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A Conceptual Study On The Impact Of Accounting Information Quality, Internal Control Effectiveness, And Managerial Financial Literacy On The Performance Of Smes In China

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Abstract
This conceptual paper proposes an integrated framework to examine the impact of internal organizational capabilities—namely accounting information quality (AIQ), internal control effectiveness (ICE), and managerial financial literacy (MFL)—on the organizational performance of small and medium-sized enterprises (SMEs) in China. Despite the critical economic role played by SMEs, many continue to face persistent challenges related to inefficiency, weak governance, and limited financial resilience. Existing literature has largely overlooked the influence of internal factors, particularly in the Chinese SME context. Grounded in the Resource-Based View (RBV) and Agency Theory, this study positions AIQ, ICE, and MFL as strategic intangible assets and governance mechanisms that can enhance SME performance. The proposed framework addresses current gaps by conceptualizing direct relationships between these variables and organizational outcomes, offering a novel lens for understanding SME performance dynamics. This paper contributes to academic theory while providing practical insights for policymakers, financial educators, and SME practitioners. Directions for future empirical validation and potential policy applications are also discussed.
Keywords: *Accounting Information Quality, Internal Control Effectiveness, Managerial Financial Literacy, SME Performance*

1. INTRODUCTION

1.1 Background of the Study

Small and medium-sized enterprises (SMEs) are generally recognized as the mainstay of national economic growth, especially in economies in transition such as China. As of 2022, SMEs in China had surpassed 99% of the total number of registered enterprises and contributed to over 60% of national GDP and created about 80% of available jobs (Shi & Iqbal, 2020; Xu, 2017).These firms not only play an important role in GDP growth but also help in the advancement of technology, and absorb a big portion of the labor – including the new entrants, and those moving away from state-owned sectors (Shi & Iqbal, 2020). They contribute to innovation promotion, regional economic balance and diversification of industry (Angeloska-Dichovska et al., 2022). Nevertheless, even if playing an important role in the macro-economy, a large number of Chinese SMEs still struggled to sustain their operations in the face of multiple on-going challenges, especially in a rapidly changing and highly competitive environment characterized by globalization, digitalization, and recent shocks like the COVID-19 outbreak (Lu et al., 2020).Unlike large companies that may have rigid governance systems and a complex finance infrastructure, SMEs usually face resource constraints, informal structures, and limited management capacity. These restrictions limit their capability to take decisions based on data, react to changing circumstances on the market, and act according to long-term strategic direction. Given this background, it is crucial to comprehend the internal organizational antecedents for SME performance. From these factors, the quality of accounting information, the strength of internal controls, and the level of financial literacy of the leadership are found to be important, yet not yet seriously taken into consideration as part of the causes of organizational success (Christanty et al., 2023).The quality of accounting information (AIQ) is a key element in managerial decision-making and organizational credibility (Liu, Shu, & Tang, 2024). Useful, quality and timely accounting information helps SMEs in tracking flows of cash, performance evaluation, obtaining finance and for statutory compliance (Al-Mesafri, 2025). Likewise, internal control efficiency (ICE) represents mechanisms to reduce financial and operational risk through established policies and procedures in order to encourage accountability and process quality (Zhu & Zhu, 2015). In addition, managerial financial literacy (MFL)—defined as how well SME leaders can attain and apply KC of finance—represents a competency directly affecting how information and systems can be employed to influence business results (Christanty et al., 2023). Together these three components represent an internal capability system that is crucial to SME performance, particularly in a highly dynamic and emerging market such as China.

1.2 Problem Statement

Although instrumental to the country's economic development, most small- and medium-sized enterprises (SMEs) have long been confronted with low efficiency, unsound financial management, and short sustainability. Although external obstacles, such as financial constraints and market instability have been frequently addressed (Dawson, 2015), little attention has been paid so far to the internal organizational factors that significantly impact SME performance (Guohui et al., 2018). Especially, three factors, including the quality of accounting information, the effectiveness of internal control, and managerial financial literacy, are overlooked.Specifically, AIQ is critical for effective decision-making, performance evaluation, and financial planning (Alsmady, 2023). But a lot of SMEs are not organized around proprietary accounting systems or accountable financial personnel, leading to poorly maintained, late and inadequate financial records. This undermines their ability to obtain oversight or grants and to remain in compliance with regulations (Nguyen, 2020). However, to our knowledge, the extent of the direct effects of AIQ on small Chinese firms' organizational performance have not been given enough attention in the past literature, and hence needs to be investigated further (Afifa & Nguyen, 2024).Secondly, internal control effectiveness (ICE) is essential to preserve resources, ensure legal compliances, and improve operational efficiency (Feng, 2023). However, many SMEs lack formal internal control systems, because they have limited financial and knowledge resources. Firms operating in weak control environments are at the risk of the occurrence of fraud, financial mismanagement and inefficiency to their operational performance (Huang, 2022). Still Chinese SMEs are experiencing scant empirical and conceptual research on how good internal controls enhance SME performance.

Third, managerial financial literacy (MFL) plays a major role in the interpretation and application of financial information in business decision-making (Christanty et al, 2023). Due to the fact that many SME managers in China do not have formal education in finance, their budgeting is weak, risk estimating is insufficient, and financial decision-making is not optimal (Djoewita et al., 2023). This deficiency of skills hampers the effectiveness of accounting systems and internal controls in SMEs (Nguyen, 2022). However, there is still relatively scant knowledge on how financial literacy works on performance among SMEs, despite the increasing attention being paid to financial literacy's importance (Afifa & Nguyen, 2024).Therefore, there is a pressing need to conceptually examine the individual impact of AIQ, ICE, and MFL on the organizational performance of SMEs in China. Addressing this gap will provide a clearer understanding of the internal drivers of SME success and inform strategies for capacity-building, policy support, and future empirical research.

1.3 Significance of the Study

The purpose of this paper is to address the previously mentioned gap and thus develop a framework which integrates accounting information quality, effectiveness of internal control and managerial financial literacy to performance at Chinese SMEs. In so doing, it contributes to the literature on various grounds as well as to enterprise development in practice.Theoretically, the study extends the Resource-Based View (RBV) by examining intangible capabilities –including financial information quality and manager's knowledge– as essential internal resources for sustainable competitive advantage. It further applies the Agency Theory to show how increased financial literacy and strong control systems can mitigate agency costs and corporate governance problems in SMEs, where managerial and owner overlap are often present.Pragmatically, the chapters provide a decision-making tool for SME owners, financial advisors and policymakers to improve SME resilience and competitiveness. For instance, training programs designed for enhanced financial literacy or inducements to adopt standardized internal controls might have a marked effect on the performance of SMEs. In an economy that expects more and more from SMEs, when it comes to innovation and internationalization, these internal advancements are not something to think about – they are a necessity.In sum, this study offers a timely and relevant exploration of internal enablers of performance in the Chinese SME sector. Its insights can inform future empirical research, support policy interventions, and guide SMEs in making strategic improvements that enhance their survival and growth prospects in a rapidly evolving economic landscape.

1.4 Research Questions

This conceptual paper aims to examine the internal organizational factors that contribute to the performance of small and medium-sized enterprises (SMEs) in China, with a particular focus on accounting and financial management capabilities. In response to the identified research gaps and the need for a theoretically integrated framework, the study is guided by the following research questions:

- **RQ1: What is the impact of accounting information quality (AIQ) on the organizational performance of SMEs in China?**

  This question explores how the relevance, reliability, and timeliness of financial information influence business outcomes such as profitability, efficiency, and strategic decision-making within SME settings.

- **RQ2: What is the impact of internal control effectiveness (ICE) on the organizational performance of SMEs in China?**

  This question investigates how structured internal control mechanisms—such as risk assessment, control activities, and monitoring—affect SMEs' ability to manage resources, reduce operational risk, and enhance performance.

- **RQ3: What is the impact of managerial financial literacy (MFL) on the organizational performance of SMEs in China?**

  This question examines how the financial knowledge and competency of SME managers contribute to the effective use of financial data, sound budgeting, and overall performance improvement.

These research questions provide a clear analytical foundation for the development of the conceptual framework and support the investigation of how internal financial capabilities drive performance in the SME sector. They also serve to guide future empirical validation of the proposed relationships.

2. LITERATURE REVIEW

2.1 Organizational Performance of SMEs

A key focus within business research is organizational performance, which is typically measured to the extent to which a firm realizes its strategic objectives across financial and non-financial dimensions. In the SME setting, performance is commonly assessed in terms of profitability, sales growth, operating efficiency, customer retention and innovation capability (Kaplan & Norton, 1996). Yet, given financial and many informal management constraints, SMEs do not normally have the capacities to systematically track these measures or report on them. This renders the investigation of the factors that are under the control of an organization especially important for SMEs.In the case of China, SMEs face multifaceted and dynamic business environments which is dominated by frequent changes in regulations, fierce market competition and rapid integration of digitalization (Lin et al., 2020). Despite a range of SME support initiatives implemented by the government (e.g., tax incentives, financing (#1965) 294413 and digitalization programs), many companies continue to struggle in achieving performance potential. These factors are such as inadequate financial management, absence of governance regimes and shortages in human capital (Feng, 2023). While perhaps not so clearly articulated in the literature as there are external influences, it is increasingly apparent that internal organizational capabilities (e.g., quality of accounting information, strength of control systems, quality of management decision-making) are equally if not more important in terms of determining the success of the SME.

In addition, since most of China's SMEs are family-owned, informally organized or entrepreneurially managed, firm performance is largely contingent upon the decisions made internally and the quality of its leaders. Many of these companies do not have proper financial departments and have to heavily depend on the expertise of a single manager or founder. Thus, the development of internal organization schemes may provide a more lasting way to improve performance, rather than basing it entirely on external interventions (Ye et al., 2022).

2.2 Accounting Information Quality (AIQ)

The quality of accounting information (AIQ) has been widely recognized as a key determinant of efficient decision-making and corporate openness. It describes the degree to which financial data reflects the real situation of a firm in terms of timeliness and faithfulness (Barth et al., 2008). The quality of accounting information provides the managers to take optimal decisions such as on investment, pricing of products, budgeting and financing. It is also a tool for external stakeholders, such as banks, investors and regulators, to evaluate the financial health and operating strength of the company.The importance of accounting information is crucial for SME's cause of their poor presence in the capital markets and the significance of the internal data in the decision making process. However, in China, most SMEs do not have professionally trained accountants and do not have an established financial system, which results in the relatively high incidence of manual bookkeeping, and in the problem of non-uniform treatment of records as well as non-compliances with the country's accounting standards. This reduces the usefulness of standard financial reports and how the firm can assess its own performance or secure outside funding. More recent research shows that Chinese SMEs use of digital accounting tools and standardization tools for financial practices leads to enhanced levels of financial transparency as well as performance management (Zhang & Zhao, 2022).Furthermore, AIQ is closely linked to other internal capabilities. For example, without effective internal controls or knowledgeable users, even high-quality information may go underutilized or misinterpreted. Thus, the value of AIQ is not only in the generation of reliable data but also in its integration into the firm's decision-making processes. Empirical evidence supports the positive relationship between AIQ and organizational performance, particularly in resource-constrained environments where external monitoring is weak, making internal financial transparency even more critical (Sunarta & Astuti, 2023).

2.3 Internal Control Effectiveness (ICE)

An internal control system is a governance mechanism intended to protect assets, verify accuracy of financial reporting and compliance with laws and regulations. COSO (2013) Framework The five critical components that the COSO (2013) framework recognized that are essential for an effective internal control system are: control environment, risk assessment, control activities, information and communication, and monitoring (Udeh, 2020). For SMEs, robust internal controls are unarguably critical for risk-mitigation and operational efficiency, decision-making presumptions, and even financial performance.Many Chinese SMEs have no systematic, internal, control mechanisms in place, because the investment-cost in technology systems is unknown, or managers underestimate the risk. The implication is that the market is left open to weaknesses such as fraud, asset misappropriation and waste, which can have a severe impact on business profitability. As stated by Feng (2023), small Chinese businesses that have adopted minimal rules – including those as simple as regular auditing, the separation of duties, or checklists for compliance – show and have an enhanced spirit of financial discipline as well as a high level of adherence to performance streaks.In addition, internal controls serve as a crucial enabler of high-quality accounting information (Feng, 2023). Without structured data flows, monitoring mechanisms, and compliance practices, the reliability and accuracy of financial information may be compromised. Therefore, ICE not only contributes directly to organizational performance but also enhances the firm's ability to generate and use accounting data effectively (Mahadeen et al, 2016). Studies by xx confirm that stronger internal controls are positively associated with firm performance, particularly in SMEs that operate in high-risk or low-transparency sectors.From a theoretical standpoint, internal controls reduce information asymmetry and agency costs—core concerns in Agency Theory—by creating accountability and visibility within the organization. For SMEs, which often have overlapping ownership and management structures, this can help formalize operations and enhance investor or lender confidence.

2.4 Managerial Financial Literacy (MFL)

Managerial Financial Literacy (MFL) is the ability of managers to comprehend and apply financial concepts within a business, including budgeting, financial statements interpretation, investment choice and risk evaluation (Lusardi & Mitchell, 2014). SMEs, where owners and managers often have to juggle many hats (from strategist to accountant to operations head), adequate tools of financial comprehension are crucial to the making of good decisions and the long-term survival of the company.Many entrepreneurs and managers in China's SME environment have a non-financial background, especially in the more conventional sectors, including manufacturing, logistics, agriculture (Sebhatu, 2021). As a consequence, the financial managers are mostly not in possession of the skills with reference to finances in order to manage the more sophisticated financial-challenges within business-today, such as the estimation of cash flow, the cost-benefit analyses and the debt management (Zhao, 2017). This routinely results in the misallocation of capital, dependence on unofficial credit, and poor pricing—all of which make performance suffer. Several empiric investigations found that managers' financial literacy explains a significant amount of variance regarding various business outcomes. For example, Ka Chilole and Kumwenda (2024) established training programs that enhance financial knowledge drastically improve profitability and survival of SMEs. In China, the recent establishment of local governments and banks to increase the number of financial education for SME owners is already showing positive results in the quality of decision making, and financial sustainability (Guan,2025).

Moreover, MFL can amplify the benefits of both AIQ and ICE. A financially literate manager is more likely to understand, trust, and utilize accounting information and is also better positioned to design or oversee effective control mechanisms. From the perspective of the Resource-Based View, MFL represents a valuable intangible asset that contributes to competitive advantage by improving internal decision-making and enabling better resource utilization.In sum, managerial financial literacy is not only a direct predictor of performance but also a critical enabler that influences how other organizational capabilities are operationalized within the SME context.

3. Theoretical Foundation

A sound theoretical foundation is essential for conceptualizing the mechanisms through which internal organizational factors influence performance outcomes in SMEs. This study draws upon two primary theories: the Resource-Based View (RBV) and Agency Theory. These theories offer complementary lenses to understand how intangible assets—such as quality accounting information, internal control systems, and managerial competencies—can enhance organizational performance in resource-constrained environments like Chinese SMEs.

3.1 Resource-Based View (RBV)

The Resource-Based View, originally proposed by Barney (1991), posits that an organization's sustainable competitive advantage stems from its ability to acquire and effectively utilize valuable, rare, inimitable, and non-substitutable (VRIN) resources. While traditional applications of RBV focus on physical or financial assets, more recent interpretations emphasize the strategic importance of intangible resources, such as knowledge, capabilities, systems, and organizational culture, particularly in small and medium-sized enterprises (Barney & Clark, 2007).In the context of this study, all three independent variables—Accounting Information Quality, Internal Control Effectiveness, and Managerial Financial Literacy—can be conceptualized as intangible organizational resources. Accounting information systems that produce relevant and reliable data enable informed decision-making and strategic planning. Similarly, internal control systems enhance operational discipline, reduce inefficiencies, and mitigate financial and compliance risks. Managerial financial literacy represents a human capital resource that empowers decision-makers to interpret data, manage budgets, and make sound investment choices. When effectively developed and deployed, these resources contribute directly to improved performance outcomes and competitive positioning.For Chinese SMEs, which often lack economies of scale or strong external financing, internal capabilities such as these become even more critical. By leveraging these intangible assets, SMEs can offset environmental uncertainty, improve resource efficiency, and achieve superior performance, even in highly competitive or regulatory-challenging context. Thus, the RBV provides a robust theoretical justification for including AIQ, ICE, and MFL as key antecedents of organizational performance in this conceptual model.

3.2 Agency Theory

Agency Theory, as articulated by Jensen and Meckling (1976), explains the relationship between principals (owners) and agents (managers), particularly the problems arising from information asymmetry, conflicting interests, and monitoring challenges. While this theory is traditionally applied in large corporations with dispersed ownership, it has increasing relevance in SMEs, especially in contexts where ownership and control are not clearly separated.In many Chinese SMEs—particularly family-owned or informally structured ones—financial reporting and control mechanisms are often informal or weak. This creates significant scope for opportunistic behavior, mismanagement of resources, and ineffective decision-making. According to Nyugen et al. (2023), high-quality accounting information (AIQ) reduces information asymmetry by improving transparency and enabling owners or stakeholders to assess the firm's financial position more accurately. Similarly, effective internal controls (ICE) act as monitoring mechanisms that deter fraud, enforce accountability, and ensure compliance with policies (Fernandhytia & Muslichah, 2020).Agency Theory also highlights the importance of managerial competence in reducing agency costs. In SMEs, where the owner often also acts as the manager, a lack of financial literacy can exacerbate agency problems by leading to poor decisions, misallocation of funds, or failure to recognize financial red flags. Conversely, a financially literate manager is better equipped to act in the firm's best interest and align operational decisions with long-term goals (Heryanto and Leng, 2021).Therefore, Agency Theory supports the conceptual link between the three independent variables and organizational performance by emphasizing how transparency, accountability, and informed decision-making contribute to more efficient and trustworthy organizational governance—key conditions for high performance in SMEs.

3.3 Integrative Perspective

Together, the RBV and Agency Theory provide a comprehensive foundation for this study's conceptual framework. While the RBV focuses on the strategic value and deployment of internal resources (AIQ, ICE, MFL), Agency Theory addresses the governance mechanisms that ensure these resources are utilized effectively and ethically. This dual-theoretical lens is particularly useful in the SME context, where informal structures, resource constraints, and managerial overlaps create both opportunities and vulnerabilities. By integrating these perspectives, this study builds a holistic model that captures both the strategic capability and governance quality dimensions of organizational performance in Chinese SMEs.

4. Conceptual Framework and Hypotheses Development

Based on the theoretical foundations outlined in the previous section and supported by existing literature, this study proposes a conceptual framework in which three internal organizational factors—Accounting Information Quality (AIQ), Internal Control Effectiveness (ICE), and Managerial Financial Literacy (MFL)—are posited to influence the organizational performance of SMEs in China. The model, as illustrated in Figure 1, reflects a direct relationship between each independent variable and the dependent variable, without any mediators or moderators in the current framework.

4.1 Accounting Information Quality and Organizational Performance

High-quality accounting information is characterized by relevance, reliability, comparability, and timeliness. Such information provides managers with the necessary insights to make informed decisions regarding budgeting, cost management, and investment planning. For SMEs operating in resource-constrained environments like China, the strategic use of financial information becomes critical in maintaining operational efficiency and achieving financial sustainability (Barth et al., 2008). Empirical evidence indicates that firms with better-quality accounting systems experience improved strategic alignment and enhanced firm performance.

H1: Accounting Information Quality (AIQ) has a positive impact on the organizational performance of SMEs in China.

4.2 Internal Control Effectiveness and Organizational Performance

Internal control systems serve as mechanisms for ensuring transparency, reducing operational risks, and enhancing compliance with policies and regulations. According to the COSO (2013) framework, effective internal controls consist of multiple components, including control environment, risk assessment, and monitoring. In the context of Chinese SMEs, which often lack formal governance structures, internal control effectiveness plays a vital role in securing financial assets, detecting fraud, and improving process efficiency. Strong internal controls also support the generation and integrity of accounting information, thereby amplifying their impact on organizational outcomes.

H2: Internal Control Effectiveness (ICE) has a positive impact on the organizational performance of

SMEs in China.

4.3 Managerial Financial Literacy and Organizational Performance

Managerial Financial Literacy (MFL) reflects a manager's ability to understand and use financial information to support sound business decisions. Financially literate managers are more capable of interpreting financial statements, allocating resources efficiently, and identifying risk factors—skills that are crucial for organizational success in SMEs. In the Chinese SME sector, where many managers lack formal financial training, improving financial literacy is increasingly recognized as a pathway to better financial management and improved performance.

H3: Managerial Financial Literacy (MFL) has a positive impact on the organizational performance of SMEs in China.

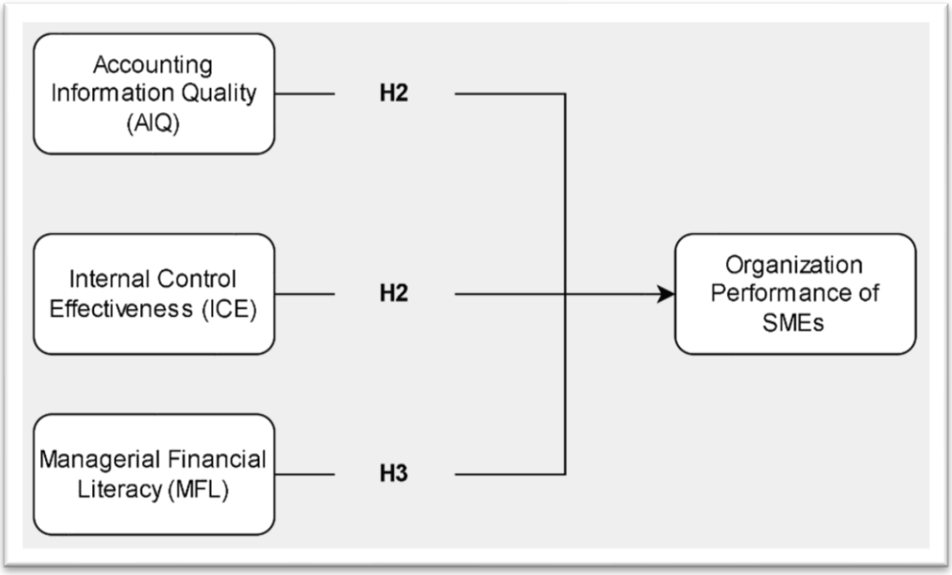

Figure 1. Conceptual Framework of Study

Source: Authors' own work

5. Implication of the Study

This conceptual study presents an integrated framework proposing that Accounting Information Quality (AIQ), Internal Control Effectiveness (ICE), and Managerial Financial Literacy (MFL) are key internal factors that influence the organizational performance of SMEs in China. The implications of this model extend to both academic scholarship and managerial practice, particularly within the domain of SME development and governance.

5.1 Theoretical Implications

The proposed framework contributes meaningfully to the theoretical discourse on SME performance in several ways. First, it expands the application of the Resource-Based View (RBV) by identifying intangible internal resources—such as quality financial information, robust control systems, and managerial financial competency—as drivers of competitive advantage and firm performance. While RBV has traditionally emphasized tangible assets and market positioning, this study emphasizes the strategic importance of internal knowledge-based and process-oriented capabilities, particularly in resource-constrained SME environments.

Second, the study strengthens the explanatory power of Agency Theory in SME settings. Most applications of Agency Theory focus on large, publicly traded firms with dispersed ownership and professional management. This framework extends the theory's relevance to SMEs by emphasizing how internal governance tools—like financial literacy and control systems—can reduce information asymmetry and mitigate agency costs, even in cases where ownership and management are concentrated in a single individual or family unit.Third, the study addresses an important gap in the literature by integrating these three constructs—AIQ, ICE, and MFL—into a unified conceptual model specifically tailored to the Chinese SME context. This integration offers a novel theoretical lens for understanding performance heterogeneity across SMEs and encourages scholars to move beyond siloed examinations of individual constructs.

5.2 Practical Implications

Beyond its academic relevance, the model offers several important practical implications for SME stakeholders, policymakers, and development agencies. First, the emphasis on Accounting Information Quality highlights the need for SMEs to adopt standardized and transparent accounting practices. This suggests that regulatory bodies and financial institutions in China could support performance improvement by incentivizing SMEs to digitize their accounting systems, undergo financial audits, or adopt government-certified bookkeeping frameworks.Second, the significance of Internal Control Effectiveness suggests that even in resource-constrained environments, SMEs can benefit from establishing basic internal control protocols. Capacity-building programs or toolkits on internal control design—tailored for small businesses—could be introduced by local chambers of commerce, SME associations, or industry regulators to help improve compliance, fraud prevention, and operational efficiency.Third, the identification of Managerial Financial Literacy as a performance driver implies a strong need for targeted financial education initiatives. Financial literacy training for SME owners and managers—especially those in traditional industries or rural areas—could substantially enhance decision-making quality, improve creditworthiness, and increase firm survival rates. Such programs could be integrated into entrepreneurship incubators, microfinance schemes, or SME support centers at the municipal or provincial level.Collectively, these implications suggest that improving SME performance in China requires a shift from external interventions (e.g., subsidies or tax breaks) to internal capability development. Policymakers should therefore focus on enabling SMEs to build and leverage internal resources that directly affect performance outcomes.

6. Future Research Directions

While this conceptual study outlines a theoretical model linking accounting information quality (AIQ), internal control effectiveness (ICE), and managerial financial literacy (MFL) to SME performance, empirical validation remains necessary. Future research should test these relationships using quantitative methods, particularly survey-based data from SME managers in various sectors across China.To analyze the proposed framework, PLS-SEM is recommended due to its suitability for exploratory models and smaller sample sizes typical in SME research. Established measurement scales for AIQ, ICE, and MFL can be adapted from prior studies (e.g., COSO, Lusardi & Mitchell) to ensure construct validity.

Further studies may examine moderating variables such as firm size or digital adoption, and mediators like decision-making quality or innovation capability. Longitudinal research could explore how improvements in internal capabilities affect performance over time. Comparative studies across countries may also assess the framework's applicability in different institutional settings.This proposed model offers a strong foundation for advancing empirical inquiry into internal drivers of SME performance and should inspire future research that bridges theory and practice in SME development.

7. CONCLUSION

This conceptual study presents an integrated framework to examine how internal organizational capabilities—namely accounting information quality (AIQ), internal control effectiveness (ICE), and managerial financial literacy (MFL)—influence the performance of small and medium-sized enterprises (SMEs) in China. Grounded in the Resource-Based View and Agency Theory, the model emphasizes that intangible assets and governance mechanisms are critical to SME success in increasingly complex and competitive environments. Given the unique challenges faced by Chinese SMEs—such as limited formalization, resource constraints, and managerial skill gaps—enhancing internal competencies offers a strategic pathway to improved performance. This study contributes to the literature by consolidating key internal factors into a unified model tailored to the SME context, while also providing practical insights for stakeholders aiming to build capacity within the sector. Future empirical research is encouraged to validate the proposed relationships and explore potential moderators and mediators that may influence the strength of these effects. Ultimately, this framework serves as a foundation for both academic inquiry and policy development aimed at strengthening the internal foundations of SME growth and resilience in China.

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