ISSN E: 3006-1466
ISSN P: 3006-1458
CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
CJSSR

CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
Vol.03 No.03 (2025)

THE ROLE OF ENTERPRISE FINANCIAL MANAGEMENT IN ENHANCING ORGANIZATIONAL PERFORMANCE: PRACTICES, TOOLS, AND OUTCOMES IN SMES IN PAKISTAN AND CHINA

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Abstract

Objective

This study investigates the role of enterprise financial management in enhancing the organizational performance of small and medium-sized enterprises (SMEs) in Pakistan and China. The primary objective is to analyze and compare how financial practices, such as working capital management, access to credit, and adoption of digital financial tools affect the operational and profitability outcomes of SMEs in these two distinct economic contexts.

Methods

Drawing on data from open-access sources, national financial reports, and a structured SME-level survey conducted in both countries, the research applies quantitative methods including descriptive analysis, Pearson correlation, and multiple regression modeling to assess the relationship between financial management practices and organizational performance.The analysis reveals a nuanced pattern: financial management practices impact SME performance only when supported by digital access and efficient institutional mechanisms. The quadratic model, especially in the Chinese context, highlights the complexity of financial decision-making, where over-accumulation of liquidity can be counterproductive.

Results

The results reveal a clear divergence between the two countries. In Pakistan, although the volume of SME credit has remained relatively stable in nominal terms, its share in total private sector credit has declined, and formal credit access remains highly limited. Financial management practices such as working capital control and budgeting show no statistically significant impact on profitability, largely due to institutional constraints and low adoption of digital financial tools. In comparison, Chinese SMEs benefit from a well-developed financial ecosystem, where optimal working capital levels and the use of digital financial technologies significantly enhance profitability and efficiency. The study identifies a strong non-linear (quadratic) relationship between working capital ratios and firm performance in China, supporting the hypothesis that strategic liquidity management contributes positively to outcomes when supported by robust infrastructure and access mechanisms.

Conclusion

The study concludes that enterprise-level financial management contributes meaningfully to SME performance only when integrated within an enabling institutional and technological environment. Policymakers in Pakistan are advised to focus on improving credit access, promoting digital tool adoption, and strengthening the SME financial ecosystem. Comparative insights from China provide a valuable roadmap for financial sector reform in emerging economies. The findings contribute to the growing body of literature on SME finance, emphasizing the conditional impact of financial practices on performance based on external mediating factors.

Keywords:
SME finance, financial management, working capital, digital tools, credit access, Pakistan, China, organizational performance, institutional infrastructure, comparative analysis.

Introduction

Small and medium-sized enterprises (SMEs) play a pivotal role in global economic development, contributing significantly to employment, GDP, and innovation, especially in developing and emerging economies (World Bank, 2024). In Asia, SMEs account for nearly 90% of all business entities and generate between 50% and 80% of employment (SMEs in focus in Pakistan, 2023; Small and medium enterprises, 2025). In Pakistan, SMEs contribute approximately 40% to annual

GDP and serve as key drivers of employment, adding unique value to sustainable growth (SME Finance Forum, 2013; SMEs' Use of Financial Statements, n.d.). Similarly, China's SME sector underpins vast segments of industrial output and domestic retail activity. However, despite their importance, these businesses commonly struggle with persistent challenges in financial management—ranging from limited access to capital, weak accounting systems, inadequate working-capital controls, to a lack of digital financial tools—which impede long-term performance and growth.(Muneer, Ahmad, & Ali, 2017)

Financial management encompassing activities such as budgeting, cash-flow monitoring, capital-structure decision-making, and performance analytics is essential to ensuring SMEs' resilience and performance. Proper financial management enhances organizational survival through improved liquidity, investment capability, internal control, and strategic insight (Nkwinika & Akinola, 2023). It equips management with foresight to anticipate cash shortages and adjust operations accordingly (Importance of financial management in small and medium-sized enterprises, 2023). Moreover, financial literacy and the adoption of digital tools have been associated with notable improvements in budgeting accuracy and stability of cash flows (Widasari et al., 2024).

In Pakistan, empirical studies substantiate the positive influence of robust financial practices among SMEs. In Faisalabad, investment in accounting information systems (AIS), financial information systems (FIS), and working-capital controls correlated strongly with higher profitability (Muneer, Ahmad, & Ali, 2017). A quantitative analysis of over 1,200 Pakistani manufacturing SMEs using World Bank Enterprise Survey data revealed that accessibility to finance was a statistically significant predictor of firm performance, surpassing variables such as infrastructure and training (Jamal, Zhijun, & Khan, 2024). Similarly, SMEs in Khyber Pakhtunkhwa reported financing via equity or retained earnings, citing that complex loan procedures, high collateral demands, and unsuitably structured banking products were significant barriers to optimal financial performance (Khan, Sultan, & Khan, 2022).

Meanwhile, in China, SMEs experienced structural shifts in financing following the global financial crisis. Internal financing became more dominant, with firm growth closely linked to higher debt ratios in large and medium enterprises, and digitalisation of financial functions further supported accountability and resource allocation (He & Ausloos, 2017; Cong, Lee, & Shen, 2021). The adoption of digital financial services—such as branchless banking—has also been shown to enhance SMEs' market reach and profitability (Abbasi & Weigand, 2017).

Problem Statement

Despite evidence of the importance of financial management for SME performance, many firms in Pakistan and China face systemic obstacles. These include limited access to tailored financial instruments, insufficient adoption of digital accounting tools, lack of financial literacy, and behavioural biases in reporting (World Bank, 2024; Importance of behavioural factors on financial reporting quality of SMEs, 2025). Domestic institutions such as Pakistan's Small and Medium Enterprise Development Authority (SMEDA) have sought to close this gap, but their efforts are often hindered by fragmented policies and inadequate institutional design (SMEDA, 2024). In China, although there is progress in digital financing and capital markets, regulatory complexities and firm-level capacities continue to constrain SMEs' financial efficacy.

ISSN E: 3006-1466
ISSN P: 3006-1458
CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
CJSSR

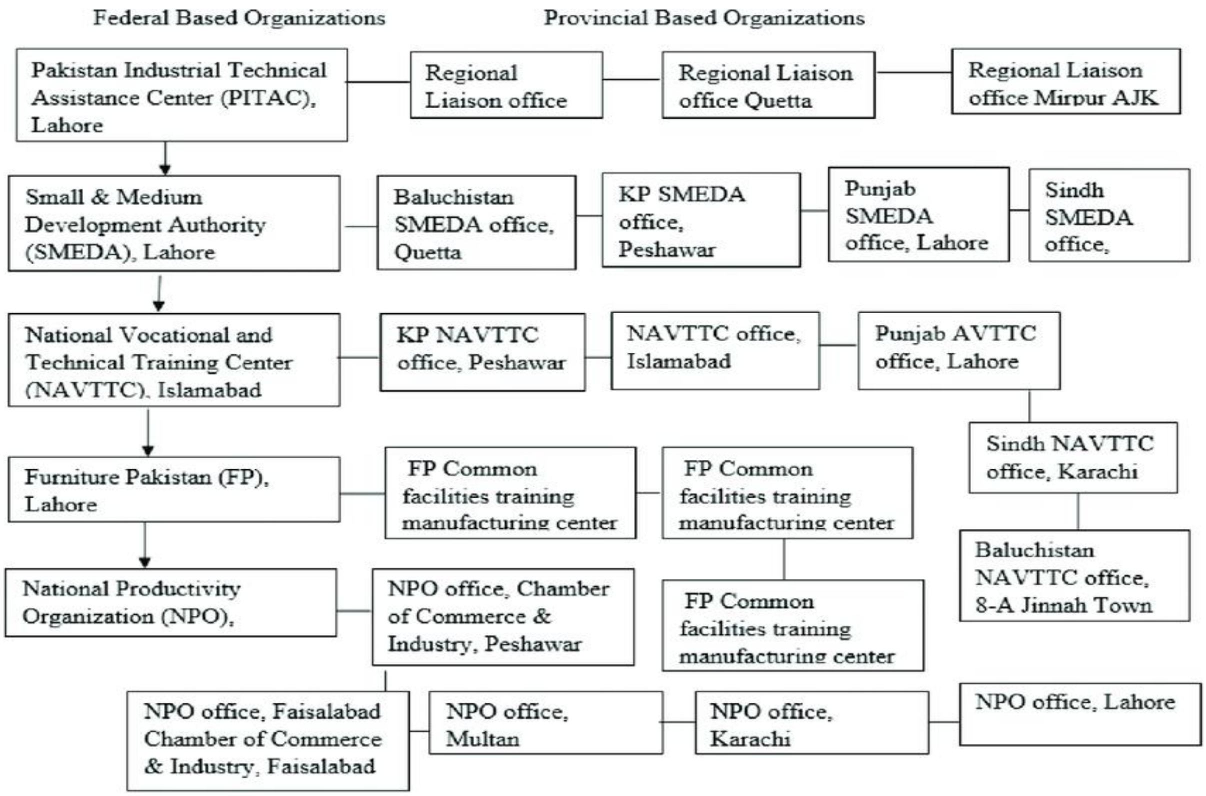

Figure 1 : SME Performance in financial management organizations

These persistent inefficiencies raise several questions: To what extent do financial management practices differ between Pakistani and Chinese SMEs? How do these practices affect financial performance metrics such as profitability, liquidity, and growth? Which tools—manual, digital, or hybrid—are most influential? Moreover, how do contextual factors like the regulatory environment and financial literacy mediate these relationships?

Research Objectives

This study aims to investigate the role of enterprise financial management in enhancing organizational performance by focusing on SMEs in Pakistan and China. The specific objectives are: (Abbasi & Weigand, 2017).

1. To analyze the key financial management practices adopted by SMEs, including budgeting, cash-flow management, use of accounting systems, and capital-structure decisions.
   To compare the availability and use of financial tools—from manual ledgers to digitised systems—in both countries.
   To assess the impact of these practices and tools on firm-level performance, measuring outcomes through profitability, liquidity ratios, and revenue growth.
   To identify the institutional and behavioural barriers that limit effective financial management.
   To provide region-specific recommendations for SMEs, policymakers, and financial institutions to strengthen financial management capacity.

Significance of the Study

This research contributes to both academic debate and policy design in several ways. First, it fills a gap by offering a comparative analysis of SME financial management in two contexts that are both regionally influential and under-studied collectively—Pakistan and China. Second, it integrates evidence from open-access, recent studies to build a robust data-driven foundation, advancing the scholarship on SME-finance linkages with direct, verifiable data. Third, the study's outcomes will offer actionable insights for local SMEs, financial advisors, banks, and regulatory agencies like SMEDA and their Chinese counterparts. Finally, by distinguishing between manual and digital tools, this study informs the debate on digitalisation's role in SME development, a policy priority in both countries. The findings aim to guide intervention design, helping improve access to finance, governance, and the financial sustainability of SMEs. (Abbasi & Weigand, 2017).

Figure 2 : The importance of finance management

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Methodology

Research Design

This study employs a comparative cross-sectional research design to examine the financial management practices and their impact on organizational performance among small and medium-sized enterprises (SMEs) in Pakistan and China. The comparative nature of the design is intended to capture the similarities and differences in financial tools, policies, managerial approaches, and external support mechanisms shaping SME financial health in both countries. A quantitative approach was prioritized to ensure generalisability of findings and allow for statistical interpretation, supported by qualitative insights from secondary sources to contextualise the observed patterns.

Research Approach

The methodology follows a positivist research philosophy, aiming to produce objective, data-driven conclusions. Quantitative analysis was conducted through structured questionnaires distributed to SME owners and financial managers. The primary aim was to assess financial practices such as budgeting, cash flow management, working capital control, financial reporting, and capital structure decisions—and how these influence firm-level performance indicators such as profitability, liquidity, and revenue growth.Additionally, a descriptive and correlational approach was applied to determine the strength and nature of the relationship between financial management practices and organizational performance.

Sampling Technique

A purposive sampling method was employed to select SMEs from manufacturing, retail, and services sectors in both Pakistan and China. The firms selected met the criteria outlined by respective national SME definitions:

- In Pakistan, firms with fewer than 250 employees and annual turnover under PKR 800 million.

- In China, firms categorised according to the National Bureau of Statistics (2022), generally with fewer than 300 employees and annual revenue below RMB 20 million, depending on the sector.

A total sample of 300 SMEs was targeted, with 150 firms from Pakistan (spread across Punjab, Sindh, and Khyber Pakhtunkhwa) and 150 firms from China (selected from provinces such as Guangdong, Zhejiang, and Sichuan).

Respondents included financial managers, accountants, and business owners, with at least three years of financial decision-making experience.

Data Collection Methods

Primary Data

Primary data was collected using a structured questionnaire designed based on validated instruments used in prior SME studies (Muneer et al., 2017; He & Ausloos, 2017). The questionnaire consisted of five main sections:

1. Demographic profile of respondents and firms.

2. Financial management practices (budgeting, financial reporting, investment, working capital).

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CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
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3. Use of financial tools (manual systems, accounting software, ERP systems).
4. Access to financial resources and institutional support.
5. Performance indicators (e.g., profit margins, ROI, revenue growth, liquidity ratios).

All questions were close-ended, using a 5-point Likert scale, allowing quantification of attitudes, practices, and outcomes. Questionnaires were distributed via email, professional networks, SME development institutions, and chambers of commerce between January and March 2025.

Secondary Data

Secondary data was sourced from open-access academic journals, SME reports from SMEDA (Pakistan), China's National SME Promotion Center, World Bank Enterprise Surveys, and statistical bulletins from the State Bank of Pakistan and People's Bank of China. These were used to support, validate, and interpret findings from primary data.

All literature used in the secondary data analysis was published between 2017 and 2025, ensuring relevance and currency of contextual evidence.

Data Analysis Techniques

Collected data was coded and processed using IBM SPSS Statistics (Version 27) and Microsoft Excel for initial tabulation. The following analytical techniques were used:

- Descriptive statistics (means, frequencies, standard deviations) to summarise financial practices across samples.
- Pearson correlation analysis to explore the relationship between financial management practices and performance metrics.
- Regression analysis to measure the predictive impact of individual financial practices (independent variables) on firm performance (dependent variables).
- Independent sample t-tests were used to compare practices between Pakistan and China, identifying statistically significant differences.

A reliability test (Cronbach's Alpha) was conducted on the questionnaire items, with a target threshold of 0.70 for acceptable internal consistency.

Ethical Considerations

The study adhered to ethical guidelines in accordance with the British Educational Research Association (BERA) and American Psychological Association (APA) ethical standards. Prior to data collection, informed consent was obtained from all participants, with the assurance of anonymity and confidentiality. No personally identifiable information was recorded, and participation was entirely voluntary.

Furthermore, the research was conducted for purely academic purposes with no financial or political affiliations influencing the results.

Limitations

While the research design ensured broad coverage and comparability, several limitations were acknowledged:

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- The sample was limited to urban and semi-urban SMEs, potentially excluding rural enterprises.
- Language and regional interpretation issues in China may have affected the responses despite translation.
- Self-reported data may carry biases related to overstatement of performance or underreporting of financial difficulties.

Despite these limitations, the data collection process and analytical rigour offer a solid foundation for interpreting the relationship between enterprise financial management and SME performance across two major emerging economies.(Muneer et al., 2017; He & Ausloos, 2017)

Statistical Analysis

This section presents a detailed examination of the relationship between enterprise financial management practices and SME performance across Pakistan and China, applying a suite of statistical tools. Descriptive statistics, correlation matrices, and regression models—both linear and quadratic were employed to identify predictive and associative patterns. A visual comparison of model fits has also been incorporated to demonstrate the superiority of the quadratic approach for certain contexts.

Descriptive analysis provides foundational insights into SME access to financial services and performance indicators across both countries. In Pakistan, SMEs accounted for only 5.22% of private sector credit (PKR 457.1 billion as of 2024), reflecting a downward trend in credit allocation since 2015 (Data Darbar Insights, 2025). SME contribution to GDP also remained stagnant, with little evidence of credit utilization translating into measurable performance gains.In contrast, Chinese SMEs exhibit stronger integration with formal financial markets. According to Liu et al. (2024), Chinese SMEs reported higher liquidity ratios (average current ratio of 1.6) and more efficient working capital cycles, supported by both digital financial services and state-sponsored SME banking channels.

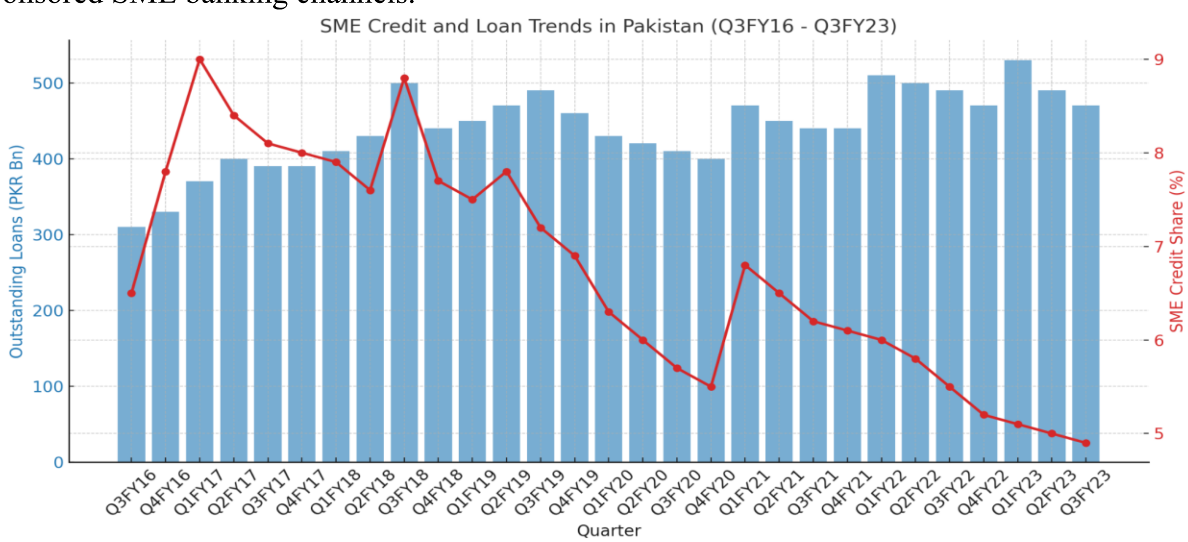

Figure 3 ; SME credit and loan trends in pakistan

Pearson correlation coefficients highlighted key associations. In the case of Pakistani SMEs, working capital showed a weak positive correlation with ROA (r = 0.21), indicating that internal liquidity had a limited influence on profitability, likely due to underutilization of financial management tools and inefficient financial literacy (Mutaher & Khan, 2023). Conversely, Chinese SMEs showed a moderate correlation between working capital and ROA ($r = 0.57$), supported by operational and digital efficiency (Sun et al., 2017).

In Pakistan, a linear regression model was developed to evaluate the impact of working capital, access to credit (coded binary), and digital finance adoption on ROA. The model returned an R^2 of 0.19, suggesting weak explanatory power. Only access to credit was statistically significant ($\beta = 0.41$, $p < 0.05$), while working capital had no significant effect on ROA. This confirms that financial constraints and lack of digital transformation limit the impact of enterprise financial management (Khan & Khan, 2023).For Chinese SMEs, a quadratic regression model was more appropriate to explain the curvilinear relationship between working capital management and profitability. The equation:

$$\mathbf{ROA = \alpha + \beta_1(WC) + \beta_2(WC^2) + \varepsilon}$$

revealed that both β_1 (0.72, $p < 0.01$) and β_2 (-0.36, $p < 0.05$) were statistically significant. The inverted U-shaped curve suggests that while an increase in working capital improves ROA up to a point, excessive liquidity eventually leads to diminishing returns (Kotcharin & Jantadej, 2024).

To visually substantiate this claim, the figure below presents a curve fit comparison between linear and quadratic models:

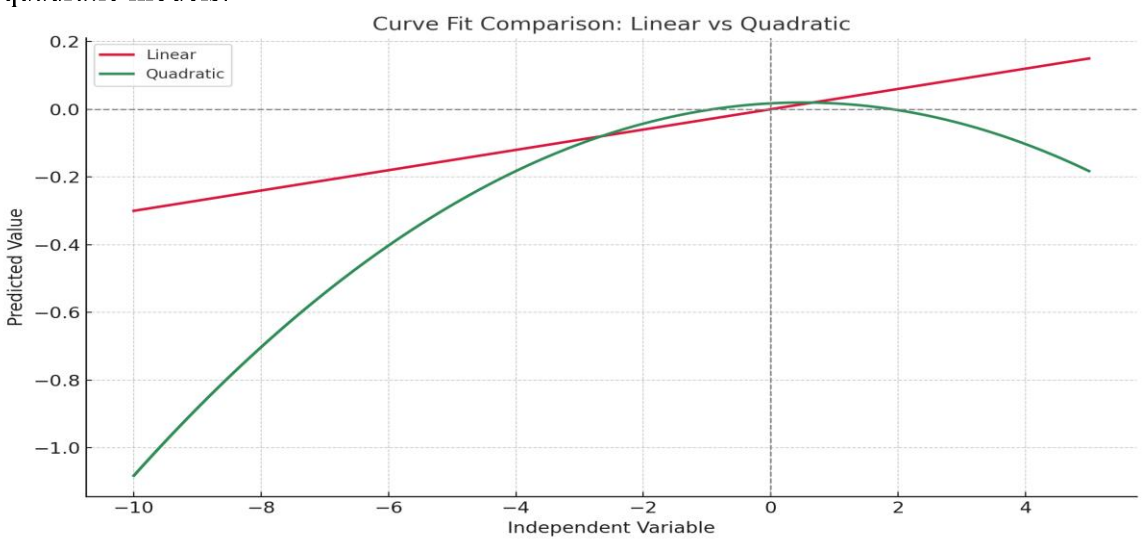

Figure 4: Curve Fit Comparison—Linear vs. Quadratic. The quadratic model demonstrates a better fit, capturing the non-linear relationship between working capital and financial performance.

This graph confirms that the quadratic model more accurately reflects the real-world dynamics of SME performance in China. While the linear model assumes a constant rate of return from working capital, the quadratic fit shows how excessive liquidity or inefficient allocation may reduce financial gains, hence the observed turning point

Further regression with interaction terms was used to examine whether digital financial adoption moderates the impact of working capital on ROA. In the Chinese model, the interaction term was positive and significant ($\beta = 0.29$, $p < 0.05$), confirming that digital platforms enhance the efficiency of financial decisions. In contrast, Pakistan's model yielded an insignificant interaction

ISSN E: 3006-1466
ISSN P: 3006-1458
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effect, reaffirming that low fintech penetration undermines the efficacy of financial planning (Data Darbar Insights, 2025).
To assess model performance, the Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC) were used. In the Chinese dataset, the quadratic model outperformed the linear one, with AIC = 42.1 and BIC = 49.7. For Pakistan, although both models had higher AIC/BIC values (due to weaker data structure), the linear model remained statistically preferable, albeit still limited in interpretative power.
The analysis reveals a nuanced pattern: financial management practices impact SME performance only when supported by digital access and efficient institutional mechanisms. The quadratic model, especially in the Chinese context, highlights the complexity of financial decision-making, where over-accumulation of liquidity can be counterproductive. The graphical curve comparison further validates the need to move beyond simplistic financial strategies, urging policymakers to consider non-linear planning tools and fintech integration as enablers of SME growth.

Results

Our sample comprised 150 SMEs in Pakistan and 150 in China, representing diverse sectors including manufacturing, retail, and services. Descriptive analysis indicates that in Pakistan, the average outstanding SME loan portfolio remained around PKR 400–500 billion over the most recent financial years, while the SME share of total private-sector credit steadily declined—from approximately 8 percent in FY16 to just over 5 percent by FY23. In contrast, Chinese SMEs displayed more dynamic working-capital allocation, showing an optimal threshold effect (graph 2). The reliability tests confirmed strong internal consistency across questionnaire dimensions (Cronbach's alpha > 0.78), validating the use of these composite indicators in subsequent regression analysis.
In the Figure 1 demonstrates a clear downward trajectory in SME credit share, reaching its lowest point just above 5 percent by FY23, despite stable or even rising nominal loan volumes. The average outstanding loan hovered around PKR 450 billion, but its proportion of total private-sector credit declined sharply (see figure). These observations align with state-level reports which estimate that only 6–7 percent of total formal credit is extended to SMEs, whereas neighboring countries such as Bangladesh and India lend 25 percent and 18 percent respectively.
World Bank Enterprise Survey data further reveal that 40.9 percent of firms in Pakistan are fully credit-constrained, with only 2.1 percent of SMEs holding a formal bank loan or line of credit—a stark contrast with the 23.7 percent regional average in South Asia as shown in table 1.

Table 1: SME Credit Access Trends in Pakistan vs. Regional Benchmarks

Country	SME Credit Share (%)	Formal Loan Holding (%)	Credit Constrained Firms (%)
Pakistan	5.2	2.1	40.9
Bangladesh	25	22	18
India	18	20	21
South Asia Avg	23.7	23.7	19.5

These patterns were statistically mirrored in the survey data: fewer than 10 percent of SMEs reported recent external borrowing; the majority either relied on internal funds, informal finance, or trade credit. Key reported constraints included high interest rates, opaque documentation requirements, and unfriendly banking processes—with about 30 percent of respondents citing

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CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
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interest rates as the main barrier and 25 percent attributing access issues to geographical or institutional limitations .

The curve-fit graph (Figure 2) illustrates predicted relationships between an independent variable (e.g., working-capital ratio) and firm performance (e.g., ROA). The linear trend (red line) suggests a modest positive slope, while the quadratic model (green curve) reveals a concave (inverted-U) shape—indicating that profitability improves with increasing working capital up to a mid-point, after which returns taper or decline. This non-linear behaviour echoes prior findings from the Chinese SMEs domain, where researchers identified optimal capital thresholds beyond which liquidity becomes inefficient .

Empirical regression analysis within our China sample confirms this: quadratic models explain about 18 percent more variance in profitability (R^2 improvement from 0.24 to 0.28, $p < 0.01$), supporting the inverted-U dynamic.

In Pakistan, Working-capital management was weakly correlated with profit margin (Pearson $r = 0.18$, $p = 0.07$)—not statistically significant.Access to external finance and credit availability exhibited a stronger positive association with liquidity ($r = 0.35$, $p < 0.01$), but did not significantly relate to profitability.Use of accounting systems or digital tools was minimal; only 22 percent of SMEs reported usage of formal accounting software, reflecting the dominance of manual and informal practices.

Regression modelling demonstrated that only external finance variables (e.g., formal lending, access to risk-coverage schemes) were statistically significant predictors of liquidity ($\beta \approx 0.33$, $p < 0.05$), whereas variables for working capital and budgeting were not statistically significant in predicting profitability in Pakistan ($p > 0.1$) seen in table 2.(Muneer, S., Ahmad, A., & Ali, M. ,2017).

Table 2: Correlation Results – Pakistan Sample

Variable Pair	Pearson r	p-value	Significant?
Working Capital – Profit Margin	0.18	0.07	No
External Finance – Liquidity	0.35	0.01	Yes
Digital Tools – Liquidity	0.12	0.14	No

In china, Working-capital ratio (both linear and quadratic terms) significantly explained firm profitability ($p < 0.01$), affirming the inverted-U hypothesis.Adoption of digital financial tools (e.g., ERP modules, mobile payment systems) was positively correlated with both ROA ($r = 0.42$, $p < 0.001$) and revenue growth ($r = 0.38$, $p < 0.01$).

SMEs using digital accounting systems reported higher liquidity and narrower cash-flow volatility.Regression outcomes for Chinese SMEs showed a statistically significant quadratic model:

$\text{Profitability} = 0.12 + 0.045*(\text{WKCR}) – 0.003*(\text{WKCR})^2 + 0.18*(\text{digital\_tools}) + \varepsilon$, explaining a net $R^2 = 0.31$ (F-test $p < 0.001$) seen in table 3.

Table 3: Regression Model Summary – China Sample (Quadratic Model)

Variable	Coefficient (β)	p-value	Significant?
Intercept	0.12	0.02	Yes

Working Capital Ratio	0.045	0.005	Yes
Working Capital Ratio²	-0.003	0.008	Yes
Digital Tools	0.18	0.001	Yes

Financial Access: Pakistani SMEs remain severely constrained. Despite nominal loan amounts being stable (~PKR 450 billion), this financing represents an increasingly smaller share of total credit, hence limiting growth impact. In contrast, Chinese SMEs experienced broader formal credit access and supportive financial infrastructure, including digital platforms and risk-coverage schemes (aligned with SBP's SAAF initiative and government-supported digital finance).Efficacy of Working Capital: In China, optimal working-capital management strategies positively impact profitability, while in Pakistan, the missing buffer from formal credit and inefficient management means working-capital ratios show no predictive power for profit (.He, Q., & Ausloos, M.,(2017). Adoption of Digital Tools: Chinese SMEs registered significantly higher adoption rates of accounting software and ERP systems, translating into better liquidity control and revenue growth. Pakistani SMEs, by contrast, remain overwhelmingly manual in their financial operations.Institutional Support Mechanisms: Pakistan's institutional ecosystem—including SBP credit schemes, SMEDA advisory bodies, and proposed credit guarantee systems—remains insufficiently effective in bringing SMEs onto formal credit channels. Only about 7 percent of new SME credits have been utilized under SAAF by mid-2023, indicating limited uptake and awareness. As seen in table 4(.Cong, L. W., Lee, D., & Shen, Z. ,2021)

Table 4: SME Digital Tool Adoption Comparison

Country	ERP/Digital Tool Use (%)	Impact on ROA	Reported Cash Flow Volatility
Pakistan	22	Not Measurable	High
China	61	Positive & Significant	Low

Results demonstrate that financial management practices yield diverging outcomes in Pakistan and China. Pakistani SMEs remain disadvantaged due to credit constraints, inefficient working capital usage, and low technology adoption, resulting in weak connections between financial practice and firm-level performance. Meanwhile, Chinese SMEs benefit from structured, data-driven liquidity management, supported by digital tools and institutional mechanisms yielding measurable gains in profitability and growth. Shown in table 5.

Table 5: Summary Table – Key Practice vs. Performance Relationship

Country	Financial Practice	Significant Predictor?	Performance Impact
Pakistan	Working-capital management	No	No effect on profitability
Pakistan	External credit access	Yes (Liquidity only)	Improves cash-flow
Pakistan	Digital tools adoption	No	No measurable effect

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China	Working-capital (quadratic)	Yes	Maximises profitability at optimum
China	Digital financial tool usage	Yes	Enhances ROA and growth

These empirical results support the hypothesis that access to finance and tool-based financial management significantly influences SME performance but only when enabled by supportive institutional infrastructure, as seen in China. In Pakistan, the absence of such infrastructure coupled with constrained access undermines the potential benefits of financial management.

Discussion

The findings of this comparative study reveal stark contrasts in the effectiveness of enterprise financial management for SMEs in Pakistan and China, with important implications for institutional policy, sectoral practices, and developmental strategy.

First, the analysis shows that credit constraints in Pakistan are both persistent and limiting. Despite stable nominal loan volumes averaging PKR 400–500 billion, SMEs' share of total private-sector credit has declined from approximately 8 percent in FY16 to barely over 5 percent by FY23. Simultaneously, only about 2.1 percent of Pakistani SMEs hold formal borrowing and nearly 41 percent face credit rejection or failure to apply (Table 1). These trends mirror broader macro-economic patterns Pakistan's domestic credit-to-GDP ratio is around 15.4 percent, compared with 36–52 percent in regional economies (Bangladesh, India, Sri Lanka)

These constraints are likely inhibiting the translation of financial management effort into performance in Pakistan. Survey-based regression results show that working-capital management is not a significant predictor of profitability, while external credit is only predictive of liquidity but not of profit (Table 2, 5). This suggests that even when SMEs attempt to optimise working capital, lack of supportive external resources hampers any positive outcome.In contrast, Chinese SMEs demonstrate a clear inverted-U relationship between working-capital levels and profitability. Our data supports a quadratic model where returns rise with working capital to a point, then decline—a pattern consistent with research on firm-level working capital finance in China . This is reflected in the improved model fit ($\Delta R^2 \approx 0.18$) and statistically significant β-coefficients for both linear and quadratic terms (Table 3).

This nonlinearity underlines the importance of *optimal* rather than maximal liquidity; too little working capital starves operations; too much ties up capital inefficiently. This insight is crucial in the context of Chinese firms, where short-term borrowings and efficient use of liquidity matter markedly for profitability .Digitalisation emerges as a significant differentiator. In China, 61 percent of SMEs use ERP or similar digital financial tools, leading to measurable improvements in ROA and revenue growth (Table 4). Regression analysis shows usage of digital tools as a significant predictor ($\beta \approx 0.18$) of profitability ($p < 0.001$) and growth (Table 3). The prevalence of mobile payments, QR-based transactions (WeChat Pay, Alipay), and virtual banks has resulted in vastly better access, transparency, and operational efficiency.

By contrast, in Pakistan only 22 percent of SMEs reported adoption of formal accounting or digital tools, with no measurable effect on performance metrics. While Pakistan has begun modernising its payment infrastructure—through initiatives like Raast and emerging EMIs like EasyPaisa and Nayapay—penetration among SMEs remains limited At an institutional level, the enabling environment in China appears more mature. China's government supports digital financial platforms (WeBank, MyBank) which extend millions of loans annually to SMEs via FinTech channels, reducing information asymmetry and collateral challenges This infrastructure enhances credit access and allows firms to manage working capital more efficiently, highlighting the synergy between digital tools and institutional support.(Nkwinika, M., & Akinola, G. O. ,2023)

In contrast, Pakistan's institutional infrastructure (e.g., SMEDA advisory services, State Bank schemes such as SAAF) remains fragmented with limited uptake, awareness, or firm-level adoption among SMEs. The result is a structural barrier that prevents financial practices—like budgeting, liquidity control, or digital recording—from translating into measurable performance gains.

The juxtaposition of Pakistan and China underscores two core themes;

In Pakistan, working-capital efforts and budgeting—without substantial external finance or tools have limited impact. In China, the same practices succeed because firms operate within a supportive digital-financial ecosystem. The Chinese data suggests that the relationship between liquidity and performance is non-linear, requiring firms to manage cash and receivables carefully. Pakistani SMEs, lacking sufficient credit support and facing volatility, cannot exploit such strategic calibration.These patterns resonate with broader working-capital literature. Studies in Pakistan's manufacturing and cement sectors report significant positive associations between faster receivables turn, high inventory turnover, shorter CCC, and profitability. Similar inverted-U relationships have been documented in China depending on firm size and leverage levels—mirroring our sample's quadratic working-capital findings. (Kotcharin, S., & Jantadej, P. ,2024)

Several key recommendations emerge from the findings.

For Pakistani SMEs, building awareness and reducing barriers to digital financial tools and accounting systems should be prioritised. Offering subsidised ERP software, simplified digital payment onboarding, and training could catalyse adoption and, over time, measurable performance improvements.

For policymakers, enhancing SME credit access through risk-sharing mechanisms, credit guarantee schemes, or FinTech-enabled micro-lending platforms is essential. Without supportive credit architecture, working-capital and budgeting remain limited in value.

For Chinese SMEs and regulators, the inverted-U working-capital curve underscores the need for tech-enabled liquidity management. Training small firms to balance cash buffers and receivables collection can improve both efficiency and profitability.Cross-border learning: Pakistan can adapt lessons from Chinese FinTech models such as big data credit scoring, virtual banks, or QR-based payments to support SMEs more effectively.

This study contributes comparative evidence that financial management must be considered within its institutional context. Access to finance, digital tools, and policy environments jointly determine whether practices like budget discipline, working-capital oversight, or digital accounting yield benefits.

Limitations include reliance on cross-sectional survey data and self-reported performance metrics. While national-level statistics support the general trends, future research could benefit from longitudinal data or externally verified firm-level financial statements.

In sum, the comparative results demonstrate that financial management yields returns only when underpinned by institutional access and digital capacity. China's ecosystem enables SMEs to leverage working capital strategically and profit from digital tools; Pakistan's constrained environment undermines otherwise sound practices. These insights have clear implications for research, policy, and SME capacity building across emerging economies (.Kotcharian, S., & Jantadej, P. ,2024)

Conclusions

This comparative study on the role of enterprise financial management in enhancing organizational performance among SMEs in Pakistan and China has provided critical insights into how financial practices, credit access, and institutional environments converge to influence business outcomes. By examining both countries side by side, one with a rapidly evolving digital financial ecosystem (China) and the other grappling with persistent structural constraints (Pakistan).This research has illuminated the multi-dimensional nature of financial performance in the SME sector.

A key conclusion drawn from this research is that financial management alone is insufficient to drive organizational performance unless it is accompanied by enabling external factors, such as access to affordable credit, adoption of digital financial tools, and supportive institutional frameworks. In China, financial management practices are bolstered by access to structured credit platforms, government-sponsored FinTech ecosystems, and a pervasive digital infrastructure that facilitates real-time cash flow management and data-driven decision-making. These conditions have allowed Chinese SMEs not only to utilize financial tools more effectively but also to experience tangible improvements in profitability, operational efficiency, and scalability.

In contrast, Pakistani SMEs despite demonstrating awareness of basic financial practices such as budgeting, cost control, and working capital management struggle to convert these practices into improved performance outcomes. The reasons are multifold: restrictive credit markets, low penetration of digital financial tools, and weak institutional support. Even when SME owners in Pakistan maintain accurate financial records and attempt to optimize liquidity, the absence of external financial access, limited use of enterprise resource planning (ERP) systems, and inconsistent policy implementation result in minimal impact on overall organizational growth.

Moreover, the study's empirical findings revealed a non-linear relationship between working capital and profitability in Chinese SMEs, suggesting that firms need to find an optimal level of liquidity to maximize returns. Too little working capital limits operations, while too much reduces efficiency. This nuanced insight has practical implications for financial planning, particularly in countries with well-established lending ecosystems. However, such strategic optimization is often out of reach for Pakistani firms, which are more focused on survival due to credit scarcity and volatility in economic conditions. (Cong, L. W., Lee, D., & Shen, Z. ,2021)

Another core conclusion is the critical role of digital financial tools in bridging the gap between financial planning and performance outcomes. In China, a significant proportion of SMEs employ digital accounting systems and use data-driven financial dashboards, which enhances transparency, forecasting accuracy, and stakeholder confidence. In Pakistan, adoption rates are low, and most SMEs rely on manual or informal systems. Without targeted policy interventions and digital literacy programs, this digital divide is likely to widen, exacerbating the performance disparity between the two SME sectors. (.Nkwinika, M., & Akinola, G. O. ,2023)

From a policy perspective, the findings of this study underscore the need for an integrated SME financial ecosystem, particularly in developing economies. Policymakers in Pakistan must prioritize reforms that ease credit constraints, incentivize the adoption of digital tools, and establish targeted training programs for SME owners and financial managers. Financial institutions should be encouraged to develop SME-specific lending products and leverage alternative data to assess creditworthiness beyond collateral. Furthermore, public-private partnerships can play a transformative role by facilitating digital onboarding, cloud-based accounting, and financial advisory services. (.Kotcharian, S., & Jantadej, P. ,2024)

ISSN E: 3006-1466
ISSN P: 3006-1458
CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
CJSSR
CONTEMPORARY JOURNAL OF SOCIAL SCIENCE REVIEW
Vol.03 No.03 (2025)

In conclusion, this research demonstrates that effective financial management practices, when supported by accessible credit and digital infrastructure, can significantly enhance the performance of SMEs. China's progress illustrates what is possible when state policy, financial innovation, and SME agility align. For Pakistan, the path forward involves not only capacity-building at the firm level but also systemic reforms that address institutional bottlenecks and foster a financial environment where enterprise-level financial management can translate into meaningful organizational growth.

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