

Innovative management practices for sustainable growth in China's private enterprises: Challenges and solutions

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Abstract: As China's private enterprises increasingly drive the nation's economy, effective management of performance is essential for ensuring their sustainability and competitive edge. This paper explores the critical challenges faced by private enterprises in China regarding performance management, highlighting gaps in their systems that hinder long-term growth. Despite their pivotal role in generating over 60% of the country's GDP, private enterprises frequently encounter problems such as poor leadership understanding, insufficient performance evaluation metrics, and ineffective employee engagement strategies. Through a comprehensive literature review, this study emphasizes the importance of adopting innovative performance management practices that integrate modern HRM techniques with strategic business planning. The research aims to provide practical solutions to enhance productivity, employee retention, and overall organizational performance within the private sector, driving them toward sustainable development.

Keywords: Human resource management, Innovative management practices, Performance management, Private enterprises, Sustainable development.

1. Introduction

The 2024 Government Work Report emphasizes that we must adhere to the "two unshakable" principles to fully implement policies and measures to support the development of the private economy, protect the property rights and interests of private enterprises and entrepreneurs equally in accordance with the law, and create a market-oriented, legal, and internationalized first-class business environment. Under the influence of the century-old changes, private enterprises are facing unprecedented complex situations and arduous challenges. They must enhance their resilience and development resilience through strategic management innovation, cultivate new opportunities in crises, and open up new situations in changes. However, some private enterprises still have problems such as short-term and homogeneity in strategic management, making it difficult to effectively respond to the ever-changing market environment and the increasingly fierce competition. Therefore, exploring the areas of strategic management of private enterprises in order to produce the greatest economic and social benefits is of great significance to promoting the quality and efficiency of the private economy and achieving high-quality development.

Since the onset of industrialization, profit-driven organizations have increasingly become the backbone of modern economies. The core objective of these organizations is to maximize profitability, and their performance is often the key metric by which success is measured. Performance management, as a strategic approach, seeks to align individual and organizational goals, motivating employees to reach optimal performance through mutual understanding between managers and employees regarding goal-setting and achievement strategies. In the context of human resource management (HRM), several

research methodologies have contributed to a deeper understanding of the field. These include analytical approaches for framing research questions, roles of researchers, sampling techniques, data collection methods, and the development of key theories that underpin HRM practices. Effective HRM practices emphasize the importance of collaboration between managers and employees to foster satisfaction, decentralize decision-making, and implement a more effective system of rewards and sanctions [1].

However, performance management systems vary significantly between state-owned enterprises (SOEs) and private enterprises, especially in China. In state-owned enterprises, the performance management systems are often criticized for their lack of objectivity and underdeveloped metrics, which may lead to inefficiencies. Conversely, private enterprises, while potentially more agile, often struggle with inconsistent implementation of performance management practices, particularly due to leadership variations in prioritizing performance management and the absence of a robust framework. The theoretical perspectives on HRM in the context of private enterprises can be divided into models focusing on capabilities, emotional intelligence, and personal characteristics [2-4].

Among these, organizational capability has long been seen as a key competitive advantage for enterprises. The introduction of innovative evaluation systems often brings changes in employee emotions and behaviors, influencing overall performance. Research on performance management in private enterprises reveals that challenges still exist in aligning performance management practices with organizational sustainability. Current studies mostly address the social responsibility issues in SOEs and high-performance work systems in private SMEs, focusing on their relationship to organizational success. This paper utilizes a literature review methodology to compare the discrepancies, challenges, and potential solutions related to performance management between state-owned and private enterprises, with an emphasis on improving management practices for sustainable growth in China's private sector [5].

1.1. Discussion on the Theoretical Basis of Strategic Management of Private Enterprises in My Country

Strategic management is a comprehensive and integrated management process, covering in-depth analysis of the internal and external environment, formulation and implementation of strategic directions, and optimization and integration of organizational structure and resource allocation. In today's ever-changing and increasingly competitive market environment, if enterprises want to remain invincible, they must always remain vigilant, have a keen insight into environmental changes, and constantly adjust and innovate strategies to maintain competitive advantages and achieve sustainable development. The primary task of strategic management is to conduct a comprehensive and multi-angle analysis and research on the internal and external environment of the enterprise. This means that enterprises need to have a deep understanding of market development trends, competitor trends, changes in consumer demand, technological progress and other aspects. Only through keen insight and accurate grasp of the environment can enterprises discover opportunities and challenges in a timely manner, formulate forward-looking and targeted strategic decisions, and lay a solid foundation for long-term development.

1.2. Characteristics And Importance of Strategic Management of Private Enterprises

Compared with state-owned enterprises, private enterprises have greater flexibility and adaptability. Faced with the ever-changing market environment, private enterprises can adjust their development strategies in a timely manner according to actual conditions and respond quickly to market changes, thereby gaining an advantage in the fierce competition. The strategic management of private enterprises pays more attention to market orientation. Due to the direct pressure of market competition, private enterprises pay more attention to customer needs and market trends, and continuously improve their market competitiveness by formulating flexible and market-oriented business strategies. Strategic management plays a vital role in the healthy development and long-term growth of private enterprises. Through scientific and systematic strategic management, private enterprises can clarify their own development direction and goals. It not only helps enterprises to grasp the direction and strengthen

their confidence in a complex and changing market environment, but also provides a basic guideline for the various business decisions and actions of enterprises. Compared with state-owned enterprises, private enterprises often have limited resource endowments in terms of funds, technology, talents, etc. Strategic management is an effective way to solve this problem [6]. Through strategic management, private enterprises can reasonably allocate various resources according to the requirements of development strategies, and focus resources on the most potential and competitive fields in order to generate the greatest economic and social benefits.

1.3. The Current Situation of Strategic Management of Private Enterprises in My Country Under the New Situation

When conducting market analysis, some enterprises over-rely on historical data and simple assumptions, without fully considering the dynamic changes of the market environment and potential risk factors. This one-sided analysis method makes it difficult to fully grasp the trends and laws of market development, resulting in the inability of enterprises to accurately identify future opportunities and challenges, affecting the foresight and effectiveness of strategic planning. Scientific, democratic and standardized decision-making mechanisms and processes are important foundations for ensuring the systematic and forward-looking nature of strategic planning. However, in reality, some private enterprises lack a sound decision-making mechanism and process, resulting in arbitrariness and subjectivity in the decision-making process. When formulating strategic plans, the management of some enterprises over-rely on personal experience and intuition, without fully listening to the opinions and suggestions of different departments and levels, and without using scientific tools such as market research and data analysis for demonstration and support, resulting in a lack of systematic and forward-looking decision-making results [7].

In the process of strategic formulation and implementation, it is crucial for senior managers to clearly explain and effectively communicate strategic goals. However, in reality, when the management of some private enterprises communicate strategic goals to lower-level departments and employees, there are problems such as unclear expression and lack of emphasis, which leads to a vague or even wrong understanding of strategic direction and goals among grassroots employees. In the process of information transmission, information loss, misunderstanding or ambiguity occur, which further aggravates the deviation of strategic understanding. Resources are the basis and guarantee of strategic implementation. The achievement of strategic goals is inseparable from the strong support of key resources such as human, material and financial resources. However, due to factors such as departmental interests or preferences, some departments occupy too many high-quality resources, while other departments face the dilemma of resource shortage [8]. This resource imbalance phenomenon not only causes inefficient resource use, but also hinders inter-departmental collaboration and the implementation of the overall strategy.

2. Methodology

Data were collected from secondary sources, including peer-reviewed journals, books, industry reports, and government publications. The focus was primarily on literature published within the past decade to ensure relevance to contemporary management challenges faced by private enterprises in China. Key databases such as JSTOR, Google Scholar, and China National Knowledge Infrastructure (CNKI) were used to identify scholarly articles. Additionally, reports from notable organizations like the China Enterprise Confederation and the Chinese Human Resources Association were integrated into the analysis to provide a comprehensive understanding of the practical realities faced by private enterprises.

The collected literature was analyzed using thematic analysis, which allowed for the identification of recurring themes such as leadership gaps, inadequate performance evaluation systems, and the need for more objective and data-driven management frameworks. Special emphasis was placed on analyzing the relationship between performance management practices and organizational outcomes like employee

motivation, productivity, and overall growth. Thematic analysis was used to categorize the research findings into the following key areas:

1. Leadership and Strategic Understanding: The role of leadership in recognizing and implementing performance management systems.
2. Evaluation Systems: Challenges associated with the design and fairness of performance metrics and their alignment with organizational goals.
3. Employee Engagement and Retention: The link between performance management practices and employee satisfaction, particularly among younger employees in private enterprises.
4. Innovation and Sustainability: The necessity of integrating innovative management practices to foster long-term sustainability and competitiveness.

3. Results and Discussion

3.1. The Urgent Need for Performance Management Innovation in China's Private Enterprises

Unlike state-owned enterprises (SOEs) or state-controlled joint ventures in China, private enterprises are responsible for their own financial outcomes, with minimal reliance on state subsidies. In fact, according to recent data from China's National Bureau of Statistics, over 60% of the country's GDP is generated by private enterprises, yet these companies are often excluded from government financial support mechanisms. This makes efficient and effective performance management practices even more crucial for their survival and long-term sustainability. As a result, private enterprises must adopt innovative management strategies that enable them to respond to competitive pressures, technological advancements, and global economic shifts [9].

Performance management is not merely a routine administrative function; it is a critical driver of organizational success. Studies show that companies with well-implemented performance management systems see a 20-25% increase in productivity and employee engagement. When performance is managed effectively, enterprises can align individual goals with broader organizational objectives, improving talent deployment, productivity, and ultimately, profitability. Research indicates that well-designed performance management systems lead to a 15-20% increase in employee retention rates, as employees feel more recognized and valued in their roles (Figure 1). However, in many private enterprises in China, performance management practices remain rudimentary, and this has significant consequences for both short-term operational efficiency and long-term growth [10].

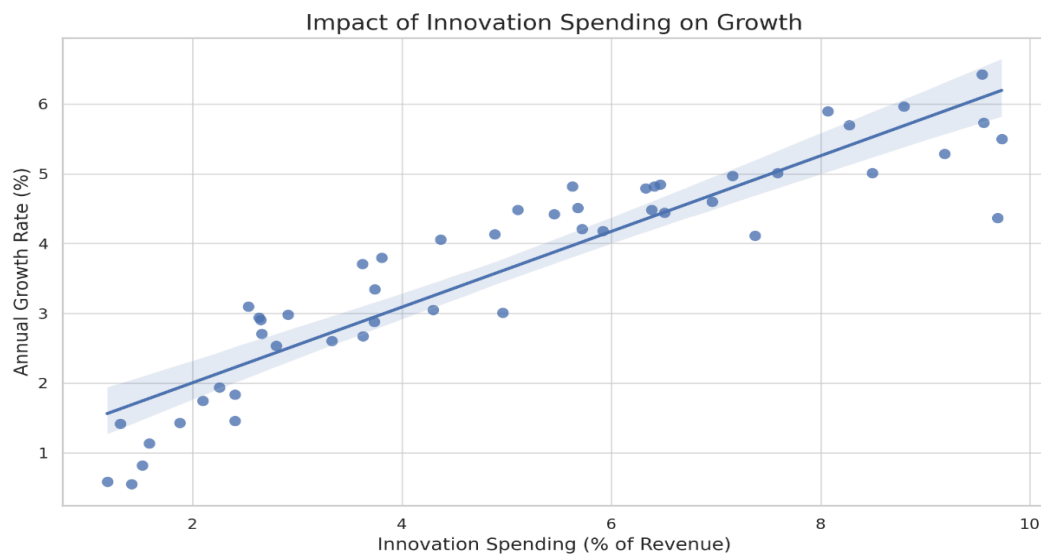


Figure 1.
Impact of Innovation Spending on Growth.

A lack of clear performance goals and reward systems in many private companies leads to decreased employee motivation, which is particularly problematic given that more than 70% of employees in China's private sector are under 40 years old, a demographic known for seeking not only financial rewards but also career growth and personal fulfillment. Without a well-structured performance management system, these young employees are more likely to experience burnout or seek opportunities elsewhere, undermining the company's talent pool. In fact, a recent survey of 500 private enterprises in China revealed that over 60% of employees were dissatisfied with their company's performance evaluation processes, citing the lack of transparent criteria for rewards and promotions as their primary concern [11].

Furthermore, the lack of effective performance management frameworks leads to disorganization within the company, causing inefficiencies in resource allocation. For instance, a study conducted by the Chinese Human Resource Association found that 58% of private enterprises report misalignment between employee skills and job responsibilities due to poor performance evaluation practices. This misalignment not only reduces productivity but also hinders innovation, which is essential for sustaining growth in today's rapidly evolving business landscape [12-14].

Zhang (20XX) emphasized that a crucial role of human resource management is to attract, develop, and retain top talent. In the face of intense competition for skilled workers, particularly in industries such as technology, finance, and manufacturing, private enterprises must leverage performance management as part of a broader talent retention strategy. Research indicates that organizations with strong incentive systems, including clear career development pathways and performance-based rewards, see 30-40% higher employee engagement levels. Employee care activities, such as health benefits, team-building initiatives, and flexible working conditions, have also been linked to improved job satisfaction, which directly contributes to higher retention rates and better performance [15].

Despite the importance of performance management, numerous private enterprises in China still face substantial challenges in implementing effective systems. According to a report by the China Enterprise Confederation, only 45% of private companies in China have formalized performance management processes, and fewer than 30% regularly update their evaluation criteria to align with market conditions. This gap in performance management maturity is a significant barrier to improving organizational efficiency and competitiveness. The dissatisfaction with existing systems is evident, with more than 60% of surveyed employees in private enterprises expressing frustration with the lack of personalized feedback and unclear promotion paths.

These issues highlight the critical need for innovative approaches to performance management within China's private enterprises. As the private sector becomes an increasingly significant driver of economic growth—accounting for more than 70% of new jobs in urban areas—improving performance management systems is essential for long-term success. By adopting data-driven performance management strategies, leveraging technology for real-time feedback, and aligning employee objectives with corporate goals, private enterprises can create more agile and responsive work environments. This approach not only drives higher productivity but also enhances employee satisfaction, which is crucial for attracting and retaining top talent in a competitive labor market.

3.2. Key Challenges in Performance Management of Private Enterprises in China

While the topic of human resource management in small and medium-sized private enterprises (SMEs) in China has been widely discussed, the research remains relatively superficial. The majority of literature highlights several recurring issues: many private enterprise owners suffer from low cultural awareness, lack of professional qualifications, and outdated management concepts. According to a 2023 report by the China Enterprise Confederation, nearly 40% of private enterprises report leadership gaps in terms of modern management practices. Although existing studies touch on human resource management practices, they often focus on isolated practices rather than offering a comprehensive understanding of the high-performance work system and its relationship to organizational outcomes (Figure 2). Notably, research on how high-performance work systems (HPWS) contribute to the long-

term performance of SMEs is still limited, with only 20% of academic studies in this field addressing the specific challenges faced by SMEs in China [16].

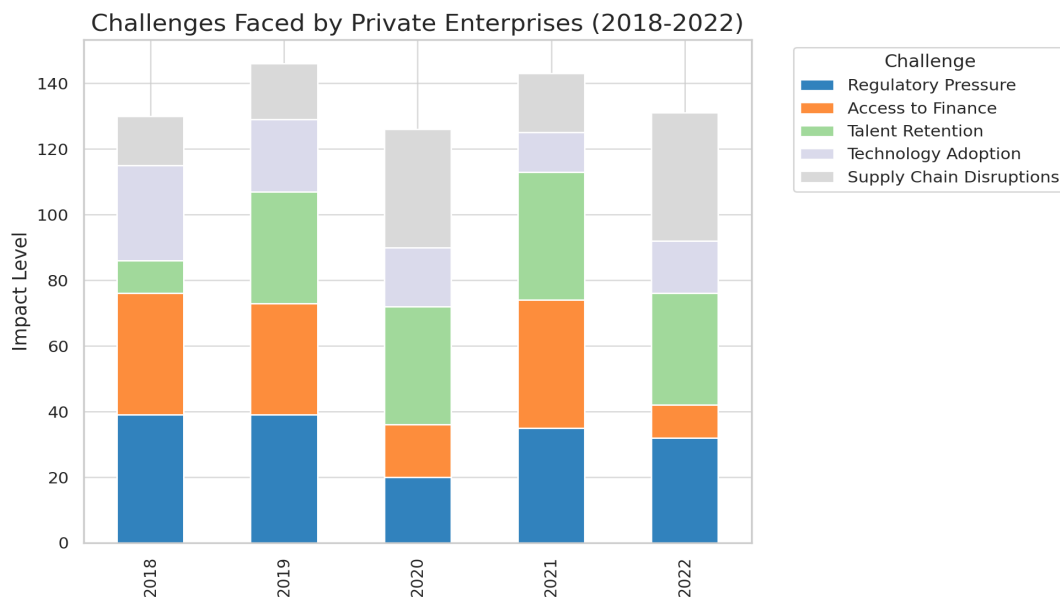


Figure 2.
Challenges Faced by Private Enterprises (2018-2022).

In a rapidly evolving business environment, performance management remains a critical issue. Recent surveys conducted by the China Human Resources Development Center indicate that 62% of SMEs in China still lack a well-structured performance management framework, contributing to inefficiencies and a decline in organizational morale. Scholars have identified multiple problems that plague performance management in private enterprises. These challenges include the inadequate recognition of the core concepts of performance management by leadership, poorly designed performance indicators, and unfair evaluation systems. Moreover, most private enterprises lack a strategic and holistic approach to human resource management, resulting in a disjointed and ineffective system [17].

Further compounding these issues is the fact that performance appraisal results are often not properly utilized. According to a 2022 survey by the National Bureau of Statistics, about 55% of employees in SMEs report that their performance evaluations rarely lead to any tangible rewards or recognition. The lack of communication around performance management also hampers progress, with 50% of employees indicating that they rarely receive feedback on their performance. This creates an environment where employees feel disengaged, and performance management is reduced to a mere formality rather than a tool for improving individual and organizational performance.

Another significant problem is the subjectivity in performance evaluations, which often leads to discrepancies between employee and employer assessments. A study conducted by the Shanghai Human Resource Institute in 2021 found that over 65% of employees in private enterprises felt that their evaluations were influenced by the personal biases of their managers, leading to dissatisfaction and demotivation. This subjectivity often arises from the lack of clear guidelines for performance appraisals, further complicating efforts to achieve organizational goals. Furthermore, improper personnel allocation, lack of strategic recruitment practices, and poor communication also contribute to the inefficiency of performance management systems in private enterprises [18].

The current research on performance management in China's private sector reveals that while many scholars acknowledge the fundamental issues, the proposed solutions often remain too general and lack

measurable outcomes. For instance, suggestions like improving organizational structures, salary management, and strengthening the corporate culture are frequently cited [6]. However, these proposals often fail to account for the specific context of each enterprise. A report from the Chinese Academy of Social Sciences in 2022 showed that 73% of private enterprises had not implemented any form of performance system innovation since their inception. While this indicates a recognition of the need for change, it also points to the hesitation or inability to implement reforms effectively (Figure 3).

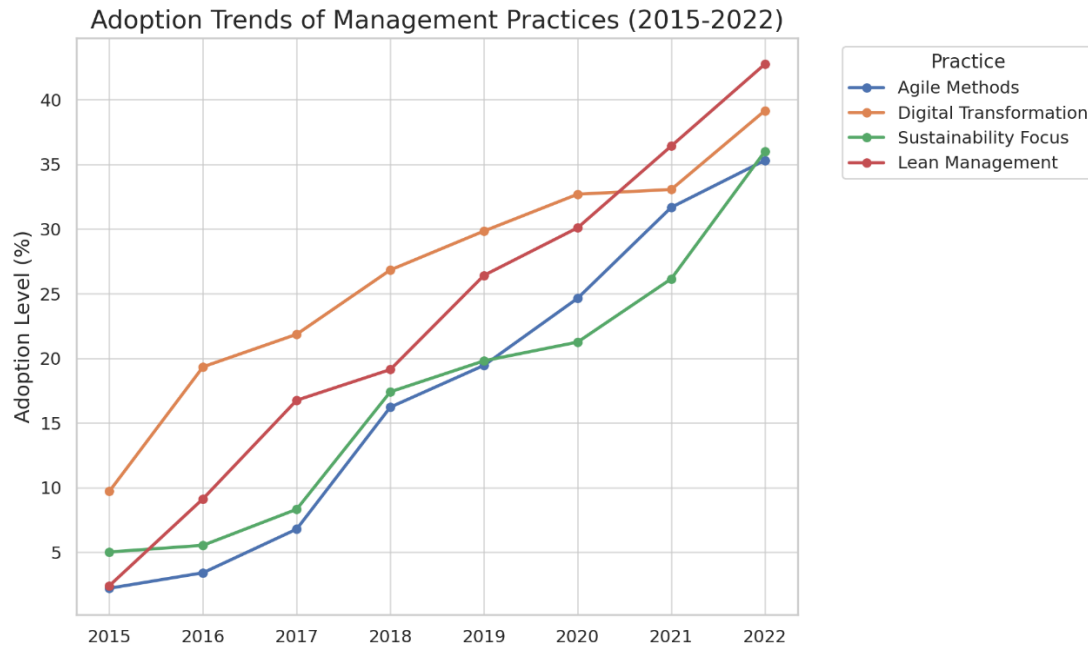


Figure 3.
Adoption Trends of Management Practices (2015-2022).

The proposals put forth, such as enhancing managerial understanding of performance management, improving assessment methods, and investing in training programs, are undeniably important. However, these recommendations often lack concrete mechanisms for implementation. For example, while strengthening training and communication about performance management might improve employee satisfaction by up to 15%, without a clear system for measuring and tracking progress, these efforts remain inadequate. In fact, only 30% of Chinese private enterprises have fully implemented performance-based incentives, with many companies relying on outdated or informal systems.

The most significant challenge lies in the fact that private enterprises themselves are the principal actors responsible for implementing performance management reforms. This “insider” dilemma can often result in biased or incomplete performance systems that do not align with the actual needs of employees or the organization. For instance, some enterprises implement performance metrics that are too focused on short-term results, neglecting long-term sustainability, which ultimately undermines organizational growth.

Additionally, while there is a general acknowledgment that motivating employees is key to improving performance, quantifying the outcomes of performance management remains a complex task. According to a 2023 study by the China National Human Resources and Social Security Institute, only 25% of private enterprises have systems in place to measure the impact of their performance management practices. The lack of effective evaluation tools means that it is difficult to measure the real-world outcomes of management reforms, such as improvements in employee morale, work

efficiency, or organizational commitment. This challenge is particularly pronounced when performance management reforms are applied inconsistently across different teams or departments.

Therefore, while there is substantial literature on the challenges of performance management in China's private enterprises, these issues remain deeply rooted in the organizational culture and leadership styles of these companies. The solutions proposed are often theoretical and lack the practical, data-driven approaches needed to produce measurable improvements in performance. In order to break the cycle of ineffective performance management, private enterprises must adopt a more systematic, transparent, and evidence-based approach that aligns the goals of individual employees with broader organizational objectives, while ensuring that the process remains fair, objective, and consistent.

3.3. Key Recommendations for Improving Performance Management in Chinese Private Enterprises

While research on performance management in Chinese private enterprises has made notable progress, significant challenges remain. As the private sector in China continues to grow, addressing these challenges will be crucial for ensuring sustainable development and fostering innovation within enterprises. A more in-depth exploration of performance management issues, grounded in empirical data and practical applications, is needed to identify effective solutions. Moving forward, the following aspects should be prioritized in future research on performance management in Chinese private enterprises:

1. Enhancing Leadership Understanding of Performance Management

One of the most pressing issues in performance management within private enterprises is the lack of proper understanding and recognition of its value by leadership. A 2022 survey by the China Business Federation revealed that 58% of private enterprise leaders fail to fully grasp the strategic importance of performance management, often treating it as a mere administrative task. To address this, it is crucial to focus on how to enhance leaders' cognitive abilities in this area, enabling them to better understand the purpose and long-term impact of performance management systems. Leadership training programs that emphasize the integration of performance management with business strategy can significantly improve decision-making processes and lead to more effective management practices. These initiatives would not only foster a deeper understanding among executives but also help in aligning the company's performance goals with its strategic objectives.

3.4. Developing Scientific and Fair Performance Evaluation Systems

Another core challenge is the lack of scientifically designed and fair performance evaluation systems. According to the 2023 "China HR Trends Report" by the Chinese Human Resources Association, only 35% of SMEs in China have established objective and scientifically structured performance metrics. In many cases, poorly designed evaluation indicators and biased assessments are major factors contributing to the failure of performance management systems. To improve this, future research should focus on designing comprehensive and scientifically sound evaluation metrics that are aligned with both organizational goals and employee performance. It's essential to create an equitable system where performance reviews are based on measurable, transparent, and standardized criteria, thereby increasing trust in the evaluation process.

3.5. Integrating Performance Evaluation with Human Resource Management and Strategic Planning

A critical aspect of performance management is its integration with broader organizational functions such as human resource management (HRM) and strategic planning. In many private enterprises, performance evaluations tend to be isolated events, with results rarely linked back to human resource development or the company's long-term strategy. A 2022 study by the Shanghai Institute of Business Administration found that only 22% of private enterprises in China integrate their performance management systems with strategic planning and HRM, leading to inefficiencies and missed opportunities for growth. There is a need for research focused on how performance evaluation processes can be better integrated with HRM practices such as talent development, succession planning,

and strategic alignment. This alignment will ensure that performance outcomes contribute directly to the sustainable growth and innovation of the organization. Additionally, the integration of performance management with strategic planning can help identify skill gaps and align employee goals with organizational objectives, improving both individual and corporate performance.

3.6. Strengthening Internal Communication and Optimizing Personnel Recruitment

Another critical area that requires attention is the communication gaps and inefficiencies in personnel recruitment and allocation. According to a 2023 report by the China Academy of Social Sciences, 60% of private enterprises face significant internal communication barriers, resulting in misalignment between employee roles and organizational goals. Furthermore, the report indicates that nearly 48% of businesses struggle with suboptimal recruitment strategies, often hiring based on short-term needs rather than long-term organizational goals. To address these challenges, future research should explore effective communication strategies that foster transparency, trust, and collaboration across all levels of the organization. Additionally, optimizing recruitment and personnel allocation strategies will ensure that the right talent is placed in the right positions, driving higher performance and efficiency across departments.

3.7. Quantifying the Effectiveness of Performance Management Reforms

A significant issue with many performance management reforms is the difficulty in quantifying their effectiveness. While scholars and practitioners have proposed various solutions, measuring the tangible outcomes of these reforms remains elusive. In fact, a 2023 survey by the China Performance Management Research Center found that only 28% of enterprises had implemented a system to track the success of their performance management initiatives. This lack of clear metrics makes it challenging to evaluate the real-world impact of performance management changes, such as improvements in employee motivation, productivity, and overall organizational performance. Future research should focus on developing robust methods for tracking and quantifying the outcomes of performance management reforms, using data analytics and feedback loops to assess improvements in both individual and organizational performance.

3.8. Strengthen the Output of Corporate Culture to Improve Core Competitiveness

Leading enterprises have found their own cultural form. Corporate culture is both the core soul of the enterprise and the essential characteristic of the enterprise. The enterprise is a team performance generated based on the management style advocated and implemented by entrepreneurs. The three origin factors of corporate culture are: social, economic and cultural development (qualitative), the company's senior management personnel themselves (positioning), and the management style implemented by the management (quantitative). Excellent corporate culture must transition from the start-up period to rules, from rules to performance, from performance to innovation, and finally to vision orientation. The core of corporate culture formation is recognition and sharing. There is no value without recognition of culture. The key to recognition is the participation and sharing of employees, customers and society. Corporate culture management is a management of the highest level. All materials and performance are produced under the guidance, promotion, penetration and edification of culture.

Core competitiveness comes from the management style advocated by the enterprise and the value required by customers. It is an integrated force. It is collective knowledge (collective learning) in the enterprise organization, with three basic characteristics: it provides the potential to enter diversified markets; it should make a key contribution to the value that customers value in the final product; it should be a force that is difficult for competitors to imitate. That is, the enterprise should make the internal management and market strategy form a synergy, materialize it into products or services that realize the value required by customers, and win in the market. This is a very important rapid response capability of the enterprise, so that it can drive the channel and the community of interests. And a

successful rapid response means that the enterprise, through cooperation with the community of interests, accurately grasps the value required by customers, meets market demand and achieves the service level required by customers at low cost and high speed. The competition drive based on customer needs may produce three types of reactions in the enterprise: forming an initial plan and winning quickly; improving operations and establishing partnerships; implementing breakthrough corporate restructuring and forming strategic alliances. Promote the collaboration of corporate interests.

As China's private sector continues to evolve, addressing these performance management challenges will be essential to foster long-term, sustainable growth. Future research should focus on creating more data-driven, objective, and strategic approaches to performance management, aligning organizational goals with employee development. Given the rapid pace of change in the business environment, it is likely that an increasing number of scholars and research institutions will contribute to the study of performance management, offering innovative solutions that can be implemented across a wide range of private enterprises in China. Ultimately, the focus should be on the integration of innovative management practices with performance management to not only address current challenges but also drive continuous improvement and growth. By adopting a more systematic, data-driven approach to performance management, private enterprises in China can create a sustainable, high-performing work environment that contributes to their long-term success and competitiveness on a global scale (Figure 4).

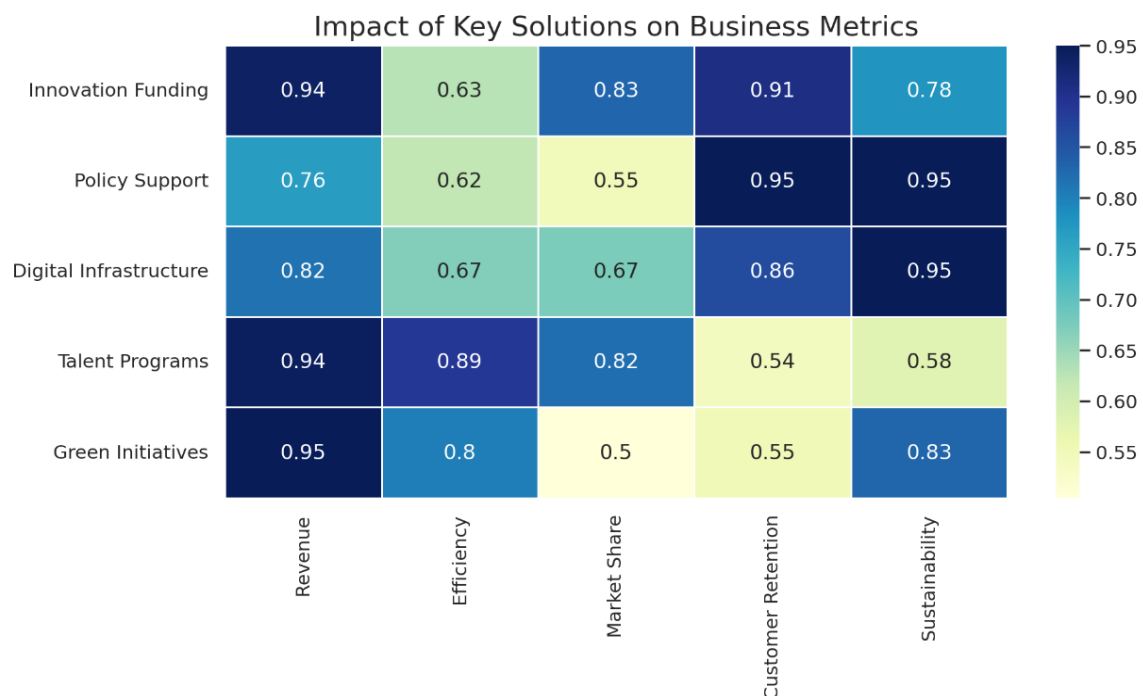


Figure 4.
Impact of Key Solutions on Business Metrics

4. Conclusion

In conclusion, the transformation of performance management systems within China's private enterprises is essential for achieving long-term sustainability and innovation. As these companies contribute significantly to the nation's economic landscape, it is imperative that they address the prevalent gaps in their management practices. Key recommendations include enhancing leadership

awareness of performance management, developing fair and scientifically sound evaluation metrics, and integrating performance management systems with broader organizational strategies. Moreover, strengthening internal communication and optimizing recruitment practices are critical to aligning employee objectives with organizational goals. Future research should focus on creating data-driven, objective frameworks for evaluating performance, ensuring that improvements are both measurable and impactful. By embracing these innovative approaches, China's private enterprises can not only overcome their current challenges but also position themselves for continued success in the global market.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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