

The Financial Resource Limitations of Small and Micro Enterprises in the Magnetic Material Industry in Terms of Strategic Choices: Taking Zhejiang Guomai Magnetic Material Technology Co., Ltd as an Example

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Abstract: Small and micro enterprises play an important role in economic development, but due to the limitation of financial resources, they face many challenges in strategic choices. China's magnetic material industry is growing rapidly under the impetus of policy support, technological progress and downstream demand expansion. This paper focuses on the limitations of financial resources of small and micro enterprises in the magnetic material industry, and discusses its impact on strategic choices by taking actual specific enterprises as examples. This paper argues that the limitations of financial resources limit the company's strategic choices of small and micro enterprises, making them more inclined to choose market-focused and conservative growth strategies, and the limitations of financial resources make small and micro enterprises competitive strategic choices, unable to play the cost-leading advantage, and the limitations of financial resources will lead to the inability of small and micro enterprises to establish local production facilities in their internationalization strategies, thus facing the risk of order loss and weakening market competitiveness when customers migrate abroad.

1 INTRODUCTION

Small and micro enterprises are an important driver of economic growth and innovation, especially through job creation and market diversification to promote regional economic development. However, small and micro enterprises face many challenges in the operation process, especially in terms of strategic choices, and the limitation of financial resources is considered to be a major factor restricting their development.

The magnetic material industry is in a critical period of strong demand, technological upgrading, and supply chain optimization. The development of new energy vehicles, wind power, and intelligent manufacturing has provided a broad market for magnetic materials. The industry has high technical barriers and increased industry concentration. The high-end magnetic material market is gradually concentrated in technology-leading enterprises, and the survival pressure of small and low-end magnetic material enterprises is increasing.

This article will explore from three aspects of strategic choice, namely corporate strategy, competitive strategy, and internationalization strategy. Corporate strategy is the long-term development direction and decision-making of an enterprise at an overall level. It involves how the enterprise allocates resources in different business areas or markets and formulates overall goals. It usually includes decisions such as business expansion, market selection, diversification or exiting a certain market; Competitive strategy is the strategy of how the enterprise competes with competitors in a particular industry or market.

It emphasizes that enterprises gain an advantage in competition through cost leadership, differentiation, or market concentration to ensure long-term market share and profits; internationalization strategy is a strategy for enterprises to expand their business across national borders, involving how enterprises can enter the international market, including through exports, foreign investment cooperation, factory construction, or cross-border mergers and acquisitions.

The purpose of this paper is to reveal the relationship between financial limitations and strategic choices, provide a strategic path for resource adaptation for small and micro enterprises, and enhance sustainable development capabilities; make up for the shortcomings of existing strategic management theories in the field of small and micro enterprises, and promote the diversification of theoretical frameworks.

At present, the mainstream research on enterprise strategic management mostly focuses on the strategic choice and execution of large enterprises. Large enterprises have more choices and flexibility in the strategic decision-making process by virtue of their size, resources, market position and brand advantages, so the academic community pays more attention to how they can achieve long-term growth and market leadership through strategic paths such as differentiated competition, global expansion or technological innovation. However, for small and micro enterprises, especially in the context of limited financial resources, there is relatively little research on their strategic choices.

Existing strategic management theories (such as resource-based theory (RBV), dynamic capability theory, competitive strategy theory, etc.) are mostly proposed and validated in the context of large enterprises. These theories mainly focus on how to achieve sustainable competitive advantage in a highly competitive market and how to expand strategically through resource accumulation, while ignoring how small and micro enterprises formulate and execute strategies in the context of resource shortage, market uncertainty and capital shortage.

Although some scholars have begun to pay attention to the particularity of small and micro enterprises in recent years, overall, the strategic management of small and micro enterprises, especially the strategic choice under the constraints of financial resources, is still a relatively weak research field.

There are few researches on the magnetic material industry, most of which are biased towards general market analysis and lack of specific analysis from a single perspective. This paper will analyze the impact of financial resource limitations on small and micro enterprises from the perspective of strategic choice.

This paper uses the case analysis method, taking specific small and micro enterprises as an example, to explore how financial resources limit the company's strategic choice, and the impact on competitive strategies such as cost leadership, differentiation and market concentration, as well as the constraints on internationalization strategies.

2 LITERATURE REVIEW

The definition of small and micro enterprises is usually based on quantitative indicators such as the number of employees and the scale of revenue, which plays an irreplaceable role in the global economy. Tian Xiujia (2024) shows in his research that small and micro enterprises in the European Union account for 99.8% of the total number of enterprises and contribute 51.8% of GDP; according to the National Bureau of Statistics (2019), small and micro enterprises in China provide more than 80% of jobs. However, compared with large enterprises, the particularity of small and micro enterprises lies in their significant resource constraints and market uncertainty.

When studying small and micro enterprises, many scholars have found that the narrow financing channels, fragile cash flow, management's reliance on the founder's experience, and high market competition barriers of small and micro enterprises together constitute their core development obstacles. For example, Wang Xingjuan (2012) believes that small and micro enterprises have many obstacles in financing and cannot obtain funds efficiently. Karadag (2015) proposed that the problem of "poor financial management" is considered to be the main reason for the failure of small and medium-sized enterprises. It is worth noting that existing studies focus on the survival of small and micro enterprises, but there are still obvious shortcomings in the discussion of strategic management paths in the context of resource constraints.

Traditional strategic management theories (such as resource-based theory, Porter's competitive strategy, and dynamic capability theory) are mainly based on the practical experience of large enterprises, emphasizing resource accumulation and large-scale competition. For example, Beamish, & Chakravarty (2021) used resource-based theory to study large multinational companies. Gerard, & Bruijl (2019) put forward the outdated view that Porter's competitive strategy proves that companies achieve greater success and victory through scale because they sell more products, sell more customers, generate more revenue, and have more power.

However, these theories fail to answer how small and micro enterprises choose strategic paths when resources are scarce, such as whether they need to abandon traditional competition frameworks or adjust strategic priorities. The existing literature dominates the study of strategic choices of large enterprises, such as globalization expansion, mergers and acquisitions, and technological innovation, while the

study of small and micro enterprise strategy is often simplified to "flexibility" or "market segmentation", lacking systematic analysis. This emphasis leads to significant gaps in the theoretical framework and practical guidance of small and micro enterprise strategic management.

The limitations of current research are mainly reflected in three aspects: first, the research perspective is single, most follow the theoretical framework of large enterprises, ignoring the uniqueness of small and micro enterprises; second, the lack of empirical research, quantitative analysis based on large enterprise data dominates, and case studies for small and micro enterprises are scarce; third, the influence mechanism of financial resource constraints on strategic choices has not been systematically demonstrated. For example, how financial constraints constrain the internationalization process or competitive strategies of small and micro enterprises (such as cost leadership and differentiation) remains unclear.

Therefore, this study focuses on the strategic choices of small and micro enterprises under the constraints of financial resources, aiming to fill the gap between theory and evidence, and provide them with an appropriate resource optimization path.

After reading the literature on the magnetic industry, it can be found that small and micro enterprises are under great pressure to survive in the magnetic industry. Weng Xingyuan (2021) pointed out that the development situation of enterprises in the magnetic industry varies greatly, and the polarization situation is very prominent. Many small and micro enterprises basically survive at low profits, which are unprofitable and difficult to invest in innovation and development. About 40% of the enterprises have maintained a growth of more than 10% in sales and profits, mainly listed enterprises with magnetic materials. From the perspective of enterprise structure, at present, the production and operation situation of large and medium-sized joint-stock (especially listed companies) private and private enterprises in the industry is relatively good, and most of the small and micro enterprises are relatively difficult.

Therefore, it can be concluded that the development of small and micro enterprises is difficult, and scientific strategies are urgently needed to improve the development situation.

Therefore, this research will analyze from three aspects - company strategic choice, competitive strategic choice, and internationalization strategy, and explore how the limitations of small and micro

enterprises in financial resources will negatively affect the strategic choice of enterprises.

3 CASE STUDY

The following cases will be demonstrated by taking Zhejiang Guomai Magnetic Materials Co., Ltd. (referred to as Guomai) as an example.

This article takes Zhejiang Guomai Magnetic Materials Co., Ltd. as an example. The company's main business includes research and development of electronic special materials; production and sales of magnetic materials; manufacturing of power electronic components, etc. According to the relevant definitions in China, the enterprise is a small and micro enterprise.

3.1 Financial Constraints Constrain Companies' Strategic Choices

The limitations of financial resources limit the company's strategic choices of small and micro enterprises, making them more inclined to choose market-focused and conservative growth strategies. Guomai, as a typical small and micro enterprise, is forced to focus on core production links such as magnetization, packaging and processing in strategic choices due to limited financial resources, abandoning the layout of the entire industrial chain. Although this focus strategy has enabled it to accumulate technical advantages in specific processes and improve short-term operational efficiency, it has also buried latent risks due to over-reliance on external suppliers (such as electroplating and raw material outsourcing).

In 2023, the German Bosch company found in the cooperation evaluation that the outsourcing of key processes of Guomai led to the fracture of the product quality traceability chain, which could not meet its requirements for the quality control of the whole process, and finally terminated the potential annual transaction volume, reaching 200 million to 300 million yuan long-term orders. In 2024, the leading enterprises in the electronics industry also believed that Guomai quality control without a complete industrial chain may not meet the standards, and terminated the business with Guomai. Guomai is expected to lose 100 million to 200 million yuan.

This case reveals the strategic dilemma of small and micro enterprises under resource constraints: on the one hand, specialized focus can optimize the allocation of limited resources and reduce initial

investment costs; on the other hand, the disruption of the industrial chain may weaken the company's control over core Quality Standards, which in turn affects customer trust. Somjai (2017) mentioned in the article that there is a probability of a series of problems in the outsourcing process, including extended delivery time, substandard quality, defects, and improper classification of responsibilities. The loss of Bosch orders not only reflects the direct loss of order amount, but also highlights the opportunity cost for small and micro enterprises to establish long-term cooperative relationships with large multinational enterprises due to strategic limitations.

This contradiction shows that although financial resource constraints force small and micro enterprises to adopt contractionary strategies, if they fail to balance the conflict between professional efficiency and industrial chain integrity, their strategic choices may change from "survival tools" to "development bottlenecks".

Furthermore, Guomai's predicament confirms the shortcomings of the applicability of resource-based theory (RBV) in the scenario of small and micro enterprises. Traditional theories emphasize the supporting role of internal resources to competitive advantage, but small and micro enterprises often need to make up for the capacity gap through outsourcing due to limited financial resources. However, the external dependence brought by outsourcing may offset the advantages of its core links.

3.2 Financial Constraints Limit Competitive Strategic Choices

The limitation of financial resources makes it impossible for small and micro enterprises to compete for strategic choices and take advantage of cost leadership. Due to the limitation of financial resources, it is difficult for Guomai to imitate large-scale investment in advanced production equipment and technology by large-scale competitors, resulting in structural obstacles to the implementation of its cost leadership strategy. Although enterprises try to optimize local costs through lean management, the lack of investment in key equipment seriously limits the overall production efficiency and unit cost control ability.

In contrast, large enterprises with financial advantages to introduce automation equipment and achieve economies of scale, through centralized production and bulk procurement significantly diluted fixed costs, while Guomai's small-scale operating model makes it impossible to obtain the same cost advantage.

In the processing process, Guomai introduced 5 wire cutting machines to increase its own production capacity, but other large enterprises introduced about 100 units. In the competition with large companies, Guomai's production capacity is too low to play a cost-leading role. In the automatic car process, Guomai introduced 1 grinding table for processing, while competitors introduced more than 10 equipment for processing. The gap in equipment forced Guomai to give up ordinary magnetic products and choose high-precision products as its main products.

This contradiction highlights the dilemma of small and micro enterprises in the cost competition: the shortage of resources directly weakens their ability to upgrade equipment and expand capacity, which in turn hinders the formation of economy of scale benefits. Ultimately, the high unit production cost of China is difficult to compete with large enterprises in price competition, and product opportunities are lost. Isaboke (2018) SMEs are more likely to adopt a centralized strategy when gaining a competitive advantage, followed by differentiation, combination, and the least applied strategy is the low-cost leadership strategy, which is a challenge for start-ups and medium-sized SMEs because of limited resources and vast markets, and the free market economic system is not conducive to them.

Portfolio strategy poses a greater challenge in application because it involves a mix of differentiation and concentration strategies, while SMEs attempt to focus on specific markets, products, locations, and gain market share.

3.3 Financial Constraints Constrain Internationalization Strategies

The limited financial resources of small and micro enterprises will prevent them from establishing local production facilities in their internationalization strategy, thus facing the risk of loss of orders and weakening market competitiveness when customers relocate abroad. Due to the shortage of financial resources, Guomai cannot respond to the localization needs of core customers (such as Luxshare Precision Industry Co.,Ltd. and Goertek) after relocating their production bases to Vietnam. In order to optimize the efficiency of the supply chain, customers require suppliers to establish production facilities nearby to reduce transportation costs and ensure delivery timeliness. However, Guomai is limited by insufficient funds. It is impossible to independently invest in the construction of overseas factories and to

localize production capacity through strategic cooperation.

This contradiction directly leads to the loss of orders to competitors with overseas layout capabilities, and the loss of long-term cooperation opportunities with top-tier clients.

This case reveals the structural dilemma of small and micro enterprises in the process of internationalization: financial constraints limit the ability to invest in overseas production facilities, forcing enterprises to rely on cross-border logistics, which in turn drives up operating costs and weakens delivery reliability. Roy, Sekhar, & Vyas (2016) pointed out in the article that resources are limited, and capital is a key factor restricting the internationalization of small and micro enterprises.

As customer supply chains shift to low-cost regions, small and micro enterprises that lack localized capacity face a double risk - not being able to share fixed costs through economies of scale, but also struggling to meet customer demand for agile supply chains, ultimately leading to a systemic decline in market competitiveness. This problem confirms the limitations of the resource-based theory (RBV) in the interpretation of small and micro enterprises' multinational operations: even if the focus is on core capabilities, the lack of resources will still weaken the effectiveness of the strategy through supply chain disconnection.

4 CONCLUSIONS

According to the research in this paper, the limitation of financial resources has a profound impact on the strategic choice of small and micro enterprises. First, financial resource constraints force small and micro enterprises to choose market-focused and conservative growth strategies when formulating corporate strategies, rather than extensive market expansion or diversification. Second, financial limitations also affect the competitive strategy of small and micro enterprises, especially in the implementation of cost leadership. Due to insufficient funds, small and micro enterprises cannot make large-scale equipment investment or technology upgrades, making it difficult for them to achieve economies of scale in production and thus unable to compete with large enterprises on price.

Finally, the constraints of financial resources also make small and micro enterprises face huge challenges in their internationalization strategies. Especially when core customers migrate abroad and suppliers are required to provide localization

packages, it is difficult for small and micro enterprises that lack funds to establish production facilities overseas, resulting in the loss of orders and the weakening of market competitiveness.

Despite this, under the limitation of financial resources, small and micro enterprises can still make up for the lack of resources and enhance their market competitiveness through unique business methods, innovative sales concepts and technological innovation. By flexibly responding to changes in market demand, optimizing management and operation models, and relying on digital technology, small and micro enterprises can find a foothold in the fierce market competition, overcome financial bottlenecks, and promote sustainable development of enterprises.

In the future, the competitiveness of small and micro enterprises will depend more on the combination of technical expertise, operational efficiency, and niche selection, rather than relying solely on capital investment. In high-tech industries such as magnets, if small and micro enterprises can adhere to technological innovation, efficient management, and amplify resource efficiency with the help of digital tools, they have every opportunity to achieve "small to big" in the subdivision track, and even become the leader of disruptive technologies. This path not only fits the general trend of China's manufacturing transformation and upgrading, but also opens up a sustainable development path for small and micro enterprises to break through financial constraints.

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