

Financial Problems and Countermeasures of Small and Micro Enterprises

An Analysis Based on a Stone Transport Company in Shandong

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Abstract—Based on a stone transport company in Shandong, the article makes a deep analysis on financial defects that have existed for about 20 years in the company, with the lack of financial systems exposed in the company going from peak to decline, the article describes the importance of financial systems necessary for small and micro enterprises, raising suggestions to regulate financial systems according to characteristics of such companies.

Keywords—small and micro enterprise; financial defects; countermeasures

I. INTRODUCTION

Acting as a significant drive to the development of national economy, small and micro enterprises play a great role in pushing the GDP growth, which is an important footstone for job promotion and social stability safeguarding. However, due to reasons such as increased raw material costs, global economy depression, lowed foreign trade and national economy down going, in recent years, small and micro enterprises have seen slow development and bankruptcies. Facing such a situation, this article, based on a stone transport company in Shandong, analyzes reasons for dilemma of small and micro enterprises from financial systems, which show a guide for small and micro enterprise to regulate financial systems.

II. SMALL AND MICRO ENTERPRISES

Small and micro enterprises are a general name for small enterprises, micro enterprises, family workshop enterprises as well as individual businesses. Judging by employees, assets, turnover and industry characteristics, the medium and small enterprises in China are classified into three kinds, namely medium, small and micro. Of which, small and micro enterprises are in a large quantity, seen from quantity, most in medium and small enterprises are micro and small enterprises, which totals more than 10 million, being an important footstone for national economy.

Small and micro enterprises started to rise at the beginning of China's opening up, which were necessary carriers for private economy, and it made a rapid progress in the late 1980s and the early 1990s. Benefiting from low priced laborers,

lower manufacturing costs as well as prosperous export trade, small and micro enterprises entered a gold time for rapid development. Since the outbreak of global economic crisis in 2008, the global economy was lost in downturn, which caused declined export trade and lowered investment, China's economy was down going, and consequently the small and micro enterprises suffered a difficult situation for development. In 2011, a string of policies were issued to push small and micro enterprises. In Apr 2012, the State Council issued the *Opinions to Further Push Small and Micro Enterprises to Develop Healthily*, which increased support to the small and micro enterprises. From 2013 till now, the State Council has proposed in many meetings to promote the development of small and micro enterprises. Though more policies have been issued, yet there are too many defects that have seriously prevented the enterprises' sound development and healthy development of the society and economy. Of which, financial systems which are in lack of regulations are basic reasons that limit the expanded development of the enterprises.

III. A CASE ANALYSIS ON FINANCIAL DEFECTS OF SMALL AND MICRO ENTERPRISES

In 1993, some transport sectors, additional sources for public institutions, were lost in bankruptcies one after another due to poor operations. In order to increase financial income and reduce costs, the public institutions had taken tried all measures they could, issuing all kinds of preferential policies and encouraging employees of their own to manage vehicles through contract. A stone transport company (former) was set up consequently, which was operated through family pattern, namely stones are transported out of the factory with costs settled, then it was transported to the construction site for settlement with construction unit. For there were no adequate capital, most of small and micro enterprise adopted family mode for operation due to small size and few employees. With the increased investment in infrastructures in the country, from 2011 through 2015, the company peaked, through expansion, it had its employees increased to about 20 and operating vehicles to 8, and a formal stone transport company was registered. Since 2016, with the stone costs increased, the labor costs are increased as well, with the operating costs increased, the enterprise had its profits increased gradually and the operation was in a hard situation, in 2016, it was forced to turn to other

business. According to the analysis on the about 20-year development of the company, in the opinion of the author, the failure to set up efficient financial system due to limits in family mode is an important reason for the company changing from prosperity to declination, which mainly include six aspects:

A. Lack of Cash Management System

There was no special cashier for cash management, most of small and micro enterprises were operated through family mode, where generally cash management was shifted by and between family members, for there was no standard cash management system, the boundary between corporate assets and owner's assets was mixed, and partners could get cash for his purposes at random, and the corporate assets become sources of partners' income. In the meantime, due to diverse demand for corporate cash by partners, the partners will get cash from the company and compete with each other, as a result, distrusts occurred between them, and the company was unable to continue.

B. Lack of Accounting System

Due to the lack of standard accounting system, accounting process and collection of all kinds of accounting factors, the company failed to provide owner financial statements for financial analysis, financial data about the corporate operations. Generally the accounting of professional accountants may keep the company operating well in finance. Due to the lack of accounting, the company failed to run well, besides, without accounting, the company was unable to turn out governmental subsidies and so on, and the preferential policies that the government granted to small and micro enterprises failed to work because the small and micro enterprises provided no relevant financial certificates.

C. Lack of Formal Wage System or Performance Wage

Generally cash was withdrawn as required, consequently drivers and accompanies were inactive. During the operation, many drivers and accompanies were found applying for road toll for themselves, which seriously harmed the benefits of the company. For the small and micro enterprises were in a small size, which were unable to attract quality talents, besides, due to the lack of formal training in operation and management, there was no standard pay systems, as a result, most employees there just took the enterprises as a transfer station, and even endangered the company in order to get short term benefits. Moreover, the owners' pay was generally unclear, and there was no special pay design, finally owners were often found to use pays in private.

D. Simplicity in Accounting

All of the accounting was limited to simple income, expenditure, calculation and profits, no collection was made on the corporate costs and profits, and it was even difficult to deeply analyze the costs, fees and profits. Generally transport is of higher mobilization, and the business may spread over the province and even the country. Due to the lack of cost-profit analysis, partners were unable to logically apply the accounting data. For example, as far as the cost-profit

collection, only expenditures were kept on records, but there were no details about stones, sand, lime, road toll, labor costs, and vehicle oil and so on, and there were no data about costs on records, as a result, it was unable to reduce the costs. With the higher inflation in recent years and higher raw material costs, the corporate costs were increased increasingly, consequently the income was in a serious situation and the company had to turn to other business finally.

E. Poor Management on Circulating Fund, Financial Claims and Liabilities and Fixed Assets

The poor management on fund circulation caused portions of funds left unused and to not keep or add their value through logical investment and transactions, the poor management on financial claims and liabilities caused a lot of financial claims failing to repay and enlarged loopholes in fund. In the meantime, due to the family operating modes, the corporate claims often became individual claims of partners which further deprived the corporate finance. Generally the company ran in a high strength, for example, fixed assets such as vehicles were seriously consumed which need to be rejected earlier. Due to poor management on fixed assets, the company often lost a lot of income from residual value. When disposing vehicles, for there were no complete internal financial systems and external financial data, the income from residual value generally failed to achieve due to improper time or place.

F. Small Corporate Size, Single Business, Weak Resistance against Risks, Imperfect Financial Systems, More Gray Zones, Insolvency and Absconding with Fund

Due to small corporate size, single business, weak resistance against risks, imperfect financial systems, more gray zones, insolvency and absconding with fund and so on, when small and micro enterprises apply for loans, banks generally keep strict procedures for reviews and conduct more careful estimation on credits of such enterprises. Compared to small and micro enterprises, large enterprises which are run in a large size with perfect financial systems and higher capabilities of risk resistance are prior for banks to consider. Currently small and micro enterprises have to pay higher costs in financing. During the about 20-year development, the enterprise shown in this article almost turned out any loans from banks, and it mainly targeted non-government credits which needed higher costs, and the interest concerned were far higher than that of normal loans, which further compressed the profits of the enterprise, at last the enterprise was difficult to continue.

IV. MAJOR FACTORS RESTRICTING THE SMALL AND MICRO ENTERPRISES

Limited by the business scale, employee quantity and smaller initial capital, generally small and micro enterprises will be organized through sole proprietorship or partnership. For there is lower initial capital needed for small and micro enterprises, the corporate manager is just the enterprise owner, in addition, limited number of employees in the enterprises determined that most had to survive through family mode, family members are investors, who are operators as well. Within the thick family atmosphere in the country, it is easy to

form a parent-decided management mode, which caused one persons with all powers, in the end, powers and rights are mixed, powers and responsibilities are unclear. The corporate leaders have no overall concepts and long term plans, only focusing on huge profits that the company can bring, yet ignoring the crucial significance of financial systems to the production and operation.

For small and micro enterprises have lower profits and pay, unable to offer household settlement to attract talents, post promotion or other welfare or attract high quality accounting personnel, they cannot establish perfect financial systems. Besides, most of such enterprises owners are grass-root professional technicians, unemployed graduates from colleges, few excel in financial management, who have limited knowledge in financial management, unable to set up standard financial management systems.

V. SUGGESTIONS FOR SMALL AND MICRO ENTERPRISES TO REGULATE FINANCE

- Create sound accounting system, value financial personnel development and encouragement, establish and perfect financial management-related rules and systems and modern enterprise management mode, prepare financial plans, strengthen accounting management. Improve accounting systems, make accounting, calculation and report under national accounting systems, achieve the automatic production and real time monitoring on balance sheet, cash flow and profit statements. The accounting statements can clearly show the company's capital conditions, providing financial supports for owners to start the next plans, better the enterprises' management and create more benefits for the enterprises.
- To improve corporate financial personnel's quality and establish perfect financial system must depend on financial personnel, small and micro enterprises should have well-going incentive mechanism, enabling financial personnel to get welfare from the company's development, for example, financial personnel can be granted rights to get dividends according to the company's net profits. In addition to material regards, mental rewards shall be granted to financial personnel as well, for example, offer financial personnel chances to study in order to make them get new knowledge so as to accept what they do and what the enterprise does. The corporate internal financial personnel shall keep improving professional ethics and professional judgment, unceasingly improving their professional knowledge and professional quality
- Renovate the company's operation and organization, for most small and micro enterprises run through family mode, which cause it unable to separate the owner's assets from the enterprise's ones, and the enterprise's assets are used by enterprise owner, which seriously damage the benefits of the enterprises and those concerned. With the continuous development of small and micro enterprises, the operation and organization mode must be reformed, and the

company's organization mode shall be changed to modern enterprise system from traditional family mode (manual workshop).

- Perfect external conditions such as politics, laws and financing, specially establish policies and regulations to support small and micro enterprises, making the regulations guide, support and promote the system effect in such enterprises. For small and micro enterprises are operated under single operation mode, poor in risk resistance and small in size, objectively authorities are required to give proper support through steady financing mechanism, for example, policy-based banks can be set up to specially support the small and micro enterprises; policies can be made to guide state-owned banks and large share holding banks to offer financial service to small and micro enterprise; set special funds to support small and micro enterprises.

VI. CONCLUSION

Financial bottleneck in small and micro enterprises are major factor blocking the sound development in such enterprises. This article analyzes financial conditions on the basis of a stone transport company in Shandong. Major financial defects in the enterprises include lack of accounting systems, lack of formal pay system, simplicity in accounting, unable to collect financial factors, poor in assets management and so on, which finally cause it failing to get fund support from banks. Besides, the article also analyzes relevant reasons. The simplicity in organization in small and micro enterprises has caused mixed rights and responsibilities, small size in business and lack of high quality financial personnel are important reasons for financial disorder in the enterprises. In the last paragraphs, the article offers four countermeasures including establishment of corporate accounting systems, financial personnel development, reform of corporate operation organization, improving external conditions such as politics, laws and financing conditions. Compared to this article, most of other articles are focused on the difficulties for small and micro enterprises to finance, and little attentions are paid to financial defects of the enterprises. In the end, this article raises suggestions to improve the operation organizations in the enterprises; however, due to the small size and simplicity in operation, it still needs further research on how to better improve the operation structure of such enterprise.

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