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Developing a Leadership Framework SMEs: Policy Analysis through Grounded Theory

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ABSTRACT

This study analyzes China's SME development policies (2006-2024) to identify the implicit leadership competencies promoted by the state. Using grounded theory and computational textual analysis of 22 national policy documents with ATLAS.ti, the research reveals a distinct, policy-driven leadership hierarchy. Strategic Guidance and Decision-Making, Innovation and Change Leadership, and Organizational Management and Team Building emerged as the three dominant core competencies. In contrast, Market Expansion and Social Responsibility received minimal emphasis. The findings demonstrate a Chinese leadership model that prioritizes strategic alignment with national goals, innovation-driven transformation, and internal governance over market-oriented competencies, challenging the universality of Western leadership frameworks.

KEYWORDS: *Leadership, SME Development, Policy Analysis, Grounded Theory.*

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INTRODUCTION

Small and Medium-sized Enterprises (SMEs) are universally acknowledged as critical drivers of economic growth, innovation, and employment globally. Recent data underscores their significance: SMEs constitute over 99% of all businesses in the European Union (European Commission, 2023), account for 97% of enterprises and 70% of employment in the APEC region (APEC Policy Support Unit, 2021), and represent more than 99% of China's enterprise landscape (MIIT, 2023). In China, SMEs contribute over 60% of GDP, 70% of technological innovation, and 80% of urban employment (Zhang et al., 2022), demonstrating their systemic importance to national development.

Leadership within SMEs serves as a critical internal driver, directly influencing organizational resilience, strategic adaptation, and innovation capacity (Huang & Li, 2021; Mitchelmore & Rowley, 2013). Specifically, leadership determines how SMEs navigate external disruptions, execute strategic pivots, and capitalize on emerging opportunities (Wright & Stigliani, 2013; OECD, 2021). Within China's policy-driven SME ecosystem, leadership extends beyond individual traits to encompass organizational responsiveness to institutional incentives, particularly government policies that function as key exogenous catalysts (Li et al., 2021).

China's policy framework for SME development has intensified significantly, emphasizing initiatives such as strengthening SMEs as "innovation entities" and mandating 30% of local government procurement quotas for SMEs (State Council, 2020). However, two critical research gaps persist:

Policy-Leadership Dissonance: Financial subsidies predominantly target technical upgrades (e.g., equipment, digitalization), while neglecting investments in leadership upskilling essential for strategic adaptation (OECD, 2021; Liu et al., 2022).

Contextual Specificity Deficit: Dominant leadership frameworks derived from Western corporate models inadequately address the unique operational, resource-constrained, and policy-reactive realities of Chinese SMEs (Zhang & Yang, 2019; Chen, 2020).

Consequently, the implicit leadership competencies embedded within policy texts remain underexplored (Li & Zhang, 2020), limiting the precision of SME capacity-building initiatives. This study addresses these gaps by employing ATLAS.ti to conduct a rigorous grounded theory analysis of China's SME policy corpus. The objective is to extract a contextually relevant leadership framework that aligns SME development with national strategic goals. Findings aim to equip policymakers with evidence for designing synergistic interventions and provide SME leaders with empirically grounded competencies to enhance organizational agility and innovation.

LITERATURE REVIEW

Leadership theory has evolved significantly beyond trait-based and behavioral paradigms toward dynamic frameworks emphasizing adaptability, contextual sensitivity, and transformational influence (Dinh et al., 2014; Gardner et al., 2021). Stogdill's (1948) foundational reconceptualization positioned leadership as a process of "influencing group activities toward goal achievement," catalyzing the development of contingency theories (Fiedler, 1967) and transformational leadership (Bass & Avolio, 1994). Contemporary research reinforces the relevance of transformational leadership, characterized by idealized influence, intellectual stimulation, and individualized consideration, particularly for driving innovation in volatile environments (Hoch et al., 2018; Wang et al., 2021). Simultaneously, situational leadership (Hersey & Blanchard, 1977) underscores the necessity of style flexibility based on follower maturity, while authentic leadership (Luthans & Avolio, 2003) integrates ethical transparency and resilience. These developments highlight leadership's evolution into a multifaceted construct essential for navigating contemporary organizational complexities (Uhl-Bien & Arena, 2018), thereby setting the foundation for specialized research within SMEs contexts.

Research increasingly indicates that SME leaders require hybrid frameworks adept at balancing agility and stability. Recent studies demonstrate that Ambidextrous Leadership (AL), which integrates "opening" behaviors (encouraging exploration) and "closing" behaviors (enforcing efficiency), enhances SME resilience during turbulence (Lubatkin et al., 2022; Zacher & Rosing, 2022). In the Chinese context, resilient leadership frameworks emphasize crisis-responsive strategies combining decisive action, employee support, and operational adaptability, significantly improving SME survival rates during disruptions (Guo et al., 2021; Zhang et al., 2021). Concurrently, paternalistic leadership, prevalent in family-owned SMEs, leverages authority and benevolence but risks stifling innovation without delegation (Chen et al., 2014; Zhou et al., 2022).

Despite these advancements, critical limitations persist in SME leadership research:(1) Neglect of Policy Contextualization: Most frameworks overlook how governmental policy shifts (e.g., from "survival support" to "innovation cultivation") dynamically shape leadership requirements (Mallett et al., 2020; OECD, 2021).(2) Static Framework Dominance: Current models fail to capture the temporality and localized impact of policies across regions and administrative levels (Guan et al., 2020; Liu et al., 2021). This gap necessitates analyzing policy texts to extract leadership frameworks demanded by China's SME support policies.

RESEARCH METHODOLOGY

A. Research Paradigm and Methodological Choice

This study adopts a qualitative research paradigm, with the core objective of inductively extracting leadership elements essential for small and medium-sized enterprise (SME) development from policy texts and constructing a systematic framework, rather than verifying existing theories. This goal necessitates an inductive, theory-generating approach. Grounded theory (GT) was selected as the primary methodology due to its core strength in" generating theory from raw data" rather than relying on pre-existing theoretical frameworks (Glaser & Strauss, 1967). This makes GT particularly suitable for exploring phenomena not yet systematically understood, such as the implicit leadership requirements embedded within policy texts relevant to Chinese SMEs.

The choice of grounded theory is directly justified by the research objectives. As the study aims to discover and construct a novel leadership framework directly from textual data, GT's systematic yet flexible procedures for data collection, coding, and theoretical development provide the most appropriate methodological path (Charmaz, 2006). Recent applications of grounded theory demonstrate its robust suitability for policy text analysis. For instance, GT has been effectively employed to uncover governance logics (Li et al., 2021), organizational imperatives (Miles & Huberman, 2020), and implicit behavioural expectations within diverse policy documents, confirming its applicability to textual data like government policies, plans, and directives.

Although existing studies specifically applying GT to analyze leadership within policy texts are less common, its proven flexibility in theoretical construction based on textual data (e.g., policy documents, interview transcripts, news reports) and its established track record within broader leadership

research (Charmaz, 2006) strongly support its suitability for this investigation.

B. Data Collection and Analysis Procedure

This study defined explicit selection criteria and scope for the policy texts. Focusing on "policies supporting SME development in China", a total of 22 national policy documents (including Plans, Opinions, and Measures) were collected from official government websites and reputable policy databases (e.g., State Council portal, provincial government sites). The time span covers 2006 to 2024, encompassing pivotal phases from the inception of dedicated SME support policies to post-pandemic recovery initiatives. To facilitate comparison with subsequent coding, the 22 policies were categorized into four types: Fiscal and Tax Support, Innovation and Intellectual Property Support, Financing Support, and Comprehensive Planning (see Table 1).

Data analysis followed the established three-stage coding process of grounded theory (Strauss & Corbin, 1990), facilitated and managed using the qualitative data analysis software ATLAS.ti ,with the assistance of its Intentional AI Coding. While ATLAS.ti and AI provided crucial software assistance for organizing, retrieving, and visually mapping codes and categories, all coding stages involved significant manual interpretation and conceptualization by the researcher. ATLAS.ti presents researchers with extensive capabilities for conducting sophisticated qualitative data analysis (Rambaree, 2013), and in this study, it was instrumental in managing the coding process as follows:

- Stage 1: Open Coding. Policy texts were analyzed sentence-by-sentence and paragraph-by-paragraph within ATLAS.ti to extract all expressions related to "requirements for SME development" and "capacity needs of operators/leaders". The extracted expressions were then manually conceptualized by the researcher to form initial codes (ensuring potential elements were not omitted).
- Stage 2: Axial Coding. Using ATLAS.ti's grouping and network features, the initial codes obtained from open coding were systematically classified and organized. Through constant comparison and analysis of logical relationships, closely related codes were aggregated into broader categories.
- Stage 3: Selective Coding. The core category (i.e., "SME Leadership Framework") was identified. ATLAS.ti was used to explore and visualize the relationships between categories. The researcher then manually sorted out the logical relationships between all categories to clarify their connotations, boundaries, and integration into the core framework. This ensured the core category could comprehensively cover all relevant textual data and explain the overall logic of leadership needs expressed within the policy texts, guaranteeing the framework's integrity and theoretical saturation.

Intentional AI Coding works with the GPT family of large language models. These models are based on vast amounts of different texts and additional training by human researchers, enabling them to be used in a general-purpose way (ATLAS.ti GmbH,2025).

To ensure methodological rigor, this study adhered to established qualitative research criteria. Credibility was established through constant comparison, where data was iteratively analyzed and compared throughout the coding process to ensure categories were grounded in the data. Memo-writingwithin ATLAS.ti documented the analytical process and emerging theories. Dependability and confirmability were addressed through researcher reflexivity maintaining awareness of potential biases and the transparent, structured use of the software, which provided a clear audit trail. Theoretical saturation was confirmed when the analysis of subsequent policy documents no longer yielded new properties or insights into the six core leadership dimensions, indicating a comprehensive and saturated framework.

Table 1.Names and Types of the 22 Policy Documents

No.	Name	Year	Types
1	Management Measures for Special Funds for the Development of SMEs	2014	Fiscal and Tax Support
2	Management Measures for Government Procurement to Promote the Development of SMEs	2020	
3	Guide to Tax and Fee Preference Policies for Supporting Small and Micro Enterprises and Individual Businesses (Version 2.0)	2023	
4	Several Opinions on Intellectual Property Support for Small and Micro Enterprises	2014	Innovation and Intellectual Property Support
5	Interim Measures for the Gradient Cultivation and Management of High-Quality SMEs	2022	

6	Notice on Further Supporting the High-Quality Development of Specialized, Refined, Unique, and Innovative SMEs	2024	
7	Special Action Plan for Digital Empowerment of SMEs (2025–2027)	2024	
8	Implementation Plan for the Patent Industrialization Program to Promote the Growth of SMEs	2024	
9	Opinions on Strengthening the Credit Guarantee System for SMEs	2006	Financing Support
10	Notice on Implementing Fee Reduction and Reward Subsidy Policies for Financing Guarantee Services for Small and Micro Enterprises	2018	
11	Implementation Plan for Strengthening Credit Information Sharing and Application to Facilitate Financing for Small and Micro Enterprises	2021	
12	Implementation Plan for Integrated Development of Financing Credit Service Platforms to Enhance Financing Convenience for Small and Micro Enterprises	2024	
13	Several Opinions of the State Council on Further Promoting the Development of SMEs	2009	Comprehensive Planning
14	12th Five-Year Plan for the Growth of Small and Micro Enterprises	2011	
15	Opinions of the State Council on Supporting the Healthy Development of Small and Micro Enterprises	2014	
16	Development Plan for Promoting Small and Medium Enterprises (2016–2020)	2016	
17	Law of the People's Republic of China on the Promotion of Small and Medium Enterprises	2017	
18	Guiding Opinions on Promoting the Healthy Development of Small and Medium Enterprises	2019	
19	14th Five-Year Plan for Promoting the Development of Small and Medium Enterprises	2021	
20	Notice of the State Council on Issuing a Package of Policies for Solidly Stabilizing the Economy	2022	
21	Several Measures to Intensify Efforts to Assist Small and Micro Enterprises in Overcoming Difficulties	2022	
22	Several Measures to Support Small and Micro Enterprises in Stabilizing Growth, Adjusting Structure, and Enhancing Capabilities	2023	

RESULTS

The coding analysis conducted through ATLAS.ti revealed six core leadership dimensions embedded within Chinese SME development policies. The frequency of codes associated with each dimension, as well as their relationships with policy categories, are summarized below.

A. Leadership Dimensions and Code Frequency

The following leadership themes were identified, along with their respective code frequencies (see Figure 1):

Strategic Guidance and Decision-Making (419 codes): This was the most prominent dimension, emphasizing the role of leaders in setting clear strategic directions and making informed decisions in response to national and regional policy incentives.

Innovation and Change Leadership (377 codes): Policies consistently highlighted the need for leaders to foster innovation, adapt to technological changes, and promote organizational transformation.

Organizational Management and Team Building (356 codes): This dimension underlined the importance of internal management capabilities, including structuring teams and improving operational efficiency.

Resource Integration and Utilization (19 codes): While less emphasized, this theme focused on the ability to leverage financial, human, and informational resources effectively.

Values and Social Responsibility (10 codes): Represented as an implicit dimension, this theme addressed ethical leadership and corporate social responsibility.

Market Expansion and Customer Orientation (6 codes): This was the least explicitly emphasized area, though it touched on market adaptability and customer-centric strategies.

The significant disparity in coding frequency among the six identified leadership dimensions—with Strategic Guidance (419 codes), Innovation and Change Leadership (377 codes), and Organizational Management (356 codes) forming a dominant cluster—is not a methodological artifact but a meaningful reflection of the strategic priorities embedded within Chinese SME development policies. Given their prevalence and centrality to the policy discourse, the following section will provide a detailed analysis of the three core leadership competencies, elucidating their primary subcodes to uncover the specific behavioral and attitudinal elements expected of SME leaders.

Table 2. Coding frequency distribution of leadership dimensions.

No.	Code Name	Code Frequency
1	Strategic Guidance and Decision-Making	419
2	Innovation and Change Leadership	377
3	Organizational Management and Team Building	356
4	Resource Integration and Utilization	19
5	Values and Social Responsibility	10
6	Market Expansion and Customer Orientation	6

B. Detailed Analysis of Three Core Leadership Competencies

The analysis reveals three predominant leadership competencies embedded within Chinese SME development policies: Strategic Guidance and Decision-Making, Innovation and Change Leadership, and Organizational Management and Team Building. A detailed examination of their primary subcodes provides deeper insight into the specific behaviors and capabilities policymakers emphasize as critical for SME leaders.

Strategic Guidance and Decision-Making emerged as a central theme, underscoring the expectation for leaders to possess a forward-looking and analytical orientation. Subcodes such as Long-term development plans and Scientific decisions highlight the importance of rational and evidence-based planning, aligning enterprise goals with national strategic priorities like innovation-driven development (Wu & Wei, 2022). Furthermore, the subcodes Market changes and Market sensitivity point to the necessity for leaders to continuously scan the external environment, anticipate industrial shifts, and make agile strategic adjustments in response to evolving policy incentives and market conditions. This combination of vision and pragmatism ensures SMEs can effectively navigate the state-guided market economy.

The dimension of Innovation and Change Leadership signifies the imperative for SMEs to pursue transformation and technological upgrading. Subcodes including Innovation, New technologies, and Transformation are frequently tied to policy directives on digitalization and core technological breakthroughs, positioning the leader as the chief advocate for research and development (R&D) and the adoption of smart manufacturing. Notably, the subcode Embracing failure reflects a growing, albeit subtle, policy acknowledgment that a tolerant culture towards calculated risks is essential for fostering genuine innovation, suggesting a shift in the traditional perception of entrepreneurial failure (Zhang & Li, 2023).

Finally, Organizational Management and Team Building was identified as a foundational competency, focusing on the internal architecture of the firm. Subcodes like Optimized organizational structure and Talent development mechanism stress the need to modernize corporate governance and establish systematic approaches to attracting and nurturing skilled personnel, which is crucial for sustaining innovation. The subcodes Effective motivation, Effective team motivation, and Harmonious corporate culture collectively emphasize the leader's role in building cohesive, engaged, and stable workforces. This focus on internal harmony and human capital development is often framed as a prerequisite for achieving strategic and innovative goals, ensuring the organization has the operational stability to grow.

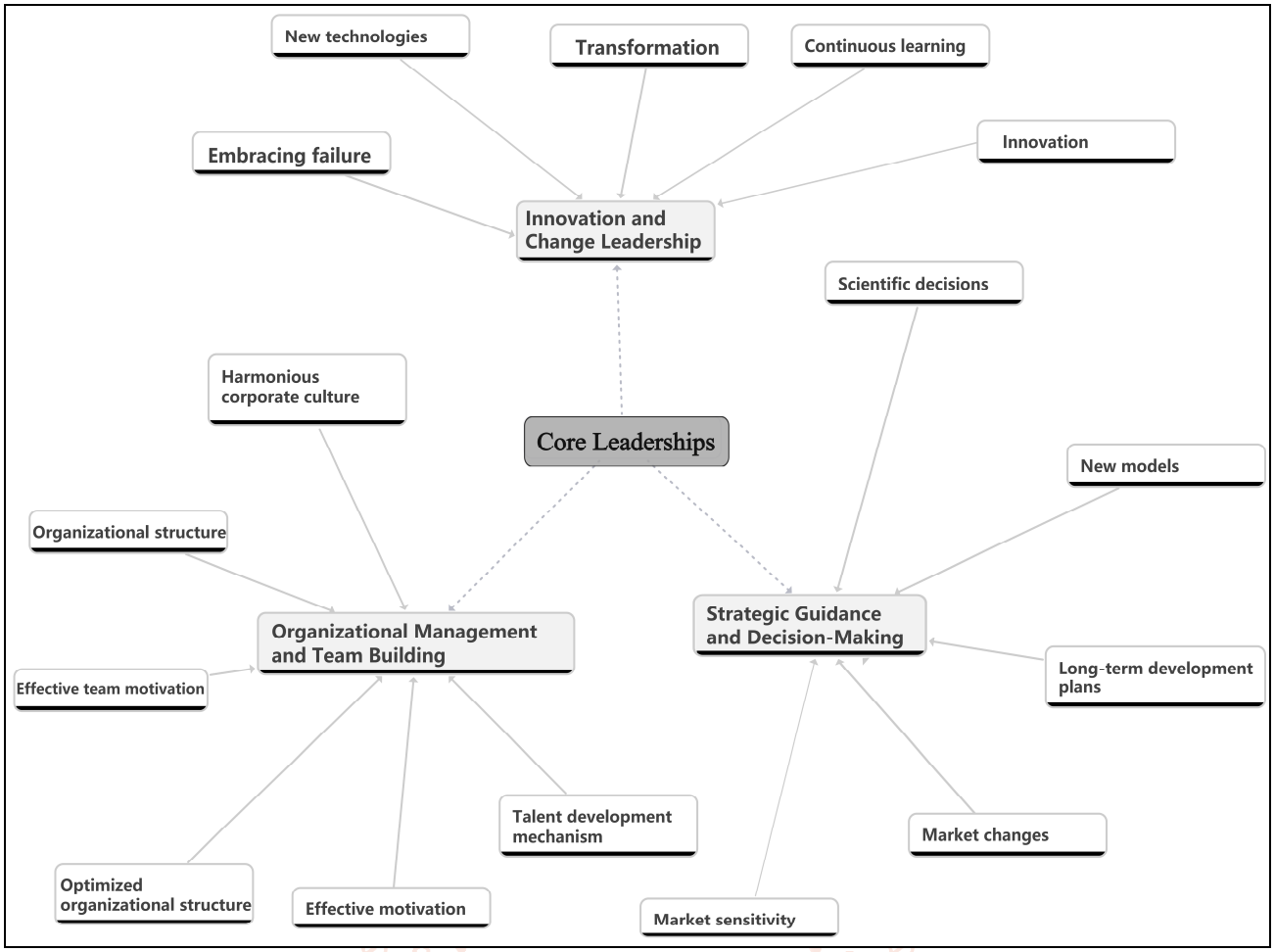

Figure 1. Three Core Leadership Competencies and Their Primary Subcodes

C. Interconnection Between Leadership Dimensions and Policy Types

The Sankey diagram (Figure 2) illustrates strong linkages between specific leadership dimensions and policy types:

Strategic Guidance and Decision-Making was most frequently associated with Comprehensive Planning policies, reflecting the emphasis on macro-level strategic alignment.

Innovation and Change Leadership showed strong connections to Innovation and Intellectual Property policies, underscoring the focus on innovation-driven growth.

Organizational Management and Team Building was often tied to Fiscal Support and Financing Support policies, suggesting that internal management capabilities are considered enablers of financial resource utilization.

Resource Integration and Utilization was linked to Financing Support, highlighting the role of leadership in securing and allocating financial resources.

Values and Social Responsibility and Market Expansion and Customer Orientation appeared less centrally in the policy framework, indicating these are secondary or implicit focuses within the current policy landscape.

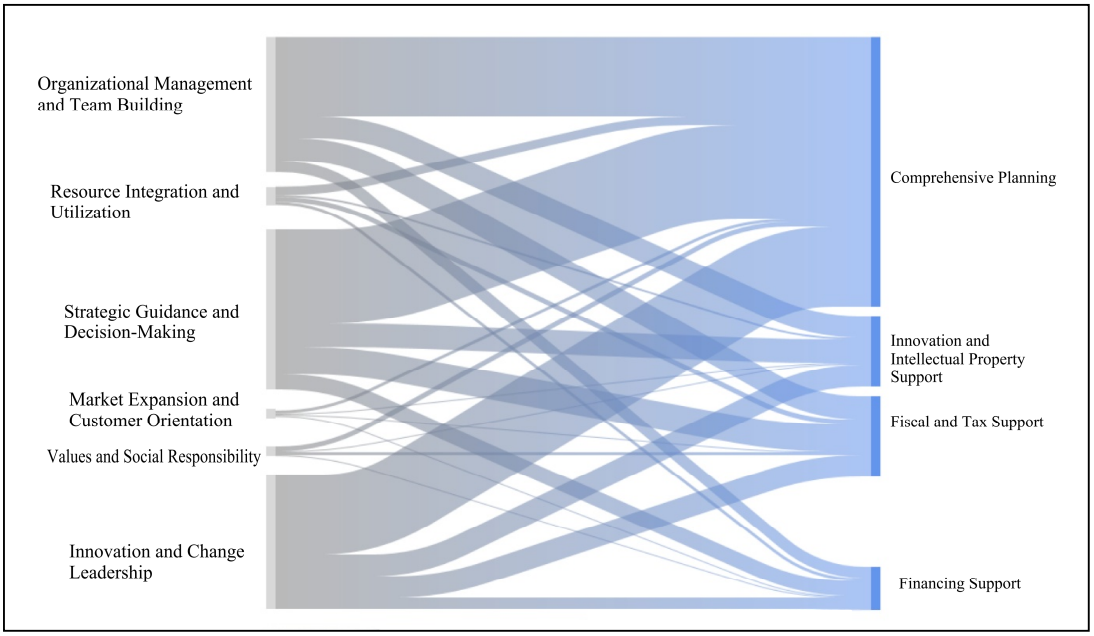

Figure 2: Sankey diagram visualizing the flow and strength of connections between leadership dimensions and policy categories.

DISCUSSION

A. The Policy-Driven Hierarchy of Leadership Competencies

The findings of this study reveal a distinct, policy-driven hierarchy of leadership competencies for Chinese SMEs, prioritizing Strategic Guidance and Decision-Making, Innovation and Change Leadership, and Organizational Management and Team Building. This tripartite framework underscores a deliberate institutional focus on cultivating leaders who can foremost align with national strategic objectives, drive technological modernization, and ensure internal operational stability. The significantly lower coding frequency for market-oriented and socially responsible leadership dimensions suggests that within the current policy paradigm, these are viewed as derivative outcomes—naturally emerging from a strategically aligned, innovative, and well-organized enterprise—rather than as primary leadership thrusts.

This hierarchy aligns with China's broader political-economic model, where industrial policy actively shapes market dynamics (Wu & Wei, 2022). The preeminence of Strategic Guidance and Decision-Making (419 codes) reflects the expectation for SME leaders to be adept policy interpreters and navigators. Success is not merely a function of market competition but of effectively aligning enterprise strategy with state-led initiatives like "Made in China 2025" and the "Digital China" core. This finding challenges the universality of Western leadership models that often prioritize market disruption and customer-centricity, instead highlighting a context where strategic agility in a state-guided economy is paramount (Zhang & Yang, 2019).

Similarly, the strong emphasis on Innovation and Change Leadership (377 codes) directly supports the national mandate for technological self-reliance and upgrading. However, the policy discourse frames innovation not as open-ended exploration but as mission-oriented innovation—focused on breakthroughs in core technologies and digital transformation. The presence of the subcode Embracing failure is particularly noteworthy, as it signifies a potential shift in the institutional mindset, acknowledging that a culture tolerant of calculated risk is a necessary predicate for genuine innovation, moving beyond a traditional focus on guaranteed outcomes (Zhang & Li, 2023).

The third core competency, Organizational Management and Team Building (356 codes), functions as the essential foundation. Policies implicitly argue that strategic and innovative goals are unattainable without a modernized corporate structure, a skilled talent pool, and a harmonious culture. This focus on internal governance addresses a key vulnerability in Chinese SMEs, suggesting that policy interventions assume strong internal management is a prerequisite for effectively absorbing and utilizing external support (Liu et al., 2022).

B. Linkages Between Policy Instruments and Leadership Dimensions

The Sankey diagram visualization further enriches this interpretation by revealing the source of these leadership prescriptions. The strong linkage between Comprehensive Planning policies and strategic leadership, and between Innovation policies and innovation leadership, demonstrates a coherent, top-down design logic. Different policy instruments are

deployed to cultivate specific facets of the overarching leadership model.

The marginalization of Market Expansion and Customer Orientation is this study's most counter-intuitive finding. It suggests that in China's policy framework, mastering the external policy environment is presently deemed more critical for SME leaders than mastering the market environment. This does not negate the importance of customers but implies that market success is perceived as a consequence of correctly leveraging policy-supported innovation and strategic positioning.

C. Theoretical Comparison: Contrasting Findings with Global Leadership Frameworks

Placing these findings within a global theoretical context reveals a nuanced dialogue between universal leadership concepts and context-specific imperatives. The pronounced emphasis on Innovation and Change Leadership finds a strong parallel in transformational leadershiptheory (Bass & Avolio, 1994), which champions inspiring followers and driving organizational innovation. However, the policy-derived framework reorients this concept towards mission-oriented technological upgrading, aligning with national strategic goals rather than open-ended exploration. Similarly, the core dimension of Strategic Guidance and Decision-Making echoes the focus of strategic leadership on environmental scanning and long-term direction. Yet, its primary linkage to Comprehensive Planning policies underscores a critical divergence: the paramount "environment" for Chinese SME leaders is the policy landscape itself, necessitating strategic agility within a state-guided economy rather than in a purely competitive market.

This model is powerfully explained by institutional theory(DiMaggio & Powell, 1983). The Sankey diagram illustrates a process of coercive isomorphism, where distinct policy instruments (e.g., Innovation policies, Comprehensive Planning) are deployed to cultivate specific, legitimized leadership competencies, shaping SME leaders to conform to state-defined priorities for access to resources. Consequently, the relative marginalization of Market Expansion and Customer Orientation challenges the universality of leadership models that place customer-centricity and market disruption at their core. This comparison significantly strengthens the theoretical contribution by demonstrating how macro-level institutional forces actively sculpt micro-level leadership expectations, offering a critical non-Western perspective that prioritizes policy responsiveness and internal governance over market-led leadership paradigms.

CONCLUSION AND IMPLICATIONS

A. Conclusion

This study employed a grounded theory approach to dissect China's SME development policy corpus, revealing a coherent, hierarchical model of implied leadership. The results demonstrate that Chinese policies predominantly envision SME leaders as strategy executors who align with national goals, innovation champions who drive technological upgrading, and organizational architects who build stable and efficient operational foundations. This framework is characterized by its emphasis on policy responsiveness and internal capability-building, while comparatively de-emphasizing direct market competition and social responsibility as primary leadership competencies.

B. Theoretical and Practical Implications

The study offers two key theoretical contributions. First, it bridges macro-policy and micro-leadership literature by systematically extracting a leadership framework directly from policy texts, moving beyond generic models to reveal a context-specific construct shaped by institutional priorities (Li & Zhang, 2020). Second, it challenges the assumed universality of leadership theories by highlighting a model where success is tied to navigating a state-guided ecosystem, thus contributing to the discourse on varieties of leadership and institutional embeddedness (Chen, 2020).

Practically, this research provides a clear roadmap for both policymakers and SME leaders. Policymakers can use these findings to critically assess the balance of their interventions, asking whether the overwhelming focus on strategic and innovation capabilities requires complementary programs to explicitly strengthen market-facing and sustainable leadership skills. For SME leaders and entrepreneurs, this study serves as a guide for prioritizing their professional development, highlighting the critical need to hone abilities in policy interpretation, strategic alignment, and organizational modernization to fully access state support.

C. Limitations and Future Research

This study has several limitations. First, its focus on national-level policies may overlook nuances and additional leadership expectations present in regional or local policy documents. Future research could conduct a comparative analysis across different administrative levels. Second, the study decodes implicit expectations from policy texts; subsequent research should compare this model with empirical data on the actual leadership practices and challenges faced by SME leaders in China, potentially identifying

significant gaps between policy expectations and on-the-ground realities.

Furthermore, the evolving nature of China's economic challenges suggests a fertile ground for longitudinal research. Future studies could track how this implied leadership model shifts in response to new economic priorities, such as advancing green technologies or navigating demographic changes, offering a dynamic view of the state-leadership nexus in Chinese SMEs.

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