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Management Problems and Optimization Countermeasures of Private Small and Medium sized Enterprises - Taking Small and Medium sized Enterprises in the “Popular Track” as an Example

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Abstract: ***Private small and medium-sized enterprises are an important component of the national economy and one of the most active market groups. Originating from the expectation of development and growth, especially when the main business of the enterprise belongs to a popular track, the prosperity of the industry prospects can easily conceal the problems of the enterprise itself. The primary task of private small and medium-sized enterprises is to ensure survival and eliminate management flaws that hinder development. Industry halo should not be taken as a corporate halo, and pragmatic management is the foundation for success. Discuss the representative management issues of private small and medium-sized enterprises located in popular tracks, and propose management optimization suggestions based on industry status and changes.***

Keywords: Private small and medium-sized enterprises, Management optimization, Popular tracks, Capital suitability.

1. Background

The private economy is an important force in promoting high-quality development, and the government has introduced many support measures at the policy level. In recent years, it has developed rapidly, but overall it presents a “small scale, diverse types, and weak competitiveness” [1]. How can private small and medium-sized enterprises become better and stronger? On the one hand, it is influenced by the external environment, especially when the enterprise is located in a “hot track” and the industry’s prospects are expected to be prosperous, it is necessary to pay attention to correcting its own management problems.

The term “hot track” in enterprise operation is not a standard academic term. It is roughly derived from the network terms used when the Internet economy was rising ten years ago. It generally refers to the current technology and market in the industry, especially the industries or fields that are popular with capital. Public opinion is high. Private small and medium-sized enterprises, on the other hand, mainly focus on project driven business, and are more prone to business recklessness when they belong to popular tracks. The harm caused by their own management problems may also be amplified. Managers should have a clear understanding that regardless of the prospects of the industry in which the company operates, the value of the track cannot be equated with the value of the enterprise. They must be grounded in their own actual situation to carry out business operations.

2. The Management Status and Problems of Private Small and Medium sized Enterprises in Popular Races

Firstly, the development of the industry conceals a lack of innovation, and the development of enterprises lacks long-term strategies. Due to the high popularity of popular tracks and the rapid formation of market enthusiasm, it is easy to experience a concentrated outbreak of market demand in the short term. Whether it is a start-up or a private small and medium-sized enterprise with a certain business foundation, facing a sudden influx of vast market space, there may even be a sudden surge in orders. The relatively rapid growth of orders in the short term has to some extent reduced operational uncertainty and easily created the illusion that the industry’s track value is equivalent to the company’s value; If the popularity persists for a period of time and the orders remain relatively stable, it is easy to induce technological inertia, weak innovation, and in turn, make enterprises accustomed to staying in a project-based approach, lacking long-term development planning awareness.

Secondly, a high dependence on project-based approaches may trigger the prevalence of individualism within the enterprise. A long-term project-based approach can easily lead to the formation of a celebrity culture within a company, where customer relationships are considered more important than long-term factors such as technology, quality, and brand. Objectively speaking, the short-term is indeed beneficial for stabilizing scale, but the downside is that it is not conducive to long-term development, especially when customer channels are concentrated in the hands of a few sales stars. It is common to equate company value with personal value, and even directly equate track value with personal value. The specific manifestation is the idea of decision-making being one-man, personal importance far greater than the company platform, and the prevalence of individualism [2]. Once there are internal disagreements within the decision-making team, it can also trigger the flow of key talents, causing the company’s technological innovation and accumulation to stagnate, equating industry development dividends with individual contributions, and shareholders being wary even if they discover problems, resulting in the company's development plan changing due to human changes, further unstable corporate strategy, and leading to the problem of not being able to retain people.

Thirdly, the industry halo may induce business strategies to be overly ambitious, which may lead to unrealistic business orientations. Listing, financing, capitalization, etc. are the dreams of many companies. Project based management is a common operating method for private small and medium-sized enterprises. However, without core technical support, relying solely on the stacking of several project scales to attract investors may lead to problems of reckless operation. Even when risk signals arise, the long-term goal of going public may be used to excuse the current operational and management problems of the enterprise. Without hard performance support, even if bearing high interest loans is necessary, this is no longer simply radical, but an overflow of the ambitious style, and the operation is clearly detached from reality.

3. Analysis of the Causes of Management Problems in Private Small and Medium-sized Enterprises: Lack of Systematic Understanding of the "popular track"

Whether it is a lack of innovation, individualism, or a tendency to be overly ambitious, it may seem like a management issue on the surface, but behind it lies a lack of systematic understanding of the industry to which the management belongs, especially a lack of rational thinking about industry scale, market rules, and value logic, which can easily trigger the company's motivation. Specifically, it is mainly reflected in three aspects:

3.1 Overly Utilitarian Understanding of Industry Scale and Expectations Leads to a Lack of Strategic Awareness

The industry prospects of "popular tracks" are often highly regarded and the market size is considerable. Traditional popular fields such as biomedicine, intelligent manufacturing, and military civilian integration, as well as emerging popular tracks such as "AI+", embodied intelligence, low altitude economy, commercial aerospace, etc., all show broad market prospects [3]. But the value of the track is not the value of the enterprise, and the scale of the track is not exclusive to the enterprise. Private small and medium-sized enterprises that are involved in it should think carefully about three issues: the relationship between the total scale of the track and the size of the segmented market they are in, the competitive status of the segmented market they are in, and the feasibility assessment of achieving the target scale of the enterprise.

Unlike large enterprises and conglomerates, private small and medium-sized enterprises may not have a diversified business layout, and their business goals should be based on the size of their segmented markets. At the same time, the more popular the track, the more competitors will flood in. When delving deeper into it, it is even more important to consider the actual market situation, and the achievement of the target scale cannot be separated from the exclusivity of one's own products, the availability of coordinated resources, and the industry rules themselves. If you act blindly without thinking about these three issues, simply regard industry value as the expected goal of enterprise value, and show strong utilitarian thinking, it is easy to bring enterprises into the "expected foam", which is not good to look at.

As a result, private small and medium-sized enterprises that are deeply involved in popular tracks tend to be too utilitarian in their industry scale and expectations, leading to tactical arrangements being superior to strategic awareness in internal management, leaving hidden dangers at the root of the enterprise management system.

3.2 Lack of Thinking About the Value Logic of the Industry Leads to a Desire for Great Achievements

Behind being radical due to the halo of the track is a lack of rational thinking about industry value. On the one hand, the value of a company often depends on the market's judgment and expectations of it. Whether it can provide labeled products with rigid and exclusive demand can boost confidence and support high valuations. "Rigid" requires examining the industry chain from a competitive perspective and finding opportunities to fill in gaps and make up for deficiencies; Exclusivity "is more about starting from the actual situation of the enterprise, down-to-earth product positioning, and practical implementation paths, with the most core criterion being the needs of national development. Therefore, the enterprise value logic of popular tracks depends on whether the enterprise has the necessary positioning products for the country and market, as well as its own market share or expected market share in it. At the same time, industry value does have a reference value for enterprise value, but it is not easy to grow a small seedling into a big tree overnight. The macro cycle's prosperity level and one's own risk resistance ability should be comprehensively considered.

It is obvious that the management should be aware of the opportunity to exchange time and stay on the track for short-term project-based operations. Even in the "hot track", the primary task of private small and medium-sized enterprises is still to "survive", and opportunities for development always exist. Management should serve the long-term strategic layout of label products that are tailored to the actual situation, avoiding being interrupted by short-term performance requirements.

3.3 One Sidedly Pursuing Capital and Neglecting Capital Adaptability

The attention brought by popular tracks makes it easy for companies to overestimate the urgency of financing, and market window anxiety breeds expansion impulses. This mismatch risk presents a two-way mechanism: introducing capital may seem to gain development impetus, but in fact it may force companies to focus limited resources on achieving short-term financial indicators, triggering strategic overdraft behaviors such as reducing R&D investment and compressing product iteration cycles; If choosing financial investments with high risk tolerance, although obtaining decision-making freedom, may lead to delayed resource allocation during critical market opportunity periods.

The role that enterprises can play in different stages of development has different emphases. Specifically, private small and medium-sized enterprises may be in two situations: one is that the enterprise is currently in the start-up stage, and its products, market, management, etc. are just starting. At this time, the role of capital is biased towards venture capital, focusing more on high returns in the future, and even tolerating a period of no profit, but will demand growth speed. Another situation is that the enterprise has been in operation for a period of time, and although its scale has not yet grown, it has accumulated in various aspects. At this time, the role of capital focuses on acceleration, that is, based on the accumulated business operations of the existing enterprise, it quickly occupies the market with the support of capital, and pays more attention to the rapid expansion of scale, or puts forward higher requirements for scale or profitability.

Being on a popular track inevitably attracts capital demand, and coupled with the eagerness of private small and medium-sized enterprises to grow in a hot market environment, they are prone to subconsciously overlook the compatibility between the required capital and the development of the enterprise. If accelerated capital is introduced in the start-up stage, private small and medium-sized enterprises are often required to achieve certain performance goals in a short period of time, which may seem to gain development impetus, but in reality may force the enterprise to concentrate limited resources on achieving short-term financial indicators, triggering strategic overdraft behaviors such as reducing R&D investment and compressing product iteration cycles. Similarly, if a company is not a start-up but introduces Venture capital funds that may not yet emphasize the “friendliness” of development speed to private small and medium-sized enterprises, but at this time, the capital may demand other matters (such as control rights), or due to the mismatch between the capital exit cycle and the company’s transformation needs, the company may lose market opportunities by not accelerating when the acceleration occurs.

4. Response to the Problem: Optimization Strategies for Management of Private Small and Medium-sized Enterprises in Popular Tracks

Enterprise management is like drinking water for people, and the industry does not represent the enterprise. Based on the value logic framework of the industry, private small and medium-sized enterprises in popular tracks should find their own positioning and develop supporting management methods in combination with industry changes and actual situations.

4.1 Establishing Long-term Awareness and Strategic Guidance for Management

Firstly, actively stepping out of the comfort zone of the popular track project system, sorting out long-term and strategic awareness, clarifying positioning and formulating medium - and long-term strategic planning, it is necessary to accurately determine one’s market coordinates, combine one’s own advantages and industry needs, form characteristic products, and take a certain amount of time to form the identity “label” of the segmented track, providing guidance for the formation of management ideas. Secondly, the formulation of strategic goals, especially product strategies, should be cautious. After reaching consensus, stability and coherence must be maintained. Unless uncontrollable factors arise, changes should not be made arbitrarily due to personal preferences or personnel turnover. Thirdly, seek truth from facts and prevent discussing development without considering reality. If there are no rapid development opportunities in the segmented market for the time being, private small and medium-sized enterprises should start from their own reality, first and foremost ensure basic stability in operation, uninterrupted cash flow, and wait for market opportunities. Finally, when it comes to the company’s capitalization strategy, it is necessary to take one step at a time. Capitalization is an established policy, and although it does not have the conditions in the short term, the purpose of survival now is to connect with the capital market. This requires using the “high standards” of listed companies to equip ideas and regulate behavior, while using down-to-earth “down-to-earth” practices to implement operations, and transforming from project-based to label based productization to connect “high standards” and “executable”.

4.2 Establish a Business Warning Mechanism that Emphasizes Both Survival and Development

Enterprises should establish a warning mechanism. The management, especially the core management, should not only emphasize responsibility, but also establish a supervision mechanism in the management system, with a focus on risk prevention and control. By establishing an early warning mechanism, decomposing business objectives and dynamically tracking them, increasing process assessments to avoid delays and accumulating small problems into major risks. There should be supporting process supervision and assessment in management measures, and the shareholders’ meeting should give full trust and support to the board of directors and management team. The board of directors and management team should fully implement the target responsibility system, conduct process supervision, and increase result assessment.

Enterprises should start from reality and adopt a balanced approach of survival and development: on the one hand, maintaining a certain income scale for a certain period of time, focusing on improving performance, and doing a good job in management is the absolute principle. On the other hand, to strengthen technology planning, the technical team should shift from project-based technology to product based technology while ensuring survival. Business leaders and key personnel must go deep into the front line and face the market, “attract” various high-level talents needed for operation and research and development, and quickly form production capacity to provide comprehensive support for technology planning.

4.3 Notes on Financing

Firstly, whether it is equity financing or debt financing, the financing method should match the purpose of the funds. Equity financing belongs to development funds, and investors value factors such as track, enterprise uniqueness, and development potential more. Through long-term value-added benefits, private small and medium-sized enterprises should pay more attention to the long-term value obtained through equity financing. Debt financing belongs to operational funds or working capital. Creditors value the safety of funds and short-term immediate income, and benefit from similar interest rates. At this time, enterprises should pay more attention to the cost and timeliness of obtaining funds through debt financing.

The use of two types of financing funds should be separated. The funds obtained from equity financing are mainly invested in medium and long-term matters such as product research and development and talent introduction, while the funds obtained from debt financing are mainly used for short-term matters related to capital turnover. It is important to avoid using short-term funds from debt financing to invest in long-term matters that should be supported by equity financing.

Secondly, the valuation principles and conditions for implementing equity financing. The higher the valuation, the better, let alone the higher the valuation for the sake of high valuation. If the unrealistic high valuation is not supported by real and effective business data, investors will inevitably require measures similar to the “VAM”, which is highly likely to induce business foam, and even accumulate high-level enterprise risks [4]. This is irresponsible for all stakeholders. The unilateral increase in valuation is certainly pleasing, but if there are fluctuations, there is no need to overinterpret them. A similar approach of “taking a step back, taking two steps forward” is also acceptable. The important thing is to provide financing conditions that are conducive to achieving the medium and long-term goals of private small and medium-sized enterprises. We cannot only focus on the inflow of funds. Injecting development factors such as talent, resources, etc. that are in line with the company’s strategic concept is more valuable, and “patient capital” should be given priority consideration [5].

Thirdly, risks and management precautions in conducting debt financing. Debt financing investors mainly seek interest rate differentials, thus showing a preference for the rich over the poor. Financing methods such as bank credit, private lending, and bonds attach great importance to corporate reputation and image, greatly affecting the scale, cost, cycle, and other financing conditions of corporate bond financing. If there is a breach of contract, the risk exposure of corporate funds will rapidly expand, and operations may immediately fall into difficulties. Therefore, starting from the actual situation of private small and medium-sized enterprises, it is necessary to establish an assessment mechanism when conducting debt financing, and to establish guarantees and circuit breakers for the use of the company’s cash flow. That is, the users of the funds obtained from debt financing should be assessed: before financing, the main responsible persons and business backbones who bear the business responsibility guarantee the financing. Correspondingly, they can enjoy corresponding amount of guarantee fees and performance rewards when achieving the goal, and correspondingly, the guarantor must make up for the funds consumed when the goal is not achieved. The person in charge of operation is highly bound to the business situation; If significant problems arise during the use of funds and cannot be avoided after comprehensive evaluation, it is not ruled out to take proactive measures such as reducing the size of the company, taking all measures to ensure the overall reputation of the company, and eliminating risks that may affect the company’s survival foundation.

Fourthly, private small and medium-sized enterprises should design financing conditions based on their own stage and actual situation, pay attention to the adaptability of the proposed funds, and focus on aspects such as fund attributes, changes in control rights after financing, and financial data objectives

In terms of financial attributes, the principle of complementary resources and equal frequency of value should be followed. For example, during the start-up phase, it is important to consider the return cycle that the funding party can accept and whether it covers the entire commercialization cycle of the company’s products; If in the stage of market-oriented expansion, priority should be given to matching capital entities with the ability to deeply transform channels. Overall, the adaptability evaluation of fund attributes can be adjusted in real-time based on variables such as industry prosperity index, technology maturity curve, and market competition pattern.

The change in control rights after financing mainly involves changes in the equity structure brought about by equity financing, which can form a buffer zone for the transfer of rights through arrangements such as differences in voting rights, restrictions on preferred stock terms, and pre-set anti dilution clauses; At the level of governance structure, establish decision-making authority clauses to ensure that decisions on core strategic matters remain within a controllable range. When conducting debt financing, private small and medium-sized enterprises should pay attention to the penetration analysis of debt, predict the control penetration of complex financial instruments such as convertible bonds and betting agreements (if adopted), set critical trigger conditions for decision intervention, and form a quantitative warning system for possible comprehensive equity concentration, voting power radius, and key clause constraints.

In terms of financial data objectives, the financing plan needs to establish a dual dynamic balance mechanism: at the short-term liquidity level, attention should be paid to closely monitoring variables such as financing scale, operating cash flow volatility, and accounts receivable turnover efficiency; At the level of long-term solvency, safety thresholds should be set based on indicators such as interest coverage ratio, tangible asset guarantee ratio, and profit fluctuation buffer coefficient. Overall, considering the weighted average cost of capital, return on investment capital, and financial leverage elasticity coefficient as the basis, enterprises themselves need to have reasonable control over their own financial data targets set in financing conditions.

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