

# **Dilemmas and Strategies in Human Resource Management of Small and Medium-Sized Enterprises in China**

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**Abstract:** In today's knowledge-driven economy, human resources stand as the most valuable asset for any industry or enterprise, playing a decisive role in the current status and future development of the enterprise. Small and medium-sized enterprises (SMEs) represent the largest number of entities in China's market economy. However, they face practical challenges in human resource management such as severe talent drain, limited employee recruitment channels, inadequate staff training, which significantly hamper the sustainable development of Chinese SMEs. This paper explores the development status, human resource management dilemmas, and proposed strategies for Chinese SMEs. The aim is to provide valuable insights to enhance and refine human resource management strategies and elevate the level of human resource management within Chinese SMEs.

**Keywords:** SMEs; Human Resource Management; Strategies; Enterprise Brand; Corporate Culture

## **1. Introduction**

The rapid development of the Chinese economy has brought about dynamic changes in society. The continuous advancement of urbanization has intensified competition among various enterprises. SMEs, as the mainstay of China's economic development, directly impact the stability and prosperity of the Chinese economy. Despite the increasing prominence of SMEs in China's economic landscape, these enterprises grapple with numerous practical issues in human resource management due to lacking managerial capabilities. Challenges such as low salaries and inadequate benefits leading to severe talent drain, limited recruitment channels, and

insufficient training impede the enhancement of employee skills. Additionally, ineffective performance assessments and lagging corporate culture development further compound the human resource management predicaments faced by Chinese SMEs, becoming a significant obstacle to their sustainable development. From this realistic standpoint, researching the dilemmas and strategies in human resource management for Chinese SMEs holds substantial practical significance.

## **2. Development Status of Chinese SMEs**

As a crucial component of China's market economy, SMEs have long been a focus of attention regarding their survival and development. The Chinese government, to facilitate economic development and leverage the role of SMEs in stimulating consumption and domestic demand, has implemented various policies related to taxation, financing, and subsidies. These measures not only alleviate the survival pressure and operational burdens of SMEs but also create a favorable market environment for their development. Leveraging their advantages of being "small," "flexible," and "agile," SMEs have witnessed rapid growth. Overall, the development status of Chinese SMEs manifests in the following aspects:

### **2.1 Continued Increase in Enterprise Numbers**

According to statistics, in 2012, there were over 10 million SMEs in China, which surged to 52 million by 2022, nearly quintupling in a decade. The astonishing growth rate demonstrates the remarkable vitality of SMEs in the Chinese market.

### **2.2 Consistent Enhancement in Enterprise Quality**

The quality of SMEs mainly centers on their "specialization, refinement, uniqueness, and innovation." By 2022, close to 9,000 SMEs nurtured directly by China's Ministry of Industry and Information Technology were nearly supported by over 80,000 "specialized, refined, and innovative" SMEs across various provinces. These enterprises excel in specialization, refinement, uniqueness, and innovation, seizing market opportunities through precise positioning and innovative research and development.

### **2.3 Increasing Contribution of Enterprises**

Within the contemporary Chinese market economy, SMEs are ubiquitous across industries and sectors. They not only provide diverse resources for societal production but also offer a wide array of products and services for consumer markets. Furthermore, they play an irreplaceable role in job creation, revenue generation through taxation, and maintenance of social stability. The significance of SMEs to economic development and societal progress is undeniable.

### **2.4 Escalating Management Challenges**

Despite the evident achievements of Chinese SMEs in quantity, quality, and contribution, they confront considerable internal issues. The escalating difficulty in enterprise management poses significant challenges. In the modern economic environment, every facet of production and operation forms an interconnected whole within an enterprise. Any misstep in these facets can disrupt the normal operations of the entire enterprise, necessitating higher managerial standards for SMEs. Most Chinese SMEs are privately owned, with many being family businesses. While the management may possess business acumen, they might lack experience in scientific management, particularly in human resource management. Subjectivity often prevails, lacking scientific and rational planning and a comprehensive and effective human resource management system. This persistent issue threatens the healthy development of human resources within SMEs, highlighting a core management aspect that demands urgent attention.

## **3. Dilemmas in Human Resource**

## **Management for Chinese Small and Medium Enterprises (SMEs)**

### **3.1 From a Macro Perspective**

The predicaments in human resource management for Chinese SMEs primarily concentrate on severe talent attrition, limited recruitment channels, inadequate emphasis on employee training, incomplete performance evaluation systems, and lagging corporate culture development.

#### **3.1.1 Severe Talent Attrition**

Despite the continuous increase in the number of "specialized and innovative" SMEs in China, these enterprises constitute only a small fraction when compared to the vast number of SMEs. Faced with intense market competition, the majority of SMEs find themselves surviving in a state of being squeezed. They not only suffer from financial constraints and a lack of innovation but also exhibit significantly inadequate attractiveness to top talents [1]. Coupled with the fact that remuneration in many SMEs is generally lower than that offered by large or foreign enterprises, retaining excellent talent becomes a challenge, resulting in employee turnover becoming a norm for SMEs.

#### **3.1.2 Limited Employee Recruitment Channels**

Presently, Chinese SMEs primarily recruit employees through online platforms and offline talent markets. Online recruitment mainly involves using renowned domestic job sites to post job openings according to position requirements. Offline recruitment involves deploying recruitment specialists to conduct in-person hiring at talent markets. These two channels constitute the major recruitment avenues for the vast majority of SMEs. From the SME standpoint, they aim to recruit employees with minimal costs. However, compared to prominent enterprises, they suffer from lower visibility and noticeable disparities in benefits and perks, making it challenging to attract high-quality employees through these channels alone.

#### **3.1.3 Insufficient Employee Training Efforts**

In the contemporary era characterized by labels like "digitalization", "information technology" and "intelligence", various new concepts and technologies constantly emerge, urging enterprises to adapt to changing times and meet market demands by continuously updating perspectives and enriching

knowledge. The quality of the human resources directly impacts the quality of an enterprise's operational development [2]. However, in the process of business development, many Chinese SMEs disproportionately focus their efforts on marketing, emphasizing product sales and market share, while allocating relatively minimal resources to employee training. Consequently, employees' comprehensive qualities such as ideologies, business knowledge, and skill levels fail to receive timely updates and effective enhancements. This shortfall not only impedes the improvement of human resource management standards for SMEs but also hinders the long-term sustainable development of these enterprises.

#### 3.1.4 Flaws in Performance Evaluation

Performance evaluation stands as a core aspect of enterprise human resource management. However, in some SMEs, managers lack a profound understanding of performance evaluation, viewing it merely as an assessment of whether departments and employees fulfill predetermined production tasks or sales objectives. Due to the absence of clear assessment criteria, the evaluation process lacks sufficient fairness and transparency, rendering performance evaluations seemingly futile. Moreover, the outcomes of performance evaluations primarily result in bonus payouts or salary increases without being integrated with employee promotions or career path planning. Additionally, there's a lack of feedback mechanisms aligned with performance evaluation, resulting in the underutilization of performance evaluation's potential to stimulate employee enthusiasm, proactiveness, and creativity.

#### 3.1.5 Lagging Corporate Culture Development

Corporate culture embodies an enterprise's values and serves as a symbol, connecting emotional relations between the enterprise and its employees. It has become a vital component of intangible assets and core competitive advantages for enterprises [3]. Presently, many Chinese SMEs haven't integrated the construction of corporate culture into their human resource management. Some perceive corporate culture as organizing employee outings or dinners, indicating a skewed understanding among managers about corporate culture. This leads to lower

employee identification with the corporate culture, especially among new employees who lack sufficient understanding and affiliation with it. Consequently, they fail to align their personal values with the enterprise's management concepts and development strategies. Without a distinctive corporate culture, employee cohesion and centripetal force weaken, thereby failing to enhance the overall efficiency and quality of the human resources team, ultimately affecting the healthy development of the enterprise.

### 3.2 From a Micro Perspective

The challenges in human resources management for small and medium-sized enterprises (SMEs) in China are primarily concentrated in areas such as recruiting difficulties, high training costs, weak competitiveness in compensation and benefits, high pressure on labor costs, and an inadequate management system.

#### 3.2.1 Recruiting Difficulties

SMEs may face challenges in attracting high-quality talents, as some outstanding job seekers tend to prefer working in large enterprises, believing that larger companies offer better career development opportunities and stability.

#### 3.2.2 High Training Costs

The cost of providing employee training can be burdensome for SMEs, especially in rapidly evolving industries. Lack of training opportunities may lead to insufficient skills among employees, impacting the competitiveness of the enterprise.

#### 3.2.3 Weak Competitiveness in Compensation and Benefits

Compared to large enterprises, SMEs may struggle to provide competitive compensation and benefits, posing challenges in motivating and retaining employees.

#### 3.2.4 High Pressure on Labor Costs

To cope with competition, some SMEs may cut costs in labor, resulting in employees experiencing high work pressure and subpar welfare benefits.

#### 3.2.5 Inadequate Management System

Due to their smaller scale, the management systems of SMEs may be relatively simple, leading to deficiencies in areas such as recruitment, performance evaluation, and promotion.

#### **4. Strategies for Addressing Human Resource Management Challenges in Chinese Small and Medium Enterprises (SMEs)**

In the face of human resource management challenges within Chinese small and medium enterprises (SMEs), strategies should focus on tackling talent attrition, expanding employee recruitment channels, enhancing training efforts, continuously refining performance evaluation systems, fostering a positive corporate culture, and striving to create a cohesive, skilled, and distinctly characterized workforce.

##### **4.1 Building an Attractive Employer Brand**

By shaping a positive corporate culture, enhancing the working environment, and emphasizing the unique advantages of small and medium-sized enterprises (SMEs), it aims to increase attractiveness and draw in more high-quality talents.

###### **4.1.1 Clarifying Core Values**

Define the core values and culture of the company, clearly stating its mission, vision, and commitment to employees. This helps establish the uniqueness of the company and attracts those whose values align with the corporate culture.

###### **4.1.2 Emphasizing Corporate Culture**

Reflect the corporate culture in various aspects, including the company website, recruitment advertisements, and social media. Highlight the team spirit, innovation, and focus on employee well-being.

###### **4.1.3 Actively Using Social-Media**

Utilize social media platforms to showcase the company's daily work life, employee achievements, and corporate events. By sharing positive work environments and success stories, it enhances the company's attractiveness on social media.

###### **4.1.4 Creating a Professional Website**

The company website is a crucial platform for displaying the corporate image and culture. Ensure that the website content is clear, engaging, and includes information about the company's history, team, vision, mission, and employee benefits.

###### **4.1.5 Providing Competitive Compensation and Benefits**

Establish a competitive compensation and benefits system, including flexible working hours, employee training programs, health

insurance, etc. This helps attract a greater number of high-quality talents.

###### **4.1.6 Reinforcing Brand Story**

Tell the story of the company's brand, emphasizing the entrepreneurial spirit, the journey of corporate development, and the achievements attained. Sharing authentic stories helps potential employees better understand the company's values.

###### **4.1.7 Offering Career Development Opportunities**

Emphasize the career development opportunities provided by the company, including training programs, promotion pathways, mentorship programs, etc. This attracts ambitious talents.

###### **4.1.8 Engaging in Social Responsibility Activities**

Actively participate in social responsibility activities to demonstrate the company's concern for society and the environment. This helps establish a positive company image and increases favorability towards the company.

###### **4.1.9 Establishing Employer Brand Ambassadors**

Cultivate and leverage existing employees as employer brand ambassadors, allowing them to share their work experiences. This is a powerful word-of-mouth advertising method.

###### **4.1.10 Regular Evaluation and Adjustment**

Regularly assess the effectiveness of the company's brand through feedback and data analysis to understand the perspectives of potential employees. Make adjustments based on feedback to continuously enhance the attractiveness of the company's brand.

##### **4.2 Improve the Level of Compensation and Welfare to Retain Outstanding Talents**

Regarding the issue of talent loss, the most direct and effective solution is to enhance the level of compensation and benefits within the company. On one hand, Chinese small and medium-sized enterprises should actively monitor changes in industry salary standards, moderately raise salary standards, and ensure that the compensation offered by the company remains competitive in the market. It is essential to consider that the financial strength of small and medium-sized enterprises is limited. Forcing an increase in employee salary standards to match those of large or foreign enterprises may inevitably burden the company financially. Therefore, the

formulation of salary standards must be based on the actual financial situation of the company, avoiding unrealistic expectations. On the other hand, besides moderately increasing salary standards, small and medium-sized enterprises can also design and consider more in terms of employee benefits, providing additional perks beyond wages [4]. For instance, departments, teams, or individuals who demonstrate outstanding performance and contributions can be rewarded through bonuses, paid leave, overseas trips, or even stock options, motivating employees to create more value for the company. Additionally, small and medium-sized enterprises should excel in human-centric employee care management, making efforts to assist struggling employees in resolving issues related to housing, healthcare, and even children's education. This ensures that employees feel the company's attention and care, thereby enhancing employee satisfaction and loyalty. This approach significantly contributes to reducing the phenomenon of talent loss, ultimately enabling companies to retain outstanding talents.

### **4.3 Expand Employee Recruitment Channels to Attract Available Talent**

Small and medium-sized enterprises (SMEs) should further broaden their recruitment channels on the basis of existing methods, attracting diverse talents through various means. Specifically, first, SMEs should continue to make effective use of both online recruitment platforms and offline talent markets. In addition to enhancing competitiveness in salary standards, it is crucial to provide detailed descriptions of the company's provisions regarding employee welfare benefits. This ensures that job seekers feel the company's commitment to its employees. Second, SMEs can establish collaborations with major academic institutions, engaging in activities such as "Corporate Campus Visits" and "School-Enterprise Pairing" to recruit potential talents from universities. This not only reduces the company's recruitment costs but also effectively promotes the company's culture and products. Third, SMEs can explore options like labor outsourcing or headhunting to leverage the resources of intermediary

companies in conducting recruitment. Fourth, in the course of daily operations, companies should enhance communication activities with other industries. Through high-level exchanges and project collaborations between companies, they can continuously expand their network resources, providing more channels for employee recruitment.

### **4.4 Strengthen Staff Training and Improve Staff Quality**

As society advances, the prevalence and application of various new technologies continue to increase. Therefore, employees in enterprises need to continually update their knowledge and learn new skills in order to better adapt to changes in the market environment and contribute to the development of the company [5]. In response to this, while encouraging employees to acquire new knowledge and skills, small and medium-sized enterprises (SMEs) should prioritize employee training, increase investment in human resources training, and assist employees in enhancing their knowledge base and improving their skill levels. This will lead to an overall improvement in the comprehensive qualities of the entire human resources workforce.

To achieve this, SMEs can develop detailed employee training plans based on their current situation and future development needs. Tailored training activities should be implemented for employees at different levels and in different departments. Firstly, regarding training methods, SMEs can flexibly adopt various forms of training, such as expert lectures, instructor-guided training, internal discussions, and online learning for employees, depending on the situation. Secondly, in terms of training content, it should be aligned with market trends as well as the nature of the work in different departments and positions within the enterprise. Focus should be placed on selecting mainstream knowledge and technologies closely related to various business operations, and the training content should be broken down into several units to control the content and duration of each training session, thereby reducing the learning burden on employees. Furthermore, in terms of training assessment, the effectiveness of employee learning should be randomly checked after each training activity. This is

aimed at increasing employees' attention to and participation in training activities.

#### **4.5 Improve the Performance Appraisal System to Stimulate the Enthusiasm of Employees**

The purpose of performance assessment is to identify the effectiveness and existing shortcomings in departmental work, as well as the strengths and weaknesses of individual employees. This facilitates providing targeted guidance and assistance for both departments and employees in the later stages [6]. Addressing the deficiencies in performance assessment in small and medium-sized enterprises (SMEs) in China requires, first and foremost, a high level of attention from the management. The management should enhance their understanding of performance assessment, comprehensively grasp its goals, processes, and methods. Only by doing so can the improvement and effective implementation of the performance assessment system be ensured within the company. Secondly, SMEs should, based on their specific needs, refer to the experiences and practices of large enterprises and outstanding SMEs in China regarding performance assessment. Continuous improvement and refinement of performance assessment-related systems are essential to ensure that the process has clear and scientifically guided regulations. Furthermore, concerning the content of performance assessment, SMEs should focus on aspects such as ethics, abilities, diligence, achievements, and integrity. They should introduce Key Performance Indicators (KPIs) to objectively assess employees' performance in daily work. Simultaneously, constructing a comprehensive indicator system consisting of team collaboration, communication skills, innovation ability, and other factors is crucial for a holistic evaluation of employee performance.

In the performance assessment process, it is vital to ensure fairness, objectivity, and transparency so that all employees can actively participate and acknowledge the assessment results [7]. Additionally, regarding performance assessment results, SMEs should use them as the basis for rewards and penalties, linking them to employees' compensation, promotions, and incentives to motivate proactive work. Furthermore, timely communication and

feedback to employees are crucial. This involves pointing out employees' strengths and weaknesses, providing improvement suggestions, and aiding employees in their growth journey.

#### **4.6 Strengthen the Construction of Corporate Culture, and Gather the Strength of the Staff**

Corporate culture is the "spirit," "energy," and "soul" of a company, reflecting the centripetal force and cohesion of its employees. A strong corporate culture can inspire the enthusiasm, proactivity, and creativity of all employees, making immeasurable contributions to the company's development. Therefore, the management of small and medium-sized enterprises (SMEs) must prioritize and strengthen the construction of corporate culture [8].

Firstly, the construction of corporate culture should adhere to uniqueness. Corporate culture represents the unique values of a company, distinguishing it from others. While learning from the practices or models of excellent companies is permissible, it should not be copied blindly or changed abruptly. Secondly, the construction of corporate culture should emphasize "internalization in the heart and externalization in behavior." SMEs can use methods such as publicity and training to ensure that employees, during the process of encountering and learning about corporate culture, genuinely identify with it from the heart. This alignment of personal values with the company's values at a spiritual level enables employees to use corporate culture as a guiding principle and action plan in their daily work. This, in turn, facilitates coordinated efforts to accomplish phase tasks and achieve strategic objectives. Furthermore, the construction of corporate culture should be normalized. It is not a one-time effort but a continuous integration into the entire spectrum of human resource management. Various activities, such as knowledge contests, skill competitions, and outdoor team building, can be organized by SMEs to enhance communication among employees. These activities should permeate and reinforce the company's values, strengthening employees' sense of belonging and identification. Actively cultivating a healthy and harmonious corporate culture atmosphere fosters a better work

environment, encouraging employees to contribute more to the company's development.

### 5. Conclusions

The management of human resources in small and medium-sized enterprises (SMEs) is a complex, continuous, and enduring systematic process that requires improvements and innovations from various aspects within the company. Managers bear an undeniable responsibility for addressing the challenges faced by Chinese SMEs in human resource management. Therefore, SME managers should take a macro perspective, objectively and rationally analyzing human resource management issues. They should continuously strengthen human resource management efforts from multiple dimensions such as talent retention, recruitment, employee training, performance evaluation, and building corporate culture. This proactive approach aims to cultivate and enhance the core competitiveness of the enterprise, helping it overcome the challenges in human resource management, and achieve healthy and sustainable development.

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