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Credit Management Knowledge and Entrepreneurial Success among Youth-Led Micro Enterprises in Guangzhou, China

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Abstract

Credit management knowledge is a critical factor in the entrepreneurial success of businesses. Understanding how to effectively manage credit transactions, assess creditworthiness, and maintain positive relationships with creditors is essential for financial stability and growth. Entrepreneurs with strong credit management knowledge are better equipped to secure financing, build credibility, optimize cash flow, and make informed financial decisions. By implementing sound credit management practices, businesses can mitigate the risk of bad debts, enhance their reputation, and seize opportunities for expansion and diversification. Ultimately, credit management knowledge serves as a foundation for entrepreneurial success by ensuring financial stability, facilitating access to resources, and enabling strategic decision-making. The study used the descriptive research design. The target population was 220 Micro Enterprises in Guangzhou, China. The study did sampling of 146 respondents that were chosen from the target population of 220 Micro Enterprises in Guangzhou, China. Data collection was done by the use of questionnaires. The study concluded that access to financing is a key determinant of entrepreneurial success. By equipping young entrepreneurs with credit management knowledge, they can develop strong credit profiles, demonstrate their creditworthiness, and increase their chances of securing loans or credit lines from financial institutions. Efficient cash flow management is vital for the smooth operation of micro enterprises. The study recommended that government agencies, industry associations, and educational institutions can collaborate to develop training programs and workshops specifically tailored to young entrepreneurs. Policymakers should consider implementing initiatives that incentivize financial institutions to provide accessible financing options to micro enterprises. Integrating credit management education into school curricula, vocational training programs, and entrepreneurship initiatives can equip young individuals with essential financial skills from an early stage.

Keywords: *Credit Management, Entrepreneurial Success, Youth, Micro Enterprises, China*

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1.0 Background of the Study

Credit management knowledge plays a crucial role in the success of youth-led micro enterprises in Guangzhou, China. As a vibrant economic hub, Guangzhou has a thriving entrepreneurial ecosystem that attracts young individuals aspiring to start their own businesses (Du, Pan, Zhou & Ouyang, 2018). However, without proper credit management knowledge, these enterprises may face challenges in obtaining financing, maintaining positive relationships with creditors, and effectively managing their financial resources. Credit management refers to the strategies and practices employed by businesses to effectively handle credit transactions, including credit assessment, granting credit, and managing accounts receivable. For micro enterprises, it is crucial to have a solid understanding of credit management principles to optimize financial stability and growth. Micro enterprises often struggle to secure financing due to their limited operating history and size (Bakhtiari, Breunig, Magnani & Zhang, 2020). However, with sound credit management knowledge, young entrepreneurs can develop strong credit profiles, demonstrating their ability to handle debt responsibly. This enhances their chances of obtaining loans or credit lines from financial institutions.

Establishing credibility is essential for youth-led micro enterprises to attract customers, suppliers, and investors (Misky, Alzahrani & Oreijah, 2021). Effective credit management practices, such as timely payments and maintaining a good credit history, can enhance the business's reputation and trustworthiness. Credit management knowledge equips entrepreneurs with the skills to negotiate favorable credit terms, including interest rates and repayment schedules. By maintaining positive relationships with creditors, micro enterprises can access flexible financing options and build long-term partnerships. Proper credit management helps micro enterprises maintain healthy cash flow by ensuring timely collections from customers and optimizing payment schedules with suppliers (Narain, 2022). This allows entrepreneurs to meet their financial obligations, invest in business growth, and mitigate the risk of cash shortages. Credit management knowledge empowers youth-led micro enterprises to assess the creditworthiness of their customers, reducing the risk of non-payment or bad debts (Ierapetritis, 2019). This enables entrepreneurs to make informed decisions regarding credit extensions, reducing financial vulnerabilities.

Effective credit management practices help entrepreneurs streamline inventory management by analyzing customer buying patterns and aligning procurement with sales forecasts (Usama & Yusoff, 2019). This minimizes inventory holding costs and reduces the risk of stock obsolescence. Youth-led micro enterprises with strong credit management knowledge can position themselves for expansion and diversification. By demonstrating a track record of financial responsibility, these enterprises can attract investors and secure additional funding to fuel growth initiatives. Credit management knowledge enables entrepreneurs to develop accurate financial forecasts, identify potential risks, and make informed business decisions (Shepherd & Majchrzak, 2022). By having a clear understanding of their credit obligations and financial capabilities, entrepreneurs can plan for sustainable growth. To enhance credit management knowledge among youth-led micro enterprises, initiatives such as training programs and mentorship networks can be implemented.

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These resources provide entrepreneurs with practical skills, guidance, and access to industry experts, fostering their understanding of credit management principles (Clark, eboud, Toutain, Ballereau & Mazzarol, 2021).

Government institutions can play a vital role in promoting credit management knowledge among youth-led micro enterprises (Biney, 2019). By implementing policies that encourage financial literacy and entrepreneurship education, governments can contribute to the overall success and sustainability of these enterprises. Credit management knowledge is a crucial factor in the success of youth-led micro enterprises in Guangzhou, China. By understanding and implementing effective credit management practices, young entrepreneurs can improve their access to financing, build credibility, maintain positive relationships with creditors, and enhance overall financial stability. Promoting credit management education, providing supportive resources, and fostering a favorable policy environment can further empower youth-led micro enterprises, contributing to the continued growth of Guangzhou's entrepreneurial ecosystem (Athia, Sudarmiatin & Hermawan, 2023).

1.1 Statement of the Problem

One of the primary challenges faced by youth-led micro enterprises in Guangzhou is the limited access to financing. Due to their small size, limited operating history, and perceived riskiness, these enterprises often struggle to secure loans or credit lines from financial institutions. Inadequate credit management knowledge further exacerbates this issue, as entrepreneurs may lack the necessary skills to develop strong credit profiles and demonstrate their creditworthiness. Youth-led micro enterprises in Guangzhou may face difficulties in accurately assessing the creditworthiness of their customers. Without comprehensive credit management knowledge, entrepreneurs may not be equipped to evaluate the financial stability and reliability of potential clients, leading to an increased risk of non-payment and bad debts. This can adversely affect cash flow, profitability, and overall business sustainability. Maintaining positive relationships with creditors is crucial for micro enterprises, as it enables access to favorable credit terms, flexible financing options, and potential partnerships. However, youth-led entrepreneurs in Guangzhou may lack the necessary credit management knowledge to effectively negotiate with creditors, resulting in strained relationships, higher interest rates, and unfavorable repayment conditions. This can hinder the growth and development of micro enterprises and limit their ability to seize business opportunities.

Effective cash flow management is essential for the financial stability of youth-led micro enterprises. However, without adequate credit management knowledge, entrepreneurs may struggle to ensure timely collections from customers, resulting in delayed payments and cash flow shortages. This can impede day-to-day operations, hinder investment in business growth, and limit the ability to meet financial obligations such as supplier payments and loan repayments. Credit management knowledge plays a critical role in facilitating accurate financial planning and informed decision-making for micro enterprises. Without a solid understanding of credit management principles, young entrepreneurs in Guangzhou may face challenges in developing

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reliable financial forecasts, assessing risk, and making strategic business decisions. This can lead to inefficiencies, missed opportunities, and potential financial instability.

2.0 Literature Review

Hossain, Ibrahim and Uddin (2020) conducted study to establish the effect of credit and owner/manager educational qualification on performance of micro and small enterprises in Taiwan and their joint effect using the 2018 MSMEs survey data. These numbers are a cross-sectional data taken from a population of 40,534 businesses. Based on Fisher's technique for determining sample size from a large population, a data set of 1344 businesses was utilized for the study. The link between the variables may be investigated using inferential statistics. Both access to financial services and educational qualification were shown to have a favorable and statistically substantial effect on the performance of the selected businesses in the regression analysis. The combined impact of the two factors was found to be larger than that of each one alone. This study suggests that the Central Bank of Taiwan prioritize lending and credit facilitation initiatives to attract more banked funding to the industry and meet the gap in credit needs. It's important to help micro and small businesses build a positive credit history with many lenders so they can qualify for loans when they need it. Enterprise owners and managers should also be offered training in management and technical skills to supplement their academic preparation for their roles.

Zahari, Mahmood, Yaacob, Baniamin and Kadir (2021) conducted study to investigate the effects of credit management practices on the performance of women owned SMEs in Beijing. One hundred twenty female entrepreneurs from three different Beijing districts were surveyed at random. The data was collected through the use of a questionnaire that had both structured and unstructured questions. SPSS was used for both descriptive and inferential analysis on the data. Results showed that 60% of women respondents are using credit to manage their businesses, while 40% are not using credit at all. About half of all women who take out loans use the money to take care of personal expenses like rent and tuition or to help out family members who are struggling financially. Another 21% invest the money in new businesses. About 10.61% of those who received credit spent the whole amount for non-business purposes, such as throwing parties or covering tuition costs. To determine whether there is a statistically significant difference in SME performance between women with and without credit, an independent t-test was conducted. Asset value, personnel count, monthly sales, and gross margin all varied considerably from one another ($p > 0.05$). Therefore, in comparison to women who do not obtain credit, those who do well often spend the whole of their credit inside the same firm. In addition, the results suggest that the performance three of women who operated SMEs in the research region was significantly impacted by information network, geography, and household size. Women business owners' success was supported by criteria such as marital status, level of education, buying strategy, market strategy, age, and gross margin. The results also suggest that the success of women-owned SMEs is affected by the ease of access to finance. Therefore, it is argued that the performance of women-owned SMEs would increase if credit is accessible and women utilize the whole credit in investing inside the firm. Women are therefore incentivized to launch ventures that have fewer competitors, have

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more potential for high profits and lower switching costs. In addition, it is suggested that women who own SMEs be encouraged to put the credit to its intended use rather than using it in ways that might stunt the expansion or performance of the firm.

Tuffour, Amoako and Amartey (2022) performed study to present a framework for understanding the importance of credit management as it affects the performance of small-scale enterprises. Credit management always entails the handling of problematic loans. Bad debts occur regardless of how well credit managers operate, thus any assessment of their performance should include collection strategies. The field of credit management analyzes the practices of financial institutions in regards to the provision of credit to clients and the responses of smaller businesses to these practices. Businesses on a small scale help sustain the livelihood of their owners, which in turn helps to alleviate poverty by creating new employment. In order to guarantee repayment of facilities and expansion of the small company, it is crucial that credit facilities given by the financial institution be well handled. Now we can discuss how the way credit is handled has an impact on the success of companies like this. Questionnaires sent to a sample of deposit money banks, micro financing banks, and company owners of chosen small enterprises provided the primary data used in this study. SPSS was used to perform descriptive statistical analyses of the data for hypothesis testing. It has been noted that most small-scale proprietors lack the knowledge necessary to keep accurate records. Banks owe it to their clients to educate them on the value of regular record keeping, making good use of any credit extended to them, and making timely payments on any such debt. The research should be helpful for business owners, bankers, and government officials.

Bussmann, Giudici, Marinelli and Papenbrock (2021) conducted study to analyze the effects of credit risk management practices on the profitability of micro enterprises in Frankfurt, Germany. Descriptive research methods were used to compile these results. Eighty participants involved in credit management at 40 small businesses in Frankfurt were selected for this survey. We utilized a random sampling method. Information was collected from the respondents through questionnaire. A computer application called SPSS v.21 was utilized to tabulate, code, and process the information gleaned from the questionnaire responses. Debt collection strategies are predicted to have a favorable and statistically significant association with financial returns on investment, according to the research. A good and statistically significant correlation between credit risk governance methods and financial profitability was also anticipated in the research. Credit risk governance, credit risk management, credit evaluation processes, and debt collection practices were all shown to be statistically significant in the regression findings. Microbusinesses in Frankfurt, Germany saw an increase in revenue and profits as a direct result of these practices. According to the results shown above, microenterprises in Frankfurt, Germany may increase their financial profitability by adopting and implementing best practices in credit evaluation, credit monitoring, debt collection, and credit risk governance. The research concluded that in order to improve the effectiveness and efficiency of their operations, microenterprise management should use good credit evaluation, credit monitoring, debt collection, and credit risk governance methods.

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Sooriyakumaran and Thrikawala (2022) performed research to establish the impact that financial literacy has on the success and profitability (performance) of the SME in Athens Business District. This study made use of a descriptive survey approach. The commercial establishments in the heart of Athens were the subjects of the research. Using a stratified sampling technique, a total of 285 respondents were chosen from a population of 1566 SMEs. Excel, statistical equations, and SPSS were used to analyze the collected data, and the findings indicated a substantial correlation between financial literacy and the success and profitability of SMEs. The research concludes that stakeholders such as banks, government agencies, NGOs, etc., should make SMEs aware of the need of financial literacy and encourage them to engage in financial literacy initiatives. The research indicated that business owners with a strong grasp of finances had better financial results.

3.0 Research Methodology

The study used the descriptive research design. The target population was 220 Micro Enterprises in Guangzhou, China. The study did sampling of 146 respondents that were chosen from the target population of 220 Micro Enterprises in Guangzhou, China. Data collection was done by the use of questionnaires.

4.0 Research Findings and Discussion

4.1 Correlation Analysis

The results in Table 1 shows the correlation analysis

Table 1: Correlation Analysis

		Entrepreneurial Success	Credit Management
Entrepreneurial Success	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Credit Management	Pearson Correlation	. 211**	
	Sig. (2-tailed)	0.000	0.000

The correlation results from Table 1 show that the credit management was positively and significantly associated with entrepreneurial success (r=.211, p=.000). This concurs with Bussmann, Giudici, Marinelli and Papenbrock (2021) who reported that microenterprises in may increase their financial profitability by adopting and implementing best practices in credit evaluation, credit monitoring, debt collection, and credit risk governance. In order to improve the effectiveness and efficiency of their operations, microenterprise management should use good credit evaluation, credit monitoring, debt collection, and credit risk governance methods.

4.2 Regression Analysis

The section consists of model fitness, analysis of variance and regression of coefficient. The findings in Table 2 show the model fitness

Table 2: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.211a	0.249	0.222	0.0008375

The results from Table 2 indicate that credit management was discovered to be satisfactory in explaining the entrepreneurial success of the micro enterprises in Guangzhou, China. This was supported by the coefficient of determination, i.e. the R square of 0.249. It shows that credit management explain 24.9% of the variations in the entrepreneurial success of the youth-led micro enterprises in Guangzhou, China.

Table 3: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.93	1	3.93	145.56	.000b
	Residual	5.83	220	0.027		
	Total	9.76	219			

The result in Table 3 shows that the overall model was statistically significant. The results indicate that entrepreneurial success is a good predictor in explaining the credit management among the youth-led micro enterprises in Guangzhou, China. This was supported by an F statistic of 145.56 and the reported p-value of 0.000 which was less than the conventional probability significance level of 0.05.

Table 4: Regression of Coefficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.329	0.106		3.104	0.055
Credit Management	0.534	0.211	0.964	2.531	0.006

According to the results presented in Table 4, it was found that credit management was positively and significantly associated to entrepreneurial success (β=0.534, p=0.006). This was supported by a calculated t-statistic of 2.531 that is larger than the critical t-statistic of 1.96. The results implies that when credit management improves by one unit, the entrepreneurial success of the youth-led micro enterprises in Guangzhou, China will increase by 0.534 units while other factors that influence the entrepreneurial success remain unchanged. Hossain, Ibrahim and Uddin (2020) mentioned that it's important to help micro and small businesses build a positive credit history with many lenders so they can qualify for loans when they need it. Enterprise owners and managers should also be offered training in management and technical skills to supplement their academic preparation for their roles.

5.0 Conclusion

The study concluded that access to financing is a key determinant of entrepreneurial success. By equipping young entrepreneurs with credit management knowledge, they can develop strong credit profiles, demonstrate their creditworthiness, and increase their chances of securing loans or credit lines from financial institutions. This opens up opportunities for growth and expansion, providing the necessary capital to fuel business initiatives. Effective credit assessment is essential to mitigate the risk of non-payment and bad debts. By understanding credit management principles, young entrepreneurs can evaluate the creditworthiness of potential customers, make informed decisions about extending credit, and reduce the risk of financial losses. This improves overall financial stability and supports sustainable business growth. Maintaining positive relationships with creditors is crucial for micro enterprises. With credit management knowledge, young entrepreneurs can negotiate favorable credit terms, build trust with creditors, and access flexible financing options. Positive relationships with creditors not only enhance financial stability but also provide opportunities for collaboration, partnerships, and future growth.

Efficient cash flow management is vital for the smooth operation of micro enterprises. Credit management knowledge empowers entrepreneurs to optimize cash flow by ensuring timely collections from customers and aligning payment schedules with suppliers. This reduces the risk of cash shortages, enhances liquidity, and enables businesses to meet their financial obligations promptly. Lastly, credit management knowledge enables young entrepreneurs to engage in effective financial planning and decision-making. With a clear understanding of credit obligations, risk assessment, and financial capabilities, entrepreneurs can develop accurate financial forecasts, make informed business decisions, and seize growth opportunities. This fosters sustainable business practices, mitigates financial risks, and enhances the overall success of youth-led micro enterprises.

6.0 Recommendations

To enhance the entrepreneurial success of youth-led micro enterprises in Guangzhou, it is crucial to promote credit management education. Government agencies, industry associations, and educational institutions can collaborate to develop training programs and workshops specifically tailored to young entrepreneurs. These programs should cover topics such as credit assessment, cash flow management, negotiating credit terms, and financial planning. By providing accessible and practical education on credit management, young entrepreneurs can acquire the necessary skills to make informed financial decisions and improve their chances of success. Creating mentorship networks can significantly benefit youth-led micro enterprises in Guangzhou. Experienced entrepreneurs, industry professionals, and financial experts can serve as mentors to guide and support young entrepreneurs in credit management. Mentors can provide valuable insights, share their experiences, and offer advice on credit assessment, building relationships with creditors, and optimizing cash flow. By connecting aspiring entrepreneurs with mentors, the knowledge gap can be bridged, and young business owners can gain valuable guidance and expertise to navigate the complexities of credit management effectively.

Financial institutions play a critical role in the success of micro enterprises. Collaborative efforts between banks, credit unions, and microfinance institutions can be fostered to provide tailored financial products and services to youth-led enterprises. This may include customized loan products, flexible repayment options, and financial literacy programs focused on credit management. By aligning the offerings of financial institutions with the specific needs of micro enterprises, young entrepreneurs in Guangzhou can access the necessary financing and support to strengthen their credit profiles and achieve entrepreneurial success. Government policies play a crucial role in promoting credit management knowledge and entrepreneurial success among youth-led micro enterprises. Policymakers should consider implementing initiatives that incentivize financial institutions to provide accessible financing options to micro enterprises. Additionally, integrating credit management education into school curricula, vocational training programs, and entrepreneurship initiatives can equip young individuals with essential financial skills from an early stage. Furthermore, policies supporting mentorship programs, business incubators, and networking events can foster a supportive ecosystem that encourages knowledge sharing, collaboration, and the exchange of best practices among young entrepreneurs.

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