Problems in Financial Management of Small and Medium-sized Enterprises

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Abstract: In recent years, with the gradual improvement of China’s market economy system, Small and Medium-sized Enterprises (SME) have developed rapidly. At present, SME have become an important force in supporting China’s economic development, solving employment problems, increasing national fiscal revenue, developing high-tech, and maintaining social and economic stability. In the development process of SME, financial management plays a crucial role. However, due to the small scale, weak production technology capabilities, and lack of funds of many SME, their development is in conflict with the economic development of the market, which to some extent increases financial risks. This article would conduct an in-depth analysis of the financial management problems faced by SME in China, and provide corresponding solutions to make their financial management methods more perfect, thereby occupying a place in the fierce market competition and maintaining harmonious and stable development. After investigation, it was found that 21 SME had very weak risk awareness, accounting for 42% of the total. SME faced problems such as insufficient funds, low talent quality, unreasonable investment strategies, and weak financial risk awareness. This article analyzed the corresponding strategies and started with strengthening the construction of the financial and accounting team, improving the quality of all staff, and strengthening the adoption of scientific investment strategies to alleviate the problems in financial management.

Keywords: Small and Medium-sized Enterprises, Financial Management, Investment Strategies, Risk Awareness

1. Introduction

In the development of SME, financial management is the most important link. The fundraising, use, and distribution of enterprise funds, as well as various aspects of enterprise supply, production, sales, etc., cannot be separated from the role of financial management. Financial management of enterprises runs through every link of the enterprise. However, currently, there are still many problems in the financial management of SME, such as low quality of financial personnel and weak awareness of managers, which have a great impact on the development and growth of SME. Currently, SME account for a large proportion of Chinese enterprises. If SME are developed, they can play a significant role in promoting China’s economic development. The purpose of Hussain Javed was to evaluate whether financial knowledge could help SME overcome information asymmetry, and reduce the demand for collateral, so as to optimize capital structure and improve financing channels. In order to better understand the complex relationship between financial knowledge, financing channels and growth, he conducted a qualitative research on SME that operated for more than five years or more. Analysis showed that improving financial knowledge and reducing regulatory costs could help optimize the capital structure of enterprises and had a positive impact on the growth of SME. Financial management knowledge was considered a core resource for SME owners to make effective decisions [1]. The purpose of Tanklevska Nataliya’s research was to determine the nature and priority tasks of managing the financial potential of enterprises, as well as to determine the methods of such management based on crisis management, and to determine the necessity of effectively managing the financial potential of enterprises. Introducing the concept of financial management could improve the quality of managing the financial potential of enterprises. This introduced the task list of crisis management, which was the foundation for managing the financial potential of enterprises [2]. The above scholars have pointed out that there are still many shortcomings in the development of SME in China. In these areas, it is particularly necessary to strengthen the financial management of SME. Only by ensuring that there are no problems in financial management can the development of the enterprise be better promoted.
Identifying the current problems in financial management of SME in China, conducting a deep analysis of the root causes of the problems, and proposing practical and effective solutions to reduce financial risks and improve financial management level plays an important role in improving the current situation of financial management of SME in China and promoting their healthy and sustainable development. The background of Valaskova Katarina’s research was that financial risk management was the task of monitoring financial risks and managing their impact. Financial risk was often considered the risk that a company may default on its debts. He regarded corporate debt, default, or prosperity issues as one of the approaches to risk management, and predicting corporate default was an integral part of risk management [3]. Tien Nguyen Hoang found that social responsibility and environmental sustainability issues began to receive attention, but corporate social responsibility was still a relatively new management concept, especially for SME. Managers faced multiple obstacles when implementing corporate social responsibility and financial management in accordance with international standards [4]. Bartolacci Francesca’s research aimed to provide a comprehensive knowledge map on the domain knowledge structure of SME sustainability and financial performance research. He adopted the methods of bibliometric analysis and systematic literature review. The research results indicated that there were three themes in the study: the role of innovation and entrepreneurship and their impact on the sustainability of SME, corporate social responsibility in the context of SME, and financial management and environmental issues of SME [5]. In the trend of China’s market economy development, SME, as an indispensable entity, occupy a pivotal position. This article would analyze some problems in financial management of SME, and provide some solutions. It would provide some suggestions for leaders and executives of SME, so as to better promote the development of SME and promote the development of the market economy.

2. Investigation and Evaluation of Problems in Financial Management of SME

SME are the driving force of economic development and have played a crucial role in the process. In order for them to grow, they must have modern business management methods [6-7]. Financial management is the core of modern management, which runs through and permeates all economic activities of enterprises. Therefore, SME should pay more attention to financial management. In the process of development, due to constraints such as their own scale, capital, and incomplete policies issued by the state, SME generally face financing difficulties and blind investment. In order to achieve sustainable development, SME must solve their financial management problems in SME [8]. In order to investigate the problems encountered in financial management of SME, this article conducted a survey and analysis of 50 SME.

2.1 Low Emphasis and Low Personnel Quality

At present, the basic financial and accounting work of SME is relatively weak. The main reason for this is the quality of financial management personnel in enterprises is relatively low, lacking professional ability and literacy. At the same time, there are also some cadres with incorrect work attitudes and weak work awareness [9-10]. The common problem of SME is that they do not attach enough importance to talent selection and do not fully recognize the importance of talent and professional literacy. Therefore, it is necessary to improve the overall professional quality and select and cultivate excellent financial management talents. The importance attached by enterprises to financial management and the quality of financial management talents are shown in Figure 1:

As shown in Figure 1: In Figure 1 (a), 5 SME felt that they attached great importance to financial management, accounting for 10% of the total; 23 SME felt that their financial management was very low, accounting for 46% of the total.

In Figure 1 (b), 6 SME felt that their financial management talent quality was very high, accounting for a percentage of 12%; 22 SME felt that their financial management talent quality was very low, accounting for 44% of the total.

As SMEs are still in the initial stage of capital accumulation and have not yet fully realized the separation of ownership and management rights, they would excessively reflect the intention of owners in their financial management [11-12]. Excessive intervention in financial management work has not organically combined financial theory with practical work, resulting in a mess in the financial work of the enterprise and inability to effectively utilize financial management work. Most of the staff related to finance are confidants of the boss, and their financial management professional abilities are very weak [13-14].
2.2 Weak Risk Awareness

The capital of SME is basically accumulated or borrowed by themselves, which controls the source of capital. In addition, SME have significant risks in their projects in the market. Due to the lack of high-tech, their ability to prevent risks is weak [15]. More importantly, financial institutions also impose restrictions on SME from various aspects, which leads to many enterprises being unable to obtain funds through formal channels during operation and having to choose private high interest lending institutions. In this way, financing costs would become very high, thereby increasing financial risks. Meanwhile, SME still lack professional management teams. The managers of enterprises are powerless in their financial work, making it impossible to enhance their financial management.
The degree of weak risk awareness is shown in Table 1:

<table>
<thead>
<tr>
<th>Weakness degree</th>
<th>Enterprises</th>
<th>Percentage (%)</th>
</tr>
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<tbody>
<tr>
<td>Very strong</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Relatively strong</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Weak</td>
<td>19</td>
<td>38</td>
</tr>
<tr>
<td>Very weak</td>
<td>21</td>
<td>42</td>
</tr>
</tbody>
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Table 1 shows the degree of weak risk awareness: Only three SME had very strong risk awareness, accounting for only 6%; 21 SME had very weak risk awareness, accounting for 42%.

The risk awareness of enterprise managers is not strong enough, and their thinking methods are not advanced enough. They are still using traditional management methods, and their understanding of modern financial management is still weak. Investors usually view the assets of a company as their personal property. In order to achieve complete control of the company, they are usually unwilling to entrust the financial management of the company to specialized personnel. This leads to the lack of specialized personnel to handle the financial problems of the company, which can easily lead to accounting chaos and the loss of development opportunities for the company.

2.3 Insufficient Funds and Poor Management of Enterprises

Currently, SME are facing the dilemma of insufficient funds. The main sources of funds for SME are banks and other financial institutions. However, compared to large enterprises, SME find it difficult to attract investment or loans from financial institutions [16]. Even if banks are willing to lend to them, due to their high risk, the lending interest rate would increase, which would lead to an increase in their financing costs. The adequacy of funds and the improvement of financial management are shown in Figure 2:

As shown in Figure 2: Figure 2 (a) shows that two SME indicated that their funds were very sufficient, accounting for only 4% of the total; five SME indicated that they had sufficient funds, accounting for only 10% of the total; 27 SME indicated a significant lack of funds, accounting for 54% of the total.

Figure 2 (b) shows that there were only 4 SME with very complete financial management, accounting for only 8% of the total; there were only 8 SME that believed that their financial management was relatively complete, accounting for only 16% of the total; there were 24 SME that believed that their financial management was very imperfect. The percentage is 48%.

Most SME do not have complete fund management, and there are still many problems because inadequate investment management can cause pressure on investment funds. Compared with large
enterprises, SME are more susceptible to market changes and face more risks when investing. In addition, the shortcomings of investment management are also reflected in the blindness of investment. SME do not have sufficient understanding of the country’s macro policies and only focus on immediate interests. If some problems arise during the investment process, these problems often lead to serious financial crises for some enterprises [17].

2.4 Unreasonable Investment Strategy

Many SME overlook long-term interests in the process of investing in enterprises, and many decision-makers unconsciously set the goal of financial management to maximize profits. Under such financial management objectives, the investment decisions of SME naturally lack the ability to conduct scientific analysis and prediction, which has a negative impact on the sustainable development of SME [18-19]. Even many SME have become more eager for quick success and instant profits. They have chosen to diversify their investments, but have not been able to recover their original invested capital. Instead, they have experienced a situation where the capital chain has broken, causing the enterprise to fall into financial difficulties. The reasonable investment strategies of 50 enterprises are shown in Table 2:

<table>
<thead>
<tr>
<th>Reasonable degree</th>
<th>Enterprises</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very reasonable</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Relatively reasonable</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Unreasonable</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Very unreasonable</td>
<td>20</td>
<td>40</td>
</tr>
</tbody>
</table>

As shown in Table 2, only 4 companies had very reasonable investment strategies, accounting for a percentage of 8%; only 6 companies had reasonable investment strategies, accounting for a percentage of 12%; there were 20 companies with very unreasonable investment strategies, accounting for a percentage of 40%.

SME are relatively small and often find it difficult to obtain sufficient funds through collateral, pledges, and other means. Therefore, most enterprises can only rely on their own funds to meet their development needs, and are also constrained by many factors such as enterprise size and return on capital. Overall, the funding needs of Chinese SME in their development are far from being met, and their investment strategies are relatively single.
3. Measures to Strengthen Financial Management of SME

3.1 Strengthening the Construction of the Financial and Accounting Team and Improving the Quality of All Employees

At present, there are still many problems in the financial management of SME. To effectively solve them, it is necessary to improve their own quality, ideological awareness, and other aspects. Therefore, in the process of strengthening financial management of SME, it is necessary to pay attention to training the quality of managers. It is necessary to start with the senior management personnel of SME, guide and cultivate all employees of the enterprise, and strengthen the cultivation of legal concepts and work attitudes of managers. In addition, attention should also be paid to the selection and training of employees. In terms of enhancing the professional competence of enterprise financial management personnel, enterprises can develop a plan to enhance their professional competence based on their own needs, develop assessment projects, and regularly assess their staff to improve their professional competence, thereby better improving the current situation of enterprise financial management and enabling enterprise financial management personnel to play their maximum role [20].

Selecting high-quality financial management talents, strengthening the construction of financial management teams, strengthening employee training, and improving the overall quality of employees can effectively solve some financial problems of enterprises. Corporate investors should be aware that the financial management of a company is a comprehensive result of managing its financial situation. It can predict, analyze, and make decisions on the financial management work of enterprises, and is also a tool for inspecting and supervising various standards in enterprise economic management. Therefore, investors should empower the financial management department with more power, thereby improving the position and role of financial management in the entire enterprise, hiring professional financial management personnel, and allowing financial management personnel to truly participate in the operation and management of the enterprise.

3.2 Strengthening the Adoption of Scientific Investment Strategies

Enterprise investors should attach importance to the financial management of the enterprise and enable every department of the enterprise to participate in its business activities. Enterprises should establish a sound, scientific, and suitable management system for their development. A sound financial management strategy control system should be established within the enterprise. Only with a certain system can assets be made safer and efforts be made to fundamentally solve problems. In the financial management of enterprises, it is necessary to strengthen internal control over employees. At least two people should be responsible for positions of mutual control, and internal financial management should be strengthened to ensure the safety of funds and property [21].

Through in-depth research on the project, the investment decision-making level of the project has been improved, and the risk of financial management has been reduced. Based on the company’s own development strategy and planning, and combined with the company’s capital structure and fundraising possibilities, investment goals are formulated. The investment plan is made, and the direction, quantity, structure, and timing of fund investment are reasonably arranged; investment projects are carefully selected, thus highlighting their main business, cautiously engaging in unfamiliar fields, and investing in high-risk projects. In practical operation, SME should try to adopt a medium to short-term investment approach, conduct sufficient research on the invested projects, and continuously optimize the projects. The market share of SME is limited, and their products also have a lifespan. Therefore, if a company can invest a large amount of funds to develop a new product that suits market demand and continuously eliminate old products, it can remain invincible. The updating of technical equipment is valued and regarded as a long-term development strategy; human capital investment, especially high-tech and high-quality management personnel, is the key to the success of enterprises.

4. Conclusions

SME are a large group with a large proportion of economic scale and tax revenue, playing an important role in the development of the national economy. Therefore, it is important to conduct research on the development of SME and discuss their financial management issues. Investors in SME should fully realize the importance of strengthening financial management, establish that strengthening financial management is the core concept of the enterprise, and strengthen risk control of financial
management, so that financial management concepts can penetrate into all aspects of the enterprise.
The supervision and control of funds should be strengthened, combined with the characteristics of the
enterprise itself, to establish a financial management system suitable for its own development, and to
demonstrate its advantages in the business process of the enterprise, thereby improving the
competitiveness of the enterprise in the modern market and making its own contribution to the
development of the Chinese market economy. This article described the problems in financial
management of SME from several aspects such as personnel quality, risk awareness, enterprise funds,
financial management, and investment strategies. Finally, corresponding financial management
strategies were provided to solve the problems encountered in financial management. The research of
this article aimed to provide certain reference for the financial management of SME.

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