



Value-Based Management of Chinese and Foreign Small and Medium-Sized Enterprises: Enterprise Innovation

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Abstract. Enterprise value-based management is a new enterprise management mode which conforms to the development requirement of economic times. This paper introduces the basic definition of enterprise value and value management, expounds the relevant characteristics and driving factors of small and medium-sized enterprises (SME) value management, and compares the advantages and disadvantages of small and medium-sized enterprises. In this process, the author used the literature analysis and comparative analysis to draw a conclusion. The results show that Chinese SMES can improve their problems by creating new innovative enterprises just like foreign enterprises. Without the improvement of the overall innovation ability of small and medium-sized enterprises, it is impossible to achieve the goal of building an innovative country. Therefore, the innovative research on value management of SMES at home and abroad can expand and enrich the theory of enterprise value. The rise and fall of small and medium-sized enterprises are closely related to the value-based management of enterprises. The value-based management of enterprises is the essence of operation and management. In addition, it should be noted that the results of this study have practical implications for Chinese SMEs to develop their own strengths and to further accelerate the realization of management innovation in SMEs.

Keywords: Value-based management · Innovation · Small and medium-sized enterprises · Advantages and disadvantages

1 Introduction

With the rapid development of economic times, human society has entered the economic environment of economic globalization and market integration. Instead of relying on natural resources, scale and market share to survive, enterprises are now benefiting from knowledge, capital markets and other new factors. Meanwhile, the traditional management model established in the past needs a fundamental change. Every change of management system is a great leap of management thought to adapt to the development of The Times, marking that the way of creating and accumulating wealth in human society has been pushed to a new stage of development.

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Value management has become a new mode of enterprise management in the western business circles, which highlights the core position of enterprise value in the concept of enterprise management. At the same time, this concept is based on the improvement of the overall value of the enterprise, emphasizing the unity of the external market value and the internal economic value of the enterprise, which is the modern extension and the latest development of the enterprise management theory. The effectiveness of value-based management has been proven by the successful application of many international large enterprises. For example, DaimlerChrysler in Germany has made value management one of the three major development strategies of 21st century enterprises [1].

Meanwhile, government officials, with the deepening of economic globalization and new economic revolution, small and medium-sized enterprises will become the leading force of economic development in the 21st century. Government officials, economists and businesspeople all attach great importance to the development of small and medium-sized enterprises to a strategic height. In China's economic development, the status and role of small and medium-sized enterprises are particularly important [2]. Small and medium-sized enterprises are not only an important force to promote the development of the national social economy but also are important carriers to realize sufficient employment and the basis to facilitate social stability.

Enterprise value management refers to the management based on value, which is a new management thought, idea, method and means proposed by the western management academic circle. The purpose is to realize the long-term and sustainable effective operation of enterprises through the effective management of value [3]. In other words, enterprise value management is a management method or principle based on value and aiming at value maximization.

Over the past several decades, financial market participants have increasingly become involved in corporate competition through leveraged buyouts, hostile takeovers, agency competition, and so on [4]. This challenges business managers, who need to manage value and need to focus more than ever on the value created by the company's business strategy. Thus, under the circumstance, the enterprise's target strategic positioning from the output value maximization, profit maximization to shareholder value maximization, enterprise value maximization. Some enterprises even propose customer value maximization based on customer orientation. However, for the small and medium-sized enterprises that are seldom involved in the securities market, the value theory research is scarce [5].

The ultimate goal of business operation is a matter of long debate. The living environment of modern enterprises is changeable and complex. The competition between enterprises is increasingly intensified. Enterprises can choose among the goals of profit maximization, scale maximization, manager welfare maximization, shareholder wealth maximization, stakeholder maximization and enterprise value maximization. The goal of modern enterprise management is to maximize enterprise sustainable development ability, instead of maximizing shareholders' wealth value. However, the owners of physical capital and intellectual capital are relatively independent interests, and it is difficult for them to maximize their own interests at the same time. Enterprise value maximization is a forward-looking, complex, and realistic enterprise objective function. Such foresight has continued all the characteristics conducive to sustainable development of the

enterprise up to now, implying the control of the enterprise management over the future development.

With the development of Chinese socialist market economy, the external market environment of Chinese enterprises has changed deeply. Chinese enterprises should gradually introduce value management methods, attach importance to market positioning and customer value management, and cultivate the core competitiveness of enterprises. This research will analyze the definitions and features of value-based management in small and medium-sized enterprises and analyze factors that affect value-based management of small and medium-sized enterprises, so as to lay a foundation for the subsequent value-based management.

The key problem in the management of small and medium-sized enterprises lies in the lack of establishing a real management concept and system centered on value management. First, the management ability of enterprise managers is not strong, and the management concept is backward. Some enterprise managers based on their own reasons, do not bring the financial management into the effective mechanism of enterprise management, leading to financial management chaos. Moreover, the extensive management mode limits the development of enterprises to a great extent. Many small and medium-sized enterprises only focus on short-term profit goals but ignore long-term value creation and cultivation. They notice the profit goal but do not concern whether the enterprise value is increased [6]. Therefore, it is of great theoretical significance and practical value to study the value-based management of small and medium-sized enterprises to optimize the allocation of resources and make full use of them in the market competition.

From a theoretical point of view, this study has the following theoretical values. This study theoretically points out the theoretical value of research on innovation management for large enterprises. This study argues that it is necessary to study the value of large enterprises or listed companies by studying the innovation of value management of SMEs worldwide. This study contributes to the promotion of “value theory”. Taking large enterprises as the target of research helps the academic community understand and grasp the commonalities of value theory and seek the regularities contained in it. This study argues that we need to explore enterprises of different scales and types, extend the service objects of value theory to the front end of enterprise life cycle, and make enterprise value theory an open theoretical system.

From a practical point of view, this study has the following practical values. This study’s results point out that value management is crucial to the survival and development of SMEs. The research results show that different value management factors, approaches, and mechanisms affect the way of survival and the future development of SMEs to different degrees. This study shows that corporate value can be enhanced through corporate management strategies, corporate finance, and corporate governance. This study points out the significance of value creation for SMEs. This study points out that different strengths and approaches to value creation can have different effects on the rise and fall of SMEs.

1.1 Value Driving Factor Analysis of Small and Medium-Sized Enterprises

The value of small and medium-sized enterprises refers to the comprehensive performance of small and medium-sized enterprises in the aspects of market environment adaptability, profitability, and duration of competitive strength. It not only reflects the profitability of the existing assets of the enterprise, but also reveals the ability of the enterprise to adapt to the operating environment. The value management of small and medium-sized enterprises is based on the value and value evaluation of small and medium-sized enterprises. With the goal of enterprise value maximization, according to effective information gained, strategic formulation and strategic adjustment can be appropriately conducted in accordance with the environmental change to rationally allocate enterprise resources. It is a dynamic management process for enterprises to continuously create the value [7].

Since Alfred Rappaport proposed the discounted cash flow model, value maximization has become not only a management concept, but also an operation management technology. Value-based management becomes the common voice of strategic decision-making, enterprise governance, process control, performance evaluation, and merger & acquisition expansion. In essence, the goal of a value enterprise is to create value and enhance value. As a management concept, the value management of small and medium-sized enterprises involves the following aspects.

1.1.1 Multiple Driving Factors of the Enterprise Value

According to Rappaport's value model, the factors affecting enterprise value can be summarized as free cash flow and cost of capital, including seven factors including sales growth rate, income tax rate, fixed capital growth rate, working capital growth rate, time distribution of cash flow and weighted cost of capital [8]. In the process of pursuing value maximization, value management considers the interaction between profit and risk of enterprise operation, which reflects a profound understanding of investment return. These behaviors should be reflected in financial decisions and business processes. Meanwhile, small and medium-sized enterprises seek returns for shareholders and meet the common value needs of managers, creditors, suppliers, employees, government and so on. Therefore, the goal of enterprise value maximization itself may be a problem of multi-faceted interest coordination and ultimate comprehensive maximization.

1.1.2 Free Cash Flow

As a whole, free cash flow is the source of enterprise value, and its change represents the controllably dominated wealth change of enterprises. The concept of enterprise value is based not on realized market share and profit figures, which are no longer the only numbers on which decision makers act, but on realized, possible free cash flow commensurate with moderate risk. Enterprise value is essentially the size of the investors' recourse to the free cash flow of enterprises. At the same time, the value of an enterprise depends on its ability to generate free cash flow both now and in the future.

This study argues that cash flow determines the creation of firm value. This is reflected in the fact that cash flow is the first element of a firm's production and operation activities. Only by holding enough cash can an enterprise obtain production materials and labor

from the market and provide the necessary conditions for value creation. In a market economy, once an enterprise is founded and starts its business, it must have enough cash to purchase raw materials, auxiliary materials, machinery, and equipment, pay labor wages and other expenses, and “the entire value of prepaid capital, i.e., all parts of capital that consist of commodities - labor, labor materials and means of production, must be purchased in money. Therefore, obtaining sufficient cash is a basic prerequisite for the organization of production and business activities. The creation of value can be achieved only by recovering cash through sales. Although the process of value creation occurs in the production process, whether the value created in the production process can be realized depends on whether the products produced can meet the needs of society, whether they are recognized by society, whether they are sold and whether cash is recovered.

In addition, cash flow reflects the quality of the enterprise’s profitability, and cash flow indicators make up for the shortcomings of the accrual system in this regard. Focusing on cash flow indicators can help enterprises eliminate factors that may lead to bad debts, so that investors and creditors can have a fuller and more comprehensive understanding of the enterprise’s financial situation. Therefore, the examination of cash flow from operating activities can better judge the quality of the enterprise’s earnings and determine the true value creation of the enterprise.

1.1.3 Decision-Making Modeling

Any decision of the enterprise should be able to find the direct influence variable of the behavior on the enterprise value. By incorporating a large number of variables into an analytical model, decision-making moves from the empirical level to the accurate performance-oriented management level. After proposing free cash flow, people continue to study and build various models, which broadly include economic value added (EVA), market value added (MVA) and return on Cash flow (CFR) [4].

1.2 Driving Factors Affecting the Value of Small and Medium-Sized Enterprises

1.2.1 Innovative Ability: Services Should Be Individualized

Innovation is the key to the future sustainable development of SMES, and it should include not only technological research and development in the general sense, but also the innovation of new ideas, new working methods and processing processes. The implementation of value-based management can fully stimulate the innovative spirit of employees and create more intellectual capital for enterprises. At the same time, the implementation of value-based management can timely discover the existing value and lost value of the enterprise, mobilize the enthusiasm, make up for the shortcomings, improve the consciousness of innovation, enhance the competitive strength of the enterprise.

The development of small and medium-sized enterprises still depends on factor driving and efficiency driving [9]. In order to enhance the competitiveness of products [10], stated that enhancing product quality is good for satisfying market consumers’ demands for new techniques, new products, new services, and new experiences. To this end, in recent decades, countries around the world attach more importance to innovation and encourage enterprises to invest in research and development activities. The purpose

is to improve the core competitiveness of enterprises through research and development activities, improve enterprise performance and achieve sustainable development of enterprises [11].

1.2.2 The Institutional Management Philosophy Between Organizations

Through value management, SMES can make better use of and develop existing intellectual capital and create new intellectual capital. The application of intellectual capital can accurately grasp the rapidly changing market information, effectively grasp the market opportunities, and create more wealth for enterprises. According to the new changes and demands of the market, small and medium-sized enterprises can improve the ability of enterprises to deal with emergencies or accidental opportunities and make decisions quickly and accurately. Careful study of enterprise management concept, enterprise strategy and development direction can help solve the problems of short life and low quality of small and medium-sized enterprises in China.

2 Comparative Research

2.1 The Comparison on the Chinese and Foreign Research Status

2.1.1 Chinese Advantages

2.1.1.1. The Lower Management Costs

As a whole, the management costs are lower. Small and medium-sized enterprises are small in scale, with simple organizational structure, relatively less management content, relatively low management difficulty and thus relatively low management costs. Enterprises are small in scale and highly centralized in operation and decision-making. Operators are sensitive to the changing market, and the integration of ownership and management can not only save owners' monitoring costs, but also help enterprises make quick decisions.

2.1.1.2. “Small Scale but Profession” and “Small Scale but Perfection”

The small size of SMES makes it impossible for SMES to compete with products in mass production. Hence, limited manpower, financial property, and substances will be thrown to the tiny market which is often ignored by large enterprises. Instead, small and medium-sized enterprises will concentrate on operating a tiny product to keep improving product quality and to enhance production efficiency, for the sake of standing firm in the market competition. Large quantity, single product production can play the advantages of equipment and technology with huge input, but large quantity, single variety can only meet the needs of social production and People's Daily life in some major aspects. When some small batch of personalized needs appear, large enterprises are often difficult to meet. As a result, facing the increasingly prominent personalized consumption demands in today's society, consumer goods production turns to small batch and diversity from large batch and simplification.

2.1.1.3. Small and Medium-sized enterprises as the Technology-innovative Powers with the Fastest Growth

At present, small and medium-sized enterprises often take the development of new small products as the starting point of entrepreneurship, especially under the conditions of the new technological revolution, the founders of many small and medium-sized enterprises are often scientists in large enterprises, scientific research institutes, or university professors. They are often managers, owners and inventors, and their new technological inventions can be put into practice immediately. Besides, in current days, modern technology is developing towards large-scale and centralized direction. In addition, it also develops in the direction of small-scale and decentralization, which provides favorable conditions for the development of small and medium-sized enterprises.

2.1.2 Chinese Disadvantages

2.1.2.1. Shortage of the Innovative Mode

The rapid development of SMES in China has the characteristics of low technical level and extension expansion. The technological innovation of small and medium-sized enterprises is relatively backward. In fact, there are many obstacles and problems in the technological innovation of small and medium-sized enterprises, which become an important bottleneck for their further development. Also, the technology, equipment, talents and information needed for technological innovation of small and medium-sized enterprises are lacking. Many small and medium-sized enterprises do not have advantages in technology, equipment, personnel, information and other aspects, which seriously restricts their technological innovation. For small and medium-sized enterprises, serious shortage of resources and limited of innovative ability are critical defects. The technological innovation environment and service system of small and medium-sized enterprises need to be improved. SMES are small in scale and their technological innovation depends more on external environment and service system. Sustainable innovation development cannot only rely on the strength of enterprises themselves; it is necessary to establish a wide range of links.

2.1.2.2. Difficult Financing

In fact, the lack of clear property rights system, imperfect financial system, insufficient transparency of financial accounts and distortion of financial data largely lead to the lack of financial strategic management. At the same time, the defects of SMES lead to a low level of social credit and great difficulty in financing. What's more since banks lack interest drive. At present, commercial banks generally strengthen credit management to avoid loan risks. Compared with large enterprises, SMES have higher loan risk. Under the circumstance, high loan costs make banks lack interest drive for small and medium-sized enterprises' loans. Finally, due to the backward development of the securities market, it is difficult for the majority of small and medium-sized enterprises to directly finance by issuing stocks or bonds. At present, private lending is illegal and the financing cost is high. Thus, it fails to need of many small and medium-sized enterprises.

2.1.3 Foreign Advantages

2.1.3.1. Perfect Policy Systems and Service Institutions

Take Japan as an example. According to the needs of different stages of economic development, the Japanese government implements policy guidance and support for small and medium-sized enterprises in the form of laws. The Japanese government has issued more than 30 laws for small and medium-sized enterprises, covering finance, technological innovation, taxation, fair competition, industrial adjustment, and bankruptcy prevention, forming a relatively complete set of policies and legal systems for small and medium-sized enterprises. In addition, both business and government have professional structures.

2.1.3.2. The Financing Guarantee System with both Economic and Legal Means

In order to promote the development of small and medium-sized enterprises, the German government has adopted economic and legal means to provide capital and financial services for small and medium-sized enterprises, and to enable them to participate in equal competition through legislation. The German government usually does not directly provide financial subsidies to small and medium-sized enterprises but provides financing channels and services to small and medium-sized enterprises through various financial institutions to support and promote the development of small and medium-sized enterprises.

Britain's private sector plays a key role in growing the economy and creating jobs. The British government provides a variety of specific and practical financial assistance to small and medium-sized enterprises. Therefore, the problem of small business investment in the source of capital can be solved.

2.1.3.3. Encouragement of Establishing New Enterprises

The government realized that the creation of a large number of new enterprises developed the most modern and technologically innovative sectors of the economy, beyond that, the creation of new enterprises represented the future of the economy. Network companies, which are closely related to information and communication technology, are particularly notable. However, the French government believes that the innovative role played by new ventures in services, environmental protection, business and handicraft sectors should not be overlooked. Hence, the French government has adopted various measures to encourage entrepreneurship and create a good environment for young enterprises to thrive. As the number of enterprises decreases, it is necessary to create new enterprises in traditional industrial sectors. In sum, the procedure for applying to set up a business in such circumstances should be simplified.

2.1.4 Foreign Disadvantages

On the whole, the disadvantages of foreign include financing difficulties and high staff costs. Exposing to low technicians, it is essential to provide other incentive measures, resulting in more costs to a large extent. Moreover, the market share of foreign countries is lower than that of China. It is hard for foreign small and medium-sized enterprises to contact lots of customers, let alone gain confidence from other. Under the premise of fierce competition and small market size of target customers, such SMES are less

well-known than their larger competitors. Perhaps, it is hard for them to convey the philosophy that they can provide security just like large enterprises.

2.2 The Mutual Comparison and Analysis

By making a comparison between Chinese and foreign small and medium-sized enterprises, it can be found that Chinese small and medium-sized enterprises have advantages of lower management costs, “small scale but profession” and “small scale but perfection”. The disadvantages of small and medium-sized enterprises in China include insufficient innovation mode and difficulty in financing. Thus, Chinese SMES can improve existing problems by creating new innovative enterprises just like foreign enterprises.

3 Conclusion

This paper has analyzed the definition and characteristics of SME value management and the factors affecting SME value management from the perspective of value management. Based on a comparison of the advantages and disadvantages of Chinese and foreign SMEs, it is concluded that Chinese SMEs have the advantages of low management costs, “small but specialized” and “small but precise”. The disadvantages of Chinese SMEs include insufficient innovation models and financing difficulties. On this basis, this paper proposes strategies to strengthen the value management of SMEs and suggests comprehensive value management for SMEs.

In addition, this study points out that the benefits of value management for enterprises are not only to pass on the implementation of the company’s vision, but also to set corporate employee codes, work creed, etc., to communicate at various levels within the organization, to unite the goals of the organization, groups, groups and individuals into a common belief, to increase the satisfaction of the quality of life of the members of the organization, and finally to do a good job in customer service, to maintain the competitiveness of the organization and to obtain long-term. The ultimate goal is to increase the quality of life satisfaction of the organization’s members, ultimately provide good customer service, maintain the organization’s competitiveness and achieve long-term business success.

With the development of economy, market integration and economic globalization, enterprises are facing more and more fierce competition. The survival and development of enterprises need to break through the traditional management mode and seek a new management mode. Enterprise value management is a kind of enterprise management mode based on value; the goal is to realize value maximization. It is also a new management thought, management idea, management method and management means, and the purpose is to realize the long-term and sustainable effective management of enterprises through the effective management of value. This paper focuses on the analysis of SME value management from the perspective of innovation.

In theory, innovative research on value-based management of small and medium-sized enterprises at home and abroad can expand and enrich the value theory of enterprises. It is very necessary to take the value of large enterprises or listed companies as the object of study, helping us to better understand and grasp the commonality of value

theory. It can seek the regularity contained therein, and thus form the overall framework of the theory. But it is not enough by only restrict to such an aspect. Instead, we need to explore the enterprises with different scales and types, so as to stretch service audience of the value theory to the front end of the enterprise life cycle so that the enterprise value theory can be an open theoretical system. Meanwhile, by analyzing driving factors of value-based management in small and medium-sized enterprises, it can guide the deviation of value evaluation to value-based management to expand and enrich enterprise value theories to a large extent.

In practice, value-based management is the fundament for the survival and development of small and medium-sized enterprises. Value-based management is a new management concept and mode, which has been widely used in western enterprises. It is an organized systematic value creation activity, with the goal of improving the value of the value-based management object system. Compared with the traditional enterprise evaluation and management method based on after-tax profits, value-based management emphasizes more on the promotion of corporate value by corporate management strategy, corporate finance, and corporate governance. The key to implement value-based management in small and medium-sized enterprises is to attach importance to value creation. The rise and fall of small and medium-sized enterprises are closely related to the value-based management of enterprises. The value-based management of enterprises is the essence of operation and management. It is the fundamental for the survival and development of small and medium-sized enterprises to promote enterprises to change from “grasping livelihood” to “grasp life”.

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