
| RESEARCH ARTICLE

Assessing the Performance of Micro-Enterprises in Guangdong, China

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| ABSTRACT

Micro-enterprises, crucial for economic development, rely heavily on government support. This study assessed the performance of micro-enterprises utilizing micro-financing in Guangdong Province, China, addressing their profiles and challenges. Key findings include: most businesses are sole proprietorships in retail, operational for 6–10 years; they reported sales of 100,001 – 500,000, ROI of 21–40, and cash flow of 50,001 – 100,000 with liquidity ratios between 1.51:1 and 3.00:1. Performance metrics showed no significant differences based on business form or years of operation, though sales varied by type, favoring service enterprises. Common issues identified included insufficient cash for purchases, high competition, lack of management training, and natural disasters. An action plan is recommended for enhancing micro-enterprise operations in the region.

| KEYWORDS

Micro-enterprises, micro-financing, sales, cash flow, liquidity, and Return of Investment (ROI)

| ARTICLE INFORMATION

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Introduction

Micro-enterprises are crucial for economic development, especially among the entrepreneurial poor, by fostering national growth and stability. They rely significantly on governmental support to achieve self-sufficiency and combat poverty. Micro-financing acts as a lifeline for low-income individuals, allowing them to enter the small entrepreneurial economy, although mere access to credit is often insufficient for sustainable business growth. As the global microfinance sector expands, now valued at \$60 to \$100 billion and serving around 200 million clients, it faces criticism regarding high interest rates and borrowers' dependence on loans for basic needs. Nevertheless, mechanisms like group lending improve accountability among borrowers. In developing regions, microfinance helps bridge the gap left by traditional banks, facilitating access to loans for small-scale entrepreneurs. Micro-enterprises, primarily family-run and often limited in scale, are vital to generating livelihoods and supporting grassroots poverty alleviation. This study focuses on the performance of micro-enterprises in Guangdong Province, China, intending to provide insights for local government initiatives aimed at improving their viability and informing policy development to support entrepreneurial growth.

Micro-Finance Financial Services

Financial Services Through Micro-finance highlights the critical role of microfinance in addressing poverty and enhancing economic growth, particularly for low-income groups, including women. USAID focuses on improving access to financial services such as savings accounts and credit facilities, aiming to integrate excluded populations into the economy. By linking smallholder farmers and micro-entrepreneurs to markets, these programs facilitate sustainable business growth. Additionally, microenterprise development initiatives help families recover from economic shocks and improve household stability. The integration of mobile technology in microfinance reduces transaction costs and enhances savings, while regulatory

frameworks are established to protect users. Innovative microfinance initiatives aim to empower small entrepreneurs, particularly in regions like Guangdong Province, China, by improving access to necessary capital.

Microfinance Opportunities

Microfinance, or microcredit, provides financial services to low-income individuals lacking access to traditional banking. Beyond lending (typically \$100 to \$25,000), microfinance institutions (MFIs) offer savings accounts, micro-insurance, and educational programs aimed at promoting self-sufficiency. While some research indicates a positive effect of MFIs on small and medium-sized enterprises (SMEs), findings are mixed. A study in the Wa Municipality used various analytical methods and concluded that MFIs positively impacted client SMEs' sales revenues, influenced by management style and factors like microloans and education. MFIs aim for poverty alleviation, with the Microcredit Summit Campaign advocating for empowerment and measurable impacts. Many successful MFIs have transformed into regulated institutions. In Guangdong Province, China, questions remain about the direct effects of MFIs on local micro and small enterprises, highlighting the need for further evaluation of microfinance's long-term impact.

Microfinance Revolution

Microfinance has evolved significantly since the 1970s, enabling over 65 million low-income individuals to secure collateral-free loans and build assets. The Microfinance Information Exchange (MIX) has been pivotal in this transformation by promoting transparency and providing standardized data for over 2,000 microfinance institutions (MFIs) globally. The urgency of microfinance is highlighted by alarming poverty rates and the widening income gap, prompting global initiatives like the UN's Millennium Development Goals. Historically, microfinance serves as an alternative to traditional banking, leveraging social mechanisms instead of collateral, underscoring its relevance in addressing rural-urban inequalities and financial exclusion, particularly in developing regions such as Guangdong, China.

Microfinance Performance

Performance of micro-enterprises in Hosanna was analyzed in a study by Ababiya (2013), which assessed the benefit-cost ratio and identified key factors affecting enterprise outcomes among 174 enterprises. Results indicated a 71.8% survival rate, with significant performance influences from enterprise age, operator age, education level, number of employees, initial capital, entrepreneurial skills, managerial experience, and access to training and markets. Microenterprise development is critical for poverty reduction, as seen in Nepal's programs targeting vulnerable groups. Factors affecting performance include gender, managerial skills, and autonomy. In Guangdong Province, China, similar factors influence micro-enterprise sustainability amidst economic pressures, highlighting the need for adaptability and innovation for successful growth.

Cash Management

Cash management is essential for businesses to maintain financial stability and ensure long-term survival, according to Ahmad (2015). While practices in Peninsular Malaysia are generally strong, weaknesses in internal controls remain, indicating a need for better education among entrepreneurs to mitigate financial vulnerabilities. SMEs, critical to economic development, face high failure rates due to poor cash management and external factors like customer dissatisfaction and competition. This issue is mirrored in other developing regions, emphasizing a global call for enhanced financial literacy and cash management. In Guangdong Province, China, SMEs struggle with cash flow challenges due to competition and inadequate training. The study suggests that improved training and stricter financial standards could bolster these businesses' resilience and support sustainable economic growth.

Cash Flow

Ahmad (2015) highlighted the significance of cash management—encompassing cash flow, sales, and ROI—for businesses to enhance financial stability and longevity. His study in Peninsular Malaysia demonstrated strong cash management practices, but identified weak internal controls, prompting a call for re-education of entrepreneurs on effective internal systems to avert financial issues. SMEs, crucial for global economic development, face high failure risks due to financial constraints and poor service quality. Poor cash management is a leading cause of SME failure, as corroborated by various studies across developing countries. In China's Guangdong Province, while SMEs contribute significantly to economic growth, they struggle with cash flow management amid fierce competition and inadequate financial training. The study recommends improved financial literacy, stricter management standards, and targeted interventions to bolster SME resilience.

Internal Control

Muinde (2015) emphasizes the vital role of small and medium enterprises (SMEs) in economic growth and employment, yet they face significant cash management challenges. Abanis et al. (2013) note that a lack of bank accounts and financial management skills hinders effective cash handling for many micro-enterprises. Regular reconciliation with bank statements and strong internal controls are essential, but often overlooked. Proper budget preparation aligns financial planning with business needs, enhancing resilience (Jim, 2015). Research indicates that many SMEs, particularly in South Africa and Uganda, exhibit weak cash management strategies, with high failure rates due to inadequate practices (Marion, 2011). Similar issues affect SMEs in Guangdong, China, where financial literacy and internal controls are lacking. Enhanced financial education and training are critical for sustaining these enterprises, which are crucial for employment and innovation in the region.

Financial Performance of SMEs

Financial performance, as defined by Simon Wakaba (2013), evaluates how well a firm uses its assets to generate revenue and assess its overall financial health over time. It allows for industry comparisons and is primarily analyzed through financial ratios, which may be expressed in various forms such as percentages or fractions. According to Maria, Florica, and Catalina (2002), the analysis should focus on five categories: liquidity, solvency, profitability, repayment capacity, and financial efficiency. Liquidity measures a firm's ability to meet short-term obligations, often quantified by the current and quick ratios, which gauge repayment capacity with and without inventory. These ratios are essential not only for business management but also for stakeholders like creditors and investors. In Guangdong Province, China, where micro, small, and medium-sized enterprises (MSMEs) are vital to the economy, understanding these financial indicators is crucial for assessing sustainability and competitiveness, influencing creditworthiness and financial support decisions by local banks and government agencies.

Research Objectives

This study aimed to performance of micro-enterprises that availed micro-financing in Guangdong Province, China.

Specifically, the objectives of the study were:

1. To identify the profile of the micro-enterprises in terms of form of business, type of business, and years in operation.
2. To assess the performance of the micro-enterprises that availed of micro-financing in Guangdong Province, China in terms of sales, cash flow, liquidity, and Return of Investment (ROI).
3. To determine the significant difference in the level of performance of micro-enterprises for the availment of micro-financing when grouped according to profile variables.
4. To understand the problems encountered by micro-enterprises in Guangdong Province, China.
5. To propose an action plan to address the problems encountered by micro enterprises in Guangdong Province, China.

Methodology

Research Design

The researcher utilized descriptive and correlational methods to analyze micro-enterprises in Guangdong. The descriptive method systematically gathered and analyzed data about current conditions, practices, and trends, allowing for accurate interpretations of the collected data. Correlational research assessed the relationships between performance indicators—such as sales and liquidity—and profile variables like business type and years of operation. Data sources included primary data from micro-enterprise owners who received micro-finance, and secondary data from various credible publications to support the study.

Participants and Sampling

The study focused on micro-enterprises in Guangdong Province, China, involving fifty-five owners who utilized micro-finance services. A complete enumeration method was employed to ensure all identified owners within the target population were included as respondents, providing accurate and reliable data for the research.

Data Collection Instruments

The researcher utilized a self-constructed questionnaire divided into three parts: the profile of micro-enterprises, their performance in Guangdong Province, and the challenges faced by these enterprises. To ensure reliability, the questionnaire underwent face and content validation, receiving feedback from experts in business, statistics, and research methodology. Following revisions, it was approved by the research adviser before distribution to target respondents.

Data Collection Procedure

The researcher communicated with the local government and respondents through letters to explain the study's purpose and seek their support, ensuring data confidentiality. A brief interview was conducted with micro-financing recipients to gather information on their profile, performance, and challenges. Additionally, the researcher provided guidance on completing the survey questionnaire before its implementation.

Statistical Treatment and Analysis

The statistical tools employed in the analysis of the gathered data include: Percentage for describing the micro-enterprises' profiles and challenges; Mean to assess the performance of micro-enterprises that received micro-financing; Mann-Whitney U test to evaluate performance differences among micro-enterprises based on form and type of business; Kruskal-Wallis test to analyze performance variations grouped by years of operation.

Ethical Considerations

The study adhered to ethical standards, including voluntary participation, informed consent, and confidentiality protection. Data was securely stored and only accessible to the researcher and study sites official representatives.

Results and Discussions

Profile of the Micro-Enterprise.

The survey of 55 micro-enterprise owners in Guangdong Province revealed that 67.3% operated as Sole Proprietorships, while 32.7% were Partnerships. Most (78.2%) were involved in Retail trade, with 50.9% having operated for 6–10 years. This indicates a prevalence of sole proprietorships in retail, reflecting a typical structure in China's micro-enterprises, which often thrive on limited resources. Micro-enterprises, defined by their small scale, are vital for local economies and employment, particularly in sectors like wholesale, retail, and services.

Micro-Enterprises Performance in Micro-Financing

The analysis of 55 micro-enterprises with micro-financing indicates that 70.9% reported annual sales between 100,001–500,000 RMB, while 18.2% had sales of 100,000 RMB and below. In terms of cash flow, 47.3% noted cash flows between 50,001–100,000 RMB, and for liquidity, 43.6% had a ratio of 1.51:1–3.0:1. Regarding Return on Investment (ROI), 63.6% achieved levels between 21–40%. These results suggest that most enterprises operate with moderate sales and cash flows, adhering to insights from Cash Management Theory, which highlights critical factors in financial management. The findings also point to the necessity for enhanced internal controls in cash management to ensure business sustainability and growth for micro-enterprises in Guangdong.

Difference in the Performance of Micro-enterprises According to Form of Business

In Guangdong, an analysis of micro-enterprise performance indicated that there were no significant differences in sales, cash flow, liquidity, and return on investment when grouped by business form, as all p-values exceeded 0.05. This suggests that sole proprietorships and partnerships perform similarly. Consistent with Muinde (2015), who noted that SMEs are vital for economic growth but struggle with financial management, the study pointed out common issues among micro-enterprises, such

as inadequate record-keeping and lack of banking for sales tracking. Many entrepreneurs, especially novices, often lack financial management skills, leading to cash shortage challenges. The absence of proper bookkeeping systems hampers effective cash flow monitoring. To improve financial accuracy, regular bank reconciliations are essential. Additionally, enhanced internal control mechanisms are crucial, yet many micro-entrepreneurs neglect their implementation, emphasizing the need for ongoing training and support for better cash management in the region.

Difference in the Performance of Micro-enterprises According to Type of Business

The analysis of micro-enterprise performance in Guangdong revealed no significant differences in cash flow, liquidity, and ROI across business types, as indicated by p-values exceeding 0.05. However, a significant difference in sales performance was noted, with service-sector micro-enterprises achieving higher sales than their retail counterparts (p-value of 0.017). These findings suggest a need for tailored financial management strategies, particularly in the retail sector, where competition is tougher. Strengthening internal control practices and cash management systems is critical for financial sustainability, highlighting the necessity for re-education of entrepreneurs by policymakers and financial institutions in Guangdong.

Difference in the Performance of Micro-enterprises According to Years of Operation

Analysis of micro-enterprise performance in Guangdong indicates no significant differences across sales, cash flow, liquidity, and ROI based on years of operation, with p-values exceeding 0.05. This suggests consistent performance regardless of establishment duration. The findings align with the Cash Management Theory, emphasizing effective cash management as crucial for profitability and sustainability. Proper cash flow management enables SMEs to maintain optimal cash balances, reducing inefficiencies and enhancing credibility for external funding. Ultimately, while operational duration may not affect financial performance, quality cash management is vital for long-term success.

Problems Encountered by Micro-Enterprises

Overall, micro-enterprises in Guangdong encounter several significant problems, primarily classified as financial, marketing, entrepreneurial, economic, and social issues. The most pressing challenges include insufficient cash flow for raw materials (60%), intense local competition (40%), and lack of training in business management (25.45%). The high cost of sales (56.36%) and disruptions from natural calamities (50.91%) further complicate their operations. These findings underscore the necessity for enhanced financial literacy, marketing strategies, and institutional support to strengthen resilience against economic and environmental risks.

Conclusion

In light of the above findings, the following conclusions were drawn:

1. The majority of respondents were engaged in single or sole proprietorships, operating primarily in the retail sector, with 6–10 years of business operations.
2. Most respondents reported annual sales ranging from RMB 100,001– 500,000 and a Return on Investment (ROI) between 21–40%. Nearly half indicated a cash flow of RMB 50,001–100,000 and a liquidity ratio between 1.51:1 and 3.00:1.
3. The performance of micro-enterprises in terms of sales, cash flow, liquidity, and ROI was found to be the same regardless of business form.
4. In terms of business type, the performance of micro-enterprises showed no significant difference in cash flow, liquidity, and ROI. However, a difference was observed in sales performance, where service-oriented businesses recorded lower sales compared to retail enterprises.
6. The performance of micro-enterprises in terms of sales, cash flow, liquidity, and ROI was the same regardless of years of operation.
7. The most common problems encountered by micro-enterprises included: insufficient cash for purchasing raw materials, merchandise, and supplies; strong competition; lack of training in business management; high sales costs leading to price increases; and vulnerability to natural calamities.
7. There is a clear need for the comprehensive implementation of a proposed action plan to enhance the sustainability, competitiveness, and growth of micro-enterprises in Guangdong Province, China.

Recommendation

In light of the findings and conclusions, the following recommendations are proposed for possible action:

1. Strengthen Training and Knowledge Dissemination. Since sole proprietorships comprise the majority of microfinance users, capacity-building programs should be intensified. Knowledge dissemination is vital, and a microfinance information exchange platform may be established by NGOs, academic institutions, and other stakeholders, with the active support of the government. This initiative would help ensure the proper utilization of financial resources and foster sustainable business practices.
2. Encourage Entrepreneurial Innovation. Micro-enterprises should be guided in implementing innovative entrepreneurial ideas that can generate higher profits and productivity. Establishing quality circles among microfinance-supported enterprises can create peer-to-peer learning and collaboration, serving as an effective developmental tool for improving business performance and long-term survival.
3. Enhance Financial and Cash Flow Management Systems. Training and tools for systematic cash flow and financial management must be provided to micro-enterprises. This will allow businesses to better monitor operations, reduce risks of financial mismanagement, and ensure sound returns on investment within a reasonable time-frame.
4. Prevent Over-saturation of Local Markets. Authorities should discourage the mushrooming of identical businesses in the same locality, as market saturation weakens profitability. Local governments and financing institutions should enforce policies that regulate new enterprises, ensuring that businesses remain competitive while addressing community needs.
5. Align Business Ventures with Local Needs. Micro-enterprises should be developed in accordance with the specific requirements of local communities, determined through internal and external environmental scanning. This would provide critical insights into profitability, demand, and sustainability, enabling businesses to cater to real market opportunities.
6. Promote Product and Service Innovation. Enterprises must strive to offer unique and innovative products and services, distinguishing themselves in the marketplace. Knowledge-building programs in business strategy, market adaptation, and innovation should be strengthened to reduce the risks of business failure. At the same time, enterprises should adopt contingency planning measures to ensure resilience during crises.

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