

## **A STUDY ON THE FINANCIAL MANAGEMENT MODEL OF SMALL AND MICRO ENTERPRISES IN HAIKOU CITY, HAINAN PROVINCE**

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**Abstract:** Small and micro enterprises are pivotal to China's economic growth and employment levels. However, these enterprises in Haikou City, Hainan Province, are currently facing significant challenges due to increased global competition, the global financial crisis, adverse internal and external environments, and rising economic pressures. Effective financial management is essential for their sustainable operation, yet their long-term development and market competitiveness are hampered by a lack of economic motivation. This results in low risk resistance, a singular business model, and outdated internal management practices. This study investigates the financial management practices of small and micro enterprises in Haikou City. Utilizing a quantitative research methodology, data was collected from 20 enterprises via 240 questionnaires, achieving a 91.67% response rate. The findings reveal significant correlations between financial management systems, financial concepts, economic environment, and performance evaluation, highlighting their collective impact on successful financial management. These results are consistent with prior research, emphasizing the necessity for a well-planned, professional, and adaptable financial management strategy. To improve the financial stability and operational efficiency of these enterprises, the study recommends securing adequate funding, enhancing financial management awareness, leveraging the economic environment, and implementing thorough performance evaluations. These strategies will bolster the long-term growth and competitiveness of small and micro enterprises in Haikou City, contributing to a more resilient local economy.

**Keywords:** Small And Micro Enterprises, Financial Management Mode

### **Introduction**

SMEs in China are characterized by small production scales, broad industry coverage, and typically short establishment periods, often in early growth stages. They feature simple organizational structures, centralized decision-making, and lack standardized management systems, resulting in weak risk resistance and low average lifespans (Yang, 2018). SMEs dominate Haikou's enterprise landscape, playing crucial roles in urban economic activities due to their flexibility and innovation.

However, they face significant financial management challenges, which hinder further development. In a competitive market, SMEs' low competitiveness and short lifespans highlight financial management issues. Effective financial management, essential for overall enterprise management, directly influences growth trajectories. Enhancing financial management practices is crucial for SMEs' sustainable development and long-term stability (Mao Ran, 2022).

### **Research Objectives**

(1) To gain insight into the current status of financial management practices among small and micro enterprises in Haikou City, Hainan Province.

(2) To analyse the problems that currently exist in the financial management model of small and micro enterprises in Haikou City, Hainan Province.

(3) Provide a synthesis of the optimization methods for the financial management of small and micro enterprises in Haikou City, Hainan Province, with the objective of achieving superior quality development.

### **Literature Review**

#### *Trade-off theory of capital structure*

The capital structure trade-off theory addresses a firm's strategic decision on the proportion of debt and equity financing by balancing associated costs and benefits. Initially proposed by Kraus and Litzenberger (1973), the theory emphasizes equilibrium between bankruptcy costs and the tax-saving advantages of debt, often including institutional costs. It contrasts with the pecking order theory (Frank et al., 2011). Ai, H., Frank, and Sanati (2020) provide a comprehensive overview of the theory and its empirical support.

As the debt equity ratio (i.e. leverage) increases, there is a trade-off between the interest tax shield and bankruptcy, causing an optimum capital structure,  $D/E^*$ . The top curve shows the tax shield gains of debt financing, while the bottom curve includes that minus the costs of bankruptcy.

#### *Pecking order theory*

The pecking order theory in corporate finance posits that financing costs increase with asymmetric information between managers and investors. Companies prefer internal funds first, followed by debt, and lastly, new equity. Internal financing minimizes external oversight, and debt is preferred over equity to avoid ownership dilution.

According to this theory, firms follow a financing hierarchy: utilizing internal funds first, issuing debt once internal funds are exhausted, and resorting to equity only when further debt is imprudent. Issuing equity is a last resort as it may signal to investors that the firm is overvalued, a notion supported by Myers and Majluf (1984). They argued that managers, better informed about the

firm's condition, might issue equity when shares are overpriced, leading investors to undervalue the new issuance and decrease stock prices.

Originally suggested by Donaldson in 1961 and refined by Myers and Majluf in 1984, the pecking order theory explains firms' financing preferences based on relative costs. It maintains that firms prioritize internal financing, then debt, and consider equity issuance only as a last option, minimizing the adverse effects of asymmetric information and maintaining control within the firm.

#### *Financial management system*

The financial management system is an important factor in optimizing the financial management model. The implementation of the financial management information system has significantly improved the financial management situation and the financial management model of the public sector has become more optimized (Amidu, M., & Abor, J., 2011). The financial management system has a significant impact on the optimization of the financial management model, and the integrated financial management information system has a significant impact on organizational performance, showing a substantial optimization of the financial management model within government agencies (Hunton, & Libby, 2010).

Financial management focuses on profitability, expenses, cash flow, and credit management, involving the efficient acquisition and deployment of financial resources. Technological advancements, such as financial software and computer-based computing, have significantly transformed financial management practices (Chen et al., 2022).

Isik et al. (2021) assessed Turkey's public sector accounting system, highlighting the importance of financial management systems in optimizing financial models. Public sector accounting must provide transparent and reliable economic insights for effective resource use. Early studies, though often normative and lacking empirical foundations, suggested accounting's potential to contribute to economic development. Later research has become more empirical, advocating for rational control frameworks within political environments, particularly where accounting infrastructure is underdeveloped, such as during economic stimulus initiatives (Ghartey, 1985).

#### *Financial concept*

Financial concepts have an impact on the optimization of the financial management model. Understanding and application of financial concepts such as budgeting, cost control, and financial reporting are crucial in optimizing the financial management model within organizations (Khan, & Jain, 2005).

Financial philosophy encompasses the foundational principles guiding an enterprise's financial management, influencing financial planning, capital operations, cost control, and risk management. Sound financial philosophies establish effective financial management systems, enhancing overall financial health. Maschmeyer and Yang (1990) emphasize aligning responsible

accounting frameworks with an enterprise's strategy and structure. Research shows that financial concepts play an important role in optimizing financial management models.

Scapens and Yan (1993) suggest adapting China's accounting system to state planning and collectivist values, particularly for state-owned enterprises. These studies highlight the role of state concepts in transferring Western accounting knowledge but may underestimate national politics and local cultural contexts (Uddin & Kasumba, 2011).

The theory of complex adaptive systems (Ayati et al., 2022; Axelrod & Cohen, 2000) posits that environmental fluctuations drive firms to develop new arrangements during financial instability. Sustainability pressures, the circular economy, and reverse logistics have led to new organizational forms like inter-organizational networks (Dijksterhuis et al., 1999; Stacey, 1996). Managerial perceptions are crucial for addressing economic and financial viability, including financing and operational feasibility. Deng et al. (2017) show a U-shaped relationship between enterprise financialization and profitability. Du et al. (2019) find that a CEO's financial experience positively impacts financialization, with financing constraints and executive overconfidence mediating the relationship between financialization levels and returns on the main business.

#### *Financial environment*

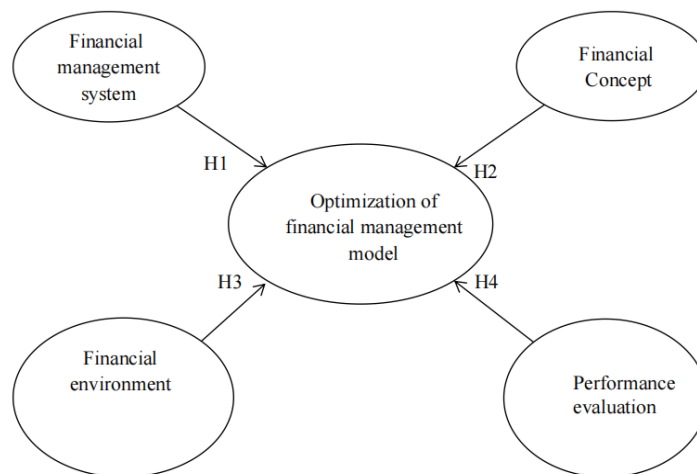
The economic environment is a crucial factor in optimizing financial management models. Macroeconomic fluctuations, such as interest rates, inflation, and economic growth, significantly influence financial management decisions and strategies (Sufian & Habibullah, 2009). The financial environment encompasses both external factors—economic conditions, financial markets, policies, and regulations—and internal factors—financial structure, management levels, and resources. Understanding these factors allows enterprises to develop adaptive financial strategies. Christelis et al. (2013) demonstrated that asset allocation varies by financial environment, despite similar demographics. Song and Lu (2015) found that firms with extreme performance levels had higher financialization, while average performers held fewer non-monetary assets. Gu et al. (2020) showed that CSR enhances financialization, though this effect is moderated by external monitoring and internal governance.

#### *Performance evaluation*

Performance evaluation plays a crucial role in optimizing financial management models. An effective evaluation system provides essential feedback, enhancing decision-making and financial management within organizations (Korhonen et al., 2023). By systematically assessing performance using financial indicators such as revenue, profit, costs, assets, and liabilities, enterprises can identify strengths and weaknesses, implement improvements, and motivate employee. Research shows that efficient performance evaluation promotes the optimization of financial management models. Álvarez et al. (2000) highlighted the importance of aligning performance measures with value creation and

managerial compensation through value-based management (VBM) and performance measurement systems. Similarly, Jatmiko et al. (2017) reviewed Indonesia's public sector reforms, noting that performance assessment played a key role in optimizing financial management despite inefficiencies due to inconsistencies with the New Public Management (NPM) philosophy.

### Conceptual Framework



**Picture 1:** Conceptual Framework

### Methodology

This study adopted the quantitative research method. This method analyzes the current financial management practices of small and micro enterprises in Haikou City, Hainan Province, and identifies existing problems. A sample of 20 small and micro enterprises in Haikou City, each company distributed 12 questionnaires and collected 220 copies with a 91.67% response rate from distributed questionnaires. Research hypotheses are proposed based on the analysis:

- H1: Financial management systems have an impact on the optimization of the financial management model.
- H2: Financial concepts have an impact on the optimization of the financial management model.
- H3: The economic environment has an impact on the optimization of the financial management model.
- H4: Performance evaluation has an impact on the optimization of the financial management model.

## Results

This study employs the internal consistency reliability analysis method, evaluating the reliability of the questionnaire data by calculating the Cronbach's Alpha coefficient. The specific analysis results are presented in Table 1.

**Table 1:** Reliability analysis

Cronbach's Alpha	N of Items
.966	5

Table 1 shows internal consistency reliability statistics of the variables to be used in the study, which gave a Cronbach's Alpha of 0.966 across five items. This high value shows that there is a strong reliability among the items, hence implying that the variables have tested the same concept firmly. In research, it is good to get a higher value of Cronbach's Alpha of more than 0.7 can be regarded as fully acceptable, with the coefficient being more than 0.9, indicating exceptional reliability. the results show that the question items are all related to the overall correlation with a discriminatory degree, internal consistency is good, the questionnaire reliability is high, and the scale can be tested in the next step.

**Table 2:** Correlation Analysis

		Financial Management System	Financial Concepts	Economic Environment	Performance Evaluation	Optimization of Financial Management Model
Financial Management System	Pearson Correlation	1	.719**	.805**	.856**	.778**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	220	220	220	220	220
Financial Concepts	Pearson Correlation	.719**	1	.740**	.845**	.806**
	Sig. (2-tailed)	.000		.002	.000	.000
	N	220	220	220	220	220
Economic Environment	Pearson Correlation	.805**	.740**	1	.788**	.818**
	Sig. (2-tailed)	.000	.002		.000	.000
	N	220	220	220	220	220
Performance Evaluation	Pearson Correlation	.856**	.845**	.788**	1	.977**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	220	220	220	220	220
Optimization of Financial Management Model	Pearson Correlation	.778**	.806**	.818**	.977**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	220	220	220	220	220

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 2 presents the results of the correlation analysis, elucidating the relationships between key variables in the study of the financial management model of small and micro enterprises in Haikou City, Hainan Province. The Pearson correlation coefficients reveal significant positive correlations at the 0.01 level among all variables.

The Financial Management System shows an improved correlation with the Optimization of the Financial Management Model = 0.978,  $t < 0.01$ , thus showing that there is a strong positive correlation between the FM System and the Optimization of the FMM hence implying that organizations with strong financial management systems are likely to have optimized financial management practices. Likewise, the tests on Financial Concepts and Optimization of the Financial Management Model show that Finch has a substantial positive coefficient or correlation equal to 0.836 and at 0.01 level of significance, thus denoting that understanding and application of financial concepts significantly enhances the optimization of the used financial management model.

This can be traced in the Economic Environment, which bears a significant positive relationship with the Optimization of the Financial Management Model with a correlation value of 0.818 significant at 0.01 level, indicating that a good economic environment promotes the optimization of the financial management model. Performance Evaluation is significantly positively related to the Optimization of the Financial Management Model with a coefficient of correlation of 0.977 and a significant level of 0.01, which shows the significance of performance evaluations in improving financial management.

Thus, the Financial Management System is positively and significantly related to Financial Concepts, Economic Environment, and Performance Evaluation. Thus, hypothesis 2 is confirmed. Based on these results, it can be argued that business organizations that are equipped with good financial management systems may have adequate knowledge concerning finances, operate under a good economic environment, and frequently assess organizational performance. Besides, there is a moderately high and positive correlation of Financial Concepts with the Economic Environment and a very high correlation with the Performance Evaluation with ( $r = 0.640$ ,  $p < 0.01$ ) as well as ( $r = 0.845$ ,  $p < 0.01$ ) respectively. The Economic Environment is also positively related to Performance Evaluation at 0.788 level of statistical significance.

Ultimately, it is possible to note the interconnections between all the variables under consideration and their influence on the development of the financial management model. These again reveal the interacting factors among the SMEs.

The ANOVA and regression analyses provide compelling evidence of the factors influencing the optimization of financial management models in small and micro enterprises in Haikou City, Hainan Province. The ANOVA results indicate a highly significant model ( $F = 160.105$ ,  $p < 0.001$ ), which suggests that the predictors - Performance Evaluation, Economic Environment, Financial



Concepts, and Financial Management System-collectively explain a substantial variance in optimizing financial management practices.

**Table 3:** ANOVA Analysis

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.519	4	5.130	160.105	.000b
	Residual	.481	215	.032		
	Total	21.000	219			
a. Dependent Variable: Optimization of Financial Management Model						
b. Predictors: (Constant), Performance Evaluation, Economic Environment, Financial Concepts, Financial Management System						

**Table 4:** Regression Analysis

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.144	.492		-.452	.764
	Financial Management System	.899	.358	.074	6.151	.000
	Financial Concepts	.092	.378	.021	.580	.000
	Economic Environment	.132	.285	.017	.672	.000
	Performance Evaluation	.987	.443	.986	7.392	.004
a. Dependent Variable: Optimization of Financial Management Model						

Regression analysis, as performed in the present study, allows for determining the relationship between the independent variables and the dependent variable, namely, the Optimization of the Financial Management Model, and the coefficients show to what extent each factor affects the dependent variable. The data derived from the Financial Management System display a positive effect ( $\beta = 0.074$ ,  $p < 0.001$ ), proving the importance of the outlined tool for improving financial management performance. The truth of this result highlights an urgent need for and importance placed on the structures and efficiency of enterprises, namely in the sphere of finance.

Financial Concepts, while with a slightly lower value of the standardized coefficient ( $\beta = 0.021$ ), are also significant in entering the optimization model ( $p < 0.001$ ). This supports the need to promote and emphasize the aspect of financial literacy and knowledge to enhance proper and efficient management of the financial affairs of any enterprise.

The Economic Environment's influence ( $t = 3.110$ ,  $\beta = 0.017$ ,  $p < 0.001$ ) highlights how forced outside economic elements play within the financial management domain. A favorable economic environment creates an enabling environment and resources with which enterprises need to fine-tune their economic activities.

Remarkably, performance evaluation has the highest beta value, equal to 0.986, and thus, the lowest p-value, below 0.001, confirming the thesis that systematic performance evaluations are



crucial. The high standardized coefficient shows that where job performance assessments are stringent, better efficiency in financial management optimization is achievable. Organizations that acknowledge and especially incorporate reliable systems of performance appraisal have the capability of improving their fiscal practices and returns.

In sum, these analyses raise awareness that the enhancement of financial management optimization is a complex phenomenon that presupposes the existence of efficient systems that support financial management, financial literacy, favorable economic conditions, and strict evaluations of work results accomplished by managers. The conclusions hence offer practical recommendations regarding the specific area of financial management for SMEs in Haikou City to enhance the prospects of their improvements and effectiveness.

## **Discussion**

This research provides substantial insights into the financial management practices of small and micro enterprises in Haikou City, Hainan Province. Positive and significant relationships among the Financial Management System, Financial Concepts, Economic Environment, Performance Evaluation, and the Optimization of Financial Management Model establish the centrality of these variables in flocking up the efficiency of financial management. The strong positive correlation coefficient between the Financial Management System and the Optimization of Financial Management Model = 0.978,  $p < 0.01$  supports literature that stresses the need for a good structure of the Optimization of the Financial Management Model in small enterprises. Financial management focuses on profitability, expenses, cash flow, and credit management, involving the efficient acquisition and deployment of financial resources. Technological advancements, such as financial software and computer-based computing, have significantly transformed financial management practices (Chen Yu et al., 2022). According to Dominic et al. (2023), it is evident that the challenge of enhancing financial decisions and resource allocation in SMEs will require proper financial systems. The conclusions of this study support the hypothesis that when appropriately implemented, financial management systems result in the best finance practices.

Similarly, Lestari et al. (2024), experience underlined the importance of the knowledge of Financial Concepts on optimization of expenditure,  $r = 0.836$ ,  $p < 0.01$ . The idea here is that the better enterprises understand the concepts of finance, the more influential the financial practices will be to boost the general financial performance. The results showed positive relationships between the Economic Environment and the optimization of financial management ( $r = 0.818$ ,  $p < 0.01$ ), in which hypothesis H2 is accepted. The results are consistent with the theory that a positive Economic environment is receptive to effective financial management by Shahbaz et al. (2022). The fact that Haikou City is a supportive economic environment indicates that small enterprises in the area get an

opportunity to revamp their economic practices concerning funds through the availability of resources and market stability.

By analyzing the Performance Evaluation's zero-order correlation with financial optimization, it is revealed that the identified construct is significantly related to the performance assessments and, therefore, plays a crucial role in the field of financial optimization ( $r = 0.977$ ;  $p \leq 0.01$ ). Moreover, the analysis of the multiple regression reinforces the existent relationship between Performance Evaluation and financial optimization by demonstrating the signification of its regression coefficient ( $\beta = 0.486$ ). This goes well in support of what Omran et al. (2021) suggested on the balanced scorecard, whereby performance measurement is considered a major determinant of strategic financial management. The alignment of performance measures with value creation and managerial compensation with financial objectives through value-based management (VBM) and performance measurement systems (Álvarez et al., 2000).

Isik et al. (2021) assessed Turkey's public sector accounting system, highlighting the importance of financial management systems in optimizing financial models. Public sector accounting must provide transparent and reliable economic insights for effective resource use. Historically, centralized accounting models have been valued for their planning, control capabilities, and equitable resource allocation (Enthoven, 1982; Ndzinge and Briston, 1999; Seidler, 1967). The results of the ANOVA also support the combined effect of these predictors, suggesting that these together account for a considerable percent of the variance in the optimization of financial management ( $F = 160.105$ ,  $p < 0.001$ ). This integrated view of financial management is consistent with the integrated financial management frameworks proposed by Erasmus (2022), which advocate for comprehensive strategies encompassing multiple facets of financial operations.

## **Conclusions**

This study has highlighted the critical factors influencing the financial management optimization of small and micro enterprises in Haikou City, Hainan Province. The strong correlations between variables, financial management system, financial concepts, economic environment, and performance evaluation affirm that the variables suggested in the model are interdependent in determining successful financial management. The results are consistent with previous research, which underlines a well-planned, professional, and flexible concept of financial management.

The study on the financial management model of small and micro enterprises in Haikou, Hainan Province shows that a positive significant relationship between the Financial Management System and Optimization of the Financial Management Model with a correlation coefficient of 0.778,  $p < 0.01$ ; it established that sound financial management systems are essential in enhancing the optimization of financial management. The objective of financial management is to achieve optimal

profitability, control expenses, manage cash flow, and administer credit in a manner that is both effective and efficient. This entails the acquisition and deployment of financial resources in a manner that is both prudent and strategic (Chen et al., 2022).

The study on the financial management model of small and micro enterprises in Haikou, Hainan Province shows that financial concepts are positively related to the Optimization of the Financial Management Model, thus pointing out the contribution of financial knowledge towards improving financial functioning, since  $r = 0.806$ ,  $0.716$  and  $p < 0.01$ . Financial concepts have an impact on the optimization of the financial management model. Understanding and application of financial concepts such as budgeting, cost control, and financial reporting are crucial in optimizing the financial management model within organizations (Khan, & Jain, 2005).

The study on the financial management model of small and micro enterprises in Haikou, Hainan Province shows that the Economic Environment particularly on the optimization model ( $r = 0.818$ ,  $p < 0.01$ ). While corporate social responsibility (CSR) enhances the level of financialization within enterprises, this impact is mitigated by external monitoring and internal governance. When enterprises proactively fulfill their social responsibilities, they typically attract greater attention from investors, thereby increasing their level of financialization. However, external supervisory mechanisms, such as the scrutiny of regulators, auditing agencies, and investors, can effectively curb excessive financialization. Furthermore, the robustness of internal governance structures is crucial. Strong internal governance ensures that enterprises maintain a balanced level of financialization while fulfilling their social responsibilities, promoting a harmonious and sustainable growth trajectory (Gu et al., 2020).

The study on the financial management model of small and micro enterprises in Haikou, Hainan Province shows that performance evaluation shows the strongest relationship with the optimization of the financial management model, which shares a significant correlation ( $0.977$   $p < 0.01$ ). The integration of performance measurement and value creation can be achieved through the implementation of value-based management (VBM) and performance measurement systems. This approach is not solely concerned with the financial performance of the enterprise; it also places importance on the enterprise's capacity to create long-term value. Furthermore, the implementation of transparent financial objectives and incentive structures guarantees that managerial decisions and actions can facilitate the enhancement of enterprise value. This combination facilitates the effective allocation of enterprise resources and the realization of strategic goals, thereby optimizing the enterprise's financial management model. (Álvarez et al., 2000).

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