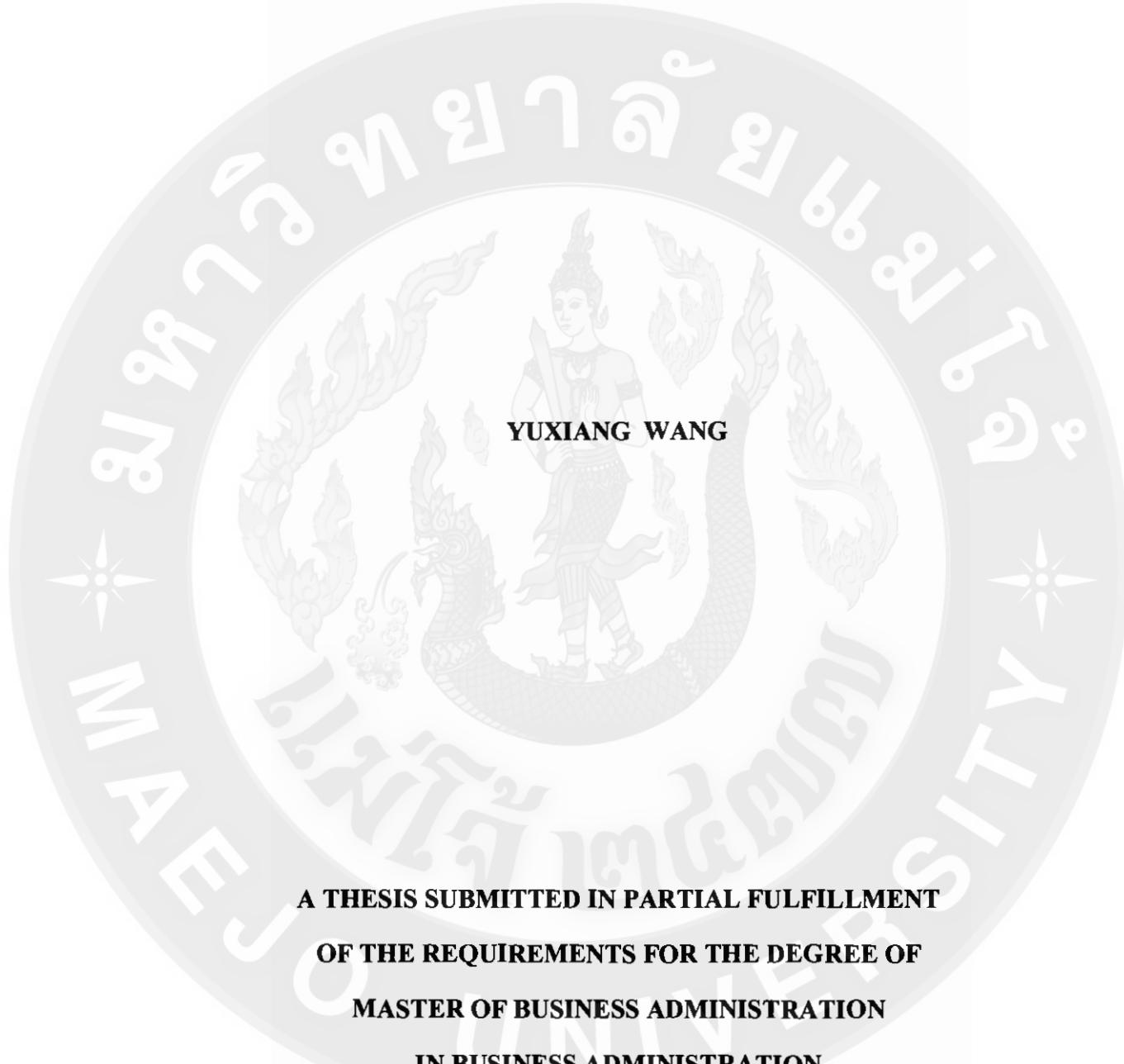




AN ANALYSIS OF STRATEGIC MANAGEMENT OF SME IN GUANGXI BEIBU GULF ECONOMIC ZONE, CHINA



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Title

AN ANALYSIS OF STRATEGIC MANAGEMENT OF SME
IN GUANGXI BEIBU GULF ECONOMIC ZONE, CHINA

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ABSTRACT

A case study of Guangxi Huangshi Dairy Co., Ltd. was conducted in this research to explore: 1) how the company use strategic management, and 2) if the company performance well, the strategic management would be expanded to other SME. Primary data were collected through in-depth interview and secondary data from websites, annual reports, and industrial analysis from academic documents. Internal Factor Evaluation (IFE) matrix and External Factor Evaluation (EFE) matrix was used to identify the company's internal factors and external factors. The study focused on the strategic management process to analyze the chosen company.

Findings showed that the company had clear vision, mission, and objectives. The strategies were formulated after analyzing both external and internal factors. The differentiation strategic approach was used by the company to gain competitive advantages. The company also merged with a company which has the same main business to strengthens the company's capability and enlarges its marketing channel to develop national market. The company has qualified human resources to fulfill its objectives. The sales and profit continues to improve year by year. However, the company paid less attention to the customer satisfaction, and promotion the buffalo milk with inaccurate data, which leads customers and academic doubts at this new products appearing in national market.

In conclusion, the chosen company has achieved its sustainable development through the strategy implementation. However, the researcher recommended that the company need to strengthen the relationship with customer, and achieve higher customer satisfaction through responding to messages promptly and keeping customer informed. Also, it was recommended that the company be precise in presenting information to the public, especially at the time of promoting new products.

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CHAPTER 1

INTRODUCTION

Problem Statement

Small and Medium-sized Enterprises (SME) are important for economic growth and business development due to their contribution to employment and job creation and to the innovativeness and high technology development in China. According to Standard Chartered Bank's research report, there are 42 million SME (including self-employed individuals) in China, accounting for 99.8 percent of enterprises and 75 percent of urban employment. Their contribution to the economy is immense at 60 percent of GDP, 68 percent of export volume and 50 percent of tax income. They also account for 66 percent of patent applications and 82 percent of new products (Beijing Review, 2010: Online).

Ever since reform and opening up, especially the implementation of Western Development Program, the development of Guangxi Beibu Gulf Economic Zone (GBGEZ) witnessed remarkable progress. Its business strength has been greatly strengthened, infrastructure construction saw significant development, competitive industries with local features experienced fast growth, opening up level was continuously upgraded, people's livelihood was visibly improved, and eco-construction and environmental protection have been strengthened. BGEZ has entered the best development period ever seen in history (Guangxi Beibu Gulf Economic Zone, 2011: 64).

In this new knowledge-based economic era, some new problems, such as unemployment, economic stagnancy, singleness of demand structure, insufficiency of market need and slump of state-owned large enterprises, appeared in the economic development of China. Chinese SME network (Yu, 2003: 96) reported that 65% of SME closed within 5 years, 19% survived only for 6-10 years, and just 13% run business more than 10 years. And improving competitiveness of small and medium-sized enterprises (SME) is an important approach to resolve these problems undoubtedly.

The benefits of using strategic management can help SME to achieve competitive advantages by preparing the company to confront any controlled and/or uncontrolled issues,

evaluating the implementation of the strategy, providing information of the issue of "environment fit", and aids for understanding of the nature of environment change. According to several strategic management literatures, strategies are essential for building competitive advantages for SME (Analoui and Karami, 2003: 29; Coulter, 2008: 63).

Strategic Management in SME, China

Nowadays, it is difficult for SME to survive, grow and develop due to several reasons. The first and the most important one is company lack of conscious and experience of strategic management.

Researches into strategic management were quite few. In summary, there are some types of problems existed in SME in China (Fang, 2011: 63); Yanfeng Cao & Cunliang Yang, (2011: 22); Qin Liu & Bolin Zhou, (2010: 41): (1) some SME have no conscious of using strategic management; (2) some are Formalism; (3) some copy strategies from large corporations which not fit with themselves; (4) some never change their strategies once formulated; (5) some focus only on short-term operation, not long-term plan.

In conclusion, on one hand, the strategic management is very important to the company's survival and sustainable growth, on the other hand, the company confronts many problems that restraint its development.

Guangxi Beibu Gulf Economic Zone & Guangxi Huangshi Dairy Co., Ltd.

Situated in the Southwest coast of China, Guangxi Beibu Gulf Economic Zone (BGEZ) consists of four cities, namely Nanning, Beihai, Qinzhou and Fangchenggang. Covering a landmass of 42,500 square kilometers, it has a total population of 12.55 million by the end of 2006. The Development Scheme will span from 2006 to 2020. According to Guangxi Beibu Gulf Economic Development Scheme, priority is given to develop stock raising with local features, for example milk buffalo. (Guangxi Beibu Gulf Economic Zone, 2011: 57)

The reasons why the researcher chose Guangxi Huangshi Dairy were: (1) it's a well performance company recommended by Guangxi Chamber of Commerce, China, which

locates at Nanning new and high-tech development zone, Guangxi, China; (2)it has been a listed company in Shen Zhen Stock Exchange (SZSE) in 2010; (3)dozen of award was given by the both national and local government; (4) dairy industry has a close relationship with human being's health. As a 'Star Enterprises' with good performance in this area, the researcher is eager to explore how this company employ strategies to achieve such rapidly growth.

The Objective of the Study

It has been previously mentioned that the SME plays vital role in whole country's economic development, however, the changing business environment challenges the survival and growth of the SME. It is the strategic management that can provide competitive advantage for their sustainable development. The objectives of this study were the implementation of strategic management to explore: 1) how the company does use strategic management and its performance, and 2) if the company performance well, the strategic management would be expanded to other SME.

The scope of the Study

This research was conducted to focus only on strategic management implemented by Guangxi Huangshi Dairy Co., Ltd., which locate in Nanning New and High-tech Development Zone, Guangxi, China. And what the company performance is from 2008 to August 2011.

Definitions

The relevant and central concepts used in this research could be defined as follows.

Strategy-goal directed decisions and actions in which its capabilities and resources are aligned with the opportunities and threats in its environment (Coulter, 2008: 51).

Strategic management-A concept and process of analyzing the current situation; developing appropriate strategies; putting those strategies into action; and evaluating, modifying, or changing those strategies as needed. That is, situation analysis, strategy formulation, strategy implementation, and strategy evaluation (Coulter, 2008: 23).

Guangxi Beibu Gulf Economic Zone (GBGEZ)- Situated in the Southwest coast of China, consists of four cities, namely Nanning, Beihai, Qinzhou and Fangchenggang. Covering a landmass of 42,500 square kilometers, it has a total population of 12.55 million by the end of 2006. The Development Scheme will span from 2006 to 2020 (Guangxi Beibu Economic Zone, 2011: 47).

Small and Medium-sized Enterprises (SME)- SME in China are defined by the total number of employees and annual sales turnover vary by industry sector. On 18 Jun 2011, an announcement about distributing SME Standard was issued by Ministry of Industry and Information Technology of the People's Republic of China, National Development and Reform Commission, Ministry of Finance People's Republic of China, National Bureau of Statistics of China. However, this study focused on the number of employees as a standard of defining SME (table 1).

Table 1 The Small and Medium-sized Enterprises scale division standard. This paper would focus on the number of employees, instead of annual turnover (18 Jun 2011).

Industry	Company size	Number of employees
Manufacturing	Medium size	300-1999
	Small size	20-299
	Micro size	<20
Construction	Medium size	-
	Small size	-
	Micro size	-
Wholesales	Medium size	20-199
	Small size	5-19
	Micro size	<5
Retail	Medium size	50-299
	Small size	10-49
	Micro size	<10
Accommodation/ Restaurant	Medium size	100-299
	Small size	10-99
	Micro size	<10
Transportation	Medium size	300-999
	Small size	20-299
	Micro size	<20
Post	Medium size	300-999
	Small size	20-299
	Micro size	<20

Source: Ministry of Industry and Information Technology of the People's Republic of China (2011; Online).

CHAPTER 2

LITERATURE REVIEWS

Strategy

In ancient Greek, “strategia” was the term for the army. “Strategy” is some sort of future plan of action, undertaken by senior management at a high level of abstraction. Strategy has been extended beyond its traditional fields, military and grand strategy, to business, economics, game theory and other fields. In the 20th century, the subject of strategic management has been particularly applied to organizations, most typically to business firms and corporations (Beatrice, 2010: 27).

There are several definitions to be found, such as Alfred (Chandler, 1962: 51) defined the strategy as the determination of the long term goals and objectives of an enterprise, and the courses of action and allocation of resources necessary for carrying out these goals; Strategy is the pattern of objectives, purposes or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in, and the kind of company it is or is to be (Kenneth, 1971: 43). (Johnson, Scholes and Whittington, 2005 : 9) defined strategy as “The direction and scope of an organization over the longer time, which ideally matches its resources to its changing environment, and in particular, to its market, customers and clients to meet stakeholders’ expectations”. Building on the work of many thinkers on the subject, one can define strategy as “a comprehensive way to try to pursue political ends, including the threat or actual use of force, in a dialectic of wills – there have to be at least two sides to a conflict. These sides interact, and thus a strategy will rarely be successful if it shows no adaptability.” (Beatrice, 2010: 62).

In this thesis, the definition by Coulter (2008: 24) is used since this study focused on the strategic management process: Strategy is goal directed decisions and actions in which its capabilities and resources are aligned with the opportunities and threats in its environment.

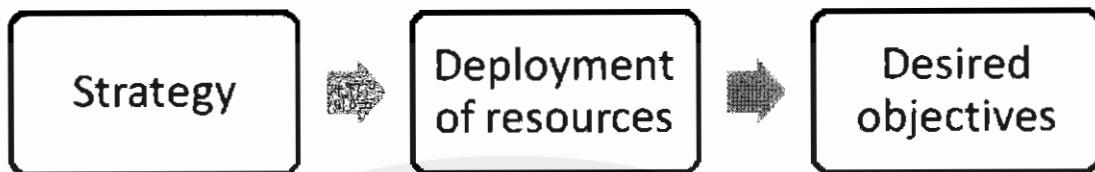


Figure 1 The relationship between strategy, deployment of resources and objectives.

Source: Neil (2008: 39)

The Basis of Strategy: Structure

Chandler (1962: 33) found that managerial organization developed in response to the corporation's business strategy.

Structure is the allocation and control of work tasks which implies power relationship based on the acceptance of managerial power by subordinates and society. It is based on the established pattern of relationships among the individuals, groups and departments within it (Neil, 2008: 45).

There are two structures—One is vertical structure of authority and responsibility where clear limits of financial authority, which is a relatively static framework within which processes such as communication, leadership and decision-making take place. The other is horizontal structure of grouping of activities designed to use the resources toward goal-attainment, which can be changed from time to time, to suit the environment. (Neil, 2008: 41)

In most organizations, structure will be illustrated in the form of a chart. They are functional structure, divisional structure, product structure, Geographical structure, matrix structure.

The most common one is functional structure. This divides the organization up into its main activities or functions (production, sales, accounting and so on) in which all similar specialist activities are grouped together into interdependent departments.

Types of Strategy

According to Mintzberg and Waters (1985: 36), strategies can be deliberate or emergent or a stage in between. Deliberate or planned strategies come about where there are precise intentions, which are written down and imposed by a central leadership. Emergent strategy usually comes through everyday routines, activities and processes in organization

Deliberate strategies and emergent strategies both play an important role for SME. Karl-Heinz, (2007: 24) stated that deliberate strategies are clearly formulated intentions that are articulated by the top managers and (Karl-Heinz, 2007:26) implemented by formal controls, regarded corporate growth and technological leadership which are more important than emergent strategies. Emergent strategy formation in SME is related to the personality of the owner, who, in turn, is able to quickly capture new opportunities in dynamic environments.

Levels of Strategy

In most corporations there are several levels of management. Corporate strategy is the highest of these levels in the sense that it is the broadest - applying to all parts of the firm while also incorporating the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are typically business-level competitive strategies and functional unit strategies (Neil, 2008: 87).

Corporate strategy usually imposed by top management. This first level of strategy determines what the business should be and how the activities should be structured and managed. The strategy is responsible for defining the firm's overall mission and objectives, validating proposals emerging from business and functional levels and allocating resources with a sense of strategic priorities (Hax, 2001: 53).

Business strategy is in the second level, which is concerned with maintaining competitive advantage in each strategies business unit. Business strategy or competitive strategies are concerned with how an organization is going to compete in a specific business or industry (Coulter, 2008: 34). Porter (2011: 33) has described a category scheme consisting of three general types of strategies that are commonly used by businesses to achieve and maintain competitive

advantage. Alternatively, according to Kim and Mauborgne (2005: 47), an organization can achieve high growth and profits by creating a Blue Ocean Strategy that breaks the previous value-cost trade off by simultaneously pursuing both differentiation and low cost.

Functional strategy or operational strategies are the short term (less than a year) goal-directed decisions and actions of the organization's various functional areas (Coulter, 2008: 37). Functional strategies are such as marketing strategies, operation, production, financial strategies, and human resources strategies, information technology management strategies. The company needs to maintain its competitive strategy from each functional area in order to support business & corporate strategy.

The Development of Strategic Management

Strategic management began to take shape originated in the 1950s and 60s.

There are three main 'Schools' of Strategies, which are, the planning school, the positional school and the resource based school.

The planning school based on past trends, forecasts and stable structures and environments, uses a very bureaucratic a rational manner, tries to achieving a fit between the organizational strategy and its environment, requires detailed and inflexible planning not suitable in turbulent markets.

The positional school attempts to place the organization and its products in a favourable market or environment. It is heavily based on performance measurement and decision making tools.

The Resource based school looks to the internal environment instead of market, and corporate the core competence approach.

Table 2 The development of strategic management

Name	Book / Article	Idea
Drucker, Peter (1954)	The Practice of Management	Management by objectives (MBO) and knowledgeable worker.
Selznick, Philip (1957)	Leadership in Administration	Matching the organization's internal factors with external environmental circumstances.
Chandler, Alfred (1962)	Strategy and Structure	This core idea was developed into what we now call SWOT analysis by Learned, Andrews, and others.
Ansoff, Igor (1965)	Corporate Strategy	A long-term coordinated strategy was necessary to give a company structure, direction, and focus.
Schumacher, E.F. (1973); Woo and Cooper (1982); Levenson (1984); Traverso (2000).	Small is Beautiful: a Study of Economics as if People Mattered	developed the gap analysis still used today in which the gap between where we are currently and where we would like to be, then develop what he called “gap reducing actions”
Peters, T. and Austin, N. (1985)	A Passion for Excellence	How smaller niche players obtained very high returns.
Hamel, G. & Prahalad, C.K. (1989)	The Core Competence of the Corporation	Management by walking around (MBWA)
		The core competence.

Table 2 (Continued)

Name	Book / Article	Idea
Barney, J. (1991)	Firm Resources and Sustainable Competitive Advantage	Saw strategy as assembling the optimum mix of resources, including human, technology, and suppliers, and then configure them in unique and sustainable ways.
Markides, Constantinos (1999); Moncrieff, J. (1999).	A dynamic view of strategy ; Is strategy making a difference	Strategy dynamics.
W. Chan Kim and Renée Mauborgne (2005)	Blue Ocean Strategy	An organization can achieve high growth and profits by creating a Blue Ocean Strategy that breaks the previous value-cost trade off by simultaneously pursuing both differentiation and low cost.
Nag, R.; Hambrick, D. C.; Chen (2007)	What is strategic management, really?	A field that deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments.
Blaxill, Mark & Eckardt, Ralph (2009)	The Invisible Edge: Taking your Strategy to the Next Level Using Intellectual Property	Much of the Japanese business dominance that began in the mid 1970s was the direct result of competition enforcement efforts by the Federal Trade Commission (FTC) and U.S. Department of Justice (DOJ).

Basic Activities of Strategic Management

Strategic Management is a concept and process of analyzing the current situation; developing appropriate strategies; putting those strategies into action; and evaluating, modifying, or changing those strategies as needed. That is, situation analysis, strategy formulation, strategy implementation, and strategy evaluation (Coulter, 2008: 39).



Figure 2 Basic Activities of Strategic Management

Source : Coulter (2008: 40)

A situation analysis defines and interprets the state of the environment of an organization, both internal and external. A SWOT analysis is often conducted as a major part of a situation analysis.

Strategy formulation is the process of deciding what to do (Carpenter and Sanders, 2009: 64).

Strategy implementation is the process of performing all the activities necessary to do what has been planned (Carpenter and Sanders, 2009: 43).

Strategy evaluation is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its

Situation Analysis

There are different perspectives in analyzing competitive advantage. One of them is environmental factors. These factors, such as government regulation, competitors and socio-culture could be the opportunities that should be explored by SME. In general, the environment factors are classified into two main groups: external environment and internal environment.

Environment is divided into two perspectives: the environment as a source of information and the environment as a source of resources perspective Coulter, (2008: 31). We will focus on environment as sources of information to analyze how the external analysis (information) and internal analysis provide and influence the management in SME for planning and decision making.

External Analysis

External analysis is the process of scanning and evaluating an organization's external environment (Coulter, 2008: 26). There are several features of external analysis, but we only focus on macro environmental analysis. Macro environment is the set of factors influences that are not specific to an organization or the industry in which it operates, but that nonetheless affect them (Rieple and Haberberg, 2008: 38). Regardless of industry, the external environment is critical to a firm's survival and success (Ireland, Hoskisson and Hitt, 2007: 54). Analyzing external environment is very important for both researchers and firms, since it can help

researchers to understand the motivations of company's activities and also help company to take more appropriate actions.

Firm's external environment is divided into three major areas: the general, the industry, and competitor environments.

A. The General Environment Analysis (PEST)

The general environment is composed of dimensions in the broader society that influence an industry and the firms within it, it included several environmental segments, such as demographic, economic, political/legal, socio-cultural, techno-logical and global (Ireland, Hoskisson and Hitt, 2007: 32).

B. The Industrial Analysis

One of the most eminent strategists, Michael Porter, argues that strategy should be based on the market structure in which the organization operates. In other words, the market/industry structure drives the organizations strategic position which in turn influences and determines the organization's structure (Mintzberg et al., 1998: 47). Porter's work presents a set of concepts which an organization should build upon. The most prominent among these concepts is the model of competitive analysis. This model identifies five forces in an organization's environment that influence competition, which include threat of new entrants, bargaining power of firm's suppliers, bargaining power of firm's customers, threat of substitute products and intensity of rivalry among competing firms.

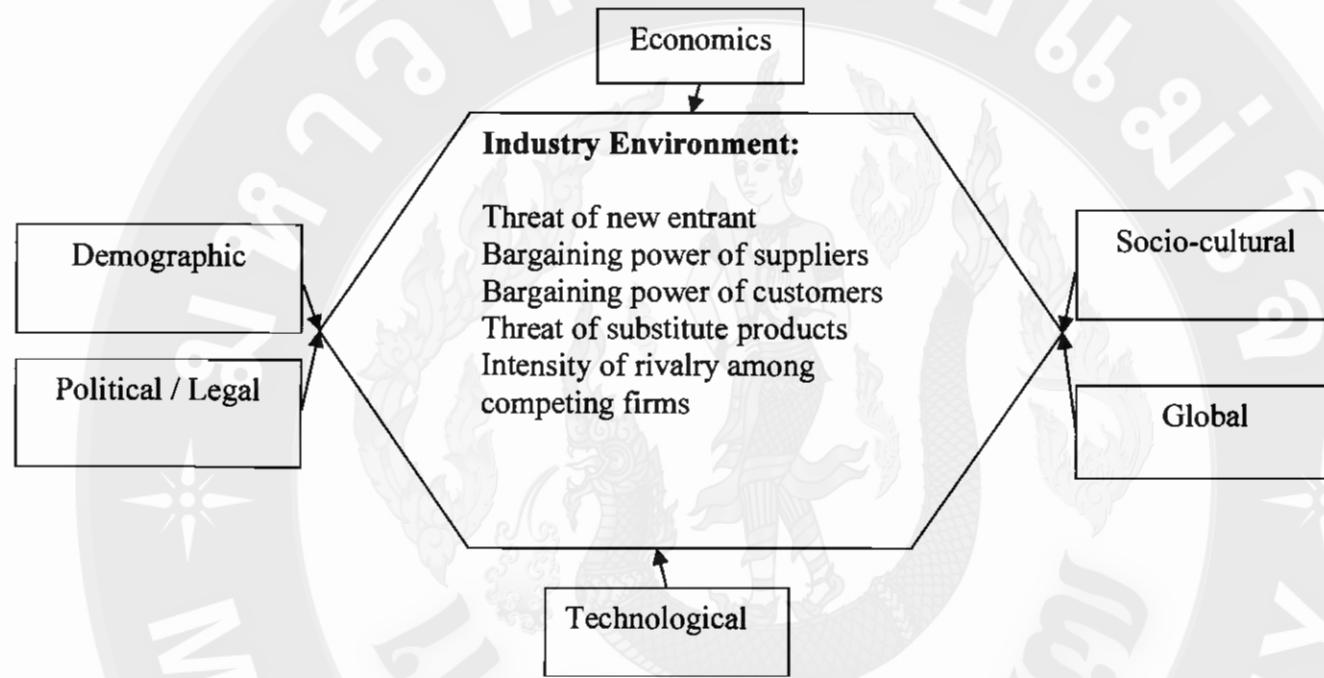


Figure 3 General Environment

Source: Ireland, Hoskisson and Hitt (2007: 69)

Although, companies cannot directly control the general environments, companies can collect information to understand the present status and predict future trends. The industry environment: The industry environment is the set of factors that directly influences a firm and its competitive actions and competitive responses: the threat of new entrants, the power of suppliers, the power of buyers, the threat of product substitutes, and the intensity of rivalry among competitors. In total, the interactions among these five factors determine an industry's profit potential. The greater a firm's capacity to favorably influence its industry environment, the greater the likelihood that the firm will earn expected returns (Ireland, Hoskisson and Hitt, 2007: 25).

C. Competitor's environment:

Competitor Environment is the part of a company's external environment that consists of other firms trying to win customers in the same market. It is a segment of the industry that includes all immediate rivals. It's very important for firm to understand the competitor's environment through competitor analysis. Competitor analysis is focused on predicting the dynamics of competitors' actions, response, and intentions. In combination, the results of the three analyses the firm uses to understand its external environment influences its vision , mission , and strategic actions (Ireland, Hoskisson and Hitt, 2007: 41). PEST analyses are known for analyzing macro environment and include four main factors which are Political, Economical, Socio cultural, and Technology. Political factors affect the stability of industry environment and uncertainty makes difficult for managers to develop strategy, thus stability in politic is needed for them. Economic factor such as economic growth, unemployment issue, interest rates impact the competition in industry. Socio cultural factor affect consumer purchasing power such as social trend (music, style, dressing etc). Technology factors such as new innovation, speed internet connection, net working and other technological change affect the ways organization run its business. In general, this analysis emphasis in general environment for particular industry sector includes customer, supplier and competitors which are linked each other (Coulter, 2008: 36).

Internal Analysis

A. Resources

The environmental analysis enables SME to cope with the uncertainty and changes of their environment (Meyer and Heppard, 2000: 74). Internal analysis is the process of evaluating an organization's resources and capabilities (Coulter, 2008: 25). Internal environment factors included organizational structure, owner structure, firm resources, management style and culture, etc. This thesis will focus on these factors to analyze the internal environment.

First, the company resources would be presented since it's important for building competitive advantage. Firm resources include all assets, capabilities, organizational process, firm attributes, information, knowledge, etc controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency (Daft, 1983: 21). SME owner structure would be explored since owner structure decided on governance structure, also has effect on company culture and management style.

Firm Resources & Internal Capabilities: Resource is inputs used by firms to create products and service, and capabilities are a firm's skill at using its resources to create goods and service; combination of procedures and expertise on which a firm relies to produce goods and services (Coulter, 2008: 39). Resource-based approach is used by the companies to help them compete with other competitor more efficient and effectively.

There are two different type of resources are tangible resources (plant, building, finance etc), intangible resources (information, culture, reputation, and knowledge), and organizational capability (human resource skill, management style) (Scholes and Whittington, 2005: 39).

Indeed, unique resources as source of distinctive competence that cannot easily imitate by its competitors. Human resource is tangible and valuable assets in organization. Recruiting, motivating, and retaining employees with adequate skills and talents has significantly impact on strategic implementation. The involvement of human resources in the strategic implementation is related with the business owner perception since both of them involve in strategic activities. Thus, human resource as a factor for creating knowledge play an important

role in increasing firm's performance and its competitiveness in high performance SME (Analoui and Karami, 2003: 52).

Owner Structure Culture: One may argue organizational culture is the 'basic assumption and beliefs' that are shared by members of an organization, that operate unconsciously and defined in a basic taken-for-granted fashion – an organization's view of itself and its environment (Scholes and Whittington, 2005: 74). Business owner's personal values and beliefs have great impact on SME culture. Culture is an intangible asset of a firm that is difficult to imitate; for instance, competitors may imitate the company's human management strategy; however, it's difficult for them to implement it in organization with different cultures. Indeed, organizational structure and management style can influence culture (Analoui and Karami, 2003: 37). **Organizational Structure** in some SME, they do not have formal organizational structure. By using informal organizational structure, the business may respond quickly in markets and customer's expectation. However, its disadvantage is becoming more obvious. The disadvantage of informal structure includes: may work against best interests of the entire organization; susceptibility to rumor; may carry inaccurate information; resistance to change; diversion of work efforts from important objectives and feeling of alienation by outsiders. Leadership is one of the important factors to business success. SME are often characterized by strong personal and leadership of the owner manager. Owner-managers use intuition more, whereas other managers favor a more structured and logical approach (Dyer, 1997: 22). The personal objective, personal experience and educational background are reflected on management style. Managers in large organizations are described as being risk averse and use a top-down approach to make decisions, whereas Owner-managers are more risk taking – they share their visions and use bottom up approach to make decision (Dyer, 1997: 25).

B: Dynamic Capabilities / Core capabilities & Organizational Resources

Capabilities are considered core if they differentiate a company strategically (Leonard-Barton, 1992: 73). To some extent, how differentiated skills, resources as effective ways for corporate survival depend on how they manage and retain their important capabilities. Core capabilities define as unique, difficult to imitate or superior to competition and traditionally

treated as distinct technical systems, skills and managerial system and this dimension are deeply rooted in values (Leonard-Barton, 1992: 24). According to Leonard-Barton (1992: 26), there are four dimensions of core capabilities. The first dimensions are knowledge and skills embodied in people which could be firm specific techniques and scientific understanding. The second, knowledge embedded in technical system represent such as information or computer system, data base of products. The third dimension, managerial system, represents formal and informal ways of creating knowledge (e.g. networks with partner) and controlling knowledge (e.g. incentive system and reporting structures). The last dimensions are value and norms assigned within the company to the content and structure of knowledge, means of collecting knowledge (e.g. formal degrees vs. experience) and controlling knowledge (e.g. individual empowerment vs. management hierarchies). Thus, all four dimension of core capability are interrelated, interdependent knowledge system.

Competitive environment and competition affect company's survival. Indeed, the firms need to develop the "dynamic capabilities" to create, extend and modify their business ways. Prior to previous research, dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resources base (Helfat et al., 2007: 52). The dynamic capabilities concept related with organizational process to pursue business opportunities. The role of management is important since they have ability to identify problem & opportunity by using their experience and capability, which also known as dynamic managerial capabilities (Helfat et al., 2007: 28). The better the firm use its resource (tangible, intangible and human resource), the stronger the firm's dynamic capability to adapt in business environment. Moreover, how well dynamics capabilities "fit" with the internal and external environment of the firm will affects their usefulness as a means for adapting to, exploiting and creating change in the business environment (Helfat et al., 2007: 29). One may argue strategic process and content explained in different way. Strategic content emphasize on the "what" question of strategy or "what" defines dynamic capabilities, on the other hand, the focus of strategy process on "how" question related to dynamic capabilities affect firm performance (Helfat et al., 2007: 63). As we know, one of the basic activities of strategy is formulation and implementation that depends on the firm's internal activities (goal & objective). Both of them are part of strategy process. Indeed, there are relationships between dynamic capabilities and organizational performance. In the competitive

environment, it would be better for firms to concern more on process of using their strategy rather than strategic outcomes. By doing so, they can understand how to manage the process and pursue opportunity in a competitive environment. Establishing relationship among process characteristics, process outcomes, and competitive outcomes has tremendous potential contribution to understand how competitive advantages develop (Helfat et al., 2007: 37).

Strategy Formulation

Strategy formulation is the process of deciding what to do (Carpenter and Sanders, 2009: 55). SME business owners need to decide what to do by implementing the strategy that they choose for long term achievement. Developing mission, vision statement is part of strategic management before the company set up the business. Vision and mission is a foundation for management to determine what they want to achieve and it should clearly states in the organization by means of achieving long term objectives. SME business owners usually have strong entrepreneurial vision shared with the employees in the organization. They will be responsible for the growth of the business if they use formal strategy approach in organization activities. Developing mission and mission in SME is important, since a researcher found that the mission statement in SME tends to place more emphasis on concern for survival, product or services (O'Gorman and Doran, 1999: 35). Vision and mission decide the objectives of their business, and it's the guidance for company's development. Goal or objectives is general statement of aim or purpose (Scholes and Whittington, 2005: 26). SME business owner usually try to find opportunities based on particular resources.

The choices of strategy that they used may limit for particular market, product or service. Moreover, the using of strategy is influenced by owner expectation. Strategic issue identifies problems or issues happening in the current situation. SME business owners need to decide what to do based on the analysis of internal resources, capabilities and the external environment (Analoui and Karami, 2003: 22). Defining strategic alternatives is another approach to formulate the strategy. Uncertainty market condition and competition affect SME business owners of choosing appropriate strategy. By using strategy, SME can identify the company's weaknesses and strengths which help business owners to formulate alternative strategies

simultaneously forecasting future decision for competing with their rivals. Thus, a strategic alternative is needed to decide the next step decision, go or no go, by means of pursuing business opportunity (Analoui and Karami, 2003: 42).

Strategy Implementation

Strategy implementation is the process of performing all the activities necessary to do what has been planned (Carpenter and Sanders, 2009: 54). Other researcher argue that strategic implementation consider as a process which might involve changes according to the overall culture, structure and/or management system of the entire organization.

In the context of SME, the role of top management as strategic makers has greater impact for implementing the strategy and they have authority in decision making that influence the whole organization structure. The managerial skill is crucial for management to implement strategy correctly and appropriately. Indeed, successful strategies depend on effective implementation. Strategic planning is part of strategy implementation. Management need to organize and plan activities for success in business venture. A plan describes as a blueprint for goal achievement and specifies action like necessary resource allocation and task (Daft, 2000: 35). In SME or entrepreneurial firm, a written strategic plan has no explanatory power in respect of organizational behavior since personal strategic vision of owner-manager determines actual strategy that people should follow (Woods and Joyce, 2003: 53). On the other hand, using strategic planning gives advantages for SME such as helping a firm to focus and be flexible; improving performances, improving coordination between organizational division, improving control for measuring the achievement of the objectives and time management, which helps business owners to decide what is important and how to allocate time in their commitment (Chell, 2001: 24). There are two models of strategy in SME. They are rational model and intuitive learning model. The rational model tend to consider in strategy making as a formal activity in the firm, on the other hand, the intuitive learning model focus on the internal dimension of the organization (culture, leadership & human resource policy) (Hamel, 1989: 18). Furthermore, SME business owners tend to rely on their personal experience and intuition involve in strategic planning rather than delegating authority to others.

The process of planning in SME related to business owners awareness of external and internal factors that affect business activities. SME that use formal strategic planning explicitly state mission, vision and long term objectives; on the other hand, SME with informal strategic planning only focus on a specific project, monitoring long term financial objectives and the company's performance (Analoui and Karami, 2003: 43).

Strategy Control and Development

According to research, strategic control is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises, and making the necessary adjustments (Analoui and Karami, 2003: 47). Strategy control and development is needed to evaluate the company performance. Prior decision will affect future direction; ergo, reviewing and learning from previous performance is important since current success does not guarantee future success. Environmental analysis, strategy formulation & implementation are indicators for controlling processes, continuing with measuring performance and ending with critical assessments of achievements. Once the company controls its strategy, they also need to develop, which is known by using strategic planning. Strategic planning may take the form of systematized, step by step, chronological procedures to develop or coordinate an organization's strategy (Scholes, and Whittington, 2005: 65).

Strategy Fit and Firm's Performance

This study will explain the relationship between strategic fit, dynamic capabilities and organizational resources that affect the firm's performance in a competitive environment.

Strategic Fit

The concept of strategic fit strongly relates two elements that are internal capacity of the firm and external environment, which affect the firm's performance in the competitive environment (Rieple and Haberberg, 2008: 26). Uncertainty market condition affect SME business owner for future planning. The more business owner can perceive the environment, they are more likely to prepare for competitive actions by using its past historical performance and internal capabilities (manager, employee, and etcetera) to react the changing market.

Some researchers mentioned two types of environments, which are Hostile and Benign environments. Hostile environment is characterized by precarious industry settings, intense competition, harsh and overwhelming business climates; on the other hand, benign environment provide a safe setting for business operation (Covin and Slevin, 1989: 24). In this case, organizational capabilities play an important role to respond to unpredictable environments. The firm must be adapted to must fit with its environment that they find by itself in a competitive dynamic environment (Rieple and Haberberg, 2008: 37). It must also be internally consistent – that is the need for the organization to match its strategy with current environmental situation.

A group of researchers studying dynamic fit have noted that firm level changes must concur with the rate of change in the business context (e.g. changes in market, regulation) for the firm to be able to survive. Furthermore, it is important to concentrate on strategy issues to obtain competitive advantage in a dynamic business environment. If SME are consistent using the strategy during the implementation process, they can build competitive advantage from other business competitors. Indeed, strategic consistency can boost the firm's performance since it can be a signal for the existence of a strong competitive strategy (Tikkanen et al., 2009: 53).

Performance

The effect of strategic management in SME performance can be measured from financial and non financial aspects.

Standard for such measurement are different for organizations that are dependent on objective & goal, which they want to achieve. This is the traditional approach,

which emphasizes on organizational effectiveness by using qualitative or intangible success factors for measuring it; for instance, a company's image, culture, technological competence learning, employee morale and so on (Analoui and Karami, 2003: 28). On the other hand, the other approach highlighted of quantitative analysis of organization's financial and operational performance (Rieple and Haberberg, 2008: 43). Financial performance such as sales growth, net income growth, and return on investment (ROI) and so on; in contrast to it, operational performance takes account on improving product quality, introduction to new product, market share and the like.

The different measurements have their own benefit and limitation when doing research. It's important for strategic analysis on how well an organization is performing (Rieple and Haberberg, 2008: 27). Firstly, it will give more precise on its competitive advantage; secondly, it will show if there is mismatch between what they do and what it really is doing. Furthermore, using performance measurement will help to find appropriate strategy that companies need to use.

Summary of the Theoretical Framework

This figure illustrates strategies of the research framework, regarding the effect of strategic management in SME performance.



Figure 4 Theoretical Framework of Strategic Management.

CHAPTER 3

RESEARCH METHODOLOGY

Research Method

The research method can be explained by two methods, which are, qualitative and quantitative (Ghauri and Gronhaug, 2005: 31). Qualitative are associated with data collection that classify into categories and analysis through the use of conceptualization Saunders, Lewis & Thorn hill, (2003: 378); in the other hand, quantitative usually associates with numbers that are very useful for analytical purposes (Ghauri and Gronhaug, 2005: 37).

Furthermore, qualitative is the appropriate method for this study since it aims to understand the phenomenon of SME strategic management on different levels. One of the important steps in this research is finding a respondent and doing semi-structured interview. In order to gain more information, the writer conducted interview with middle corporate management of the company through face to face interview. This method helps to explore into deeper stages of analyzing the subject and support this research.

Data Collection

In this thesis, case study was conducted. The data, including both primary data and secondary data, was collected by integrated ways, such as through interviews, company's annual reports, books, and websites, and so on.

Case Study

The purpose of this study is to do a case study analysis. Naturally the mean to fulfill this purpose is to conduct a case study. Usually case studies refers to research that investigates a few cases, often just one, being an intensive and depth study of a specific organization, individual, institution or a whole national society (Gomm, Hammersley and Foster, 2000: 31).

Case study research is used in order to give an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships (Soy, 1997: 35). Researcher Robert K. Yin (1984: 65) defines the case study research method as “an empirical inquiry that investigates a contemporary phenomenon within its real life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (Soy, 1997: 38). The case study is a research strategy that focuses on understanding the dynamics present within single settings (Eisendhart, 1989: 24) Case studies can involve either single or multiple cases, and numerous levels of analysis. Researcher Yin (1984: 32). Single cases are appropriate either when a particular case is critical, extreme, unique or revelatory proposed by Peters (1985: 41). Comparative or multiple case studies means ask or study the same questions in a number of organizations and compare with each other to draw conclusions (Peters, 2004: 23). Eisendhart (1989: 36) states that case studies are combination of data collection methods such as archives, interviews, questionnaires and observations.

A case study can give you several indications to what factors might be operated in the current situation and how the problem might be solved. Picking the right case for the study, understand and correctly translating the research findings are critical for successful problem solving (Sekaran, 2003: 24).

Each research strategy is a different way of collecting and analyzing empirical evidence and each strategy has its own advantages and disadvantages. The primary advantage of the case study is that an entire organization or entity can be investigated in-depth and with attention to details. This focus enables the researchers to study the order of events as they occur or to concentrate on identifying relationships among, functions, individuals or entities (Zikmund, 2000: 68). On the other hand, one of the major disadvantages with case studies is the fact that its findings are not possible to generalize (Gomm, Hammersley and Foster, 2000: 87). The detailed analysis of a case study makes it hard to determine what the themes of generalization may be (Trochim, 2006: 53). However, the response from case study researchers is usually that the goal of their work is not the production of general conclusions (Gomm, Hammersley and Foster, 2000: 46).

In this thesis, the writer use single case since that is critical, extreme, unique and revelatory.

Primary and Secondary Data

The Primary Data

The primary data in this thesis was mainly collected through face-to-face interview, phone call and e-mail. The key informant is the office director who takes charge of the all the affairs of the company.

There are three categories of interview are structured interview, semi-structured interview and unstructured interview. The researcher has chosen to conduct semi-structured in-depth interviews in order to collect primary data i.e. data collected for the first time, specifically for that purpose (Saunders, lewis and thornhill, 2003: 21). In-depth interviews include both individual interviews (e.g., one-on-one) as well as "group" interviews. We have mainly focused on one-on-one face-to-face interviews is mainly focused. The purpose of the interview is to explore the ideas of the interviewees about the phenomenon of interest (Trochim, 2006: 35). The major advantages of face-to-face interviews allow for the researcher to adapt questions, make clarifications and repeat or rephrasing questions if necessary. However, there might be geographical limitations, nationally or internationally, and a large amount of resources needed to perform face-to-face interviews. Examples of resource demanding activities could be travel costs and training of the researcher to minimize biases (Sekaran, 2003: 42).

Additional interview methods such as through telephone or via e-mail were also used in the data collection phase in this thesis. The quality of data obtained by telephone can be comparable to data collected through personal interviews. Zikmund (2000: 43) even argues that respondent may even be more willing to provide detailed and reliable information on personal topics over the telephone than in personal interviews. Another advantage of the telephone interview method technique is that a large number of different people can be reached in a relatively short period of time. On the other hand, the respondent could without warning or

explanations hang up the phone and terminate the interview. There is also a greater risk of non-response problems with telephone interviews (Sekaran, 2003: 42).

Sending respondent questions via e-mail share some of the advantages of telephone interviews such as: geographically spread at a relatively low cost. It is also convenient for the respondent to fill them out whenever he/she has time. The interviewer's absence can be seen as a disadvantage to this approach, not being able to state follow-up questions, make clarifications and no social interaction. However, the interviewer's absence can also induce the respondent to reveal sensitive or socially undesirable information (Zikmund, 2000: 25).

Secondary Data

As secondary data sources, data that already have been collected for another purpose (Saunders et al. 2003), the researcher used written documents from the company, such as annual report since 2009, business plans, strategic goals etc., and brochures from related industry organizations. Additional external information were collected from websites. In the theoretical framework, background section and in the problem discussion the researcher used documentary secondary data, which can include written documents such as books, journal and magazines articles and newspapers (Saunders, lewis and thornhill, 2003: 18). The data were collected mainly from books and articles related to the key terms including strategic management, strategic leadership, strategic thinking, corporate strategy and competitive advantage.

The transcription process

The transcription from oral conversation to written text is a complex task has received little attention in the literature methods. Translating an interview from speech to text can be hard and there are several factors that need to be taken into consideration, usually the oral and written languages can differ a lot. Methods of recording interview for documentation and analysis include audiotape recording, videotape recording, not taking and remembering. The most common way of recording today is with a tape recording (Kvale, 1996: 36).

When transcribing the interviews it can be seen as a beginning of the analysis i.e. you structure the collected material in order to enable closer analysis of the data. It is important to the gathered information, this is done to prevent biases (Kvale, 1996: 63)

In this thesis, the researcher transcription process was planned as follows: the researcher has read the annual reports and website of the chosen company before doing face-to-face interview. In this way, the interview became more effective and efficient. An appointment has made through phone call and the interview has conducted. The researcher has taken notes, and the tape recording has been recorded.

Important to add to this section is that all of interviews were conducted in Chinese, which means that one part of the transcription process was to translate the collected data into English. Moreover, some of the secondary data sources has also been in Chinese and translated into English.

Data Analysis

The qualitative method was chosen as research method. Case studies typically combine data collection methods such as archives, interviews, questionnaires, and observation (Eisendhart, 1989: 53).

Miles and Huberman (1994: 41) focus the process analysis into three sub processes, which are data reduction, data display, and verifying conclusion. Data reduction includes simplifying the data collected and selectively focus on some parts. Then, organizing the selected data's into diagrammatic (visual display) before verifying conclusions. Thus, this thesis followed this recommendation that described in this figure below:

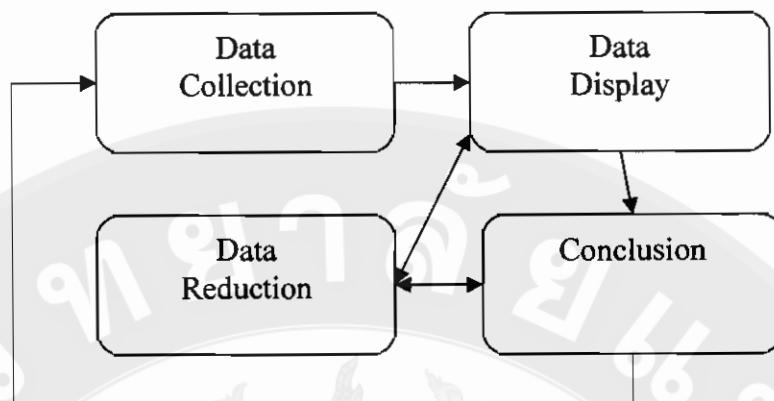


Figure 5 Components of data analysis: interactive models

Source: Miles and Huberman (1994: 12)

Data Reduction

Data reduction has been conducted several times during the writing process. To set boundaries for this study, the researcher concentrate on the role of strategic management and identifying patterns of strategic management, while omitted focusing on many aspects beyond that Eisendhart (1989: 26) argues that the selecting categories in case study needs to look for similarities and differences among cases and the comparison process leads the researchers to the decision process. Moreover, this study does not investigate all the field of strategic management, but instead focus on strategic process. Essentially, this can be considered as another data reduction.

Data Display

Obviously, one cannot display all the information obtained from interview, which means data reduction is necessary at the data display phase. Some researcher argue that the weakness of using case study may tempt to capture everything from empirical finding and the result can be theory which is very rich in detail, but lack of simplicity on overall perspective (Eisendhart, 1989: 31). Miles and Huberman (1994: 59) also claim that the most frequent form of

display has been extended text in the past and this indicates undesirable overload of data, therefore alternative display method should be used. In this thesis, the empirical data and major findings are presented in the empirical finding part, that is, chapter 4.

Trustworthiness

Reliability is concerned with the findings of the research and is one aspect of credibility of the findings, the other is validity

Reliability

The reliability of a measure indicates the extent to which it is without biases such as interviewer and interviewee biases. The stability and consistency of the thesis is also measured in level of reliability (Sekaran, 2003: 57). Interviewer biases are characterized by the comments, tone or nonverbal behavior of the interviewer during the interview situation (Sanders et al., 2003: 86). The researcher conducted interview with the top management of the chosen company, and received the information in detail. Interview biases were reduced by letting the respondent speak freely and not be led in any directions by the interviewer. The questions and initiated discussion asked by the researcher without a certain tone or making any influential comments.

The company was introduced to the researcher by the Guangxi Chamber of Industrial and Commercial, the researcher has been received with kindness and appreciation throughout the whole processes. Since the chosen company is a listed company in Shen Zhen Stock Exchange (SZSE), the secondary data is comprehensive and reliable that has been published in public.

Validity

Validity refers to the truthfulness of inference drawn from research findings (Mc Hugo, et al., 2006: 26). There are different ways to measure validity of a study such as internal validity & external validity (Ghauri and Gronhaug, 2005: 47).

Internal validity pertains to the elimination of bias from the cause-effect relationship (Mc Hugo et al., 2006: 29). Internal validity refers to the validity of causal inference, where truth value is established through structural corroboration (Rudestam and Newton, 1992: 19). Arksey and Knight (1999: 37) state that the length of interviews as well as giving the interviewees an opportunity to freely express their own point of view are one way to address internal validity. During the interview, the interviewees were given scope to express their opinion in their own way. The researcher also encourages them to elaborate, clarify their initial answers if necessary. Moreover, additional time for interview was given to ensure that the respondent feel free to respond without time pressure.

External validity pertains to the generalizability of the findings across people, settings, and time (Mc Hugo et al., 2006: 43). External validity of a qualitative study is usually relatively low (Rudestam and Newton, 1992: 29). Since this is a common problem for qualitative research, this thesis cannot be an exception. However, case study has its advantages in the theory building dimension. (Eisendhart, 1989: 52) claim that one strength of theory building from cases is that the resultant theory is likely to be empirically valid (that is, high empirical validity). The likelihood of valid theory is high, because the theory-building process is so intimately tied with evidence. It is very likely that resultant theory will be consistent with empirical observation. This intimate interaction with actual evidence often produces theory which closely mirrors reality (Eisendhart, 1989: 78). From this aspect, the external validity of case study can be considered a high level.

CHAPTER 4

EMPIRICAL FINDINGS AND DISCUSSION

In this chapter, the writer presents the empirical findings for this study. The empirical findings consist of information collected from annual report, and primary data, that is, from the interviews with management of the pointed company

Company Description

The choosing company is Guangxi Huangshi Dairy Co., Ltd., which located at Nanning, the Guangxi Beibu Gulf Economic Zone. It was established in May 2001. It's now the biggest manufacturing enterprises of Dairy in Guangxi, China. It mainly operates overall liquid dairy's production, processing and sales, as well as related industry, such as cattle breeding, herbage implantation. The mainly products are pasteurized milk, buffalo milk, fruit milk, yogurt milk that raw material for black and white dairy cattle and buffalo. There are 8 series with 60 varieties diary milk in total. The market is in Guangxi and other provinces in China, includes the special area-Hong Kong. According to the statistic published by Diary Association of China (DAC), the sales of buffalo series products have been kept No. 1 in China since 2003. It has been a listed company in Shen Zhen Stock Exchange (SZSE) in January 2010.

Table 3 Company's Information

Company's Name	Guangxi Huangshi Dairy Co., Ltd.
Industry	Manufacturing
Turnover	CNY 200-400 million (2008-2010)
Employees	600-700
Location	Nanning new and high-tech development zone, Guangxi, China

Source: Hamel and Prahalad (1989: 24).

Situation Analysis

This section would analyze the situation faced by the company in three aspects, they are, external environment analysis, internal environment analysis, and SWOT analysis.

External Environment Analysis

In order to get an understanding of the chosen company's external environment and its affecting factors, both primary and secondary data will be present following the PEST framework. Moreover, the industrial environment and competitor information be presented as well.

The General Analysis (PEST)

Political: China is a socialist state lead by the Communist Party of China (CPC) and its mission focuses on a prospect and competitive economy. Primary organs for government are the National People's Congress (NPC), the President and the State Council. This central government must build consensus for new policies among party members. Local and regional leaders influence non-party members, and the population at large. In general, China has a stable political environment. Stable political environment is fundamental to the economic growth

China is moving towards a fully established market economy, but the political system has remained the same. The government is responsible for the transition. There is growing willingness by central government to devolve executive powers down the administrative chain, granting ever-greater powers to local authorities. The overall effect of this process is to increase the number of opportunities in the market. There are more chances for enterprises to survive and develop as long as they can seize these opportunities and make best use of them.

China has its special national conditions that with huge population over 1.3 billion citizens, weak economic foundation, unbalance in economic development. Since 1978, China executed a reform and opening up policy to develop China's economy development. Its vision is to help some people and area become rich, and these people and area help others. 30

more years past, the eastern coastal area and economic special area, like Shen Zhen, Shanghai has achieved deep development and become the windows of China to the world. However, the western part of China is still less developing and most of people still live in poverty. The western development and Guangxi Beibu Gulf Economic Development Scheme is the national scheme with favorable policy to develop less-developed areas. Guangxi has outstanding geographical advantages and important strategic status that would be the next economic growth point of China according to China's reform and opening-up policy. In 2001, China entered WTO, and in August that year, Guangxi introduced a new measure to attract foreign investment-Bai Qi Ru Gui, the "A hundred enterprise investing in Guangxi", which is in line with the reform and opening-up policy since 1978. Foreign here is not only means that the capital outside China, but those outside Guangxi Province. This program is a measure for Guangxi's opening-up, as well as a demonstration project. Since the implementation of the attractive investment policies, capital influx has gathered momentum. Well-known enterprises and private enterprises have moved into the region, and industries attracting investment included agriculture, feedstuff, medicine, education, entertainment, steel, chemicals, real estate, construction materials, etc.

Moreover, The Guangxi Beibu Gulf plays a decisive role in the economic layout of coastal China, "the development of West China". The Chinese government made the Guangxi Beibu Gulf Economic Zone a key area for international and regional economic cooperation in January 2008. The Guangxi Beibu Gulf Economic Zone is located at the southwest end of China's coastline, comprises of four cities (namely, Nanning, Beihai, Qinzhou, and Fangcheng). It has a land area of 425,000 square kilometers and a population of 14.00 million, according to the statistics at the end of 2010.

Guangxi Government has developed a three-year scientific development plan, making priority to the development of the Beibu Gulf Economic Zone. Guangxi Government has introduced the decision of full implementation of the Guangxi Beibu Gulf Economic Zone Development Scheme and a number of policies and regulations with regard to the promotion of opening up and development of Guangxi Beibu Gulf Economic Zone and worked on the Guangxi Beibu Gulf Economic Zone Ordinance. The government also established the special major industrial development funds of Guangxi Beibu Gulf Economic Zone. From 2008, the government will invest 10 billion Yuan per year to support the infrastructure construction in 8

industrial per of Guangxi Beibu Gulf Economic Zone in the last five consecutive years. This favorable policy accelerates the economic development of the National Nanning Economic & Technological Development Zone, Beihai Industrial Zone, Qingzhou Port Economy Development Zone, Fangcheng Port.

Chinese government pays large attention on dairy industry. In 1990, The State Council of China has made Dairy industry be support industry. Since 2000, the government initiative Student Drinking Milk Program, and support liquid milk development through subsidy and loan with low interest in total capital input 240 million. 2010, the government implements a series of supportive policies and measures. Such as: China's finance cows thoroughbred allowance policy, Strengthen the dairy farmer credit support (Ministry of Agriculture of the People's Republic of China, 2000: Online).

According to the annual report, Guangxi Huangshi Dairy Co., Ltd has got tax exemption from the government. Such as 13-17% value added tax exemption from the agricultural products of self-production and self-marketing, 15% corporate income tax exemption from the agriculture industry encouragement from favorable policies of promoting economic development in Guangxi Beibu Gulf and western Development.

Economics: With the favorable external environment, a steady pick up in private consumption, and recent strong industrial production, the growth momentum in China has become stronger and more broad-based with insulation from the recent global stock market slump. Besides this, China's economy will remain well supported by strong exports and the governments' expansionary fiscal and monetary policies (HKTDC Economic Forum, 2008). The reform and opening-up policy is an essential element of the economic reform process. It has introduced a modern managerial system, business practices, and a legal framework for conducting business transactions. In addition, it has provided competition in the domestic market, and competition has forced domestic enterprises to become more efficient (Chell, 2001: 38). The access into WTO is a milestone in China's process of reform and opening-up. China's economy, in particular, its foreign trade has greatly evolved. Since its entry into WTO, China strictly follows every regulation, provision and agreement. However, there are some problems accompanied by such fast speed. Since there are many foreign competitors entered into the Chinese market, Chinese producers and enterprises are facing more challenges and economy

environment in Chinese market is becoming fiercer than before. Moreover, Global financial crisis continues to spread and get worse. China is also greatly affected by the crisis. Chinese Premier, Wen Jiabao, admitted that the country is facing unprecedented difficulties and challenges, with continuous drops in economic growth rate due to the impact of the global financial crisis becoming a major problem, has resulted in excess production capacity in some industries, causes some enterprises to experience operating difficulties and exerted severe pressure on employment (Blaxill et al., 2009: 44). In order to survive and develop, enterprises need to pay more efforts to compete with domestic and foreign competitors and improve their ability to handle ambiguity of market & situation-at the same time-it's also very important for them to have a whole picture of the current situation and have an insight on their future.

China's gross domestic product (GDP) registered a year-on-year increase of 10.3 percent reaching 39.79 trillion yuan (approximately 6.04 trillion US dollars) over the course of 2010, the National Bureau of Statistics (NBS) announced Thursday (Economic Observer, 2011: Online). In 2009, Guangxi's GDP increased by 10% compared to the previous year and reached \$115 billion, per capita \$ 2,361 (Li, 2010: 29). The continuing growth of Chinese economy and people's income increase drives the Chinese dairy synchronous growth.

However, there are two factors affect China's economy are the appreciation of Renminbi (RMB) and the rising of raw materials. The international business faced challenge

Social-cultural: The Chinese labor market has according to National Bureau of Statistics (NBS) of China one of highest employment rates. However, the new trends and tasks of the Pan-Beibu Gulf and the Beibu Gulf Economic Zone give high requirement of talents' quantity and quality. A document issued by the State Council of People's Republic of China (the Centre People's Government of People's Republic of China) named GBG Economic Zone Talents Plan. The high level, creative and inter-disciplinary talents are urgently needed. The ratio of the talent requirement distributed by industries is 1670:3654:4676(Primary Industry: Secondary Industry: Tertiary Industry) up to 2010 in GBG Economic Zone, and it might be 1255:4409:4336 in 2015 in this Economic Zone.

Chinese residents don't have dairy consumption habit owing to historical reasons, especially in less development areas. However, the Chinese habitants' consumption habit is continuously changing as: 1) the influence of western eating habits. 2) the guidance from

Chinese government and dairy manufacturing enterprises. 3) the conscious improvement of dairy nutrition. Chinese dairy marketing is continuing improve since 1990.

Technological: Technology plays an import role in economic growth and social development. China government pays great effort to help and encourage company to develop new technology. Chinese Premier Wen Jiabao has called on enterprises and officials to place priority on industrial upgrading and innovation (Blaxill et al., 2009: 26). Wen emphasized that efforts should be especially stepped up to develop new products while the government must cut bur-dens for enterprises and provide an easy environment for their innovation. Chinese government encouraged both public and private actors to further stimulate technological innovation (Blaxill et al., 2009: 34) China has the world's second largest R & D (research and development) budget (aging and work 2008) and Chinese government continues to create greater public awareness of innovation, reforming financial and tax system to promote growth in cutting-edge industries. Since January 2006, China has been making transition from a manufacturing-based economy to an innovation-based one. They develop new research in gene therapy – stem cell research that some of western world see as controversial. China is actively developing software, semiconductors, energy industries and nuclear reactors (Blaxill et al., 2009: 51). On the one hand, since China is moving towards an innovation-based economy, for these hi-tech enterprises, they will get more support from the government, that is, these hi-tech companies are more likely to survive and thrive than other types of companies. On the other hand, especially for these low-tech companies, it's becoming more difficult for them to develop due to less support from government as well as lack of technology to build competitive advantage.

In Guangxi Huangshi Dairy Co., Ltd., import high tech machines and cooperate with local university and research institute to improve it's technology. Hi-tech enterprises get more support from the Chinese government, that is, these hi-tech companies are more likely to survive and thrive than other types of companies. The respondent mentioned that government lowered the enterprise income tax rate for the enterprise that means, it reduce the tax burden for the enterprise. However, as we discussed in chapter 4, since Chinese government encourage enterprises to further stimulate technologieal innovation and also cut burdens for enterprises and provide an easy environment for their innovation. All kinds of Chinese enterprise can benefit from this policy.

The company strengthens the development of new products and delivers new products, such as, The Rafael Pure Buffalo Milk, and many kinds of fruit milk.

In technological innovation, Buffalo Crossbreeding Technology Research and High-quality Forage Production System in Southern China Program was completed by the company; UHT Milk Manufacturing Technology Research and Buffalo Mo Zi Lei La Fresh Cheese Manufacturing Technology Research has passed the appraisal of National Science and Technology Board. Moreover, UHT Milk Manufacturing Technology Research got the second prize of the advanced science and technology award by Nanning Science and Technology Board. Three programs was award of excellent exhibition items exhibition award- rural high-tech application of advanced technology by China-ASEAN Expo, which are Probiotics Yoghourt Research and Development, Sterile Packaged Tropical Fruit Milk Research and Development and Double Protein Dairy Research and Development. Enzyme and Trace Elements using EM Silage Microbial Agents and its preparation Methods Program declare

The Industrial Analysis

Chinese dairy industry enjoys high speed growth since 1998 to 2008 at a rate of more than 10%. Especially between 2005 and August 2007, the average dairy growth rate ups to 16%, The output has made a great breakthrough up to 17 million tons in 2007.

However, since September 2008, melamine has been found in a range of products, including milk, eggs and fish feed. The scandal, which aroused worries about Chinese product quality worldwide, has also provoked a crisis of confidence in food safety among Chinese consumers. The whole industry production appeared negative growth, some dairy enterprises were in shock. Fortunately, the country reorganized the organization properly, and the leading firms strengthen safety conscious in safe production, the dairy industry began to recovery since 2009. Moreover, the dairy output reaches to 12 million tons from January to July 2010, at a growth rate of 9.24% at the same period of last year.

‘Because of the government reorganized the dairy industry and improved the quality standard and professional access, it’s a good chance for our company and it’s getting

better to entry into other market'. Said the respondent. The empirical finding is that it's getting harder for the new entrants in dairy industry.

'Since the prices of the raw materials have been raised, we have to adjust the prices of our products accordingly'. told by the correspondent.' Which means that the it's disadvantage for the enterprise since the increasing bargining power of suppliers?

At the same time, the consumers raise their conscious of price and product. Reports in August 2011 from hundreds of websites reported recently that the consumer paid a package of milk with 50 bottles. However, the firm refused to send the rest to the consumer since the price rose unless the customer pays the difference.

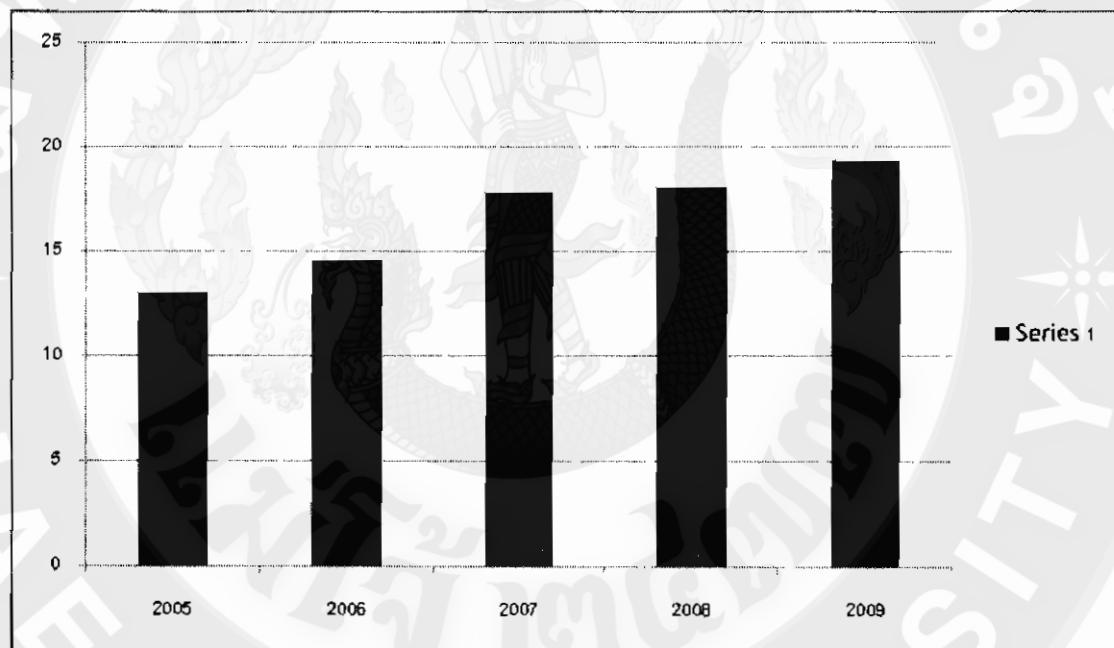


Figure 6 Output of dairy products from 2005 to 2009

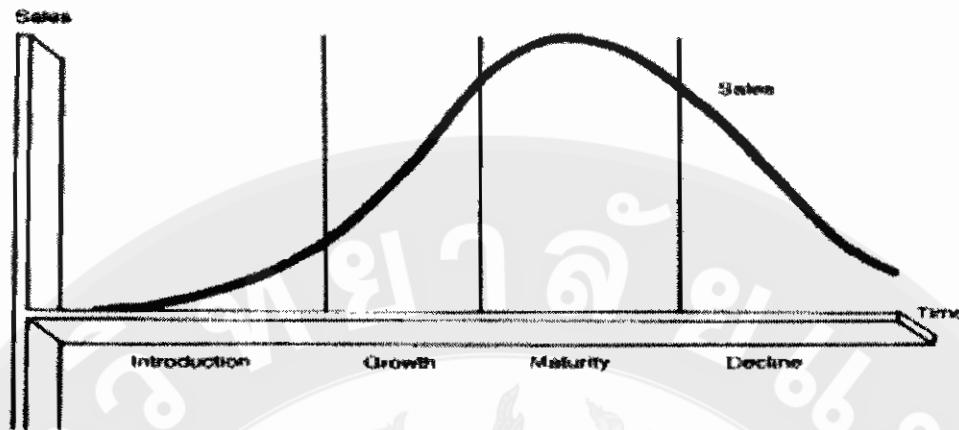


Figure 7 Industrial Life Cycle.

Note This figure, together with figure 6, indicated that the dairy industry in China was keeping on growing since 2005.

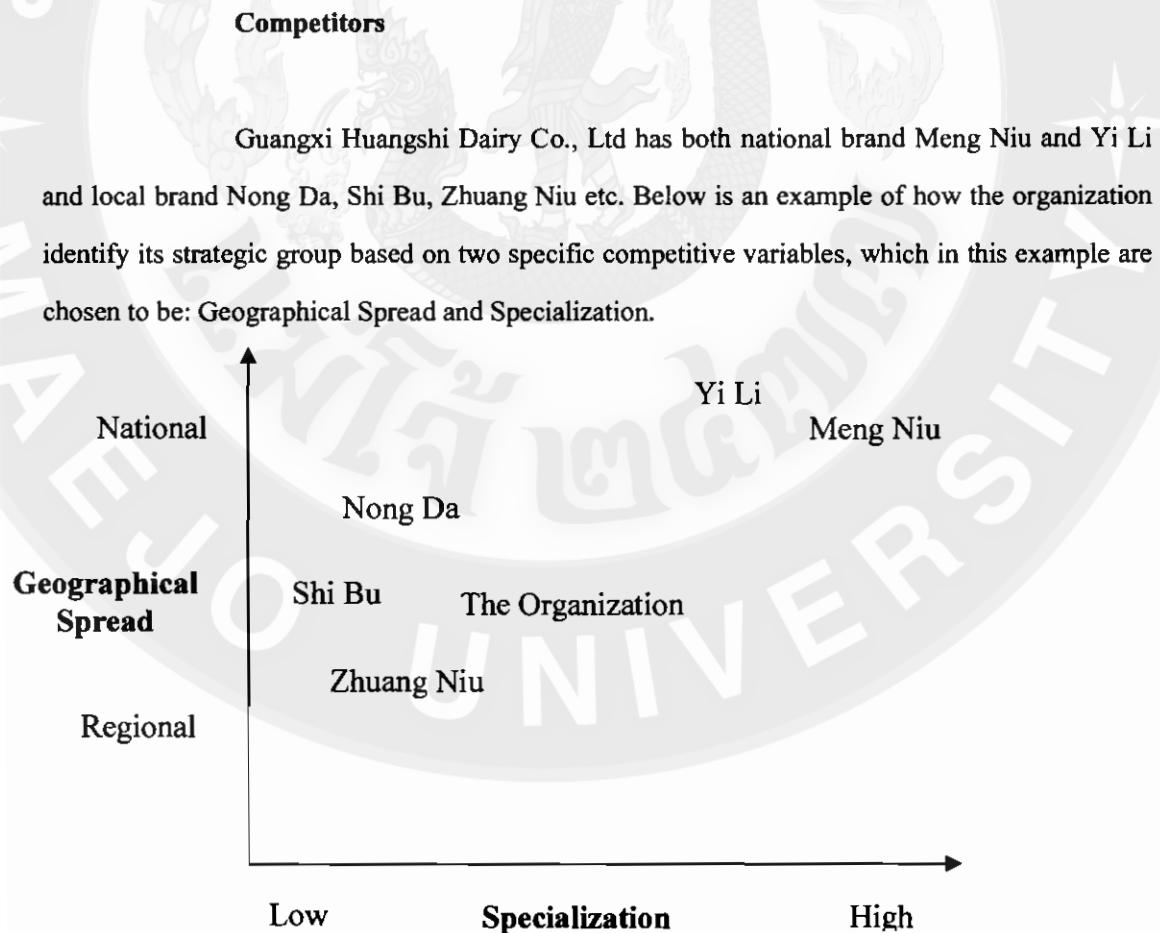


Figure 8 Competitors geographical spread and specialization.

The National brand Meng Niu and Yi Li is the leading firms in China, they share larger market even in local market. However, in the local area, the organization is the largest one.

Internal Environment Analysis

The organization structure and leadership will be presented in internal environment section.

Organization Structure-The Basis of Strategy

Structure is the basis of strategy according to 2.1.1. Here is the organization chart of Guangxi Huangshi Dairy Co., Ltd

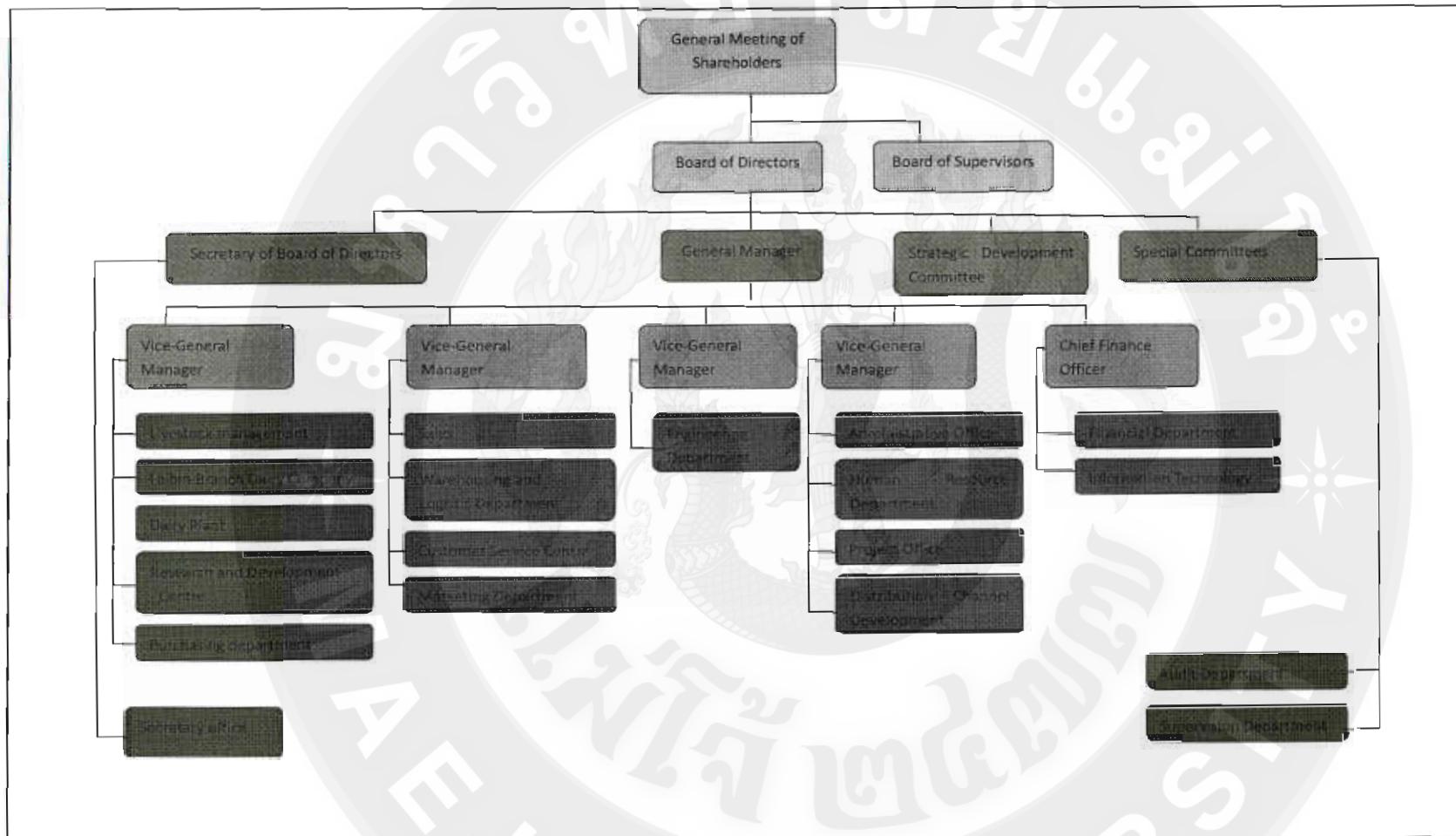


Figure 9 Organizational chart of Guangxi Huangshi Co., Ltd.

The empirical findings are from the chosen company interviewed. It is using functional organizational structure. It applied where the duties and responsibilities, because of their specialised and varied nature, have to be categorised into specific group (Analoui and Karami, 2003: 32). From the interview, people within the company can concentrate on one aspect of work and develop their skills for providing products and services to all customers. Responsibility and duties are defined clearly.

The selected company provide opportunities for their managers or project group leaders to express their own opinions and discuss company related issues, such as in these two Chinese companies, they both have regularly meeting for managers. These practices can enhance the communication among departments and managers, and share the information which might be very important for management and company. As we know that communication is important, it can help company in many aspects such as strengthening the connection between management and employees, having better understanding about current status and then predicting the future trends more precisely.

Shareholders and the general meeting: According to The Listed Company Shareholders' Assembly Rules, Articles of Incorporation, The Company's Rules the Shareholders' Meeting, Shareholders hold general meeting to protect minority shareholders' interests.

Company and dominant shareholders: The company deals relationship with dominant shareholders according to Law of Company, Security Act, Articles of Incorporation and relevant regulations of securities regulator. The company has independent business and management of autonomy, which operates independent from dominant shareholder, the board of directors, the board of supervisors and internal organs in business, personnel, assets, structure and financial.

Directors and board of directors: Four committees were set under the board of directors, which are strategy and development committee, the audit committee, nominating committee, and salary and appraisal committee.

Supervisors and board of supervisors: The company according to the supervisor of the board of supervisors' perform earnest duties, and supervise "regulation, earnestly perform their duties, to supervise company's big issues, associated trade, financial status, responsibilities of directors and managers.

The performance evaluation and incentive/restraint mechanisms: Be responsible for making and supervise salary policy and plan of directors of the board and top management, as well as establishing assessment criteria and examine.

Stakeholders: The company has strong social responsibility, which can fully respect and safeguard the rights and interests of the stakeholders, and realize harmonious development among social, shareholders, the company, suppliers, customers, employees and the interests of all parties, and have active cooperation with stakeholders so as to promote the company's sustainable development in long-term. The company keep in sustainable development, realize the maximization of the shareholders' interests, meanwhile, it concerns environmental protection, public welfare, engage in public welfare undertakings actively, and pay attention to the company's social responsibility.

Company and investors: The company, according to The Investor Relations Management System, strengthen investor relations management and clarity the secretary of board of directors to be responsible for investors relationship, who organize and implement daily management work. During the reporting period, the company strengthen the communication with investors through the annual report presentation, telephone, and receipt site investigation of investors.

Internal auditing system: The chosen company has established the internal auditing system, set up the internal auditing department, and employed internal auditor charging the daily operation, the internal control system and the big issues of the company in order to control effectively.

SWOT Analysis

This study use Internal Factor Evaluation (IFE) matrix to evaluate the internal factors of Guangxi Huangshi Dairy Co., Ltd. The weighted score at 4.0208 proves that the comprehensive level of internal factors of the company is on above average.

Table 4 Internal Factor Evaluation (IFE) Matrix

<i>Internal Strengths</i>	<i>Weight</i>	<i>Rating</i>	<i>Weighted Score</i>
Local resources	0.3312	5	1.6560
Capital	0.1656	3.5	0.5796
Innovative products	0.1104	4.5	0.4968
Marketing	0.0783	4	0.3132
Technology	0.0662	4	0.2648
Quality control	0.0552	3.5	0.1932
Brand	0.0473	3.5	0.1655
Seale: local largest manufacture	0.0414	3	0.1242
<i>Internal Weaknesses</i>			
Insufficient raw milk	0.0368	2.5	0.0920
Raw material price increase	0.0331	2	0.0602
Customer service	0.0301	2.5	0.0753
Absolute competitive: 5; competitive: 4; average: 3; poor: 2; much poor: 1			
Total weighted score	1	-	4.0208

The external factors of the firm was analyzed and evaluated, the weighted score is 2.899, which shows that the comprehensive external factors enjoys above average level.

Table 5 External Factors Evaluation (EFE) Matrix

<i>External Opportunities</i>	<i>Weight</i>	<i>Rating</i>	<i>Weighted Score</i>
Industrial growth	0.3522	5	1.7610
Preferential government policy	0.1761	4	0.7044
Merger	0.1174	4	0.4696
Entrance to first / second tier city	0.0881	3	0.2642
Entrance to international market	0.0704	2.5	0.1760
<i>External threats</i>			
The recognition of new brand and new product	0.0587	-3	-0.1761
Customer satisfaction	0.0503	-3	-0.1507
Product reputation	0.0440	-2.5	-0.1100
New rules issued by government	0.0391	-1	-0.0391
Good opportunity:5; average opportunity: 1; great threat: -5; average threat:-1.			
Total weighted score	1	-	2.899

Strategy formulation

Analoui and Karami (2003: 87) state that a vision statement comes from the “hearts” of top management, which means vision and mission often based on the value of the owner and top management, they try to share the same value with every employee in the organization , try to make sure that all employees have the same objectives with the company.

Corporate Strategy

Vision: To be the most respectful leader in China's dairy industry.

Mission: Keep high quality, take care of people's health.

Corporate ideas: Create value for society, create opportunity for staff, and create fortune for investors.

Business Strategy

1. Adhere to consolidate and expand regional market by pasteurizing milk.

Regional market, Guilin, Liiuzhou, Beihai in Guangxi province, is the base of the company. It's now in the pilot stage under exploration.

2. Characterized of buffalo milk and tropical fruit milk, exploring the national market continuously.

Buffalo is the unique resource based in Guangxi. The buffalo milk has the advantages of high nutrition and rare. As the technical improvement of buffalo breeding, it meet the needs of raw milk which can product high end product and avoid fierce competition.

Moreover, Guangxi enjoys regional and geographical advance and rich tropical fruit resources. The company pays great attention to develop tropical fruit milk. Furthermore, the company will continue to research, development and promotion tropical fruit milk.

3. New products research, development, and manufacture.

Yoghourt milk and lactobacillus drink is characterized with good taste and high nutrition, which is very popular among younger generations. It also brings back high profit margins. It's one of priority programs of the company. It will become another income resource for the company.

4. Obtain sustainable development, bigger and stronger

Develop a new program named "Characteristic Industrial Processing of Buffalo Milk Products and Tropical Fruit Milk products." These products will be sold to both national market and asia countries.

Functional Strategy

The objectives of the functional are as follows

Table 6 The functional strategy of the company

Title	Detail
Milk resource base development	1. Improve the rate of own milk source, and increase at least 3,000 cows 2. Build 10 standardized cow breeding zone and 1 demonstrative zone
Manufacturing	1. Develop the infrastructure production shop with 200 mu land. 2. Purchase 3 Tetra pak pouring production line 3. Initiate Cows Raised for milking and Beef program with 1000 mu land
Sales	1. Increase 3000 points of sell in the country. 2. Initiate 3 year sell plan in first-tire cities, that is, enter into the market the first year and be a influential brand after three years. 3. Solid the market explored of pasteurised milk in Guangxi, and deeper into the third-tire cities, towns.
Capital	Merger, stock
Human Resource	Align the interest of top management and shareholders, and promote equity incentive plan.

Strategy implementation

The respondent was asked on how they implement the strategy as well as procedure for strategy making process.

The respondent mentioned that if the strategy is top-down from the board of directors, the board of directors inform its subsidiary formally, then the subsidiary will implement it. If the strategy is proposed by department's managers and general managers, basically, they will discuss it during the meeting. Mostly, the final decision is made by general manager.

"If the strategies are made by the board of directors, they will convey it to us, and then we just implement it. In the weekly or monthly meeting for managers, all the managers can present their ideas during the meeting."

Before making a decision of implement a strategy, the company conducts a research, and analyse both internal and external environment. The empirical study revealed that the company typically has combination formal written strategic plan and rational model of strategy, which depends on condition and situation.

This section of strategy implementation will analyse strategy planning process and decision making process and implementing process.

High performance SME have written formal and clearly defined objectives (Analoui and Karami, 2003: 28). The empirical findings revealed that the chosen company has formal structure and process when implementing the strategy. If the decision comes from head office, the subsidiary will be informed formally, then directly implement it. Formal inform process often can prevent some communication error and misunderstanding, because information can be interpreted differently by individuals, which will create problems. Thus, by using formal inform structure, to some extent, can affect the results of implementing strategy.

The respondent mentioned that sometimes they use their intuition to make decision. According to business leader often use this intuition to make strategic decision, even though it's not too accurate but it has benefit for them to explore something new (innovation). From the frame of reference, we mentioned two models of strategy which are rational and intuitive learning model. It seems this model also applied in the chosen company.

Furthermore, the empirical findings revealed the selected company is familiar with SWOT (Strengths, Weaknesses, Opportunity and Threats) model and they also apply it even though they do not have some procedural SWOT analysis like the textbook models. They still consider those four aspects in its operation to solve the problem even they modified it in accordance with current situation.

Strategic planning involves short and long term decision making. The empirical findings revealed that strategic plan consider for future direction which are not only based on personal strategic vision of the owner (top management). The company also consider financial aspect measurement as tools. Moreover, strategic alternative is part of planning process when they do some analysis related with financial perspective (budgeting plan) to anticipate problems which might occur.

Strategy Control & Development

The chosen company was asked whether there are big troubles that they faced or have to face in the near future and whether they have solution for those troubles.

“Our company now is still facing the problem of insufficient milk source, even though we have our own dairy cow base.”

The chosen company was asked if the sales were fall down since Chinese milk sandal in 2008, which involving milk and infant formula, and other food materials and components, adulterated with melamine that lead to trust crisis with milk. Moreover, nitrite was detected from the milk, and how the company prevent this type of crisis.

“Our company’s sales amount didn’t fall down, but rose. Our company is now enlarging the milk resource base on our own. We try our best to keep the quality of milk and be the first and safe brand of Guangxi”

The company have internal control system to control crisis when the correspondent was asked about the crisis management. They have the solutions to solve the problems if might occur. If they want to implement new strategy, they will have trial period for test the new strategy. The process of controlling and monitoring new strategy is in accordance with goal of the company.

As an empirical finding reveals that one of the problems the company facing now is new products promotion. The buffalo milk is sure to be with high nutrition, however, the As the formulated strategy, the company is now exploring the first-tire cities with high end products name buffalo milk. However, the data presented on the advertising doubted by the academic and customers, which are reported by hundreds of websites all over the country. Which made wide influence to the national customers, it’s a barrier and big risk for the company’s entry national market ambition and its brand.

Moreover, the company don’t pay much attention to customer satisfaction as the respondent said, “We don’t do works about customer satisfaction”.

Another new was reported recently that one of the customer was refused to achieved what he/ she order unless pay the difference after price rising. This case didn’t deal with at the proper time, which leads to the hot debate on the internet.

Strategic Fit and Firms Performance

Strategic Fit

The selected company's strategy has impacts on company survival and growth. The evidence shows that the company provides special designed product for a speeial target group.

For the interview, the differentiation was chosen as the company's strategy. The reasons are as following,

First of all, the high end product which called Pasteurisation milk is highly produced.

Secondly, buffalo milk with high nutrition is the competitive product that different with both national and local competitors.

Thirdly, the company set the brand as the home (Guangxi) safety milk in Guangxi Province.

Fourthly, the way of distribution channel is quite different from others. The company chose KTV, night club, restaurant since the price is not so sensitive in these places except supermarket, school.

"In Guangxi province, the buffalo milk is unique resource with high nutrition. We chose KTV, night club, restaurant as selling place because the price in these places is not sensitive. We also trying to change the design of our product, and make sure it is more environmental protect."

Company's Performance

The empirical findings reveal that implementing specific strategy in organization will improve company's performance as long as it's in the right way.

Financial / non financial performance

Company performance includes two dimension which are financial and non financial, some of the non financial performance are intangible such as customer satisfaction,

production performance, innovation, developing new product & new technology and others. From the interview, the chosen company is aware of the dimensions, they believe that the strategic management can affect company's financial and non financial performance. Besides, some of respondent also mentioned that the non financial performance which will eventually reflect on financial performance.

The figure following is the company's financial performance from 2008 to 2010.

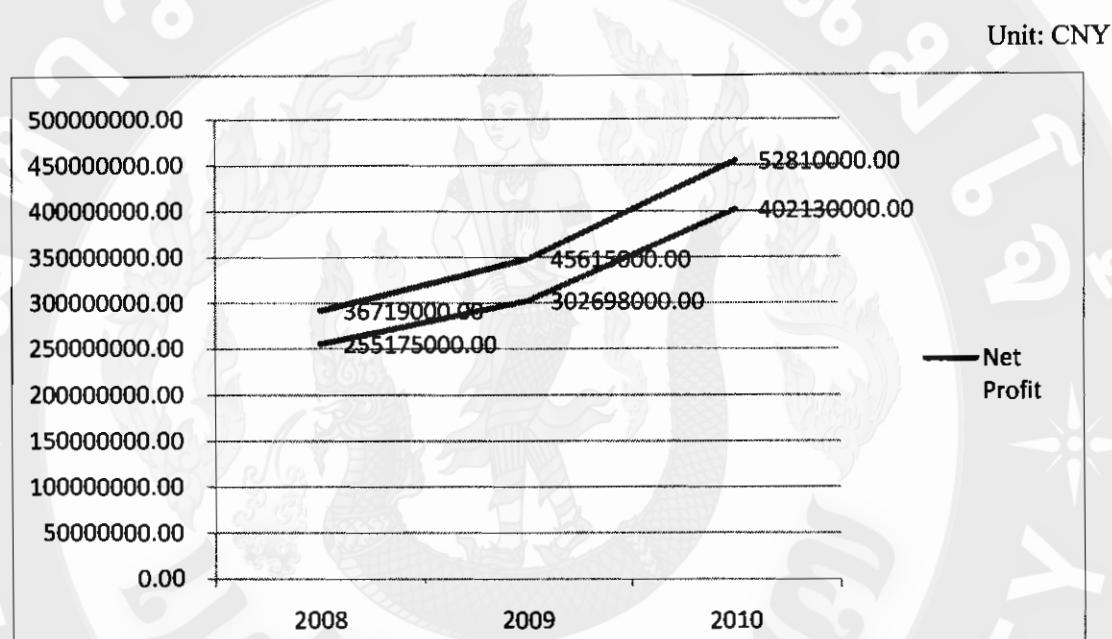


Figure 10 Financial performance from 2008 to 2010

Source: Helfat et al. (2007: 137)

From the figure above, the sales growth of the company has increased 32.85% from 2009 to 2010, and the net profit has increased 15.77%. It's reported that the total profit of the first half year in 2011 has increased 32.85% compared to the same period of last year.

"Strategic management decides organization's performance. If the strategy is right made, it will improve the company's performance; on the contrary, it will weaken the organization's performance. The performance is not limited to financial performance but also include other kinds of performance such as production performance, customer satisfaction etc. But almost all the other kinds of performance will reflect on financial performance eventually".

From the interview, it reveals that the final goal is to improve the financial performance by using strategy. The top management realized that organizational performance not only limited in boosting profit but also included creating value, build reputation for organization.

“But the final goal is financial performance, the other aspects of performance are also very import because it will affect and reflect on financial performance directly or indirectly.”

According to the interview, the chosen company tries to develop new market by developing new product and technology.

““We are trying to expand more new market outside of Guangxi, e.g. Beijing, Shanghai with our high end product Pasteurisation. Moreover, we also pay great effort on new technology. We have technique cooperation with Guangxi University for buffalo development.”

The evidence shows that the company has clear understanding about how important the strategic management for company’s performance. They are aware of importance of strategic management and apply it in their business. Moreover, one of the important indicator for company’s performance stated in the frame of reference are financial and non financial. The empirical findings revealed that the chosen company understands the dimensions of performance are financial and non financial, they focus on not just financial performance, but also non financial aspects since they believe that the non financial performance will eventually reflect on financial performance. They understand that once they can create value on non financial performance, it will directly affect financial performance.

Financial performance is the goal for most of company since it will directly increase company’s image externally as well as employees & share-holder (owner) wealth internally. Moreover, the Chinese company also try to improve the operational performance, by launching new product with better design and technology, doing innovation according to market needs.

Evaluation of the performance also strongly related with the strategic process of the company. As stated in frame of reference, strategic process consists of formulation, implementation, control and development process. From this perspective, the relationship among those process as the key success factors for long term growth for the chosen company.

Moreover, most of the firm seek for profitable growth. According to Helfat (2007: 89) firm can improve their performance by reducing cost or raising price if they did not

consider for growth. However, competition and market forces as well as technological constraints force them to increase sales of product and services, to improve product or new product in existing or new markets. To understand competition in market economy, analysis of growth is as important as analysis of profits. It was found that the sustainable growth, for instance they strive to develop new product in order to develop new market.

Strategic fit and Dynamic Capabilities

From the interview, the respondent state that the company focus on core business and consistent with its strategy, thus it could be the best way for its survival in the fierce competition situation. To some extent, by using strategy which is fit with internal capabilities and in line with its core business will boost the performance.

“This company is already doing quite a lot expansion in management.”

According to the interview, it indicates that concentrate on its vision & mission and develops new technology & product can help company to build competitive advantage. Other factors such as company’s reputation, good service, bank loan, cost control, resources, and others are also crucial for company survival and growth.

“One factor is consistent with company’s vision and mission and supporting from all employees, the other factor can also come from bank loan which will help us survive. We should get Competitive advantage from corporate reputation, technology, product itself, innovation, service, market strategy on customers and pricing. Company survival and growth rely on enterprise image, products itself.”

The interviewee outlined the importance of a clear vision and mission for the company. Mission concentrates on the present. Vision concentrates on the future and outlines what the organization wants to be. Vision and mission play an important role in inspiring or motivating employees in achieving the firm’s goals and objectives.

One may argue, personal objective and goals are highly subjective and may or may not be correct (Analoui and Karami, 2003: 27). However, from the interview, the company has regular meetings for all the managers. They often share their information and listen to each other during the meeting, which means they can get more information and better understanding

about current issues and future trends, this will help them make decision more objectively and appropriately.

Strategic fit and dynamic capabilities are two important factors in business survivals. Combination of external environment analysis and internal capabilities will help to predict uncertainty condition of pursuing business opportunity. The empirical findings show that the chosen company has its own strategic choice to compete in the market. It focuses on its core business. However, it will not enough without develop their internal capabilities. If the internal capabilities are unique and difficult to imitate, it often called core capabilities. According to Leonard-Barton (1992: 39), core capabilities include four dimensions: employee knowledge and skills, technical systems, managerial systems and the values and norms. The core capabilities was analysed from four dimensions. First, employee knowledge and skills, the chosen company outline the importance of employee skills and knowledge, for some special work, they only hire employee with required certification. The second, technical systems, knowledge embedded in technical and technological system, such as financial accounting system embodied in the company to control the financial process. The third dimension is managerial system, represent formal and informal ways of creating knowledge and controlling knowledge, the chosen company has regular meeting for managers to share information and knowledge. The last dimension is value and norms, the chosen company shares their value to all the employees within the organization, vision and mission was put on notice board and their websites.

The definition of dynamic capabilities has discussed in Chapter 2. The evidence shows that the main components of dynamic capabilities in the chosen company are human resource and technology development. Some SME lack managerial capabilities to improve their performance. To solve this problem, the company should try to renew its resources by recruiting the right people and expertises. The chosen company is aware of this solution and try to improve its performance by hiring expertise. Therefore, dynamic managerial capabilities have effect on identifying the opportunity and solving problem.

Environmental awareness combined with dynamic capabilities is another concept of strategic fit that has discussed in frame of reference. Exploiting and creating change in the business environment can be achieved by continuously develop innovation. According to our empirical findings, the chosen company gives lots of support for business creation and

innovation. Chinese Premier Wen Jiabao has called on enterprises and officials to place priority on industrial upgrading and innovation. The chosen company also maintains its business growth through innovation to improve their core business. It also uses bank support and strongly focus on its vision and mission as way to build competitive advantage.



Summary of Major Findings

In summary, external and internal analysis are important factors in strategic decision process. They use internal and external analysis to cope with uncertainty market condition and adapt with changing environment. The internal capabilities, especially core competence or capabilities play a vital role for company survival and growth since company can use their internal capabilities to build competitive advantages in their industries. For instance, their internal capabilities enable them to develop new product and new technology and develop new market, or enable them to build good relationship and networks with supplier or customer. These new technologies and new product can help company to differentiate with competitors, and also relationship and networks are basically hard to be copied by their competitors, that means, internal capabilities do help company to build competitive advantage. Moreover, external factors can stimulate the initiation of strategic decision; internal factors (especially internal capability) can judge and examine the feasibility of strategy. All in all, understanding the role of external and internal factors, and consistently combine these two factors into the business are crucial strategic management factors for firm's survival and growth.

Table 7 Data Display of Major Findings

Strategic Process	Variables	Major Findings
Situation Analysis	<p>Internal factors</p> <p>External factors</p> <p>1, PEST</p> <p>2, Industrial Analysis</p> <p>3, Competitors</p>	<p>The internal factors of the company are on the above on average level in the industry. Strong in making use of local resources to produce innovative products, capital raising, marketing, technology development; weak in insufficient raw milk and customer service.</p> <p>The external factors of the company are on the above average level in the industry. Preferential opportunities were given by the government, dairy industry is in growth stage. It enters to the national market by high end products. The risks are from customer satisfaction unsatisfied, recognition of new brand and products by public.</p>

Table 7 (continued)

Strategic Process	Variables	Major Findings
Strategy Formulation	Corporate Strategy	Clear vision, mission & goal
	Business Strategy	Differentiation and focus and develop market strategy
	Functional Strategy	Centralized decision making for changing strategy; Develop new products in existing market and new market;
	Strategic Choice	Develop new technology; Have preparation and internal control system to solve the problem.
Strategic Choice and Performance	Strategic Choice	Differentiation strategy, Focus & develop market strategy
	Performance	Financial performance: the sales growth of the company has increased 32.85% from 2009 to 2010, and the net profit has increased 15.77%. Non-financial performance: Good at technology development, innovative products, and weak in customer satisfaction.
Dynamic Capabilities	Resources	Competitive natural resources: buffalo
	Technology	Developing new technology
	Market strategy	Developing new market strategy: sales, service, advertising, company's image and reputation

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS OF THE RESEARCH

Conclusions of the Research

This study was conducted a case study to explore the strategic management implemented by Guangxi Huangshi Dairy Co., Ltd. Located in Guangxi Beibu Gulf Economic Zone, the company enjoys advantageous geography and rich resources. With the trend of economic development by the Chinese government in this area, the company takes opportunities from the government policies and GBGE Development Scheme.

From the interview and documents gathered, the chosen company is using both deliberate and emergent strategic management in its daily operation. It's believed that the strategic management can affect company's financial and non-financial performance.

The company focuses on its internal capabilities to build competitive advantages and also realized that internal factors can judge the feasibility of strategic decision. At the same time, it also pays attention to external factors since they stimulate the initiation of a strategic decision. The research indicates that understanding the role of internal and external factors, and constantly combine these two factors together into daily operation are the crucial factors for the company's survival and growth.

Through the case study, the conclusions are made as follows:

1. The company has competitive advantages by evaluating both internal and external factors.
2. The company knows clearly about themselves after the analyzing situation the company now. Clear vision, mission, and objectives, and make full use of the resources to survival in the competitive environment. It's obvious that they know where they are, and where they are heading.
3. The company can achieve its objectives, even though the risk of the industry. And make sustainable growth.
4. The company is now merging the enterprises with main business to strengthen its capacity, and extending market channels in external province.

5. The company use the product development to achieve competitive advantage.

In conclusion, the company can formulate strategy by analyzing the company's external and internal factors, and implement it well. And most importantly, it can adjust the strategies according to business environment changes. However, the company doesn't pay a lot attention to the customer satisfaction, it's under supervision under the public since being listed company in 2010. It's very dangerous for its sales and image. Moreover, the advertising of buffalo milk with inaccurate data arouse both academic and customer's attention. It's a risk and barrier for the company if it can't deal with it well. It will great influence its ambition to explore the national market.

Limitations, Recommendations and Future Research

The analysis of the empirical study has indicated a number of relevant issues that the thesis did not investigate. Firstly, the study should undertake a greater depth and broader range of research in order to uncover more detailed and comprehensive conclusions regarding the role of strategic management on SME performance. E.g. The financial aspect didn't analyzed in detail in this paper, which might has potential risk in operation. The future study could involve more SME and explore the characteristics of strategic management in order to obtain more holistic information about the awareness of strategic management in SME.

Secondly, the study should be able to reveal and prove in detail how external and internal environment affect strategic management process. Further research should also pay more attention to the management style to obtain a deeper understanding regarding why similar companies took different action in the same or similar situation.

Thirdly, this thesis should analyze in depth on customer needs, and satisfaction aspects.

Finally, this thesis only focused on one person, the one company in one industry. The further study could involve in different industries in GBGEZ, such as logistics, trading companies between China and Asia countries. (Appendix B)

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APPENDIX



APPENDIX A

Scheduled Form

Interview with Guangxi Huangshi Dairy Co., Ltd.

Participant information:

Gender: Female

Department: Administrative Office

Position: Managing director

Company information

Type of Industry: Manufacturing

Number of employees: 600-700

Turnover: CNY 200-400 million (2008-2010)

Others (if any): located in Guangxi Beibu Gulf Economic Zone, China

What's your company's vision and mission?

Our company's vision is to be the most respectful leader in China's dairy industry and our mission is to keep high quality, take care of people's health.

What's your company structure?

Functional organizational structure is used by our company. There are mainly 5 levels, general meeting of shareholders is in the highest level, and then, board of directors, general manager, vice-general managers, and functional department's directors. The vice-general managers report to general manager, and they are responsible for manufacturing, sales, engineering, human resources, financial department, etc.

How your company do the external analysis and internal analysis? How do you collect data for analysis, for example, through survey, data base or information from government?

Internal analysis is made by discussing with shareholders, managers and employees. And external analysis by knowing the government regulation that apply for each project. Both external and internal analysis was done by collecting data and government information.

What are your company's strengths and weaknesses?

Our company is the largest local manufacturing enterprise in Guangxi province. Buffalo milk resource is one of the biggest strengths for us. Besides, we have sufficient capital support, professional technical team, good marketing with innovative products, good quality control system. However, our company is also facing fierce challenges, like raw milk insufficient, raw material price increasing, customer service is not high enough.

What do you think of your company's opportunities and threats?

The opportunities are: (1) The milk sales is keeping on increasing in recent years; (2) Local government provide us with favourable policies, for example, decrease taxes, 15% corporate income tax exemption in Guangxi Beibu Gulf and western Development. (3) We are merging milk factory in Yunnan province. (4) We are going to entre first/second tier city. Moreover, to develop Asia market if possible in the future.

As to threats, our milk manufacturing affects by new rules issued by the government, new brand and new product accepted by customers, high customer satisfaction provide by us, etc.

Does your company did the customer satisfactory survey?

We have customer service centre, however, we didn't do customer satisfactory survey so far.

How do you think the relationship between strategic management and organization's performance? That is, how the strategy management affect company's performance?

The performance of the company will be helped by the strategies/ management that are defined, such as corporate strategy, business strategy and functional strategy. Furthermore, companies with good strategic management should fit with the company and be well operated.

How do your company formulate strategies?

The department named strategic development committee is responsible for strategy formulation. At the beginning, the committee do survey and collect data and information from government, website, employees, competitors, customers, and so on. And then, the committee analyse both factors internal and external. At last, strategies in corporate, business and functional level which are fit for company's development are formulated.

How do the strategies implement by the company?

Once the strategies formulated, we develop relevant rules or systems and informed in oral or written form. All of us obey strictly and achieve the goals in order that the company can have a better performance. However, the strategies cannot result in expected performance, our strategic development committee would adjust them so that the strategies adapt to our company's development.



APPENDIX B

Financial summary of Guangxi Huangshi Dairy Company Co., Ltd

Financial summary of Guangxi Huangshi Dairy Company Co., Ltd

GUANGXI HUANGSHI DAIRY COMPANY LIMITED

WVB NO : CHN000032074

STATUS : ACTIVE

COUNTRY : People's Republic of China

SIC CODE : DAIRY PRODUCTS (2020)

ADDRESS : NO.66 KEYUAN AVENUE GUANGXI NANNING

TEL : +86 0771 321 1086

FAX : +86 0771 322 1828

PROFILE NOTES

The Company is mainly engaged in the research and development, production, packaging and retail of dairy products.

CHAIRMAN JIADI HUANG

CEO/MD/President

AUDITOR SHENZHEN PENGCHENG CERTIFIED PUBLIC ACCOUNTANTS

WVB Quickview

3 YEARS FINANCIAL SUMMARY		31-DEC-09	31-DEC-10	31-DEC-11
Currency	CNY ('000)	CNY ('000)	CNY ('000)	CNY ('000)
Report Type	C	C	C	C
:: INCOME STATEMENT				
Net Turnover/Net Sales	255,175	302,698	402,130	
EBITDA	52,979	64,399	77,176	
EBIT	39,126	47,562	48,549	
Net Profit	36,719	45,615	52,810	
Ordinary Dividend	0	-21,400	-417,700	
:: BALANCE SHEET				
Intangibles	39,612	38,787	41,282	
Fixed Assets	157,728	204,256	341,119	
Long Term Investments	900	900	7,992	
Stocks/Inventories	23,195	26,560	38,432	
Cash	47,396	589,241	372,881	
Current Liabilities	128,165	133,810	143,897	
Long Term Debt	18,750	53,750	22,875	
Provisions	0	0	0	
Minorities	0	0	869	
Total Shareholders Equity	163,443	723,945	747,927	
:: KEY RATIOS				
Date of Production: 21 Apr 2011 15:49:22 GMT				
Operating Margin (%)	14.85	15.69	16.24	
Return on Equity Capital (%)	25.29	10.28	7.18	
Net Profit Margin (%)	14.39	15.07	13.13	
Current Ratio	0.85	4.95	3.57	
Debt to Capital at Book	0.36	0.15	0.11	

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