously on the four indicators, whilst "lower performers" were companies with a rating of 3 or 4 on all four indicators. On this basis, 57 (18.4%) of the respondent firms were classified as "higher performers", 171 (55.3%) as "average performers" and 81 (26.2%) as "lower performers". This corresponds with the approach used by Siu (2000a, 2000b). The Chi-square test, a widely used technique for determining the statistically significant relationship between two categorical (nominal or ordinal) variables with the CROSSTABS routine of the SPSS for Windows 10.0 computer software package, was used to identify the differences between performers across various strategic marketing practices. The statistical results are presented in Table I.

To determine the possible effects of company characteristics upon company performance, Chi-square tests were applied. Interestingly, however, the findings suggest that there is no relationship between company performance and product areas ($p = 0.290$), nature of operations ($p = 0.063$), year of establishment ($p = 0.174$) and nature of ownership ($p = 0.110$). However, statistical relationships between company performance and employment size ($p < 0.01$) and sales turnover ($p = 0.007$) exist. The statistical results tend to

TABLE I

Statistical results of marketing practices of SMEs in China, Hong Kong and Guangdong

Marketing process	China (the present study)	Hong Kong (Siu 2000a)	Guangdong (Siu 2000b)
Business philosophies			
role of marketing in corporate planning	0.008	0.004	N.A.
company approach to marketing	0.229	0.911	0.041
Strategic analysis			
the extent of strategic marketing planning	0.000	0.005	0.000
importance attached to comprehensive situation analysis	0.000	0.517	N.A.
awareness levels of marketing planning tools	0.000	0.407	0.003
usage levels of marketing planning tools	0.129	N.A.	0.007
approach to planning for the future	0.083	0.381	0.006
use of research carried out by company	0.084	0.055	0.223
use of commissioned-in market research	0.896	N.A.	0.264
Marketing objectives			
time horizon of profit objectives	0.000	0.000	0.017
nature of marketing objectives	0.000	0.001	N.A.
Marketing strategies			
achievement of marketing objectives	0.017	0.190	0.010
superiority in product performance	0.000	0.007	0.216
superiority in product design	0.000	0.205	0.039
superiority in after sales service	0.000	0.298	0.015
superiority in company/brand reputation	0.000	0.000	0.210
superiority in distribution outlet	0.000	0.097	0.258
superiority in finance and credit	0.561	0.229	0.127
superiority in personal selling	0.106	0.008	0.229
superiority in agency support	0.000	0.696	N.A.
superiority in product quality	0.000	0.221	0.216
superiority in advertising	0.000	0.093	0.957
superiority in price	0.393	0.690	0.652
approaches to new product development	0.000	0.032	N.A.
approaches to new business practices	0.000	0.013	0.000
Marketing organization			
marketing organization structure	0.001	0.298	0.004
opinion vented freely	0.222	0.004	N.A.
encourage ideas	0.569	0.013	N.A.
participative decision	0.019	0.086	N.A.
overlapping jobs	0.068	0.459	0.160
temporary task force	0.141	0.602	0.094
Marketing control			
customer satisfaction survey	0.042	0.017	0.054
claims investigation	0.011	0.002	0.072
lost order analysis	0.008	0.072	0.126
research into market share movement	0.002	0.002	0.021
use of marketing intelligence gathering system	0.000	0.043	0.000
use of special marketing software	0.001	0.111	0.158

'N.A.' denotes not available.

suggest that higher performing Chinese SMEs have relatively larger firm size and higher sales turnover. The results conform with Carson''s (1985) growth/stage model for small firm marketing. The specific marketing practices of Chinese SMEs are reported in the findings section.

6. Findings

6.1. *Business philosophy*

The statistical results ($p = 0.008$) presented in (Table I) suggest that the high performing Chinese SMEs give marketing a higher priority (the leading or joint leading role) than that of their lower performing counterparts. The survey results also indicate that there is no statistical relationship ($p = 0.229$) between the company approach to marketing and performance. The higher performing Chinese SMEs place major emphasis on advertising and selling functions, not prior market analysis. The results appear to suggest that though the higher performing Chinese SMEs place marketing a higher priority in their corporate planning, they are less likely to define their marketing activities as customer-driven. These findings do not lend support to hypothesis H1 – the performing Chinese SMEs adopt the market orientation in their overall business approach.

6.2. *Strategic analysis*

According to the findings presented in (Table I), the higher performing Chinese SMEs tend to use strategic marketing planning ($p = 0.000$). The survey results indicate that there is a statistically significant relationship ($p = 0.000$) between the degree of importance of comprehensive situation analysis and the company performance. A statistically significant relationship exists between the degree of awareness of ($p = 0.000$), but not the degree of usage of ($p = 0.129$), various marketing planning tools and the company performance. The survey results also reveal that no statistical relationship ($p = 0.083$) exists between the firm''s planning approaches to the future and company performance. No statistically significant relationships exist between the usage rate of research carried out by the company ($p = 0.084$) and the frequency of using commissioned market research ($p = 0.896$) and the company performance.

The results suggest that the higher performing Chinese SMEs tend to use strategic marketing planning more frequently and pay more attention to comprehensive situation analysis than their lower performing counterparts. They are more aware of the strategic planning tools, but make less use of them. Chinese SMEs, irrespective of their performance, adopt a more conservative approach in planning for the future. The results suggest that no differences are found between the three performing groups of companies, in making use of both in-house and commissioned market research methods. Based on the results, it seems to suggest that hypothesis H2 – the higher performing Chinese SMEs are less strategic marketing-planning oriented than the lower performing Chinese SMEs – could not be sustained.

6.3. *Marketing objectives*

The survey results indicate that differences are found between the time horizon when setting profit objectives ($p = 0.000$) and the three performance groups. A statistically significant relationship exists between the nature of marketing objectives ($p = 0.000$) and company performance. The results suggest that the higher performing Chinese SMEs tend to set longer-term profit objectives and more offensive objectives, compared with lower performing counterparts. The results provide support to hypothesis H3 – the higher performing Chinese SMEs set longer-term defensive profit objectives than lower performing Chinese SMEs

6.4. *Marketing strategies*

The survey results suggest that there is a statistically significant relationship between the achievement of marketing objectives ($p = 0.017$) and company performance. The survey results also reveal statistically significant relationships between company performance and superiority in nine areas of the marketing mix: product performance ($p = 0.000$), product design ($p = 0.000$), product quality ($p = 0.000$), after sales service ($p = 0.000$), company/brand reputation ($p = 0.000$), distribution outlet ($p = 0.000$), distribution outlet ($p = 0.000$), agency support ($p = 0.000$) and advertising ($p = 0.000$). However, the statistical results show that there are no relationships between company performance and the companies'' superior position over their competitors in personal selling ($p = 0.106$), finance and credit ($p = 0.561$) and price ($p = 0.393$). The survey results show statistically significant relationships exist between the approaches to developing and marketing new products ($p = 0.000$) and the extent of innovation in introducing new ways of doing business ($p = 0.000$) and company performance.

The results suggest that the higher performing Chinese SMEs use both market expansion to attain marketing objectives, whereas their lower performing counterparts adopt cost reduction and productivity improvement as their strategies. The higher performing Chinese SMEs compete on the basis of basic value to the customer, rather than on price. Also, they tend to be more innovative in new product development and business practices than their lower performing counterparts. This clearly shows support to hypothesis H4 – the higher performing Chinese SMEs use innovative and value-added competitive marketing strategies more frequently than lower performing Chinese SMEs.

6.5. *Marketing organization*

The survey results point out that there is a statistically significant relationship between the marketing organization structure ($p = 0.001$) and company performance. The findings indicate that no significant differences emerge between the three performance groups and the four marketing communication styles on opinions vented freely ($p = 0.222$), encouraging ideas ($p = 0.569$), overlapping job ($p = 0.068$) and temporarily task force ($p = 0.141$). However, a significant relationship exists between participative decision ($p = 0.019$) and company performance. The results suggest that the higher performing Chinese small firms adopt a more formal and organized structure for marketing. Thus, the results do not lend support to hypothesis H5 – the higher performing Chinese SMEs use "open" and "flexible" communications instead of "structured" or "fragmented" communications.

6.6. *Marketing control*

Statistically significant relationships exist between company performance and marketing control in four controlling techniques, customer satisfaction survey ($p = 0.042$), claims investigation ($p = 0.011$), lost order analysis ($p = 0.008$) and research of market share movement ($p = 0.008$). The survey results also reveals that statistically relationships exist between company performance and the use of on-going marketing intelligence gathering systems ($p = 0.000$) and special marketing computer software packages ($p = 0.001$).

The findings reveal that higher performing Chinese SMEs make greater use of marketing control techniques and use different means of marketing information systems more frequently than their lower performing counterparts. Hence, the results support hypothesis H6 that – the higher performing Chinese SMEs make greater use of marketing control devices and systems than their lower performing Chinese SMEs.

7. Discussion

When compared with the available findings on the marketing practices of SMEs in Hong Kong (Siu, 2000a) and Guangdong (Siu, 2000b), the results shown in Table I reveal that the higher performing Chinese SMEs exhibit distinct marketing behaviours. There are relationships between company performance and the approaches to marketing and to planning for the future in Hong Kong and Guangdong SMEs, but not Chinese SMEs. Notably, the higher performing Chinese and Guangdong SMEs exhibit a high degree of awareness and use of comprehensive situation analyses and marketing planning tools. They set aggressive profit objectives and enjoy a superiority position over their major competitors in product design and after sales services. They also adopt the pyramid organizational structure and encourage participative decisions in marketing organization. However, the higher performing Hong Kong SMEs attribute their success to personal selling. Interestingly, the higher performing Hong Kong and Chinese, but not Guangdong, SMEs enjoy a superiority position over their average and lower performing counterparts in product performance. Also, the higher performing Hong Kong and Chinese SMEs and use customer satisfaction surveys and claims investigation frequently in marketing control. In contrast, higher performing Chinese SMEs enjoy a superiority position over their average and lower performing counterparts in product quality, advertising, distribution outlet and agency support. The higher performing Hong Kong and Guangdong SMEs use temporary task force and flexible communications in marketing organization, for example encouraging ideas and allowing opinions vented freely. However, these practices are not found in Chinese SMEs.

Hong Kong SMEs operate under the OEM systems and they function as the production arm of their overseas buyers. Thus, they do not undertake comprehensive situation analysis, nor use marketing planning tools. Be that as it may, Hong Kong SMEs have to ensure good product quality and place emphasis on quality control, customer satisfaction surveys and claims investigation. Also, open or participative types of communication in marketing matters are not commonly found in Hong Kong SMEs as Hong Kong owner-managers do not seek comments from others. Guangdong SMEs dominate the nationwide market and they have to analyze the market and be proactive in planning. Also, Guangdong SMEs excel in product performance, compared with their competitors of other provinces and cities, and they rely less on customer satisfaction survey or claims investigation.

In contrast, Chinese SMEs focus on regional markets to avoid direct competition with Hong Kong and Guangdong SMEs targeting at the turbulent nationwide and international markets. They are starting to build their own brands and have to analyze the market thoroughly. Chinese SMEs provide value-added products and services and also a well-rounded competitive marketing strategy in order to gain market shares. Given that Chinese SMEs do not have the superior position as that of their Guangdong counterparts, they have to use customer satisfaction surveys and claims investigation to help improve product performance. Chinese SMEs are not as open as their counterparts in Hong Kong and Guangdong. Chinese SMEs are accustomed to the traditional state-owned enterprises organizational structure and systems. The traditional socialist enterprise structure in China facilitates the development of hierarchical organizational structure. Thus, Chinese SMEs tend to use the "pyramid" structure in their marketing departments and do not encourage flexible communications in marketing organization.

8. Conclusion

Social economists (for example Abramovitz, 1986) proposed that the combination of technological gap and social capabilities (characters of the industrial, commercial and financial organizations in the region/country, the content of education in a country/region, and other aspects of economic systems) will affect how a region "catch-up" with the advanced technology. The present study confirms that Chinese SMEs learn and practise marketing actively, compared with their counterparts in Hong Kong and Guangdong. The higher performing Chinese SMEs appear to be market-oriented and customer-driven. Though they are still influenced by the Chinese state-owned enterprise structure, it is expected that they will soon "catch-up" and develop an open and flexible marketing organization shortly in order to respond to the turbulent market environment.

Given the deep Chinese cultural roots, contextualization is important for research into Chinese SMEs. This research controls the cultural influences by comparing the marketing practices of Chinese SMEs in China, Hong Kong and Taiwan. Though China, Hong Kong and Taiwan are "embedded" in the Chinese culture, the research findings tend to suggest that economic development, marketing environment and business system are the determinants for the differences. Further contextualised research should consider eradicate the influences of communist ideologies, political economies and emerging institutional factors in analyzing the marketing practices of Chinese SMEs. Cheng (1994) advocates for building universal knowledge by first focusing on single-country indigenous research to develop locally relevant and valid management models in order to contribute to the global management knowledge base. By building on existing Chinese small firm marketing knowledge and using current small firm marketing models, this research is grounded with rich contextual information and provides a comprehensive evaluation of marketing practices in Chinese small firms in Mainland China. However, the findings of this study tend to suggest that the readily broad small firm marketing principles, specifically generated from the western countries, may not be fully suitable for some specific socio-cultural contexts, for example small firms in Mainland China. Specifically, the institutional factors have to be taken into consideration. Thus, care should be taken before making generalizations about marketing in western situations and in assuming that marketing tools and techniques are equally applicable across all places. Socio-cultural influences should be considered when attempting to understand the marketing practices of small firms in Mainland China. This research will progress to conduct follow-up interviews with the respondents to define the meaning of marketing constructs in Chinese context and develop indicators that are meaningful for measuring the performance of Chinese SMEs. It is expected that the new findings of the follow-up research into Chinese SMEs can extend, add to, and perhaps even modify our current knowledge about small firm marketing and entrepreneurship in the global context.

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APPENDIX 1
Characteristics of the respondents

Characteristic	Category	Count (%)	Relationship with company performance (p value)
Business nature (n = 304)	Single product dominated	152 (49.5)	0.290
	Single business dominated	95 (30.9)	
	Multi-business	57 (18.6)	
Main activities of company (n = 300)	Manufacturing industrial products	143 (46.6)	0.063
	Manufacturing consumer products	114 (37.1)	
	Service industry	21 (6.8)	
	Distributing or retailing	18 (5.9)	
	Others	4 (1.3)	
Year of establishment (n = 281)	1925–1948	5 (1.5)	0.174
	1949–1978	58 (19.0)	
	1979–1991	106 (34.6)	
	1992–2001	112 (36.6)	
Type of company (n = 307)	Non listed state-owned	48 (15.6)	0.110
	Collective	55 (17.9)	
	Private	126 (41.0)	
	Joint Venture	10 (3.3)	
	Joint Stock	68 (22.1)	
Employment Size (n = 307)	1–9	33 (10.7)	0.000
	10–49	87 (28.3)	
	50–99	65 (21.2)	
	100–199	65 (21.2)	
	200–499	57 (18.6)	
Turnover (n = 307)	Under RMB$100,000	39 (12.7)	0.007
	RMB $100,001–500,000	43 (14.0)	
	RMB $500,001–1,000,000	38 (12.4)	
	RMB $1,000,001–3,000,000	44 (14.3)	
	RMB $3,000,001-6,000,000	26 (8.5)	
	RMB $6,000,001–10,000,000	38 (12.4)	
	RMB $10,000,001–30,000,000	36 (11.7)	
	RMB $30,000,001–60,000,000	18 (5.9)	
	RMB $60,000,001–100,000,000	14 (4.6)	
	RMB $100,000,001–300,000,000	11 (3.6)	

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