



Study Of Survival Strategies Of Hong Kong SMEs Under The Current Global Situation

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Abstract: Due to intense market competition and economic globalization, many small and medium-sized enterprises (SMEs) in Hong Kong face uncertain challenges, leading to a relatively high failure rate in the short term after opening. To cope with these challenges, SMEs must adopt survival strategies. This study examines SMEs' global challenges and how they can enhance their competitiveness. The review identifies five significant challenges: new market development, restructuring through operational integration, cost reduction, improved research and development, and transfer to other markets. The study also considers the survival strategies of SMEs and the external and internal factors that influence business sustainability. A theoretical examination of SMEs' survival strategies based on data collected in October 2023 from 317 SMEs is included in this study.

Keywords: Survival Strategies, Hong Kong SMEs, Current Global Situation

INTRODUCTION

Hong Kong has a unique advantage due to its "one country, two systems" policy, which provides favorable institutional and business conditions. The government of Hong Kong is committed to ensuring a level playing field for all businesses, allowing the free flow of goods, capital, talents, and information, with world-class infrastructure, including efficient local and regional transport networks, advanced air and sea transport systems, and top-notch digital and telecommunications facilities (Mustafa & Sabariah., 2018). Hong Kong is well-equipped to facilitate the efficient flow of people, goods, and information between Hong Kong and the rest of the world. However, the social unrest that hit Hong Kong in 2019, followed by the COVID-19 outbreak in 2020, and political suppression by Western countries, led by the US government, have proven to be significant setbacks for most SMEs in Hong Kong. SMEs in Hong Kong need to adapt to the changing business landscape with the increasing economic influence of the mainland. Financial globalization has brought many challenges to SMEs due to the intensified competition (Buckley & Casson., 2020). Therefore, the failure rate of SMEs in the early stages of entrepreneurship is relatively high, not only due to external issues but also concerns about business operations. SMEs must adopt survival strategies and approaches to cope with these challenges successfully.

SMEs in Hong Kong

Economic globalization refers to cross-border activities such as international investment, trade, and strategic contracts for product development, production, procurement,

and marketing (Liu., 2018). This creates a global business environment for all enterprises engaged in global trade. In the post-pandemic era, regions are thinking about how to recover from the economic downturn. With the development of information and communication technology and the acceleration of globalization, most small and medium enterprises (SMEs) follow this strategy to improve their business competitiveness in the market. Hong Kong has over 340,000 SMEs, accounting for 98% of the total enterprises and employing 45% of the private market workforce (HKTDC., 2022). Although SMEs are vital to driving economic development, they often lack proper survival strategies to help them grow. Most SMEs rely on their instincts and experience to keep up with market growth, and expanding their businesses requires a lot of strength and intelligence.

THEORETICAL FOUNDATION

External and Internal Challenges

Globalization and market changes have made economies of scale and R&D increasingly important for external economic competitiveness. Unfortunately, small and medium-sized enterprises (SMEs) often struggle to compete on these fronts, leading many experts to predict that their competitiveness will decline. However, some SMEs have improved their position in their respective markets (Diamantopoulos & Siguaw., 2006). In Hong Kong, where many SMEs operate across various industries, competitiveness is complex and heterogeneous, depending on the current market conditions. Since the 1980s, external markets have transformed the economy, with SMEs needing to enhance their competitiveness significantly through innovation. One of the most significant implications of globalization and market change is the shift from traditional factors of production and service to knowledge-based economic activities (Chien et al., 2024). Therefore, SMEs' ability to generate, access, and commercialize knowledge on both global and local markets is critical to gain a competitive edge in international markets

The Technological Change of Smes in The Business Market

The power of technology has been a significant factor in enabling economic growth. Inexpensive communication technologies have completely transformed the financial meaning of global borders and distance through personal-to-personal talk, video conferencing and training, and business dealing (Chen., 2023). The quality, not just the quantity, of changed global transactions is often missed in inferences about the degree of globalization that relies solely on international trade statistics. International transactions no longer only

involve arms-length interactions among corporations; they now connect individuals and expose people to ideas and concepts previously inaccessible due to poor technological environments (Zamani., 2022). Small businesses make an impressive contribution to innovation due to their multiple advantages compared to large companies. One significant benefit is that they are less bureaucratic than more structured organizations. Secondly, and often overlooked, many technological advances are built on the accumulation of countless detailed inventions involving individual components, materials, and manufacturing techniques. The sales possibilities for making such narrow, clear progress are often too slim to interest larger companies.

Understanding innovation in Small and Medium Enterprises (SMEs) is crucial to research and policy development. SMEs, driven by concerns about return on investment, often focus on non-R&D investment-based innovation (Kwan & Gupta., 2011). However, as the size of the firm increases, the role of R&D investment in innovation becomes more pronounced. It is important to note that the operations of SMEs with non-R&D inputs are more significant than categorizing them into two types: Capital equipment or input-embodied innovation and design innovation. Capital equipment-based innovation involves firms acquiring new process technologies or intermediate products, enabling them to benefit from innovations developed elsewhere. On the other hand, design innovation refers to incremental improvements in outputs that do not radically change their function or technological base but allow firms to meet customer requirements in business dealings better (Ngo et al., 2020).

Small and medium-sized enterprises (SMEs) must be competitive to survive in the market. To achieve this, they adopt different strategies. One of the essential strategies is their ability to create, acquire, and commercialize new knowledge (Wang et al., 2012). SMEs adopt various methods, including Innovation strategies, Information technology strategies, Niche strategies, Network strategies, Cluster strategies, and Foreign direct investment strategies. Innovation strategies involve SMEs attempting to obtain returns from their knowledge base by investing in R&D. Information technology strategy involves innovative use of information technology to reduce costs and increase productivity. Niche strategy involves SMEs choosing to become established global players in a narrow product line. Network strategy involves collaboration with other companies, SMEs, or large enterprises to improve their ability to acquire and absorb innovations. Cluster strategy involves SMEs close to competitors exploiting knowledge spillovers, especially in the early stages of the industrial life cycle. Finally, Foreign direct investment strategy involves SMEs taking advantage of specific ownership advantages of foreign firms.

The Survival Strategies of SMEs Facing External Challenges

In the face of the ongoing global economic crisis, it is imperative to implement targeted policy interventions at the aggregate level to safeguard the resilience of vulnerable industries, such as small and medium-sized enterprises (SMEs). As Sun et al. (2023) pointed out, SMEs, despite their limited financial resources, operational capacity, production capabilities, and market sustainability, have shown remarkable resilience in the face of business shocks during times of crisis. This resilience has been tested not only by the pandemic's impact but also by local violence and suppressive policies by Western countries, which have caused significant disruptions to SMEs in Hong Kong.

Small and medium-sized enterprises (SMEs) in Hong Kong must define their strategic position to tackle the challenges of global and economic competition. Porter's well-known generic strategies of cost leadership, differentiation, cost focus, or differentiation focus can help SMEs stay competitive. Cost leadership is the most common and effective among these strategies for SMEs (Adom et al., 2016). Their primary objective is to increase profits by reducing costs and setting prices in line with industry standards for most service and production industries. By offering lower prices, these firms can gain market share and still make a sufficient profit from each product or service sale due to reduced costs.

Cost leadership (SME attractive price)	Differentiation (SME value differentiation than competitors)
Cost focus for SME pre-defined segment via cost advantages	Differentiation focus for SME pre-defined segment via differentiation advantages

Competitive advantage model of SMEs in the market

To overcome the challenges of information and communication technology in today's business environment, small and medium enterprises (SMEs) must assess their strengths, weaknesses, opportunities, and threats. This analysis will help SMEs to evaluate their ability to adopt these technologies and determine their availability in the marketplace. SMEs must have access to information and communication technology to succeed in the current business world. (Gurel., 2017).

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • Innovative product offering • Affordable prices • Current user retention 	<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • Expand social media • Work with industry influencers • Expand new markets and channels
<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • Not enough brand recognition • Not resources spent on operation 	<p style="text-align: center;">Threat</p> <ul style="list-style-type: none"> • Tough competition • Supply chain challenges • Financial resources

SWOT model of SMEs in the market

Small and medium-sized enterprises (SMEs) face challenges in staying competitive. To overcome these challenges, they adopt strategies such as developing new markets, conducting research and development for products and services, integrating operations, reducing costs through outsourcing or downsizing, and relocating (Fetene., 2017). These variables are also crucial considerations for Hong Kong SMEs when planning their survival strategies. They need to consider external factors such as local business environments, global business issues, financial and human resources, the impact of the pandemic, and the effects of more prominent markets.

Research Questions

Small and medium-sized enterprises (SMEs) in Hong Kong are facing several challenges in today's market environment. These challenges include high operating costs, intense industry competition, the need for technological innovation, financing issues, policies and regulations, brain drain, and the macro-environment. Hong Kong has high price levels and commercial rents, which put significant pressure on SMEs' operations (Peric & Vitezic., 2016). When the real estate market is in tight supply, it becomes even more challenging for SMEs to find suitable business sites. This limitation can restrict the company's operations and development as follows:

1. Operating a small and medium-sized enterprise (SME) can be challenging due to several factors, including financing difficulties. Compared to large enterprises, SMEs often face more significant difficulties in obtaining financing due to their limited scale and resources. Financial institutions tend to be strict in loan approval for SMEs, considering their high

credit risks. This can make it difficult for SMEs to obtain sufficient financial support and may hinder their operations.

2. The operating difficulties faced by SMEs is fierce market competition. With the progress of global economic integration, competition in the Hong Kong market has increased significantly. Several international brands and large enterprises have entered the Hong Kong market, causing small and medium-sized enterprises to face enormous competitive pressure regarding market share, brand recognition, and customer base.
3. One of the main challenges SMEs face is the lack of skilled talent and high labor costs. Hong Kong's highly competitive labor market makes it difficult for small and medium-sized enterprises to find and retain outstanding talent. Additionally, due to the high cost of living, SMEs are under more pressure to offer competitive salaries and benefits to their employees, which further adds to their operational difficulties.
4. Operational Difficulties for SMEs—Insufficient Technological Innovation Capabilities. Hong Kong's small and medium-sized enterprises (SMEs) struggle to meet fast-paced market demand due to the lack of advanced technology and innovation capabilities. This disadvantages them regarding product quality, operational efficiency, and market competitiveness.
5. Operating a small or medium-sized enterprise (SME) in Hong Kong can be challenging, especially when complying with the country's constantly changing regulations and policies. SMEs must stay updated with relevant changes and respond promptly to avoid disrupting their daily operations. For instance, the Hong Kong government has recently intensified the enforcement of environmental protection regulations. As a result, some SMEs may be required to invest more resources, money, and energy into upgrading their environmental protection measures.
6. Global economic and geopolitical uncertainty have caused difficulties for small and medium-sized enterprises (SMEs) in Hong Kong, particularly those involved in import and export. The fluctuating global economy and tensions between nations have made it difficult for these businesses to plan and make decisions. Furthermore, the repeated outbreaks of the COVID-19 pandemic and changes in policies related to prevention have also impacted the business activities of Hong Kong's SMEs.

Research Objective

This study investigates how the competitiveness strategies of small and medium enterprises (SMEs) in Hong Kong are impacted by the current global situation. The study will

examine the essential variables contributing to SMEs' competitiveness and sustainability in the marketplace. It will also look at how these variables affect business survival, focusing on five different elements: the adoption of a new market development strategy, research and development for products and services, operational integration to facilitate restructuring, cost reduction through outsourcing or downsizing, and relocation. These strategies are not mutually exclusive, and companies should consider them for sustainability. Companies may choose to maintain the status quo in some cases, while in others, they may need to make changes. (Jin et al., 2022).

The regional marketing strategy and new market development aim to introduce existing services and products to unexplored markets. It also involves identifying and building new opportunities to develop sales offers and channels. A market development strategy is crucial for small and medium-sized enterprises (SMEs) as it can help them reach more potential customers and expand their businesses (De & Lianxi., 2014). Furthermore, a market development strategy can help SMEs improve the quality of their products or services, acquire new customers, develop new products or services, increase revenue margins, build organizational resilience, support long-term company growth, and enhance brand awareness.

The Organization for Economic Cooperation and Development (OECD) is an exclusive forum that brings together 37 market-based economies to develop policy standards and promote sustainable economic growth. Entering the new OECD market is a wise choice as it is still the world's largest market, accounting for more than half of global consumption. However, this market diversification strategy may face challenges due to the global uncertainties affecting all major OECD markets. Additionally, entering new markets often involves competing with well-established competitors and supply chains, which can be daunting for companies (Brouthers et al., 2022).

Mainland China is the world's leading growth market, with clear signs of economic recovery and a projected five percent GDP increase in 2023. Despite the challenges, global companies remain excited about the Chinese market due to its large size, potential, and GDP growth (Guo et al., 2020). Additionally, Hong Kong continues to provide value as a service hub for businesses operating in China.

Research and development are crucial for businesses to stay competitive in the market. However, many small and medium-sized enterprise (SME) owners and managers are usually too busy managing their companies to keep up with the latest information on market trends, technology advancements, and management developments (Sutton., 2015). This lack of awareness can lead to slow response time or misunderstanding of market realities, causing

SMEs to lose customers to competitors, resulting in a significant loss. To avoid this, it is necessary to establish a system to monitor market developments and provide relevant information to management systems as warnings or references for potential actions. SMEs should also pay attention to the latest technological and regulatory developments in their industry, as it can help them improve their business operations, making them more efficient and effective (Zeng et al., 2010). Using the right technology and management methods, SMEs can form objective views and correctly judge business-related matters.

They are currently restructuring their objectives by integrating their operations. Many small and medium-sized enterprises (SMEs) struggle with having a clear strategic objective. Instead, they tend to jump from one opportunity to another, which may lead to short-term success but is challenging to sustain in the long run. A company without a clear vision lacks direction and a reason for its existence. The vision should define the company's purpose, business scope, positioning, and planned core strengths. Due to limited resources, SMEs cannot serve everyone, so they must carefully select their target markets and customers (Thontla & Madahvi., 2017). They can improve their objectives by integrating their operations and internal structure, making them more competitive and better equipped to respond to market changes.

Cost reduction is a strategy companies use to decrease expenses and increase profits. It involves identifying and eliminating spending that does not add value to customers while optimizing processes to increase operational efficiency. Generally, cost reduction focuses on generating short-term savings.

Research and development are essential for improving products and services. To enhance operational efficiency, businesses can optimize workflows, restructure, provide additional training to staff, and improve management practices. It is also possible to reduce the workforce by implementing technology in the working process, which can help businesses avoid the impact of staff shortages and wage increases. However, this approach is only feasible when the process can be efficiently automated, and the necessary funds are within the capabilities of small and medium-sized enterprises (SMEs) (Ortega-Argiles & Voigt., 2009). Streamlining logistics, distribution, and other activities can also be a more cost-effective way of reducing

expenses than solely focusing on enhancing production. Reducing costs in all aspects is the best way to offset rising expenditures.

Relocating to the Greater Bay Area has been a topic of interest for many Hong Kong companies. The Greater Bay Area provides several advantages to companies who want to explore the mainland domestic markets. It not only helps bring additional growth but also

diversifies the risks of solely focusing on the international market amid the rapidly changing global situation. With a population of around 90 million permanent residents and a GDP of over \$2 trillion in 2022, the GBA is one of the world's biggest economies, comparable to South Korea (Patchell., 2023). Although the pandemic and geopolitical tensions have affected the short-term prospects of SMEs, they remain confident about the long-term potential, thanks to the big market of the Great Bay Area and other parts of mainland markets. SMEs in the GBA are highly optimistic about the economic outlook and significant growth. Approximately 70% of Hong Kong SMEs surveyed are optimistic about the government's interconnectedness policies, and about 80% would like the government's initiatives to be implemented faster for further expansion.

Research purpose

A survey was conducted to gather current opinions from small and medium-sized businesses (SMEs) in Hong Kong as part of a research study. The survey focused on three topics: external factors affecting business, strategies for sustainability, and internal factors impacting business. Specifically, the survey targeted SMEs in five sectors: Import and Export Trade, Import and Export Manufacturing, Research and Development, Professional Services, and others. Using the SME HK Association name list, 350 SMEs were selected for the survey, and 317 returned their responses for analysis.

Sector	No. of SMEs	Percentage
Import and export trade	90	28.4%
Import/export manufacturing	59	18.6%
Research and Development	63	19.9%
Professional Services	75	23.6%
Others	30	9.5%
Total	317	100.0%

Responding to Hong Kong SMEs by sector

External factors impacting business

During the study, the subject matter experts (SMEs) were asked to evaluate the impact of five external factors on businesses. The results showed that the 'local business environment' was considered the most significant factor, with 25.6% of the SMEs rating it as influential or important. The factor of 'global business issues' followed with 21.8%, while 'financial and human resources and the effect of Great Bay Area market' was rated as necessary by 20.8% of SMEs. The impact of the pandemic effect was rated last, at 11%.

External factors impacting business	SME rating of significance	
	No. of SMEs	Percentage
Local business environments	81	25.6%
Global business issues	69	21.8%
Financial and human resources	66	20.8%
Effect of Great Bay Area market	66	20.8%
Impact of pandemic effect	35	11.0%
Total	317	100.0%

Respondents to external factors impacting business by HK SMEs

Of the 317 respondents, 81 SMEs were concerned about the local business environment. This research aims to investigate how the local business environment in Hong Kong affects SMEs' performance. According to theoretical arguments by Dut (2015), the business environment and performance are closely related. On the one hand, the business environment can enhance SMEs' performance, while on the other hand, it can impede their general operation. The study better explains how SMEs address local environmental factors, such as employment level and consumer purchase index, significantly affecting their performance. The results of this study can also be used as a reference for anyone interested in starting their own business, providing insights into decision-making and sustaining and growing an SME. From the second to fourth concerns, 69, 66, and 66 SMEs, respectively, were concerned about global business issues, financial and human resources, and the effect of the Great Bay Area market on Hong Kong SMEs in the current business environment (Meyer et al., 2023). The degree of concern was lower for the pandemic's effect, with only 35 out of 317 participants showing that its impact became less severe after a year of recovery.

Internal factors impacting business

During the survey, five internal factors were presented to the SMEs (Subject Matter Experts) that were deemed to impact business. The results showed that 'rising costs in operations' and 'financial resources' were considered the most significant impacts, with 24.0% and 23.3%, respectively. This was followed by 20.8% for the factor 'right skills and technological adoption' and then 19.9% for the factor 'talent shortage.' Finally, the least significant factor was 'internal competitiveness,' with only 12% of the respondents considering it to have a substantial impact.

Internal factor impacting business	No. of SMEs	Percentage
Rising costs in operations	76	24.0%
Financial resources	74	23.3%
Right skills and technological adoption	66	20.8%
Shortage of talents	63	19.9%
Internal competitiveness	38	12.0%
Total	317	100.0%

Respondents to internal factors impacting business by HK SMEs

Out of 317 respondents, 76 and 74 SMEs showed their primary concern about rising costs in operation and financial resources. The impact of increased internal costs on SMEs can be significant. When costs rise, SMEs may have to raise their prices, making them less competitive in the marketplace (Moscalu et al., 2020). This situation can result in reduced sales and lower profits, making it difficult to reinvest in the business or pay off debts. Financial resources are essential for SMEs to develop, grow and innovate. Lack of financial resources by SMEs impedes their performance growth and prevents many innovative products and services from entering the market (Owusu et al., 2019). Also, 66 SMEs out of 317 respondents showed concerns about adopting technology to cut costs, increase productivity, save time, improve the customer experience, and expand the SMEs. Moreover, 63 SMEs out of 317 identified their concern with needing more skilled workers, which can lead to increased costs, lower productivity, and missed growth opportunities (Ahmedova., 2015). Furthermore, 38 SMEs out of 317 believed that internal competitive strategies include innovation, information, niche, and network. However, these strategies require huge investments that SMEs may not consider the most urgent issues impacting business operations.

Adopted strategies for SME growth and development

According to a survey with subject matter experts, five strategies are considered to enhance business development. Among these strategies, 'new market development' was the most influential and practical, with 32.5% of SMEs rating it as such. The following most influential strategies were 'cost reduction by outsourcing or downsizing' (25.2%), 'R&D for products and services' (12.0%), and 'relocation to other Great Bay Area' (10.4%).

Adopted strategy	No. of SMEs	Percentage
New market development	103	32.5%
Restructuring through operational integration	80	25.2%
Cost reduction by outsourcing or downsizing	63	19.9%
R&D for products and services	38	12.0%
Relocation to other Great Bay Area	33	10.4%
Total	317	100.0%

Respondents to internal factors impacting business by HK SMEs

Out of 317 respondents, 103 SMEs preferred adopting the new market development strategy. Expanding to new markets can help build new customer bases with new products and services, preventing businesses from relying too much on a single client. Other benefits include creating economies of scale and improving brand awareness, which can significantly impact SMEs (Asiedu, 2015). On the other hand, 80 SMEs out of 371 respondents believed restructuring through operational integration could improve company performance. This involves effective financial, organizational, and portfolio restructuring, adopting strategies, change management, and flexible allocation to stay competitive (Brown & Scott, 2005). Meanwhile, 63 SMEs out of 317 identified cost reduction as their primary goal. They suggested outsourcing or downsizing to streamline operations using external assistance for flexible financial and structural arrangements. Additionally, 38 SMEs out of 317 believed that R&D for products and services could require a massive investment in development, which could dry out financial resources before promotion. They suggested outsourcing R&D or sharing technology to improve flexibility and eliminate uncertainty in financial management and unmatched R&D efforts (Brouthers et al., 2016). Finally, 33 SMEs out of 317 preferred to relocate to other Great Bay Areas closer to most market opportunities.

CONCLUSIONS

The Result and Discussion

Organizational change requires a culture that promotes and embraces change as the norm. Companies can create this culture by making it easy for people to seek change and contribute to its successful implementation. This culture should be rooted in a solid corporate mission (Tang et al., 2020). In small and medium-sized enterprises (SMEs), the top managers or owners often make change decisions and instruct their subordinates to implement them. However, SMEs must establish a culture of core elements to increase the likelihood of successful change. Creating a transformative corporate culture takes time, effort, and experience. Empowerment is also crucial to developing this culture. Innovation is essential for

SMEs to survive and thrive. Creativity involves improving products, services, business models, and customer experiences. The COVID-19 pandemic has accelerated the e-commerce boom and provided an excellent opportunity for SMEs to enter new markets and reach broader consumer groups through digital technologies. However, this shift also requires businesses to create new customer experiences to meet diverse needs and preferences worldwide. Disruptive products, business models, and customer experiences are critical drivers of innovation and can help SMEs succeed in today's rapidly changing market (Andries & Stephan., 2019).

Conclusion

Small and medium-sized enterprises (SMEs) in Hong Kong have faced various challenges, but they should not lose hope. According to Li and Zhang (2021), the pandemic has created opportunities for breakthroughs in the market. Therefore, business owners must develop new ideas and visions for the future. To survive in the short term, SMEs should pay closer attention to their customers, invest in e-commerce channels, and improve the user experience by minimizing friction. For long-term growth and success, SMEs can consider developing new markets, utilizing operational integration to improve business effectiveness and efficiency, reducing costs through external support, seeking better service and product research development through technological cooperation, and exploring the relocation of their operations to the Great Bay Area, one of the most significant potential markets.

Recommendation

To ensure the future sustainability of small and medium-sized enterprises (SMEs) in Hong Kong, organizations must be flexible in adopting strategies that can deal with market changes. However, keeping up with the ever-increasing rate and complexity of change can be overwhelming for business owners. SMEs should focus on hardware and software components in planning and implementing change by establishing a corporate culture. The commitment of top management to change, along with long-term engagement, recognition of achievements, and employee performance evaluation, are critical elements in developing a change organizational culture in Hong Kong SMEs.

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