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Internal and External Factors Affecting the Management of Small and Medium-Sized Enterprises in Shanghai, China

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Abstract

This study investigates the lasting impact of administrative factors on the efficiency of enterprise management. Administrative factors are identified as core elements critical to the smooth operation of the entire enterprise. They play a central role in shaping the daily activities and overall functionality of the business. Each specific administrative link influences the daily operations across various departments, indicating the pervasive nature of these factors. At the decision-making level, the scientific application of command and control is of paramount importance. Effective decision-making processes are crucial for the optimal performance of enterprise departments. The study emphasizes that although the main leaders and principals hold significant guiding power over each department, this authority is often misunderstood. The power of leadership should not be overexerted or left unused. Instead, it should be strategically employed to foster and enhance the efficiency and productivity of each department. By promoting efficient administrative practices and well-informed decision-making, leaders can ensure that each department operates at its highest potential. This approach not only streamlines the enterprise's daily operations but also contributes to its long-term success and sustainability. Overall, the study highlights the intricate and essential relationship between administrative factors and enterprise management efficiency.

Keywords: *Management, organizational efficiency, SMEs, Shanghai, administrative factors*

1. INTRODUCTION

Shanghai, a densely populated city in China, hosts numerous small and medium-sized enterprises (SMEs) that significantly contribute to economic growth, job creation, and technological innovation. However, increasing market competition and globalization pose challenges for these SMEs. Research on factors influencing SME management in Shanghai is vital for enhancing their competitiveness and sustainability. According to updated "SME Classification Criteria" by several Chinese agencies, medium-sized enterprises have annual sales and assets over fifty million yuan, while small businesses have less. SMEs, exceeding 42 million in China, represent 99.8% of all enterprises and are crucial for job creation and tax

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revenue, bolstered by China's WTO membership and adherence to international standards. Small and medium-sized businesses (SMEs) have distinct characteristics: first, management and ownership are often centralized, allowing for quick decision-making and clear business objectives, which aids in profit maximization (Cronin, 2018). Second, SMEs typically rely on internal financing from personal savings and loans from family and friends due to limited external funding and difficulties in obtaining bank loans, increasing business risk (Cronin, 2018). Third, SMEs often lack awareness and application of financial management principles, failing to use financial management for supervision, control, and incentive, which is crucial for achieving managerial goals and maximizing enterprise value (Cronin, 2018).

Market competition significantly impacts the management of Shanghai SMEs. With the market economy expanding, competition from both local and international firms has intensified, placing Shanghai SMEs at a disadvantage. To remain competitive, these businesses must continuously improve product quality, service levels, and brand image. Government policies also play a crucial role. Favorable tax policies and financial assistance can reduce costs and alleviate capital constraints, fostering growth. However, many SMEs are privately held and managed by operators without financial expertise, leading to inadequate financial management practices and a focus on technology and sales over financial control (Cronin, 2018). SMEs often lack effective financial management systems and rely on subjective assessments rather than scientific methods. This reliance increases the risk of financial and operational issues. Furthermore, SMEs typically employ family or friends in key financial roles, who may lack the necessary expertise, leading to ineffective internal controls (Cronin, 2018). Initial funding for SMEs usually comes from personal savings and loans from close associates, with limited access to bank loans or capital markets due to low credit ratings and stringent listing requirements. The banking sector's risk-averse nature further restricts SMEs' access to credit, exacerbating their financial challenges (Cronin, 2018). Consequently, SMEs struggle to secure the necessary capital for growth and stability. Talent management is crucial for Shanghai's SMEs. As businesses grow and market conditions change, the need for high-quality talent evolves. SMEs must continuously attract and develop skilled individuals to enhance their core competitiveness and innovation capabilities. Implementing a robust talent reward structure is essential to motivate and inspire staff (Cronin, 2018).Technology plays a vital role in SME management. Continuous adoption of new technologies, equipment, and processes is necessary to improve production efficiency and quality standards. Additionally, investing in technological research and development is crucial for product and industrial upgrades (Cronin, 2018). Cultural elements significantly impact SME operations. A positive, open, and inclusive corporate culture fosters employee loyalty and a sense of belonging. SMEs must cultivate such a culture and promote a healthy working environment and team spirit to support long-term growth (Cronin, 2018). Globalization presents both opportunities and challenges for Shanghai's SMEs. To enhance international competitiveness, SMEs should develop and implement internationalization strategies, expand foreign market channels, and attract foreign talent. Strengthening these efforts is vital for success on the global stage (Cronin, 2018).The management of Shanghai's SMEs is influenced by market competitiveness, regulatory environment, talent, technology, culture, and internationalization. Addressing these

factors comprehensively is essential for improving operations, competitiveness, and sustainable growth (Cronin, 2018).

As China's social and economic systems evolve, effective enterprise operation and management have become crucial for company competitiveness. Simplifying management structures may save costs but can undermine daily administrative effectiveness and system construction, leading to authoritarian leadership and low administrative efficiency. Successful management requires timely completion of departmental tasks and efficient vertical transmission of administrative instructions, from top-level decision-making to grassroots execution (Hao & Li, 2014; Yang & Xin, 2014). SMEs in China face growth barriers due to restricted access to financial resources, limited creditworthiness, poor production capacity, and inefficient management systems. These challenges hinder their ability to secure external funding, including venture capital (VC), which is a viable alternative for financing and promoting economic development (Song et al., 2016; Abe et al., 2015; Ahmed & Khan, 2016). Administrative factors significantly influence firm efficiency (Cronin, 2018). They are fundamental to daily operations and decision-making processes. Effective command application is crucial for optimizing departmental efficiency. Leaders should focus on fundamental decisions, leveraging administrative factors to manage execution challenges (Aarabi, 2019). These factors include decision-making, implementation, enterprise production and management plans, and cultural supervision. Proper human resource allocation is vital for maximizing administrative efficiency and enterprise development. Encouraging positive administrative roles and enhancing human resource management are essential for modern business administration

Organizational agility is vital for enterprises to promptly address market changes and gain competitive advantages. Increasing agility enables businesses to better perceive market opportunities, adjust product marketing and business processes, and improve responsiveness to customer needs and product quality (Zhang Zhengang & Yu Chuanpeng, 2014). Small and medium-sized enterprises (SMEs) play a significant role in various economies, including China's. Defined by the European Commission as having fewer than 250 employees, SMEs contribute significantly to GDP, tax revenue, employment, and economic development (Beaufel, 2009). However, despite their contributions, there is a lack of theoretical research on SMEs' innovation capabilities (Enterprise Research Institute & Development Research Centre of The State Council, 2013). SMEs are essential for driving innovation, with studies showing that they outperform larger firms in technological advancements and new product development (Xu Guanhua, 2006). Innovation is crucial for long-term economic development, particularly in light of China's transition towards innovation-driven growth (Enterprise Research Institute & Development Research Centre of The State Council, 2013).

To support SME innovation, it is essential to build a robust service system, enhance intellectual property rights protection, refine R&D tax deduction policies, promote industry-university-research collaborations, and encourage partnerships with larger enterprises (Enterprise Research Institute & Development Research Centre of The State Council, 2013). However, the focus on theoretical research in innovation management remains inadequate, with only a small portion of literature dedicated to management innovation (Damanpourt & Aravind,

2012). As businesses navigate resource constraints and seek to integrate internal and external knowledge for innovation, theoretical guidance and best practices are essential (Enterprise Research Institute & Development Research Centre of The State Council, 2013). While much attention has been given to technical innovation, management innovation remains understudied despite its potential impact on organizational success (Birkinshaw et al., 2008; Crossan & Apaydin, 2010).

This study employs a quantitative research approach to examine the relationship between enterprise management and external and internal factors in Chinese SMEs. Moreover, the research explores the relationship between government policies and internal management adjustment of SMEs. The manuscript provides valuable insights into the challenges and opportunities faced by SMEs in Shanghai and offer recommendations for enhancing their management effectiveness and competitiveness in the dynamic business landscape.

2. THEORETICAL FRAMEWORK

2.1 Theory Development

The Resource-Based View (RBV) theory serves as a cornerstone in understanding the internal influences on SME management. According to RBV, internal resources and capabilities are crucial sources of competitive advantage for firms. Within SMEs in Shanghai, factors such as organizational structure, leadership styles, and human resource management practices play pivotal roles in determining management effectiveness. RBV emphasizes the importance of leveraging internal strengths and resources to achieve sustainable competitive advantages, highlighting the need for SMEs to strategically manage their internal resources to enhance their market position and performance.

Additionally, Agency Theory sheds light on the principal-agent relationship within organizations and underscores the importance of aligning incentives and monitoring mechanisms to mitigate agency conflicts. This theory helps elucidate how internal factors such as governance structures and incentive systems impact enterprise management. By understanding the dynamics of the principal-agent relationship, SMEs can design governance mechanisms and incentive systems that promote organizational alignment and improve decision-making processes.

Conversely, Environmental Contingency Theory and Institutional Theory focus on external influences on SME management. Environmental Contingency Theory posits that external factors significantly influence organizational strategy and performance. In the context of SMEs in Shanghai, this theory aids in examining how factors like market competition, regulatory environment, and technological advancements shape management strategies. By acknowledging the impact of external contingencies, SMEs can adapt their strategies and operations to effectively respond to changes in the business environment.

Furthermore, Institutional Theory emphasizes the role of institutions and societal norms in shaping organizational behavior. This theory is pertinent for understanding how government

policies and industry regulations influence management practices of SMEs operating in Shanghai. By complying with institutional pressures and norms, SMEs can navigate regulatory challenges and align their strategies with prevailing industry standards, thereby enhancing their legitimacy and competitiveness in the market.

2.2. Research Framework

In the research framework, the dependent variable is enterprise management, while independent variables encompass external influences, government policies, enterprise strategy, internal influences, and the market environment. External influences include factors such as market competition, regulatory environment, and technological advancements that shape management strategies. Government policies, including tax policies and financial regulations, significantly impact the operating environment for SMEs. Enterprise strategy encompasses internal decisions like organizational management framework, organizational management division of labour, and corporate culture, while internal influences encompass factors like working atmosphere, employee satisfaction, and internal training. Finally, the market environment includes factors such as supply chain and customer preferences that influence management decisions.

By analyzing the interactions between these variables, the research framework provides a holistic understanding of the internal and external factors affecting SME management in Shanghai. Through rigorous examination informed by theoretical foundations, researchers can uncover valuable insights to enhance the effectiveness and sustainability of SME management practices in a dynamic business landscape.

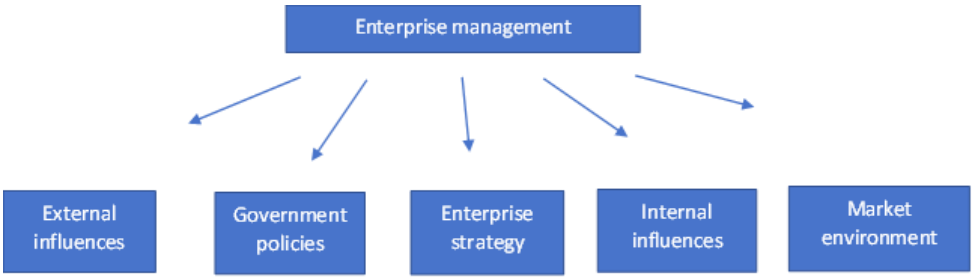

Figure 1: Research Framework

3. RESEARCH METHODS

3.1 Population

The sample population for this study comprised small and medium-sized enterprises (SMEs) in the Shanghai region, which were the primary focus of this extensive research initiative. These SMEs were chosen due to their significant role in the local economy and their potential for growth and innovation. To gather comprehensive data, the final version of the questionnaire was disseminated through an online survey platform, ensuring wide accessibility and convenience for participants. Detailed information from individuals employed in business management or related fields were gathered, as their insights were

deemed particularly relevant to understanding the nuances of SME management in this context. Over 1,100 invitations to participate in the survey were meticulously sent via email to ensure a broad and diverse respondent base. This extensive outreach aimed to capture a wide range of perspectives and experiences, enhancing the reliability and depth of the study's findings. The list of experts invited to take part in the survey was developed based on the Enterprise Asset Management (EAM) projects conducted with our industry partners over the past eight years. These projects provided a rich database of professionals with substantial experience and expertise in managing SMEs. By leveraging these established relationships and tapping into this pool of knowledgeable individuals, we ensured that the survey responses would be informed by practical experience and a deep understanding of the industry. This strategic approach aimed to generate valuable insights into the internal and external factors affecting SME management in Shanghai, contributing to the development of more effective management practices and policies.

3.2 Research Design

The survey was also distributed on two online platforms, Xing and LinkedIn, with announcements highlighting its focus on topics related to enterprise architecture (EA) and strategic information technology management. Following the closure of the survey, feedback was received from 178 participants. To ensure the integrity of the data, duplicate responses were identified by cross-referencing the business names. This filtering process eliminated redundant entries from the same company, resulting in a final set of 105 complete and unique responses for analysis. To further elaborate, the survey's release on Xing and LinkedIn aimed to reach a broader audience of professionals engaged in enterprise architecture and IT strategy, enhancing the diversity and relevance of the feedback. The participants, drawn from various industries and backgrounds, provided insights that were critical for understanding the current trends and challenges in these fields. The rigorous process of identifying and removing duplicate responses ensured that the data was not only comprehensive but also representative of distinct business perspectives. This meticulous approach to data collection and verification underscores the study's commitment to accuracy and reliability in capturing the views and experiences of industry professionals. Consequently, the refined dataset of 105 unique responses serves as a robust foundation for the subsequent analysis and findings of the research..

3.3 Data Analysis Methods

Using SPSS software proved to be quite beneficial for this inquiry, as it greatly improved the degree of thoroughness and quality of data processing and analysis. SPSS offers a wide range of functions, each designed to fulfil a specific role in data analysis. A quantitative analytic approach will be employed in this research. To test the hypotheses, the first step involves verifying the accuracy of the data through reliability and validity analysis. The next step is to analyse the samples using regression analysis with SPSS. Quantitative analysis, a scientific approach, involves the digital collection, processing, and interpretation of data to gain a deeper understanding of the connections and patterns among the data. Quantitative analysis employs mathematical and statistical methods to obtain quantitative measurements of data for hypothesis testing, modelling, decision making, risk assessment,

and policy development in various sectors. This analysis method emphasizes objectivity and repeatability, making it crucial for scientific research, corporate analysis, and policy formulation.

4. RESULTS

4.1 Demographic Analysis

The primary purpose of this survey study is not only to identify the issues that companies currently face but also to highlight significant organizational and cultural features that impact these challenges. These influences can be positive, reducing the frequency of difficulties, or negative, causing issues to arise more frequently under certain conditions. To achieve our objective, we filtered our dataset, focusing on issues where at least fifteen percent of companies agree and at least fifteen percent disagree with the challenge. The remainder of this article will focus on the issues identified through this filter, noting the overlap with the ten most critical EAM challenges. While many companies face these problems, some enterprises manage to prevent them. Our future analysis will concentrate on these concerns. Additional issues within the study's scope, which show a nearly equal split in agreement and disagreement, include outdated EAM findings and a lack of understanding of EAM benefits.

Table 1: Demographic analysis for the current study

	Agree		**Neither**		**Disagree**		**No response**	
Challenge	n	%	n	%	n	%	n	%
Enterprise environments change too quickly	70	71.43	9	9.18	19	19.39	4	4.08
EAM team focuses primarily on IT	67	67.68	9	9.09	23	23.23	3	3.03
Reluctant information providers	62	64.58	14	14.58	20	20.83	6	6.25
Unavailable stakeholders	49	51.04	26	27.08	21	21.88	6	6.25
Late valuation of EAM through stakeholders	47	51.09	26	28.26	19	20.65	10	10.87
Outdated EAM results	35	37.63	23	24.73	35	37.63	9	9.68

No understanding of benefits	31	31.31	34	34.34	34	34.34	3	3.03
Over-sized and difficult EAM models	33	33.67	24	24.49	41	41.84	4	4.08
EAM team does not meet right level of abstraction	26	27.08	24	25.00	46	47.92	6	6.25
EAM takes place in ivory tower	17	17.53	13	13.40	67	60.07	5	5.15

Source: Developed for this Research.

4.2 Data Analysis

The focus in this study is primarily on the size of the company, measured by the number of personnel. Data was categorized based on specific criteria: small and medium-sized firms (SMEs) with less than 1,000 employees, mid-sized enterprises (MSEs) with 1,001 to 30,000 employees, and large-scale enterprises (LSEs) with over 30,001 employees, adhering precisely to the predetermined criteria. The degrees of freedom for analysis are four. Approximately 63% of all MSEs, around 62% of all LSEs, and roughly 47% of all SMEs encounter the issue of EAM focusing primarily on information technology. With a value of 0.047, the null hypothesis can be rejected, providing statistically significant evidence supporting the dependence of this problem on the organizational feature. About 52% of all micro, small, and medium-sized enterprises (MSEs), 51% of all large and small enterprises (LSEs), and 38% of all SMEs perceive a difficulty, but with a p-value of 0.420, there is no statistically significant evidence to demonstrate its dependence on the organizational component. Around 44% of SMEs, two-thirds of MSEs, and thirty-two percent of LSEs experience the challenge of obsolete EAM findings, but with a p-value of 0.397, there is no statistically significant evidence to show its dependence on the organizational component. The perception that EAM occurs in an ivory tower is noted by approximately twenty-two percent of all LSEs, around nineteen percent of all SMEs, and about fourteen percent of all MSEs. With a p-value of 0.341, there is no statistically significant evidence to indicate its dependence on the organizational element.

4.3 Findings

The research findings reveal a positive correlation between company management and both internal and external factors. This aspect of the study delves into how external elements (like economic conditions, market dynamics, competition, and industry trends) affect firm management. Businesses often need to align their strategies and operations with these external factors to maintain competitiveness and success. Internal factors, such as company structure, culture, leadership, and operational processes, also play crucial roles. These

internal elements, found within the organization, significantly impact managerial approaches and overall performance. Government policies also have a notable influence on corporate management. Laws and regulations set by the government greatly shape how companies operate. To ensure compliance with legal and ethical standards, businesses may need to adjust internal management practices, including compliance procedures, reporting protocols, and governance structures, in response to legislative changes.

5. CONCLUSION

Expanding company training in Shanghai serves as a significant strategy to enhance business competitiveness, yet it comes with its challenges. Emphasizing precise management, continual employee engagement, and improved training quality are essential to leverage the impact of business training effectively. The focus should be on enhancing both company management and human resources quality to establish a solid foundation for business growth. Training programs should be tailored to meet organizational development needs and employee requirements, incorporating various learning methods and forms to accommodate diverse learning preferences and capabilities. Training program formulation serves as the foundation for effective training, necessitating a reasonable allocation of training content and time based on employee skill maturity and career development needs. The training objectives should be closely linked to enterprise operations to ensure practical value for both employees and the organization. Moreover, the training impact assessment is crucial for objectively evaluating training outcomes, involving employee satisfaction surveys, phased work outcome evaluations, and knowledge-sharing activities to foster continuous learning and progress. Furthermore, the selection of competent instructors, meticulous training structure and administration, and fostering a motivating learning environment are pivotal for successful training activities. Motivation mechanisms, such as reward and promotion systems, contribute to enhancing employees' enthusiasm for learning and innovation. In summary, comprehensive enterprise training programs play a vital role in business development, requiring a holistic approach that considers employee and business needs, scientific program design, ongoing adjustments, and attention to various elements for long-term growth.

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