



The Impact of Financial Literacy on The Performance of Enterprise Managers - A Study of Small and Medium-Sized Enterprises in Guilin, Guangxi, China

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Abstract

Small and medium-sized enterprises have an extremely important role in the national economy, so this study aims to investigate the impact of financial knowledge on SME manager's performance in Guilin, China. The study conducted a questionnaire survey of 408 SME managers in Guilin City using random simple sampling and further tested the research hypotheses. The data was analyzed by using descriptive statistics, correlation analyses and multiple regression. The results of the study show that the respondents are gender balanced, and many managers are 31-50 years old, 88 percent are well educated, the businesses are small, but 43.38 percent of them have good annual revenues. In addition, the hypothesis testing results reveal that financial literacy (financial knowledge, financial awareness, financial attitude, and financial capability) all have a positive impact on enterprise manager performance. This study extends the research framework of financial literacy in business management and filling an important gap in the study of financial literacy in Chinese SMEs. Policy recommendations are provided for governments, financial institutions, enterprises, and educators.

Keywords: Financial Literacy, SMEs, Manager Performance, Guilin City

Introduction

Currently, the number of small and medium-sized enterprises (SMEs) in China accounts for more than 98.64% of the total number of enterprises, and SMEs play an extremely important role in the national economy (Laina & Wahyudin, 2023). However, the mortality rate of SMEs in China has increased from 33.42 percent in 2013 to 40.56 percent in 2017, especially in 2021, when about 4.37 million small businesses in China went bankrupt (Li, 2024). Over the past two decades, scholars and policy makers in both developed and developing countries have recognised that financial knowledge of business managers is crucial for the survival and development of SMEs (Sembiring, 2022). However,



there is currently no research paper on the impact of financial literacy on SME managers' performance in China. Therefore, this study fills the research gap in this area in China by analysing the impact of financial literacy on managerial performance in Guilin SMEs. The findings will provide valuable insights for policy makers to support the sustainable development of SMEs in China.

Objectives

To investigate the impact of financial literacy on the performance of managers of SMEs enterprise in Guilin, Guangxi, China.

Literature Review

The Financial Consumer Protection Bureau of the People's Bank of China conducted a national financial literacy survey in 2019, dividing financial literacy into four dimensions which are financial attitude, financial behaviour, financial knowledge and financial skills (PBOC, 2019).

Financial knowledge is essential for the performance development of SME managers (Hasibuan et al., 2022). When SME managers have more knowledge, they will have stronger financial capabilities and be able to more accurately assess the financial status of the enterprise, thereby improving the performance of business managers (Xochitl et al., 2022). Financial awareness helps investors process information in financial activities, helps make judgments, reduces transaction costs, increases investment shares, and thus increases the possibility of investment (Makdissi et al., 2020). Financial awareness has a positive impact on the performance of SME managers (Xochitl et al., 2022). It is essential for SME managers to cultivate a positive financial attitude. The better the financial knowledge and financial attitude that SME managers have, the more confident they will be when making financial decisions, thereby improving the performance of business managers and achieving sustainable growth (Dwyanti, 2024). Financial capabilities play an important role in the business success of SMEs, especially the conceptual, technical, strategic, leadership and relationship capabilities of business managers, which contribute significantly to business success (Sualeh et al., 2021). Consistent with this assertion, Lizzy and Makhamara (2024) indicate that financial capabilities have a significant positive impact on the performance of SME managers. Overall, the improvement of financial literacy can effectively promote the performance of managers, thereby promoting the stable growth and market competitiveness of enterprises (Mihardjo & Ningtyas, 2023).



Related Research Theories

This study uses the financial literacy theory, the top echelon theory, as the basis and support of the study.

Financial literacy theory is a widely used theoretical framework in the field of financial literacy research. Financial literacy theory is an evolving theory that incorporates theories from economics, sociology, psychology, and management to explain how individuals and business managers make financial decisions (Ingale & Paluri, 2020). This study will build a conceptual framework based on financial literacy theory to assess the level of financial literacy of SME managers in Guilin, Guangxi, and its impact on enterprise manager's performance through quantitative analysis.

Upper echelons theory was first proposed by Hambrick and Mason (1984), who argued that the personal characteristics of top managers in terms of experience, values and cognitive abilities affect the strategic choices and organisational performance of a firm. The upper echelons theory suggests that the situations faced by decision makers in firms are complex and decision makers make decisions based on their own cognitive bases and values, which emphasises the importance of personal financial literacy in decision making (Saiyed et al., 2023). The main target of this study is SME managers, who are the core senior decision makers in their organisations. The upper echelons theory provides a theoretical framework and empirical support for SME managers to improve financial literacy, optimise financial decision-making and enhance enterprise manager's performance.

Concept theory framework

Based on various phenomena and research findings, SME managers' performance is influenced by financial literacy. Therefore, the research framework is as follows.

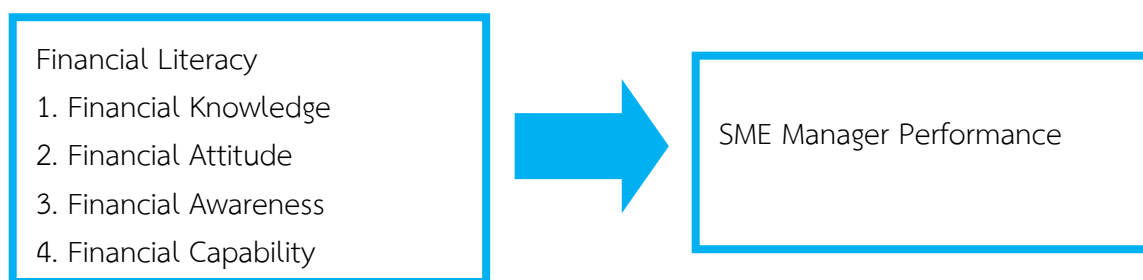


Figure 1: Conceptual Framework

This study proposes the following hypothesis.

H1: Financial knowledge influences SME manager performance.

H2: Financial awareness influences SME manager performance.

H3: Financial attitude influences SME manager performance.



H4: Financial capability influences SME manager's performance.

H5: Financial literacy influences SME manager performance.

Materials and Methods

This study was conducted using quantitative methods. The study population is 404,200 SME managers in Guilin City, Guangxi, China. Yamane's formula was used to calculate the sample size of 408 SME managers in Guilin. The study will adopt a random simple sampling method for questionnaire data collection. The validity index (IOC) score of the questionnaire was 0.725. The reliability of Cronbach's alpha was tested using the alpha coefficient method, which resulted in an overall score of 0.936, indicating a high quality of data reliability. The data collected will be statistically analysed using percentages, correlation analysis and multiple regression.

Results

By analysing the questionnaire survey of SME managers in Guilin, the following basic information of the respondents was obtained.

Table 1: Descriptive statistics for demographic information

Question	Options	Frequency	Percentage (%)	Cumulative percentage (%)
Gender	Male	232	56.86	56.86
	Females	176	43.14	100
Age	25-30 years	112	27.45	27.45
	31-40 years	111	27.21	54.66
	41-50 years old	121	29.66	84.31
	Above 50 years old	64	15.69	100
Educational attainment	Bachelor's Degree	232	56.86	56.86
	Master's Degree	129	31.62	88.48
	Doctoral Degree	41	10.05	98.53
	Others	6	1.47	100
Term of office	1-3 years	109	26.72	26.72
	4-6 years	118	28.92	55.64
	7-10 years	127	31.13	86.76
	More than 10 years	54	13.24	100
Training status	Never	5	1.23	1.23
	Rarely (1 to 2 times per year)	186	45.59	46.81
	Sometimes (3-4 times per year)	140	34.31	81.13
	Often (5 to 6 times per year)	49	12.01	93.14
	Always (more than 6 times per year)	28	6.86	100



Question	Options	Frequency	Percentage (%)	Cumulative percentage (%)
Business type	Manufacturing	167	40.93	40.93
	Non-Manufacturing	241	59.07	100
Form of business organization	Sole proprietorship	71	17.4	17.4
	Cooperative society	11	2.7	20.1
	Partnership	124	30.39	50.49
	Joint venture	91	22.3	72.79
	Private limited company	100	24.51	97.3
	Others	11	2.7	100
Age of business	Less than 5 years	163	39.95	39.95
	5 - 10 years	136	33.33	73.28
	More than 10 years	109	26.72	100
Number of employees	Medium manufacturing: $150 \leq X < 500$	81	19.85	19.85
	Small manufacturing: $X < 150$	86	21.08	40.93
	Medium non-manufacturing: $100 \leq X < 300$	133	32.6	73.53
	Small non-manufacturing: $X < 100$	108	26.47	100
Annual income	Less than CNY 20 million	43	10.54	10.54
	CNY 20 million- CNY 300 million	188	46.08	56.62
	More than CNY 300 million	177	43.38	100
Add up the total		408	100	100

Table 1 reflects the demographic and business characteristics of SME managers. The gender distribution of the respondents is balanced, 56.87 per cent of the managers are between 31 and 50 years of age, appropriately 88 percent of the respondents are well educated and have work experience. The size of the business is small, but the annual revenue of the business is good, reflecting strong profitability and competitiveness.

Table 2: Correlation between financial knowledge, financial attitude, financial awareness, financial capability, and managerial performance

	Average value	Standard deviation	Financial Knowledge	Financial Awareness	Financial Attitude	Financial capability	Enterprise manager performance
Financial Knowledge	3.530	0.914	1				
Financial Awareness	3.477	0.950	0.445**	1			



	Average value	Standard deviation	Financial Knowledge	Financial Awareness	Financial Attitude	Financial capability	Enterprise manager performance
Financial Attitude	3.484	0.934	0.415**	0.390**	1		
Financial capability	3.436	0.934	0.406**	0.453**	0.390**	1	
Enterprise manager performance	3.487	0.896	0.409**	0.462**	0.441**	0.423**	1

* $p < 0.05$ ** $p < 0.01$

Based on the data in Table 2, it can be concluded that financial knowledge, financial awareness, financial attitude, and financial capability are not only interrelated but also have a significant positive effect on enterprise manager performance. This suggests that enhancing financial literacy (including knowledge, awareness, attitude, and capability) of enterprise managers is important in improving their performance.

Table 3: Regression Analysis of Financial Literacy and Corporate Manager Performance

	Unstandardised coefficients		Standardised coefficient	t	p	Covariance Diagnostics	
	B	Standard error				VIF	Tolerance
Constant	0.913	0.185	-	4.946	0.000**	-	-
Financial Knowledge	0.140	0.047	0.143	2.962	0.003**	1.418	0.705
Financial Awareness	0.220	0.046	0.234	4.790	0.000**	1.449	0.690
Financial Attitude	0.214	0.045	0.223	4.749	0.000**	1.343	0.744
Financial capability	0.165	0.046	0.172	3.587	0.000**	1.402	0.713
Financial literacy	0.741	0.052	0.579	14.305	0.000**	1.000	1.000

$R^2 = 0.338$, Adjusted $R^2 = 0.331$, $F(4,403) = 51.381$, $p = 0.000$

* $p < 0.05$, ** $p < 0.01$

Table 3 shows that the R^2 value of the regression model is 0.338 indicating that financial knowledge, financial awareness, financial attitude, financial capability, and financial literacy together explain 33.8% of the variance in enterprise manager's performance. The adjusted R^2 value of 0.331 further confirms the fit of the model. The results of the F-test indicate that the model is overall significant, ($F(4,403) = 51.381$, $p = 0.000$), suggesting that this set of independent variables has significant predictive power for enterprise manager's performance. In addition, the results of the regression analysis showed that financial literacy (financial knowledge, financial awareness, financial attitude,



and financial capability) all had a significant positive effect on enterprise manager's performance ($p < 0.01$). Among them, the effect of financial awareness is the most significant.

Therefore, these results support hypotheses H1, H2, H3, H4 and H5.

Conclusions and Discussion

Based on the survey data of 408 SME managers in Guilin City, this study utilizes the financial literacy theory, the upper echelons theory, to explain the impact of financial literacy on the performance of business managers. It is found that the four dimensions of financial literacy (financial knowledge, financial awareness, financial attitude, and financial capability) have a significant positive impact on business manager performance. The result supports the argument made by Margijoyo et al. (2024) that improved financial literacy leads to better financial decision-making and improved overall business performance, competitive advantage and sustainability.

To improve SME managers' performance and promote sustainable enterprise development, this study will provide policy recommendations for governments, financial institutions, enterprises, and educators. Policymakers can incorporate financial education into SME development strategies, provide targeted training, and promote financial literacy programmes through financial incentives such as tax breaks and subsidies. Financial institutions provide smart financial management tools for business managers to improve the efficiency of their financial decision-making by developing tailor-made financial education programmes. Enterprises establish systematic financial training mechanisms, such as training courses on financial knowledge and financial skills, to improve the financial literacy of managers, optimise financial management and enhance market competitiveness. Educators should incorporate financial literacy into corporate curricula, emphasising financial market trends and long-term financial planning, to ensure that SME managers are able to continuously upgrade their financial skills.

This study focuses on small and medium-sized enterprises (SMEs) in Guilin City, and the scope of the sample is limited to Guilin City, which has limitations. In addition, this study is carried out in the form of a questionnaire, which has relatively many questions, which tends to make the respondents fill in the questionnaire without patience to fill in the questionnaire, thus affecting the validity of the data.

Recommendations for Future Research

Future research can expand the study to other cities and regions beyond Guilin to broaden the scope of the study. A combination of quantitative and qualitative research methods, such as in-depth interviews and case studies, can be used to explore the



behavioral characteristics of financial literacy and its impact on managerial decision-making in greater depth and to enhance the rigor of this paper's argumentation. The dependent variables are not sufficient, and future research can include psychological factors, entrepreneurial ability, and so on. Finally, the time span of this study is short, and future research could conduct a long-term follow-up study to observe the changes in financial literacy and its long-term impact on SME managers' performance.

By exploring the above research directions, future studies can further enrich the academic discussion of financial literacy and SME performance, provide valuable references for policy makers, financial institutions, and business educators, and contribute to the sustainable development of SMEs.

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