

# Innovation and Risk-Taking in Small and Medium Enterprises (SMEs): How Cultural and Environmental Factors Influence Business Growth in China

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**Abstract:** This research examines the influence of cultural and environmental factors on innovation, risk-taking, and company expansion in Small and Medium Enterprises (SMEs) in China. Data were collected using a quantitative research strategy using structured surveys directed at SMEs across many industries and geographies. The results indicate that cultural factors, including guanxi (connection networks), collectivism, and Confucian principles, markedly affect SMEs' decision-making processes and growth strategy formulation. Cultural variables frequently promote a prudent approach to risk-taking, reconciling innovation with preserving group cohesion and stable relationships. Environmental factors, such as governmental legislation, availability of financial resources, and market competition, significantly influence SMEs' capacity for innovation and growth. Smaller enterprises, especially micro and small-sized organizations, encounter distinct constraints stemming from constrained resources and limited access to external financing. It shows that these limitations, numerous SMEs exhibit resilience and adaptation, capitalizing on their strengths, including agility and tailored client engagement, to maintain growth. The study underscores the need to cultivate an ecosystem that promotes SME innovation and strategic risk-taking. Policymakers are urged to adopt methods that enhance capital accessibility, provide tax incentives for innovation, and establish regulatory frameworks that foster entrepreneurship. For SME executives, integrating strategy with cultural and environmental realities helps improve decision-making processes. The report recommends further research on the effects of digital transformation, regional disparities, and long-term consequences to investigate the dynamics of SME growth in China.

**Keywords:** SMEs, Innovation, Risk-Taking, Cultural Factors, Business Growth

## 1. Introduction

Innovation and risk-taking are essential in advancing and expanding Small and Medium Enterprises (SMEs). In a globalized and competitive market, SMEs must frequently implement new techniques and undertake strategic risks to attain sustainable growth. The dynamics affecting innovation and risk-taking behaviour in SMEs vary by country, and comprehending these characteristics can provide valuable insights for business owners, policymakers, and researchers. This study examines SMEs in China, a swiftly evolving economy distinguished by distinct cultural and environmental elements that may considerably influence business operations. The Chinese market is complex, merging traditional values with rapid development. Small and medium-sized enterprises in China must balance innovation with prudence while making decisions in an unpredictable economic climate. The distinctive combination of collectivism, hierarchical frameworks, and an expanding market economy in China significantly influences company innovation and risk management. The environmental elements in China, including government policies, financial availability, and market conditions, are essential for comprehending Chinese SMEs' innovation and risk-taking techniques.

This study seeks to examine the impact of cultural and environmental factors on the innovation and risk-taking behaviours of SMEs in China and how these behaviours subsequently influence the success of these firms. Despite an expanding corpus of studies on the topic, empirical evidence addressing China's SMEs still needs to be explored,

especially in light of the dynamic and evolving characteristics of the nation's economic landscape. This study will bridge the gap in the literature on SME growth and provide practical insights for entrepreneurs and policymakers aiming to foster business development in China.

## 1.1 Research Gap and Significance

Expanding SMEs is crucial to the global economy, representing a substantial portion of employment and GDP in developed and developing nations. The determinants of success and growth in SMEs continue to be a subject of active research, especially regarding the impact of innovation and risk-taking. Prior research has examined these factors in Western contexts; however, the circumstances differ in non-Western nations such as China. A substantial gap exists in comprehending how Chinese SMEs interact with innovation and risk-taking, particularly in light of the cultural and environmental elements influencing these behaviours. Cultural elements like collectivism, social networks, and enduring traditions are frequently neglected in research centred on the West, where individuality and personal accountability influence business conduct. Cultural norms in China profoundly affect entrepreneurs' risk perceptions and propensity to innovate. Furthermore, environmental factors, like the regulatory framework, capital accessibility, and governmental assistance, significantly influence SMEs' capacity to innovate and engage in risk-taking. As China has shifted from a centrally planned economy to a market-oriented system, comprehending the changing significance of these elements is crucial for a thorough knowledge of Chinese SMEs.

This study's primary contribution is to connect Western innovation and risk-taking models with Chinese SMEs' distinct cultural and environmental contexts. Although researchers have examined the impact of innovation and risk-taking in Chinese enterprises, more empirical studies that concurrently incorporate cultural and environmental factors within a unified framework need to be conducted. This study aims to address this gap by quantitatively examining the determinants affecting innovation and risk-taking behaviours in Chinese SMEs, focusing on how these behaviours influence business growth. This research holds dual relevance. It will offer essential insights for entrepreneurs in China aiming to manage the intricate business landscape and make intelligent choices on innovation and risk. Secondly, the results will aid in formulating policies and initiatives to promote a more favourable climate for SME growth in China. Policymakers can utilize the findings to devise targeted initiatives that foster innovation and risk-taking, thus enhancing China's overall economic development.

## 1.2 Research Objectives

This study has two primary research objectives:

- To examine the influence of cultural factors on innovation and risk-taking behaviors in Chinese SMEs.
- To assess the impact of environmental factors on the growth of Chinese SMEs, particularly through innovation and risk-taking.

## 1.3 Research Questions

This study has two primary research questions:

- How do cultural factors, such as collectivism, guanxi, and Confucianism, influence innovation and risk-taking behavior among SMEs in China?
- What is the role of environmental factors, such as government policies, financial access, and market competition, in influencing the innovation and risk-taking behavior of SMEs in China, and how do these behaviors affect business growth?

## 2. Literature Review

### 2.1 Innovation and Risk-Taking in SMEs

Innovation is a crucial factor for competitive advantage and sustainability in SMEs. It includes creating new products, services, processes, and business models that allow companies to respond to market fluctuations and generate value. Risk-taking entails making decisions in uncertain contexts with the potential for adverse consequences. For SMEs, these two factors are interrelated; the propensity to innovate frequently entails assuming calculated risks. Studies on innovation in SMEs have identified several determinants, such as managerial traits, organizational culture, and resource accessibility. Tushman and O'Reilly's (1996) study highlights that corporate culture significantly influences the propensity to innovate, indicating that a culture promoting creativity and experimentation can enhance innovation. Likewise, risk-taking behaviour is shaped by the organization's perspective on uncertainty and failure (Knight, 1921). The propensity of entrepreneurs to assume risks is influenced by internal elements, including their prior experiences, as well as external factors, such as market conditions and regulatory frameworks.

## 2.2 The Role of Culture in Innovation and Risk-Taking

Culture profoundly influences entrepreneurial behaviour, especially in non-Western settings such as China. Hofstede's (2001) cultural dimensions indicate that collectivism, long-term orientation, and significant power distance are fundamental characteristics of Chinese culture. Collectivism underscores the significance of group cohesion and interpersonal connections, potentially shaping an entrepreneur's decision-making and risk-taking strategies. Guanxi, a fundamental notion in Chinese business culture, denotes personal relationships and networks crucial for establishing trust and acquiring resources (Chen, 2001). Research indicates that guanxi can promote and hinder innovation, as businesses may prefer to depend on established networks instead of pursuing novel and riskier chances (Luo, 2000). Confucianism significantly influences Chinese business methods. Confucian principles, including reverence for authority and focusing on stability and harmony, may result in a more cautious stance towards risk-taking. Nonetheless, Confucianism's emphasis on education and self-betterment may also foster innovation, especially in contexts where the perceived risk is counterbalanced by the possibility for individual or societal progress (Redding, 1993).

## 2.3 Environmental Factors in SME Growth

The environmental context in which SMEs function significantly influences their capacity for innovation and risk-taking. In China, governmental policy, access to capital, and market competitiveness are essential environmental factors. The Chinese government has enacted multiple programs to foster innovation and entrepreneurship, encompassing subsidies, tax incentives, and assistance for research and development (R&D). Nonetheless, these policies are frequently inequitably allocated, and SMEs may encounter obstacles in obtaining these resources, especially in underdeveloped areas (Liu & Wang, 2017). Access to financing is crucial, as SMEs frequently need help obtaining funding for innovative initiatives. In China, where conventional banks exhibit risk aversion, small and medium-sized enterprises may depend on alternative financing sources, such as venture capital or informal networks (Chen & Ma, 2009). Market competition, especially in rapidly expanding sectors such as technology, compels SMEs to innovate and assume risks to maintain competitiveness.

This research review emphasizes the intricate interplay of cultural and environmental elements that affect innovation and risk-taking in small and medium-sized enterprises (SMEs). The Chinese backdrop offers distinct problems and opportunities for businesses, influenced by traditional cultural norms and a swiftly changing commercial landscape. Comprehending these factors is essential for progressing in the domain of SME growth and providing pragmatic advice for enterprises and policymakers in China.

## 3. Research Method

This study will employ a quantitative research approach to examine how cultural and environmental factors influence innovation and risk-taking behaviors in Small and Medium Enterprises (SMEs) in China. Quantitative research is appropriate because it allows for the collection of measurable data that can be analyzed statistically to identify patterns and relationships. The research will rely on structured surveys and statistical analysis techniques to gather data from a large sample of SMEs and test hypotheses related to innovation, risk-taking, and business growth.

### 3.1 Research Design

The research design for this study is descriptive and correlational. Descriptive research aims to provide an accurate representation of the current state of the phenomena being studied (i.e., innovation, risk-taking, and SME growth), while correlational research seeks to identify the relationships between different variables. The study will focus on understanding how cultural and environmental factors influence innovation and risk-taking behaviours in SMEs, as well as how these factors relate to the growth of SMEs in China.

A cross-sectional survey design will be used, meaning data will be collected at one point. This design is suitable for exploring the relationship between variables in many SMEs across different industries in China. The data collected will allow the researchers to assess the strength and direction of the relationships between cultural values, environmental factors, innovation, risk-taking, and business growth.

The research will utilize a structured questionnaire that includes both closed and Likert-scale questions, enabling quantitative and categorical data collection. The survey will be designed to capture a broad range of information on cultural and environmental factors (such as collectivism, guanxi, government policies, and market competition) and SME owners' innovation and risk-taking behaviours.

### 3.2 Population and Sample

**Population:** The target population for this study consists of small and medium-sized enterprises (SMEs) operating in China. According to China's National Bureau of Statistics (2023), SMEs are defined as enterprises with annual revenue of up to 400 million RMB, employing fewer than 500 people. The study will focus on SMEs across various sectors, including manufacturing, services, technology, and retail. These businesses are at different stages of growth, ranging from startups to established firms. China's rapid economic development and diverse business environment make it a

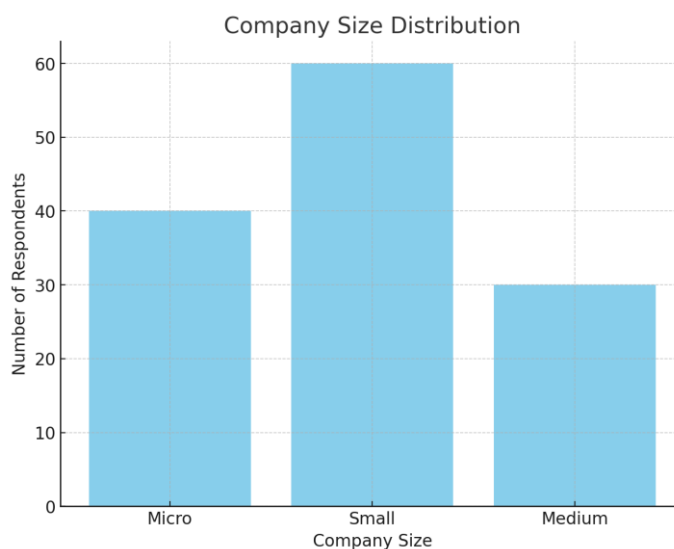
highly relevant context for examining SME innovation and risk-taking. SMEs are central to China's economy, accounting for a significant proportion of employment and GDP. Furthermore, Chinese SMEs face unique challenges and opportunities that may influence their innovation and risk-taking behaviours, such as the importance of government policies, finance access, and cultural factors.

**Sample Size:** The study will target 300 SMEs to ensure the findings are representative and statistically significant. This sample size is large enough to provide reliable estimates and allows for generalization to the broader SME population in China. The sample will be selected using stratified random sampling, ensuring that different industries and regions are adequately represented in the sample. Stratified sampling helps control for variability within different sectors and geographic areas, ensuring that the study captures the diverse experiences of SMEs across China.

### 3.3 Instrumentation

- **Demographic Information:** This section collects primary background data about the SME, such as the industry it belongs to, its location, size, age, and the respondent's role (e.g., whether they are the owner or a manager). These variables are measured using nominal and ordinal scales, which categorize and rank the respondents' information.
- **Cultural Factors:** This section examines how traditional Chinese cultural values, such as collectivism, guanxi (social networks), and Confucianism, influence business behaviours. These cultural factors will be measured using a Likert-type scale (ranging from 1 to 5), where respondents indicate their agreement or disagreement with statements about the importance of relationships, group harmony, and respect for authority in decision-making.
- **Environmental Factors:** This section assesses the external factors that might influence the innovation and risk-taking behaviours of SMEs, including government policies, access to finance, and market competition. Again, a Likert-type scale (1 to 5) will be used to capture the extent to which these factors are perceived to affect the SMEs' ability to innovate and take risks.
- **Innovation:** This section focuses on how SMEs engage in product and process innovations. Respondents will answer questions using a Likert-type scale (1 to 5) regarding their company's activities related to developing new products, adopting new technologies, and implementing innovative practices to improve their operations.
- **Risk-Taking:** This section measures the SMEs' propensity to take risks in business decisions. Respondents will use a Likert-type scale (1 to 5) to indicate their willingness to engage in risky ventures, such as investing in new projects or expanding their business despite uncertain financial outcomes.
- **Business Growth:** The final section evaluates the growth of the SME, considering both financial and non-financial metrics. Financial growth is measured through quantitative indicators like revenue increase, while non-financial growth is assessed through variables like market share, customer satisfaction, and brand recognition. These items will combine both Likert-type scales and quantitative data.

## 4. Findings and Discussions



**Figure 1.** Company Size Distribution

The first bar graph provides a detailed breakdown of the company size distribution among the surveyed SMEs, categorizing respondents into three groups: micro-sized companies (1-10 employees), small-sized companies (11-50 employees), and medium-sized companies (51-500 employees). The graph reveals that small-sized companies dominate the sample, with the highest number of respondents falling within this category. This is consistent with the general landscape of small and medium enterprises (SMEs) in many economies, including China, where small firms typically represent the bulk of the sector. Small businesses, often characterized by fewer resources, smaller teams, and limited financial capacity, face distinct challenges compared to larger companies. Despite these limitations, small firms often exhibit high levels of adaptability, innovation, and risk-taking, frequently driven by the need to compete with more prominent players in the market. The micro-sized companies (1-10 employees) make up the second-largest group in the survey. While micro firms may struggle with even more significant resource constraints and operational inefficiencies, they rely on agility, close customer relationships, and low overhead costs to drive business growth. Medium-sized companies, with 51-500 employees, represent the smallest segment in the survey, highlighting that while they are more resource-rich and capable of larger-scale innovations and investments, they are less prevalent than smaller firms in the Chinese SME sector. This distribution indicates that most SMEs in the sample are small or micro-sized, which is crucial for understanding the unique challenges and growth strategies that influence these companies regarding innovation, risk-taking, and overall business development.

## 5. Conclusion

This study examined how cultural and environmental factors influence innovation, risk-taking, and business growth in China's Small and Medium Enterprises (SMEs). The findings highlight the importance of cultural values (e.g., collectivism, guanxi, and Confucianism) and environmental conditions (such as access to financial resources and government policies) in shaping Chinese SMEs' behaviour and growth strategies. The survey results revealed that these factors highly influence innovation and risk-taking, with cultural norms emphasizing the importance of relationships and group harmony, which can either encourage or limit business decisions related to growth. In addition, the availability of financial resources and the regulatory environment significantly affect SMEs' ability to innovate and take risks. The study also showed that small and micro-sized companies are the predominant players in the SME landscape, indicating that the challenges these companies face- such as limited resources, competition, and the need for adaptability are central to understanding business growth in this sector.

### 5.1 Implementation

The findings of this study can be implemented in several ways to support the development of SMEs in China. Policymakers can use the insights to craft targeted interventions, such as providing better access to financing, offering tax incentives for innovative activities, and promoting entrepreneurship through government programs. Encouraging a cultural shift toward risk-taking while valuing traditional relationships can foster a more dynamic business environment. Additionally, business owners and managers can utilize the findings to better align their strategies with the cultural and environmental factors that influence their industry. This understanding can help improve decision-making, especially in market expansion, innovation, and risk management.

### 5.2 Future Research

Future research could explore the role of digital transformation and technology adoption in fostering innovation and business growth within Chinese SMEs, as these factors are becoming increasingly important in the global business landscape. Further studies might also examine the regional variations within China, as cultural and environmental influences differ across regions, affecting how SMEs adapt and grow. Additionally, the impact of external shocks (such as the COVID-19 pandemic) on SME innovation and resilience could be a valuable area for future investigation. Longitudinal studies tracking the same firms over time could provide deeper insights into the long-term effects of cultural and environmental factors on business growth and sustainability. Lastly, comparative studies across different countries could offer valuable perspectives on how Chinese SMEs fare in the global market, particularly regarding innovation and risk-taking behaviours.

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### Conflict of Interest

The authors declare no conflicts of interest

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## **Appendix: Survey Questionnaires**

### **Section 1: Demographic Information**

1. **What is the size of your company?**
  - ☐ Micro (1-10 employees)
  - ☐ Small (11-50 employees)
  - ☐ Medium (51-500 employees)
2. **What industry does your company operate in?**  
(Select one)
  - ☐ Manufacturing
  - ☐ Services
  - ☐ Technology
  - ☐ Retail
  - ☐ Other (please specify): \_\_\_\_\_
3. **How many years has your company been in operation?**
  - ☐ Less than 1 year
  - ☐ 1-5 years
  - ☐ 6-10 years
  - ☐ More than 10 years
4. **What is your role within the company?**
  - ☐ Owner/Founder
  - ☐ CEO/Managing Director
  - ☐ Senior Manager
  - ☐ Other (please specify): \_\_\_\_\_
5. **In which region is your company located?**
  - ☐ Eastern China
  - ☐ Southern China
  - ☐ Northern China
  - ☐ Western China
  - ☐ Central China

### **Section 2: Cultural Factors**

**Please indicate your level of agreement with the following statements:**

1. **In my business, maintaining strong personal relationships is crucial for success.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree
2. **The opinions of family members and close associates are important in making business decisions.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree
3. **I prioritize group harmony and consensus in business decisions rather than individual viewpoints.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree
4. **I rely heavily on my personal network (guanxi) to achieve business goals.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree

5. **Confucian values, such as respect for authority and stability, influence my business practices.**

- ☐ 1 - Strongly Disagree
- ☐ 2 - Disagree
- ☐ 3 - Neutral
- ☐ 4 - Agree
- ☐ 5 - Strongly Agree

**Section 3: Environmental Factors**

Please indicate your level of agreement with the following statements:

1. **Government policies positively impact my company's ability to innovate.**

- ☐ 1 - Strongly Disagree
- ☐ 2 - Disagree
- ☐ 3 - Neutral
- ☐ 4 - Agree
- ☐ 5 - Strongly Agree

2. **Access to financial resources (such as loans or venture capital) is a barrier to innovation in my company.**

- ☐ 1 - Strongly Disagree
- ☐ 2 - Disagree
- ☐ 3 - Neutral
- ☐ 4 - Agree
- ☐ 5 - Strongly Agree

3. **The level of competition in my market pushes my company to adopt innovative practices.**

- ☐ 1 - Strongly Disagree
- ☐ 2 - Disagree
- ☐ 3 - Neutral
- ☐ 4 - Agree
- ☐ 5 - Strongly Agree

4. **Regulatory constraints make it difficult to take risks in my business.**

- ☐ 1 - Strongly Disagree
- ☐ 2 - Disagree
- ☐ 3 - Neutral
- ☐ 4 - Agree
- ☐ 5 - Strongly Agree

5. **Changes in the economy or market conditions impact my decisions to innovate or take risks.**

- ☐ 1 - Strongly Disagree
- ☐ 2 - Disagree
- ☐ 3 - Neutral
- ☐ 4 - Agree
- ☐ 5 - Strongly Agree

**Section 4: Innovation**

Please indicate your level of agreement with the following statements:

1. **Our company frequently develops new products or services.**

- ☐ 1 - Strongly Disagree
- ☐ 2 - Disagree
- ☐ 3 - Neutral
- ☐ 4 - Agree
- ☐ 5 - Strongly Agree

2. **Our company invests in research and development (R&D) to create innovative solutions.**

- ☐ 1 - Strongly Disagree
- ☐ 2 - Disagree
- ☐ 3 - Neutral
- ☐ 4 - Agree



- ☐ 5 - Strongly Agree
- 3. **We regularly implement new technologies or processes to improve efficiency.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree
- 4. **Our company is open to experimenting with new business models to stay competitive.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree

### Section 5: Risk-Taking

Please indicate your level of agreement with the following statements:

- 1. **My company is willing to take calculated risks to achieve growth.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree
- 2. **We are open to investing in new ventures or projects with uncertain outcomes.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree
- 3. **Taking financial risks is essential for the long-term success of my business.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree
- 4. **My business actively seeks opportunities for expansion, even if the risks are high.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree

### Section 6: Business Growth

Please indicate your level of agreement with the following statements:

- 1. **Our company's revenue has increased significantly over the past 12 months.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree
  - ☐ 5 - Strongly Agree
- 2. **We have expanded our customer base in the last year.**
  - ☐ 1 - Strongly Disagree
  - ☐ 2 - Disagree
  - ☐ 3 - Neutral
  - ☐ 4 - Agree

- 5 - Strongly Agree
- 3. **Our company has gained a larger market share in its industry.**
  - 1 - Strongly Disagree
  - 2 - Disagree
  - 3 - Neutral
  - 4 - Agree
  - 5 - Strongly Agree
- 4. **Customer satisfaction has improved over the past year due to our innovative practices.**
  - 1 - Strongly Disagree
  - 2 - Disagree
  - 3 - Neutral
  - 4 - Agree
  - 5 - Strongly Agree

### **Financial Growth Information**

(For the next two questions, please provide approximate figures for the last 12 months.)

1. **What was your company's total revenue in the last fiscal year?**
  - Less than 1 million RMB
  - 1 million to 10 million RMB
  - 10 million to 50 million RMB
  - 50 million to 100 million RMB
  - More than 100 million RMB
2. **What was your company's profit margin in the last fiscal year?**
  - Less than 5%
  - 5% - 10%
  - 10% - 20%
  - More than 20%