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The impact of competitive strategy on enterprise performance: An empirical study of small and medium-sized manufacturing enterprises

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Abstract. This study investigates the relationships between competitive strategy, innovation, corporate governance structure, capital structure, human capital, and enterprise performance in small and medium-sized manufacturing enterprises (SMEs). The research is based on the Competition Theory. The survey research design includes 506 valid responses from SMEs in China. Structural equation

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modelling was employed to analyze the responses. It revealed that competitive strategy positively impacts performance, with innovation and human capital as key mediators. Corporate governance and capital structure also mediate these relationships, supporting various strategic management theories. Additionally, the environment moderates the impact of competitive strategy on performance, highlighting the need for adaptability in dynamic markets. These findings offer theoretical substantiations and practical insights for enhancing SME performance through strategic planning. Future research should employ longitudinal approaches and integrate objective data to explore these dynamics further.

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JEL Classification: L20, L25, L60

1. INTRODUCTION

The impact of small and medium-sized manufacturing companies has been acknowledged in growing economies; the Chinese economy, being no different, has also benefitted from the activities of these firms and their complex operations (Chung & Tan, 2017; Li et al., 2024). They are akin to an extensive economic network, intimately connecting the development and advancement of industries (Zhu et al., 2023). These enterprises exhibit vast differences in scope and capabilities, yet collectively, they confront the challenges posed by the rapid evolution of global markets and technological advancements (Zhang et al., 2022). Not only do they play a crucial role in economic activities, they are also the true drivers of the Chinese manufacturing sector. However, despite the undeniable significance of these small and medium-sized manufacturing enterprises in the Chinese economy, the subtle interplay between competitive strategies and business performance remains an underexplored domain. This exploration is particularly critical because the unique context of the Chinese manufacturing industry imparts a distinctive dynamic to the relationship between competitive strategies and performance. The intense competition in the Chinese market, coupled with the rapid shifts in technology and market conditions, forces these small and medium-sized manufacturing enterprises to adapt flexibly and employ differentiated competitive strategies (Narumov et al., 2023; Trang, 2023). Consequently, understanding how these enterprises formulate and implement competitive strategies, as well as how these strategies influence their performance, becomes paramount for survival and success in this intricate and highly competitive environment (Frasquet et al., 2022; Tuksatit & Rajiani, 2020).

Although existing literature provides insights into broader economic trends, it often falls short of adequately addressing the specific dynamics of Chinese small and medium-sized enterprises (SMEs). Particularly, it frequently neglects to thoroughly investigate how the competitive strategies of these enterprises directly impact their performance, presenting a significant research gap (Hayakawa, 2022; Kozubíková et al., 2023). Given the pivotal role of Chinese SMEs in the national economy, bridging this gap is of paramount importance for gaining a better understanding of their operational dynamics and their contributions to economic growth. Furthermore, while factors such as innovation, corporate governance, and human capital are recognized as potential influences on the relationship between competitive strategies and performance, they have yet to receive comprehensive scrutiny (Chumnangoon et al., 2023; Mongkol, 2021). This leaves a knowledge void, as these factors may play crucial roles in explaining how competitive strategies shape performance. Therefore, a comprehensive exploration of these potential influencing factors

is vital for uncovering the path to success for small and medium-sized enterprises in the Chinese manufacturing industry.

This study aims to fill these research gaps and provide a new perspective on the intricate relationships between competitive strategies, innovation, governance structures, and human capital in small and medium-sized Chinese manufacturing enterprises. Its primary objective is to dissect these complex relationships, offering strategic insights into the initiatives and performance metrics of these enterprises. In doing so, the study seeks to elucidate how these enterprises navigate competitive trends and leverage innovation and strategic governance to enhance performance (Muangmee et al., 2022; Oduro, 2023). Firstly, it investigates the impact of competitive strategies on the performance of small and medium-sized enterprises in the Chinese manufacturing industry. In this area, we explored the practical implementations of competitive strategy and analyzed how they influence business performance. Secondly, the study explores and compares the mediating effects of innovation, corporate governance structures, capital structures, and human capital in the relationship between competitive strategies and business performance. This will provide us with a deeper understanding of how competitive strategy influences business performance through these factors, offering a more comprehensive perspective. Thirdly, it evaluates the moderating role of the broader business environment in the relationship between competitive strategies and business performance. This will help us comprehend the varying effects of competitive strategies in different business environments and how adaptation to these environments can enhance performance. Finally, it aims to derive practical recommendations based on the study's findings, guiding the growth and development strategies of small and medium-sized enterprises in the Chinese manufacturing industry.

This study holds the potential to make significant contributions both in academia and in practical applications. Firstly, bridging the identified research gaps will provide robust strategic insights for small and medium-sized enterprises. These insights will assist these enterprises in better adapting to highly competitive market environments and improving their competitiveness within the Chinese manufacturing sector. Secondly, our research focuses on the complicated relationships between critical elements such as innovation and effective governance and their connection to competitive strategies. This will enrich the academic discourse on manufacturing strategy management. Our findings also offer scholars a deeper understanding and facilitate further exploration of SME performance and competitive strategy. Most importantly, the study extends beyond the academic realm, providing valuable actionable intelligence for industry practitioners and policymakers in the vibrant landscape of Chinese manufacturing. In this dynamic sector, the research outcomes will guide business leaders in optimizing their strategies to achieve better performance and long-term success. Simultaneously, policymakers can rely on our research to formulate more targeted and effective policies, supporting the development of small and medium-sized enterprises, promoting economic growth, and fostering innovation (Reineke, 2023). The contributions and significance of this study lie in enriching the academic knowledge base, providing practical strategic advice for small and medium-sized enterprises, and offering robust support and guidance for the sustainable development of the Chinese manufacturing industry. The research set out with the following research objectives:

1. To investigate the various competitive strategies employed by SMEs in the Chinese manufacturing sector.
2. To analyze the direct impact of these competitive strategies on business performance metrics such as profitability, market share, and growth.
3. To explore how innovation influences the effectiveness of competitive strategies in enhancing business performance.
4. To examine the role of corporate governance structures in shaping the impact of competitive strategies on performance.

5. To evaluate the influence of different business environments on the effectiveness of competitive strategies.

These objectives are encapsulated under three distinct research question:

1. How do competitive strategies impact the performance of small and medium-sized manufacturing enterprises (SMEs) in the Chinese manufacturing industry?
2. What are the mediating effects of innovation, corporate governance, capital structures, and human capital on the relationship between competitive strategies and business performance in Chinese manufacturing SMEs?
3. How does the broader business environment moderate the relationship between competitive strategies and business performance in Chinese manufacturing SMEs?

2. LITERATURE REVIEW

2.1. The concept of small and medium-sized manufacturing enterprises

Manufacturing enterprises comprise businesses that utilize various resources such as materials, energy, equipment, technology, and labor to transform raw materials into industrial and consumer products (Ouanhlee, 2024; Salah et al., 2022). These transformations align with market demands and production processes during the machinery industry era (Kumari et al., 2023; Omar et al., 2019). In China, manufacturing enterprises span diverse categories, including agriculture and food processing, textiles, wood products, chemicals, pharmaceuticals, machinery, electronics, and more (Feng et al., 2023). These enterprises contribute significantly to China's industrial economy. Small and medium-sized manufacturing enterprises, known as SMEs, are those that meet specific criteria based on factors like employee count, business income, and total assets (see Table 2 for detailed quantitative criteria). SMEs are integral to various sectors, including manufacturing, retail, and services. Their defining characteristics include a large number of enterprises, relatively small asset bases, and shorter lifespans (Fiscal and Tax Document No. 13, 2019).

Table 1

Classification criteria for small and medium-sized enterprises

Enterprise type	Large enterprise	Medium-sized enterprise	Small sized enterprise
Industry (mining, manufacturing, power, heat, gas and water production and supply)	More than 1000 employees or operating income of more than 400 million yuan.	More than 300 or less than 1000 employees and operating income more than 20 million yuan or less than 400million yuan.	More than 20 or less than 300 employees and operating income more than 20 million yuan or less than 3 million yuan.

Source: 2022 Statistical Yearbook of the People's Republic of China.

2.2. Competition theory

Competition Theory, deeply rooted in the study of market dynamics and organizational behavior, offers a framework for understanding how competitive strategies, innovation, and various internal and external factors collectively impact enterprise performance (Hunt & Morgan, 2005; Yumuşak & Üner, 2023). This theory emphasizes the crucial role of competitive strategies in determining a company's competitive advantage and subsequent performance outcomes (Ma, Zhang, & Wang, 2022). At its core, Competition Theory posits that an organization's choice of competitive strategy significantly influences its market position and overall performance (Yanlong et al., 2022). It recognizes three primary competitive strategies: Low-Cost Strategy, which focuses on achieving cost leadership within an industry; Differentiation Strategy,

which centers on creating unique and distinctive products or services; and Hybrid Strategy, which combines elements of both low-cost and differentiation strategies, aiming for a balanced approach (Bansal & Bashir, 2023).

Competition Theory also incorporates several mediating variables; innovation, being a critical mediator, comes in various forms, including incremental innovation, flexible innovation, and breakthrough innovation. Innovative practices can enhance a company's ability to adapt to changing market demands and drive long-term growth (Hasan & Kalam, 2020). Corporate Governance Structure is another essential mediator, acknowledging the importance of corporate governance in shaping how companies are managed and controlled (Tut, 2023). Performance outcomes are determined by crucial factors such as organizational structure, control methods, and management approaches. The capital structure of a corporation, which includes its ownership structure, operating financial structure, and financial indicator structure, has an impact on how the firm funds its operations and investments. This, in turn, affects the company's financial stability and performance. Human capital refers to the collective skills, knowledge, and expertise possessed by the workforce of a business. It also plays a crucial role as a mediator, as stated by Shehadeh and Mansour (2019), Li et al. (2023) and Ngoc et al. (2024). It incorporates both the human resources and the extent of human resource capability. Efficiently overseeing and utilizing the skills and abilities of employees can greatly enhance overall organizational effectiveness.

Competition Theory recognizes the moderating role of the business environment. The competitive environment, characterized by dynamics, complexity, and environmental innovation, moderates the relationship between competitive strategies and enterprise performance (Idolor et al., 2023). Different market conditions and environmental factors can affect the effectiveness of chosen strategies. Endogenous variables in this theory primarily focus on evaluating enterprise performance, considering both financial and non-financial aspects. Financial performance metrics assess profitability, liquidity, and financial stability, while non-financial performance metrics encompass various aspects of operational effectiveness and sustainability (Nizam et al., 2019). Competition Theory offers a strong basis for examining how competitive strategies, innovation, corporate governance, capital structure, and human capital together influence firm performance. It acknowledges the interplay between these variables and their responsiveness to the wider business environment. This theory provides a significant framework for comprehending and enhancing the performance of firms, particularly in the setting of the Chinese manufacturing industry.

2.3. Conceptual model and hypotheses development

2.3.1. Effect of competitive strategy on enterprise performance

Competitive strategy is a fundamental concept in the field of strategic management, serving an important function in an organization's ability to gain a competitive advantage and achieve superior performance (Porter, 1980). It involves the deliberate choice of a set of actions and initiatives aimed at positioning a company uniquely in its industry to outperform rivals (Barney, 1991). Numerous studies have explored the relationship between competitive strategy and enterprise performance, consistently finding evidence of a positive and significant association (Crick et al., 2024; Maclean et al., 2023; Mongkol, 2021; Rubio-Andrés et al., 2024). Porter's seminal work on competitive strategy, particularly his generic strategies of cost leadership, differentiation, and focus, has served as a foundational framework for understanding how strategic choices impact an organization's financial and operational outcomes (Porter, 1985).

Low-cost strategies, for instance, are often associated with improved financial performance due to their emphasis on cost efficiency and operational excellence (Park & Park, 2018). Organizations pursuing low-cost strategies typically aim to produce goods or services at a lower cost than competitors, enabling them to

offer competitive prices to customers and potentially gain market share (Hitt et al., 2021). On the other hand, differentiation strategies, which focus on creating unique and distinct products or services, have also shown a positive impact on enterprise performance (Shah & Ahmad, 2019). Companies that employ differentiation methods can charge higher prices and achieve greater profit margins and financial success by providing distinctive features or superior quality. Hybrid strategies, combining elements of both low-cost and differentiation approaches, have gained popularity as they provide a balanced approach to competitive advantage (Salavou & Manolopoulos, 2021). Organizations adopting hybrid strategies seek to achieve cost efficiencies while simultaneously delivering differentiated features to cater to diverse customer segments. Existing literature strongly supports Hypothesis 1 (H1) that competitive strategy has a positive effect on enterprise performance. This relationship is grounded in the foundational work of Porter and subsequent research, highlighting the significance of strategic choices in shaping a company's competitive position and financial outcomes.

H1: The adoption of competitive strategies, including cost leadership, differentiation, and hybrid approaches, positively impacts enterprise performance.

2.3.2. Effect of Innovation on enterprise performance

Multiple studies have established a positive correlation between innovation and enterprise performance (Bernal-Torres et al., 2023; Ordeñana et al., 2023; Rajapathirana & Hui, 2018; Sellitto et al., 2020). Innovation, consisting of product innovation, process innovation, and organizational innovation, helps to improve a firm's competitive advantage (Azeem et al., 2021). Product innovation involves the development and introduction of new or improved products and services into the market. Firms that excel in product innovation can capture market share, increase revenue, and achieve higher profitability (Opazo-Basáez et al., 2022). Process innovation focuses on improving internal operations and efficiency, leading to cost reductions and increased productivity (Chirumalla, 2021). Organizational innovation relates to changes in management practices, organizational structure, and culture, which can foster agility and adaptability in response to market dynamics (Lam et al., 2021). Innovation is not solely about creating new products or processes but also about adapting to changing market conditions and customer preferences (Chen et al., 2021). Firms that continuously innovate are better equipped to navigate uncertainties and disruptions, enhancing their long-term performance.

Innovation acts as a critical mediating factor in the relationship between competitive strategy and enterprise performance (Hutahayan, 2020; Kot et al., 2019). Competitive strategies that emphasize innovation are more likely to lead to superior performance outcomes. For example, firms pursuing a differentiation strategy prioritize innovation to create unique products or services that command premium prices (Porter, 1985). This innovation-driven approach not only differentiates the firm from competitors but also allows for higher profit margins. Firms adopting a cost leadership strategy leverage innovation to streamline operations and reduce production costs (Sahoo, 2021). Through a persistent pursuit of inventive ideas, these companies attain operational efficiency, resulting in enhanced performance. Moreover, hybrid strategies that combine cost leadership and distinctiveness frequently depend on innovation to excel in various aspects (Fuertes et al., 2020). The integration of innovation across various aspects of the business aligns with the strategic objectives and enhances enterprise performance.

We recognize that innovation is a key determinant of enterprise performance. It positively influences a firm's competitiveness, revenue, cost-efficiency, and adaptability to market changes. Also, innovation has a critical mediating role in translating competitive strategy into superior performance outcomes. Understanding the relationship between innovation, competitive strategy, and enterprise performance is essential for firms striving to achieve sustainable success in today's dynamic business environment.

H2: Innovation, including product, process, and organizational innovation, positively impacts enterprise performance.

H3: Innovation mediates the relationship between competitive strategy and enterprise performance, with specific emphasis on how product, process, and organizational innovations enhance the effectiveness of competitive strategies.

2.3.3. Effect of corporate governance structure on enterprise performance

Corporate governance structure refers to the framework of rules, practices, and processes that govern a company's operations, decisions, and interactions among its stakeholders (Alaoui Taïb & Rekik, 2024; Jan et al., 2021; Musová et al., 2023). A robust corporate governance structure is essential for maintaining transparency, accountability, and ethical behavior within an organization. Research has highlighted the positive association between effective corporate governance and enhanced enterprise performance (Al-Ahdal et al., 2020; Atugeba & Acquah-Sam, 2024; Bui & Krajcsák, 2024; Guluma, 2021). A well-structured governance system, including a board of directors, committees, and auditing mechanisms, ensures that managerial decisions align with the best interests of shareholders and stakeholders (Bui & Krajcsák, 2024; Kollmann & Dobrovič, 2022). The presence of independent and competent directors on the board enhances oversight and reduces agency conflicts. Effective governance mechanisms promote strategic decision-making, risk management, and adherence to ethical standards, ultimately contributing to improved financial and non-financial performance indicators (Atugeba & Acquah-Sam, 2020; Grishunin et al., 2022). Furthermore, corporate governance practices influence investor confidence, access to capital, and a firm's ability to attract strategic partners (Zaid et al., 2020). Enterprises with strong governance structures are perceived as less risky and more attractive to investors, leading to increased investment inflows and share prices, further enhancing overall performance.

Corporate governance structure mediates the relationship between competitive strategy and enterprise performance, acting as a critical link in translating strategic choices into tangible outcomes (Hitt et al., 2009). The alignment between competitive strategy and governance mechanisms influences performance outcomes. For instance, firms pursuing a differentiation strategy often require a governance structure that encourages innovation, risk-taking, and long-term orientation. Such firms may benefit from boards with diverse expertise, fostering a culture of innovation and strategic agility (Huse, 2007; Ren et al., 2023). The governance structure enables the implementation of innovation-focused strategies, resulting in superior performance through the creation of unique products or services.

Conversely, firms following a cost leadership strategy may emphasize cost control, efficiency, and operational excellence in their governance practices (Jan et al., 2021). A governance structure that aligns with cost leadership strategies ensures rigorous cost monitoring, resource allocation, and performance evaluation, ultimately driving cost reductions and improved profitability. Hybrid strategies that incorporate elements of both differentiation and cost leadership often necessitate governance structures that balance innovation and cost control (Yip & Hult, 2019). Effective governance mechanisms facilitate the integration of diverse strategic elements, enhancing overall performance outcomes. Corporate governance structure exerts a significant influence on enterprise performance by ensuring transparency, accountability, and ethical behavior. It enhances investor confidence and access to capital, contributing to financial and non-financial performance indicators. Based on evidence from the literature, we may deduce that the corporate governance structure plays a role in influencing the connection between competitive strategy and business performance. It shapes the implementation and alignment of strategies that are crucial for achieving exceptional results in a competitive environment, thus leading to proposing the next hypotheses.

H4: A strong corporate governance structure, including board composition, auditing mechanisms, and ethical practices, positively impacts enterprise performance.

H5: Corporate governance structure mediates the relationship between competitive strategy and enterprise performance, with governance mechanisms enhancing the implementation and effectiveness of both differentiation and cost leadership strategies.

2.3.4. Effect of capital structure on enterprise performance

Capital structure refers to the mix of debt and equity used by a firm to finance its operations and investments. The decision regarding capital structure is a critical one for enterprises, as it can significantly impact their financial performance; several investigations have addressed how enterprise success relates to capital structure (Ahmed et al., 2024; Nguyen & Nguyen, 2020; Shahzad et al., 2022). The capital structure decision influences factors such as the cost of capital, risk profile, and financial flexibility. The Capital Structure Theory proposed by Modigliani and Miller (1958) suggests that an ideal combination of debt and equity can increase the value of an enterprise. A well-balanced capital structure can enhance enterprise performance by optimizing the cost of capital. Debt financing often carries a lower cost compared to equity financing due to tax benefits and lower required returns (Duening et al., 2021). Strategically using debt will help businesses reduce their weighted average cost of capital (WACC), hence improving shareholder value and profitability (Ngoc et al., 2021; Saalmuller, 2022). The risk profile of a company is influenced by its capital structure. Equity finance involves the distribution of ownership and income among shareholders, while debt financing involves making regular fixed-interest payments. Strategically combining debt and equity can mitigate financial risk while maintaining the advantages of stock ownership (Ngatno et al., 2021). Enterprises with lower financial risk are better positioned to withstand economic downturns and generate consistent performance. Furthermore, capital structure decisions influence financial flexibility; a well-structured capital base allows enterprises to seize growth opportunities, invest in innovation, and navigate through economic challenges (Kedzior et al., 2020; Xie & Zhao, 2020). Firms with a flexible capital structure can adapt to changing market conditions, fostering sustained performance.

The capital structure of enterprises plays a mediating role in the relationship between competitive strategy and enterprise performance, serving as a crucial link in translating strategic choices into tangible outcomes (Abdullah & Tursoy, 2021). The alignment between competitive strategy and capital structure influences performance outcomes. For instance, firms pursuing a differentiation strategy may require substantial investments in R&D and marketing efforts to create unique products or services (Islami et al., 2020; Porter, 1985). Debt financing can be strategically employed to fund such initiatives, allowing firms to maintain cost-effective capital structures while pursuing innovation-driven strategies (Pham, 2020). This alignment ensures that firms can achieve innovation-related performance goals while optimizing financial efficiency.

Contrarily, firms following a cost leadership strategy may prioritize cost minimization and operational efficiency (Porter, 1985). Equity financing may be preferred in such cases to avoid the financial leverage associated with debt. A capital structure aligned with cost leadership strategies ensures that enterprises can minimize financial risk and maintain competitiveness by reducing costs and enhancing profitability. Hybrid strategies that combine elements of differentiation and cost leadership may require a balanced approach to capital structure (Alnoor et al., 2022; Myers & Majluf, 1984). A judicious mix of debt and equity can support firms in achieving both innovation and cost control objectives, leading to improved overall performance outcomes. Capital structure significantly influences enterprise performance by optimizing the cost of capital, managing financial risk, and providing financial flexibility. The alignment between competitive strategy and capital structure mediates the performance outcomes, enabling enterprises to effectively execute their

chosen strategy while maintaining financial efficiency. The following hypotheses are put forward in line with the literature discussed.

H6: The capital structure, including the strategic mix of debt and equity, positively impacts enterprise performance by optimizing the cost of capital and managing financial risk.

H7: Capital structure mediates the relationship between competitive strategy and enterprise performance, with the alignment of debt and equity financing enhancing the effectiveness of differentiation and cost leadership strategies.

2.3.5. Effect of human capital on enterprise performance

Human capital incorporates the intellectual resources, competencies, talents, and specialized knowledge possessed by the employees of a company. The term refers to the combined skills and abilities of personnel, which can have a considerable influence on the performance of a business (Becker, 1964; Rauch et al., 2005; Srivastava & Das, 2015). The value of human capital lies in its potential to enhance productivity, innovation, and overall competitiveness. A skilled and knowledgeable workforce can lead to improved enterprise performance through various mechanisms. First, employees with higher levels of expertise and skills tend to be more efficient and effective in their roles (Andrusiv et al., 2023; Mubarik et al., 2020). They can perform tasks more accurately and quickly, resulting in enhanced productivity and operational efficiency. Second, human capital contributes to innovation and creativity within the organization (Tran & Vo, 2020; Mishchuk et al., 2021). Skilled employees are better equipped to generate new ideas, solve complex problems, and adapt to changing market conditions (Jerman et al., 2020). Their ability to innovate can lead to the development of new products, processes, and services that give the enterprise a competitive edge. Third, a knowledgeable and skilled workforce can improve customer satisfaction and loyalty (Budur & Poturak, 2021; Samoliuk et al., 2021). Employees who possess in-depth knowledge about the enterprise's products or services can provide superior customer service, address inquiries effectively, and build strong relationships with customers, ultimately contributing to increased sales and customer retention.

Human capital serves as a mediating factor in the relationship between competitive strategy and enterprise performance. Competitive strategies often necessitate specific skill sets and expertise that align with the chosen approach (Farida & Setiawan, 2022; Porter, 1985). The relationship between competitive strategy and performance is mediated by the human capital required to execute the strategy effectively. For example, a differentiation strategy may require employees with specialized skills and deep product knowledge to create and market unique products (Islami et al., 2020; Porter, 1985). In this context, human capital becomes a critical element in achieving differentiation-related performance goals. Skilled employees play a pivotal role in developing and delivering distinctive products or services that appeal to customers.

A cost leadership strategy, on the other hand, may emphasize operational efficiency and cost control (Agustia et al., 2020). Human capital is vital in this context as well, as it ensures that employees possess the skills and expertise needed to streamline processes, reduce costs, and maintain high-quality standards. The alignment of human capital with cost leadership strategies can lead to improved cost efficiency and profitability. Hybrid strategies, which combine elements of both differentiation and cost leadership, require a blend of human capital attributes (Kharub et al., 2022). Skilled employees who can balance innovation and cost control are essential to executing hybrid strategies effectively. The integration of human capital with a hybrid strategy results in the pursuit of both innovation-driven and efficiency-driven goals, contributing to overall enterprise performance. On this note, human capital, characterized by knowledge, skills, and expertise, plays a significant role in enhancing enterprise performance. It contributes to increased productivity, innovation, and customer satisfaction. Human capital also acts as a mediating factor in the

relationship between competitive strategy and enterprise performance, ensuring that the workforce aligns with the strategic approach chosen by the organization.

H8: Human capital, characterized by employees' knowledge, skills, and expertise, positively impacts enterprise performance by enhancing productivity, innovation, and customer satisfaction.

H9: Human capital mediates the relationship between competitive strategy and enterprise performance, with the alignment of workforce skills and expertise enhancing the effectiveness of differentiation, cost leadership, and hybrid strategies.

2.3.6. The moderating role of the environment

The competitive settings enterprises operate from are dynamic and subject to constant change. The dynamics of the environment refer to the speed and unpredictability of changes in the industry, market conditions, and competitive forces; competitive strategies that are effective in stable environments may require adaptation in more dynamic environments (Farida & Setiawan, 2022; Ferreira et al., 2020; Lewandowska et al., 2021). In rapidly changing environments, competitive strategies must be flexible and responsive to emerging opportunities and threats; enterprises that can adapt their strategies quickly are more likely to outperform their competitors (Fan et al., 2021). For example, a cost leadership strategy may require adjustments when faced with sudden shifts in market demand or technological advancements. Similarly, a differentiation strategy may need continuous innovation to maintain its competitive edge in a dynamic market (Garrido-Moreno et al., 2024; Handoyo et al., 2023).

The intricacy and interdependence of factors and variables in the environment require enterprises to adopt strategies that consider a wide range of contingencies (Mishra & Yadav, 2021). Enterprises must develop strategies that take into account the complex and interconnected components and variables in the environment, including a wide range of potential situations (Porter, 1996). For instance, a complex regulatory environment may necessitate compliance strategies that extend beyond traditional business operations. Enterprises may need to invest in legal and compliance departments to ensure adherence to complex regulations, adding a layer of complexity to their competitive strategies (Boeken, 2024; Shapiro & Borie-Holtz, 2020). Enterprises that prioritize environmental innovation seek to reduce their ecological footprint, improve resource efficiency, and address societal concerns related to sustainability (Horbach & Rammer, 2019; Oláh et al., 2023). Integrating environmental innovation into competitive strategies can enhance performance outcomes, especially in industries where sustainability is a key driver of competitiveness (Lutfi, 2020). Enterprises pursuing a differentiation strategy in industries with environmentally conscious consumers may benefit from incorporating environmental innovation into their product development processes. This can lead to the creating of eco-friendly products that resonate with environmentally aware consumers, contributing to increased market share and profitability. The environment plays a significant moderating role in the relationship between competitive strategy and enterprise performance. The speed of environmental changes, the complexity of external factors, and the incorporation of environmental innovation can significantly influence the effectiveness of competitive strategies and their impact on performance, leading to the proposal of the next hypothesis.

H10: The dynamic and complex nature of the environment moderates the relationship between competitive strategy and enterprise performance, with factors such as environmental changes, regulatory complexities, and sustainability considerations influencing the effectiveness of strategic approaches.

2.4. The research framework

The research framework depicted in Fig. 1 elucidates the complex relationship between various strategic variables and their consequential influence on enterprise performance. Central to this model is the construct of Competitive Strategy, which exerts a direct influence on four crucial factors: Innovation, Corporate Governance Structure, Human Capital, and Capital Structure of Enterprises. Innovation is a critical driver of competitive advantage, fostering the development of novel products and processes. The Corporate Governance Structure ensures effective organizational management, aligning the interests of diverse stakeholders. Human Capital includes the skills, knowledge, and expertise of the workforce, which are essential for the execution of strategic initiatives. The Capital Structure of Enterprises pertains to the financial architecture within which a firm operates, influencing its capacity for investment and growth. These factors collectively contribute to Enterprise Performance, the key metric of organizational success. The model also delineates secondary relationships, such as the influence of Corporate Governance Structure on Capital Structure and the external Environment. These relationships are articulated through hypotheses (H1 through H8), forming the basis for empirical testing within the research framework. The conceptual framework offers a perspective on the interdependencies among strategic factors, clarifying their collective impact on enterprise performance within a dynamic environmental context.

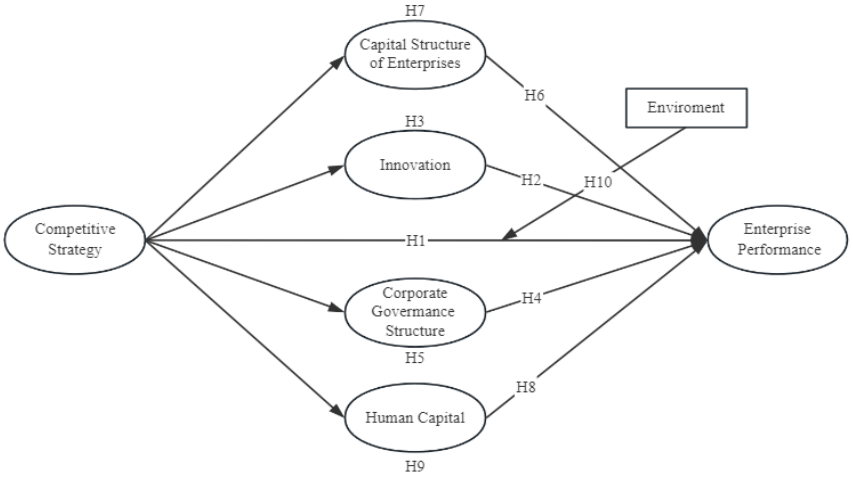

Figure 1. Research model

Source: Developed by the authors from the literature discussions.

3. METHODOLOGY

3.1. Research design, sampling and data collection

This study utilized a survey research design that employed a stratified random sampling method to ensure an understanding of SMEs in China. The focus was on seven core regions, selected for their economic significance and diversity: Beijing, Shanghai, Guangdong, Hunan, Sichuan, Qinghai, and Jilin. The study attempted to capture a wide range of perspectives from SMEs operating in different geographical circumstances and economic environments by focusing on these specific locations. The primary participants were current or former mid-to senior-level managers with work experience in Chinese SMEs. Their selection was based on their strategic roles and ability to provide informed perspectives on the operations and challenges of the respective organizations they represent or have represented in the past. Before the commencement of the survey, each respondent received an overview of the study's objectives and a consent

form, ensuring they were fully informed about the nature of the research and their role in it. To guarantee the integrity of the data and the comfort of the respondents, assurances of anonymity and confidentiality were provided. This was crucial in encouraging honest and accurate responses, free from concerns about personal or organizational repercussions. The survey was distributed over a period of five months, from January 2024 to May 2024. During this time, a total of 700 questionnaires were disseminated, and 506 valid responses were collected, yielding an effective response rate of approximately 72%. This robust response rate enhances the reliability of the findings underscores the relevance and engagement of the target demographic, and is supported by previous studies (Edwards et al., 2023; Fincham, 2008; Kolaja et al., 2023). The demographic breakdown of the respondents is detailed in Table 2, providing an overview of the participants' characteristics.

Table 2

Descriptive profiles of survey respondents (N=506)

Variables	**Items**	**Frequency**	**Percentage (%)**
Gender	Male	270	53.36
	Female	189	37.35
	Others	47	9.29
Age	Under 20 years	36	7.11
	21-30 years	133	26.28
	31-40 years	201	39.72
	41-50 years	104	20.55
	51-60 years	26	5.14
	Older than 60 years	6	1.19
Education	Under a Bachelor Degree	46	9.09
	Bachelor’ s Degree	399	78.85
	Master and Ph.D	61	12.06
Occupation	Self-employed	21	4.15
	Company employee	373	73.72
	Unemployed	100	19.76
	Others	12	2.37
Location of the enterprise	North China	64	12.65
	South China	58	11.46
	East China	67	13.24
	Central China	64	12.65
	Northwest	68	13.44
	Southwest	66	13.04
	Southeast	67	13.24
	Northeast	52	10.28
Type of enterprise	Medical devices	72	14.23
	Aerospace and equipment manufacturing	63	12.45
	Electronics and communication equipment manufacturing	83	16.40
	Computer level I office equipment manufacturing	80	15.81
	Instruments	75	14.82
	Information chemical products manufacturing	61	12.06
	other	72	14.23
Total		506	100.0

Source: Authors’ calculations

3.2. Measures development and data assessment.

All constructs in this study were measured using five-point Likert scales ranging from "strongly disagree" (1) to "strongly agree" (5). Competitive Strategy was measured using the scale developed by Simmons et al. (1988). Innovation was assessed based on a five-item scale from Zhao et al. (2021). The scales for Corporate Governance Structure, Capital Structure of Enterprises, and Human Capital were developed in line with previous studies on these variables (Cowling, 2003; Jiang et al., 2018; Rauch et al., 2005). The scale for Environment was adapted from Gotteland and Boulé (2006), while Enterprise Performance was derived from the scale developed by Rolstadås (1998).

All scales were adjusted to suit the context of small and medium-sized manufacturing enterprises. A reflective measurement model was employed. To evaluate the validity of the scales, confirmatory factor analysis (CFA) was conducted, resulting in the removal of some items. Table 3 provides a list of all items used in the final model. The overall reliability and validity of the measurement instrument are good; composite reliability (CR)ranges from 0.62 to 0.71; average variance extracted (AVE)is between 0.84 and 0.88; and discriminant validity was satisfied, as none of the squared correlations between pairs of constructs exceeded the AVE of the two constructs (Fornell & Larcker,1981). CFA loadings are between 0.674 and 0.844, hence convergent validity is met. Table 4 provides the correlation matrix alongside the reliability and discriminant validity.

4. EMPIRICAL RESULTS AND DISCUSSION

4.1. Structural model - direct effects

The analysis employed AMOS version 26 (v,26) to evaluate the structural model derived from existing theories and reflective in nature. The resulting overall fit measures indicate that the hypothesized model is an acceptable representation of the empirical data as suggested by Steiger (2007); the chi-square (χ^2) value is 210.865 with 188 degrees of freedom and a p-value of 0.121, indicating a good fit since the p-value is greater than 0.05. This suggests that the model is not significantly different from the observed data. The chi-square to degrees of freedom ratio (χ^2/df) is 1.122. The Goodness of Fit Index (GFI) value is 0.963, and the Root Mean Square Error of Approximation (RMSEA) value is 0.016. The Comparative Fit Index (CFI) value is 0.996, both the Normed Fit Index (NFI) value of 0.964 and the Non-Normed Fit Index (NNFI) value of 0.995, The Tucker-Lewis Index (TLI) value is 0.995, above the recommended value of 0.9, indicating a good fit.

The direct effects of various factors on enterprise performance (EP) were analyzed, yielding significant results across multiple hypotheses. Hypothesis 1 examined the effect of Competitive Strategy (CS) on EP, with a standardized path coefficient of 0.202. This path was significant at the 0.01 level ($z = 4.794$, $p = 0.000 < 0.01$), confirming that CS has a significant positive effect on EP. Hypothesis 2 investigated the effect of Innovation (IVA) on EP, finding a standardized path coefficient of 0.105. This path was significant at the 0.01 level ($z = 2.623$, $p = 0.009 < 0.01$), indicating a significant positive impact of IVA on EP. Hypothesis 4 assessed the impact of Corporate Governance Structure (CGS) on EP, yielding a standardized path coefficient of 0.180. This path was significant at the 0.01 level ($z = 4.626$, $p = 0.000 < 0.01$), supporting the conclusion that CGS significantly positively influences EP. Hypothesis 6 focused on the influence of the Capital Structure of Enterprises (CSE) on EP, with a standardized path coefficient of 0.245. This path also demonstrated significance at the 0.01 level ($z = 6.162$, $p = 0.000 < 0.01$), suggesting that CSE has a significant positive effect on EP. Hypothesis 8 examined the impact of Human Capital (HC) on EP, revealing a standardized path coefficient of 0.146. This path was significant at the 0.01 level ($z = 3.730$, $p = 0.000 < 0.01$), indicating a significant positive influence of HC on EP. The results exhibited in Table 5, the

direct effects analysis demonstrate that Human Capital, Capital Structure of Enterprises, Corporate Governance Structure, Innovation, and Competitive Strategy all have significant positive influences on enterprise performance.

4.2. Structural model - mediation effect

The mediation effects of various factors on the relationship between Competitive Strategy (CS) and Enterprise Performance (EP) were analyzed, showing significant results across multiple hypotheses. Hypothesis 3 tested the mediating role of Innovation (IVA) in the relationship between Competitive Strategy (CS) and Enterprise Performance (EP). The direct effect and indirect effects were found to be significant at 0.031** and 0.039**, indicating partial mediation. This suggests that IVA partially mediates the effect of CS on EP, contributing significantly to the overall impact. Hypothesis 5 examined the mediating role of Corporate Governance Structure (CGS) in the relationship between Competitive Strategy (CS) and Enterprise Performance (EP). The direct effect and indirect effects were significant at 0.313** and 0.040**, supporting partial mediation. This indicates that CGS partially mediates the relationship, with both direct and indirect paths contributing to the impact of CS on EP. Hypothesis 7 assessed the mediating role of Capital Structure of Enterprises (CSE) in the relationship between Competitive Strategy (CS) and Enterprise Performance (EP). The significant direct effect and indirect effects, 0.279** and 0.074**, indicate partial mediation. This suggests that CSE partially mediates the impact of CS on EP, enhancing the overall influence of CS on EP. Hypothesis 9 investigated the mediating role of Human Capital (HC) in the relationship between Competitive Strategy (CS) and Enterprise Performance (EP). The direct effect and indirect effects were significant at 0.315** and 0.038-**, indicating that HC partially mediates this relationship. This suggests that HC contributes significantly to the effect of CS on EP, reinforcing the overall positive impact, the results exhibited in Table 5.

4.3. Structural model - moderating effect

The moderating effect in this study was examined through three models. Model 1 included only the independent variable (Competitive Strategy, CS). Model 2 added the moderating variable (Moderating Variable, Mod) to Model 1. Model 3 incorporated the interaction term (the product of the independent and moderating variables) into Model 2. The purpose of Model 1 was to investigate the effect of the independent variable (CS) on the dependent variable (Enterprise Performance, EP) without considering the influence of the moderating variable (Mod). The results indicated that CS had a significant effect on EP ($t = 9.060$, $p = 0.000 < 0.05$), suggesting that CS significantly influences EP. The moderating effect can be assessed in two ways: by examining the significance of the change in the F-value from Model 2 to Model 3 or by analyzing the importance of the interaction term in Model 3. In this study, we utilized the latter approach.

The results showed that the interaction term between CS and Mod was significant ($t = 2.196$, $p = 0.029 < 0.05$). This indicates that the effect of CS on EP varies significantly at different levels of the moderating variable (Mod). Specifically, the interaction term's significance suggests that Mod moderates the relationship between CS and EP, leading to differences in the impact of CS on EP at various levels of the moderating variable. The analysis confirmed that the moderating variable significantly influences the relationship between Competitive Strategy and Enterprise Performance. The influence of Competitive Strategy on Enterprise Performance varies according to the amounts of the moderating variable, as indicated by the noteworthy interaction effect seen in Table 3.

Table 3

Construct, dimension, items, and CFA standardized loading

Construct/dimensions	Items	CFA loadings
Competitive Strategy (Simmons et al. ,1988)	Our enterprise believes that cost control is a pivotal direction for market expansion.	0.836
	Our enterprise views differentiation as crucial across product, price, channel, and promotional mechanisms.	0.747
	Our enterprise aims to boost its competitiveness through a combination of strategies.	0.716
Innovation (Zhao et al.,2021)	The enterprise I work for focuses on the gradual enhancement of product design and structure.	0.763
	The enterprise I work for adopts new methods for the business and market, consistently integrating new technologies during the innovation process.	0.750
	The enterprise I work for emphasizes innovations with a clear potential for positive market impact or those that cater to emerging market needs.	0.798
Corporate governance structure (Cowling, 2003)	In the enterprise I work for, there's a clear division of labor and hierarchical levels that facilitate efficient operations.	0.798
	The enterprise I work for ensures effective coordination between various departments to achieve organizational goals.	0.788
	In the enterprise I work for, there's a robust system for employee supervision and monitoring to ensure adherence to organizational standards.	0.804
Capital structure (Jiang et al., 2018)	In the enterprise I work for, equity is distributed in a manner that aligns with our strategic goals and objectives.	0.795
	The enterprise I work for effectively manages its operating costs, ensuring profitability and sustainability.	0.771
	Our enterprise maintains a strong solvency position, ensuring we can meet our long-term obligations.	0.821
Human capital (Rauch et al., 2005)	The structure and distribution of personnel roles in our enterprise effectively support our business objectives.	0.823
	I am satisfied with the skill set and abilities of our personnel, which align with our enterprise's goals.	0.779
	From a capacity perspective, the number of personnel in our enterprise is adequate to handle our operational demands.	0.831
Environment (Gotteland & Boulé, 2006)	In the enterprise I work for, we rapidly adapt to the dynamic shifts in the market.	0.793
	Our enterprise effectively navigates the complexities and challenges of the external market.	0.760
	Our enterprise is innovative in adapting to shifts and changes in the external market environment.	0.844
Enterprise performance (Rolstadås, 1998)	The net profit margins of our enterprise are competitive within the manufacturing industry.	0.778
	Our enterprise maintains a stable and positive operating cash flow.	0.674
	Our enterprise effectively achieves its strategic goals, such as market expansion, profitability, and operational efficiency	0.697
	Our enterprise consistently meets or exceeds its financial performance targets, such as revenue growth and return on investment (ROI)	0.736

Source: Authors' results. All correlations are significant at $p<0.001$ level (2-tailed).

Table 3 presents confirmatory factor analysis (CFA) loadings for various constructs related to enterprise performance, including competitive strategy, innovation, corporate governance structure, capital structure, human capital, and the environment. The loadings demonstrate strong relationships between the items and their respective constructs, with most items exhibiting loadings above 0.75, indicating reliable measurement. For instance, competitive strategy emphasizes cost control (0.836) and differentiation (0.747)

as key factors, while innovation is strongly linked to market impact (0.798) and product design (0.763). Corporate governance structure highlights the importance of supervision (0.804) and coordination (0.788). Capital structure shows a strong focus on solvency (0.821) and equity alignment (0.795), while human capital is well-represented by personnel adequacy (0.831) and role alignment (0.823). The environment construct is dominated by the ability to innovate in response to market changes (0.844). Finally, enterprise performance is captured through net profit margins (0.778) and financial targets (0.736), with cash flow stability showing a slightly lower but still significant loading (0.674).

Table 4

Correlations and reliability estimates

	CS	IVA	CGS	CSE	HC	EN	EP	CR	AVE
CS	0.80							0.65	0.84
IVA	0.28**	0.80						0.65	0.84
CGS	0.21**	0.12**	0.83					0.69	0.87
CSE	0.29**	0.12**	0.09*	0.83				0.69	0.87
HC	0.21**	0.16**	0.07	0.14**	0.84			0.71	0.88
DN	0.09*	-0.02	-0.02	0.12**	0.01	0.83		0.69	0.88
CP	0.37**	0.23**	0.27**	0.35**	0.25**	0.18**	0.78	0.62	0.87

Source: Authors' results. *p<0.05 **p<0.01; Competitive strategy (CS), innovation (IVA), Corporate governance structure (CGS), Capital structure (CSE), Human capital (HC), Dynamics (DN), Complexity (CP), Environmental innovation (EI), Enterprise performance (EP).

Table 4 presents the correlations and reliability estimates for factors associated with organizational performance. All values are 0.80 or higher, which signifies strong convergent validity. A significant association exists between competitive strategy (CS) and enterprise performance (EP) (0.37**), suggesting that effective competitive strategy is closely linked to improved enterprise results. The correlation between Innovation (IVA) and EP is 0.23**, indicating a strong positive relationship and emphasizing the impact of innovation on driving performance. The reliability estimates (CR) for all constructs are high, with values ranging from 0.84 to 0.88, indicating a robust level of internal consistency. Table 4 highlights the interdependence of many strategic and operational elements in influencing the performance of a business, with competitive strategy and innovation playing a particularly significant role.

Table 5

Summary of path coefficients of all hypotheses

Hypotheses		B	Type	Result
H1	CS→ EP	0.202**	Direct	Supported
H2	IVA→ EP	0.105**	Direct	Supported
H3	CS→ IVA→EP Direct effect Indirect effect	0.031** 0039**	Mediation	Supported Partial Mediation
H4	CGS→ EP	0.180**	Direct	Supported
H5	CS→ CGS→EP Direct effect Indirect effect	0.313** 0.040**	Mediation	Supported Partial Mediation

H6	CSE→ EP	0.245**	Direct	Supported
H7	CS→ CSE→EP Direct effect Indirect effect	0.279** 0.074**	Mediation	Supported
H8	HC→EP	0.146**	Direct	Supported
H9	CS→HC→EP Direct effect Indirect effect	0.315** 0.038-**	Mediation	Supported
H10	CS→EN→E	0.076*	Moderation	Supported

Source: Authors' results. *p<0.05 **p<0.01; Competitive strategy (CS), innovation (IVA), Corporate governance structure (CGS), Capital structure (CSE), Human capital (HC), Dynamics (DN), Complexity (CP), Environmental innovation (EI), Enterprise performance (EP).

Table 5 reveals the path coefficients and outcomes for ten hypotheses exploring the relationships between competitive strategy (CS), innovation (IVA), corporate governance structure (CGS), capital structure (CSE), human capital (HC), environment (EN), and enterprise performance (EP). All the hypotheses are supported, demonstrating significant direct, indirect, and moderating effects. For instance, H1 and H2 indicate that both competitive strategy (CS) and innovation (IVA) have significant direct positive effects on enterprise performance (EP), with coefficients of 0.202** and 0.105**, respectively. Additionally, H4, H6, and H8 show that corporate governance structure (CGS), capital structure (CSE), and human capital (HC) also directly enhance EP, with coefficients of 0.180**, 0.245**, and 0.146**. Several hypotheses also test mediating effects. For example, H3, H5, H7, and H9 demonstrate partial mediation, indicating that CS indirectly influences EP through IVA, CGS, CSE, and HC, with the indirect effects ranging from 0.038** to 0.074**. Lastly, H10 highlights a significant moderation effect of the environment (EN) on the relationship between CS and EP, with a coefficient of 0.076*, underlining the importance of environmental factors in the strategic impact on performance. Table 5 confirms that these constructs are crucial in driving enterprise performance, with direct and mediated pathways playing significant roles.

4.4. Discussion

This study provides critical insights into how Competitive Strategy (CS), Innovation (IVA), Corporate Governance Structure (CGS), Capital Structure of Enterprises (CSE), Human Capital (HC), and the environment (EN) interact to influence Enterprise Performance (EP). This research supports and expands current ideas in the context of small and medium-sized manufacturing companies by analyzing both direct and intermediary impacts and considering the moderating function of the environment. The results confirmed that Competitive Strategy (CS) significantly influences Enterprise Performance (EP) with a standardized path coefficient of 0.202**. This finding aligns with Porter's (1980) theory and postulations of Ma et al. (2022), which emphasizes the importance of competitive strategy in achieving superior performance. Additionally, it supports the conclusions of Li et al. (2006), who found that strategic alignment is crucial for organizational success. The study demonstrated that Innovation (IVA) has a significant and direct impact on EP, with a path coefficient of 0.105**. This result is consistent with Damanpour and Evan (1984) and Sellitto et al. (2020), who identified innovation as critical to its performance. It also corroborates Zhao et al. (2021), demonstrating the continued relevance of innovation in enhancing performance, particularly in smaller enterprises. The significant direct effect of Corporate Governance Structure (CGS) on EP, with a path coefficient of 0.180**, aligns with Zaid et al. (2020) and Shleifer and Vishny's (1997) assertions that effective governance practices are crucial for firm performance. This study extends this finding to small and medium-sized enterprises, highlighting the universal importance of corporate governance. Capital Structure of Enterprises (CSE) significantly influenced EP, as indicated by a path

coefficient of 0.245**. This supports Modigliani and Miller's (1958) capital structure theory, which posits that an optimal balance of debt and equity enhances firm value. The findings also echo previous scholars who highlighted the critical role of capital structure in corporate finance (Shahzad et al., 2022; Saalmuller, 2022). The result established a significant and direct influence of human capital (HC) on EP, with a path coefficient of 0.146**. This is consistent with Becker's (1964) Human Capital Theory, which suggests that employer investments in employee skills and education will ultimately lead to improved performance. It also aligns with Rauch et al. (2005), who emphasized the significance of human capital in small enterprises.

Innovation (IVA) partially mediated the relationship between CS and EP, with significant indirect effects. This partial mediation supports the dynamic capabilities view (Hutahayan, 2020; Ordeñana et al., 2023), which suggests that innovation capabilities enhance the effectiveness of competitive strategies. This finding indicates that while CS directly influences EP, its impact can be further amplified through innovation efforts, highlighting the importance of fostering innovative practices within competitive strategies. Corporate Governance Structure (CGS) also partially mediated the CS-EP relationship, with indirect effects of 0.040**. This is in agreement with Aguilera and Jackson (2003) who shared how governance frameworks affect performance outcomes and strategic decision-making. The partial mediation observed here suggests that effective governance structures not only directly contribute to performance but also enhance the impact of competitive strategies. The mediating role of the Capital Structure of Enterprises (CSE) between CS and EP was supported, with indirect effects of 0.074**. This finding agrees with the Pecking Order Theory (Alnoor et al., 2022; Myers & Majluf, 1984), suggesting that financing strategies impact competitive strategies on performance. This underscores the importance of an optimal capital structure in maximizing the effectiveness of competitive strategies on performance. Human Capital (HC) partially mediated the relationship between CS and EP, with indirect effects of 0.038-**. This is consistent with the resource-based view (Barney, 1991), which posits that human capital is a key strategic resource. This highlights the critical role of investing in human capital to support and enhance the benefits of competitive strategies. The environment (EN) significantly moderated the relationship between CS and EP, with a moderation effect of 0.076*. This finding supports the contingency theory (Burns & Stalker, 1961), which suggests that the effectiveness of strategic actions depends on environmental factors. It also aligns with Ferreira et al. (2020), who found that dynamic environments necessitate adaptive strategies for better performance. This indicates that the external environment significantly influences the effectiveness of competitive strategies on performance, underscoring the need for enterprises to be adaptable and responsive to external conditions to maximize their performance outcomes. The study reaffirms the critical roles of competitive strategy, innovation, corporate governance, capital structure, and human capital in driving enterprise performance. It highlights the complex interactions between these factors and their combined impact on performance. Also, the study emphasizes the significant moderating role of the environment, suggesting that enterprises must tailor their strategies to the specific environmental contexts to achieve optimal results. These findings provide valuable insights for managers and policymakers, indicating that strategic actions should be adaptable and context-specific to maximize performance outcomes. This research contributes to existing theories and offers practical implications, particularly for small and medium-sized manufacturing enterprises.

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provide valuable insights for managers and policymakers, indicating that strategic actions should be adaptable and context-specific to maximize performance outcomes. This research contributes to existing theories and offers practical implications, particularly for small and medium-sized manufacturing enterprises.

This study makes several significant theoretical contributions to the existing literature on competitive strategy, enterprise performance, and the moderating role of the environment, particularly within the context of small and medium-sized manufacturing enterprises (SMEs).

Firstly, this research integrates multiple dimensions—Competitive Strategy (CS), Innovation (IVA), Corporate Governance Structure (CGS), Capital Structure of Enterprises (CSE), and Human Capital (HC)—to provide a clear understanding of their combined effects on Enterprise Performance (EP). This multi-pronged approach offers a holistic view, extending beyond traditional single-factor analyses. By doing so, the study aligns with and extends the Resource-Based View (RBV) of the firm (Barney, 1991), demonstrating how various internal resources and capabilities collectively enhance performance. Secondly, the study validates the mediating roles of Innovation, Corporate Governance Structure, Capital Structure, and Human Capital in the relationship between Competitive Strategy and Enterprise Performance. This confirmation supports the Dynamic Capabilities Theory (Denrell & Powell, 2015; Teece et al., 1997; Teece, 2023), Governance Mechanisms Theory (Aguilera & Jackson, 2003), and Pecking Order Theory (Myers & Majluf, 1984). Specifically, it provides empirical evidence that these mediating variables not only influence performance directly but also enhance the efficacy of competitive strategies. This dual impact stresses the importance of strategic alignment and resource optimization within SMEs. Thirdly, this research emphasizes the moderating role of the environment on the relationship between Competitive Strategy and Enterprise Performance. By demonstrating that environmental factors significantly alter the impact of competitive strategies, the study contributes to Contingency Theory (Burns & Stalker, 1961; Omazić et al., 2023). It highlights the necessity for firms to adapt their strategies based on external conditions, thus providing a nuanced understanding of strategic adaptability and environmental responsiveness. Lastly, by focusing on SMEs, this study fills a critical gap in the literature; most existing research predominantly focuses on large corporations, often overlooking unique challenges and dynamics faced by smaller enterprises. This study's findings establish the applicability of confirmed theories such as RBV, Dynamic Capabilities, and Contingency Theory within the SME context, thereby broadening the scope and relevance of these theories.

Due to its management implications, the results of this study offer a complete framework for managers in SMEs to better their competitive strategies and increase organizational performance. The ramifications may be strategically classified into short-term, medium-term, and long-term measures. In the short term, managers should prioritize immediate investments in areas with direct impacts on performance, such as innovation (IVA) and human capital (HC). For instance, allocating resources toward training programs and workshops can quickly enhance employee skills and productivity, leading to immediate performance improvements. Additionally, conducting an immediate review of corporate governance structures (CGS) and capital structures (CSE) can help identify and rectify inefficiencies, providing quick wins in terms of operational efficiency and financial health. Implementing regular environmental scanning to monitor market trends, technological advancements, and regulatory changes can help managers stay ahead of potential disruptions.

In the mid-term, managers should develop and implement strategic innovation initiatives. This could include establishing innovation labs, fostering partnerships with research institutions, and encouraging cross-functional collaboration to drive innovation throughout the organization. Enhancing governance structures by adopting best practices such as transparency, accountability, and stakeholder engagement can improve decision-making processes and performance outcomes. Managers should also emphasize optimizing the capital structure to balance debt and equity efficiently through strategic financial planning

and exploring funding options that align with the company's growth objectives while maintaining financial stability.

For long-term success, continuous investment in human capital is essential. Managers should develop exhaustive talent management strategies that include career development plans, succession planning, and continuous learning opportunities. Building a culture that values and nurtures employee growth can sustain performance improvements in the long run. Developing sustainable competitive strategies that integrate environmental considerations (EN) is crucial, involving incorporating sustainability into product development, operations, and business models to meet the evolving demands of environmentally conscious consumers and regulatory bodies. Managers should use adaptive strategic planning methods that enable them to be flexible and sensitive to external changes. This includes engaging in long-term scenario planning, implementing risk management measures, and cultivating an organizational culture that encourages change and innovation. This research offers a practical guide for managers in SMEs to improve their competitive strategies and performance by classifying management actions into short-term, mid-term, and long-term plans. The immediate measures prioritize the allocation of resources and achieving fast efficiency benefits. The mid-term actions centre on strategic initiatives and structural changes. The long-term actions strive to achieve sustainable growth and flexibility. By employing these strategies, SMEs may successfully navigate the constantly evolving business environment and achieve sustainable competitive advantage.

5. CONCLUSION

The study investigated the relationships between competitive strategy, innovation, corporate governance structure, capital structure, human capital, and enterprise performance in SMEs. The study was hinged on the Competition Theory; utilizing a survey research design, the researches elicited responses from 506 respondents across China. The findings demonstrate that each of these factors plays a significant role in enhancing performance, with innovation and human capital emerging as particularly crucial elements. The study also highlights the importance of corporate governance and capital structure as mediators in these relationships. Additionally, the environment significantly moderates the impact of competitive strategies on performance, underscoring the need for adaptive and flexible strategic planning in dynamic market conditions. Theoretical contributions of this research include the integration of multiple perspectives—such as the dynamic capabilities view, pecking order theory, and resource-based view—into the analysis of competitive strategies and performance. From a managerial perspective, the study provides actionable insights for short-term, mid-term, and long-term strategic planning, emphasizing the need for immediate resource allocation, strategic innovation initiatives, and continuous investment in human capital.

6. LIMITATIONS

Despite the valuable insights provided by this study, several limitations were acknowledged, which also suggest directions for future research. Firstly, the research is cross-sectional, capturing data at a single point in time. This limits the ability to infer causality between the variables. Longitudinal studies are needed to better understand the temporal dynamics of competitive strategies and their impact on enterprise performance. Conducting such studies would provide deeper insights into how strategies evolve and their sustained impact over time. Secondly, the study relies on self-reported data, which may be subject to common method bias. Although steps were taken to minimize this bias, such as ensuring respondent anonymity and using validated scales, the potential for bias cannot be entirely eliminated. Future research could benefit from triangulation by using multiple data sources, including objective performance metrics. Integrating objective data sources, such as financial reports and market performance indicators, would complement self-reported data and provide a more robust validation of the findings.

Additionally, the study does not consider the potential impact of external shocks, such as economic downturns or pandemics, on the relationship between competitive strategy and enterprise performance. These factors could significantly alter the effectiveness of different strategies and should be incorporated into future models to provide a more comprehensive understanding. Future research should incorporate external environmental factors, such as economic conditions, regulatory changes, and technological advancements, into the research framework to offer a more holistic view of the determinants of enterprise performance. On a final note, future studies could explore the role of digital transformation and technological innovation as moderating or mediating variables in the relationship between competitive strategy and enterprise performance. With the growing significance of technology in corporate operations, comprehending its influence may provide useful insights for managers seeking to exploit digital technologies for a competitive edge. By acknowledging and overcoming these constraints and investigating the suggested avenues for future study, academics may cultivate a more extensive and optimized understanding of competitive strategy and enterprise performance in SMEs.

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