

Financial Strategies By Smes: A Study On Indian Industries

Amit Mishra¹, Priyanka Prasad², Renuka Sinha³, Sandeep Balakrishnan⁴ and Shilpa Sharma⁵

¹Student, Faculty of Commerce and Management, Kalinga University, Raipur

Email: mishraamit638@gmail.com

²Student, Faculty of Commerce and Management, Kalinga University, Raipur

Email: priyankaprasad@gmail.com

³Student, Faculty of Commerce and Management, Kalinga University, Raipur

Email:Renukabhumi32@gmail.com

⁴Student, Faculty of Commerce and Management, Kalinga University, Raipur

Email: sandeepbalakrishnan06@gmail.com

⁵Assistant Professor, Faculty of Commerce and Management, Kalinga University, Raipur

Email: Shilpa.sharma@kalingauniversity.ac.in

ABSTRACT

Small and medium-sized businesses (SMEs) are widely regarded as the motors of economic growth in both advanced and emerging markets because of the jobs they generate, the GDP growth they contribute to, the initiative and creativity of their founders and employees, and the products and services they bring to market. As a result, the importance of small and medium-sized enterprises (SMEs) to the economy and social fabric of Turkey is significantly higher in India than in other emerging and developed countries. Numerous obstacles confront small and medium-sized businesses, but "poor financial management" issues are frequently cited as the leading cause of business failures in SMEs.

Keywords: SME, Government, India, Framework

1. Introduction

Effective financial planning and management are crucial to the success of any business strategy. Profitability can only be optimised with a well-thought-out plan that is not only well executed, but also regularly evaluated and tweaked. To ensure a comfortable financial future, it's also crucial to make the most of every available valuation tool, thereby cutting costs and boosting productivity.

In all countries, small and medium-sized businesses (SMEs) are viewed as the engines of economic growth and social progress. Nearly all businesses in OECD countries are classified as SMEs, and SMEs account for more than half of all private sector jobs (Pandey, 2022). Despite the fact that SMEs make up the vast majority of businesses worldwide, the focus on micro, small, and medium-sized enterprises (MSME) among both practitioners and

academics is relatively new. Since the 1980s, when attention shifted from multinational corporations to SMEs, the value of SMEs to the economy has been widely acknowledged. Since then, these monetary zones have formed the backbone of macroeconomic and social policies aimed at fostering growth on a global scale (Mohanty et al., 2021).

Insufficient managerial skills, a lack of trained personnel, poor access to financial resources, and low utilisation of new technologies are just some of the obstacles that small and medium-sized enterprises (SMEs) in India must overcome, despite the positive outlook and growth trends of the sector. There are many issues plaguing India's small and medium-sized enterprises (SMEs), but perhaps the most pressing is the absence of a reliable and effective financial management system. Ineffective and inefficient financial conduct has negative effects on the longevity and performance of a small and medium-sized enterprise (SME) because financial management is at the heart of the overall management system in a SME (Meredith, 1986).

2. Review of Literature

After Thaler's (1985) initial presentation of the mental budgeting theory, subsequent work by Heath and Soll's (1996) empirical analysis research model expanded and refined the concept. Thaler found that mental budgeting was crucial to the successful management of SMEs (Hoque & Ulku, 2017). (Hoque & Ulku, 2017). Thaler also stressed the point that business owners of SMEs frequently use ad hoc money management strategies when investing. The real value of money is the same regardless of how it is earned or spent, but Thaler found that business owners of small and medium-sized enterprises (SMEs) would benefit from avoiding mental biases towards financial management.

Thaler argued that business owners of small and medium enterprises (SMEs) who become cognizant of their own financial biases will play a crucial role in developing and enacting environmentally responsible methods of financial management (sHoque & Ulku, 2017). Hedonic editing, classifying gains and losses, setting aside and labelling income and assets, borrowing and saving simultaneously, and mental budgeting are the central concepts of mental budgeting theory (Hoque & Ulku, 2017).

When defining the process by which SMEs make decisions and take action, these mental budgeting theory constructs are crucial (Hoque & Ulku, 2017). Heath and Soll's (1996) empirical research analysis model, which builds on Thaler's (1985) mental budgeting theory, lays the groundwork for understanding the specific paths that SME owners take towards financial management (Teixeira, 2016). This study found that the financial management strategies used by small and medium-sized enterprise (SME) entertainment owners to increase productivity and profitability were consistent with both Thaler's mental budgeting theory and the empirical research analysis model developed by Heath and Soll.

3. Objectives of the Study

The objectives of the study are:

- To identify the Government policies for SMEs.
- To formulate the framework for financial management of SMEs.
- To identify opportunities and challenges faced by SMEs..

4. Framework of SMEs

Many businesses in the expansion and maintenance phases reported feeling more confident in their ability to secure financial backing when a bank was located nearby. Due to the pressing nature of their financial needs, businesses in these phases likely view the proximity of a financial institution as a major positive.

The accessibility of formal financial institutions was rated highly by businesses in the initiation, expansion, and maintenance phases as a factor in gaining access to capital. When it comes to influencing businesses' ability to gain access to capital, this factor received the lowest marks from those still in the survival phase. It's likely that businesses in the survival phase were eager to turn a profit and pay off their debts, and that they prioritised maintaining a positive relationship with the financial institution with which they had first worked.

Many businesses across all four phases have found that keeping their procedures straightforward has helped them gain access to capital. Factors that promote financial access, factors that impede financial access, whether or not the enterprise expected anything from the government to help finance the enterprise, and the level of government support necessary to help finance the enterprise were all areas where qualitative information was requested from businesses. Different businesses' responses are included.



Image 1: Financial Management Practices

Source: Zada et al.(2021)

The shift of SMFEs toward sustainable development has been prompted by the rapid global change in the business environment. Researchers have revealed that roughly 90% of SMFs fail globally because to poor financial management techniques, despite the fact that their success is crucial for every emerging country. Implementing financial management methods is beneficial for a company's growth, as suggested by the literature on the topic. By analysing the effect of financial management methods on the expansion of SMFEs in India's growing economy, this study fills a gap in the existing literature.

Based on the findings of this paper, a framework for SMEs entrepreneurial competencies and business performance indicators in the HTI is derived. The conceptual framework is illustrated in Figure 2.

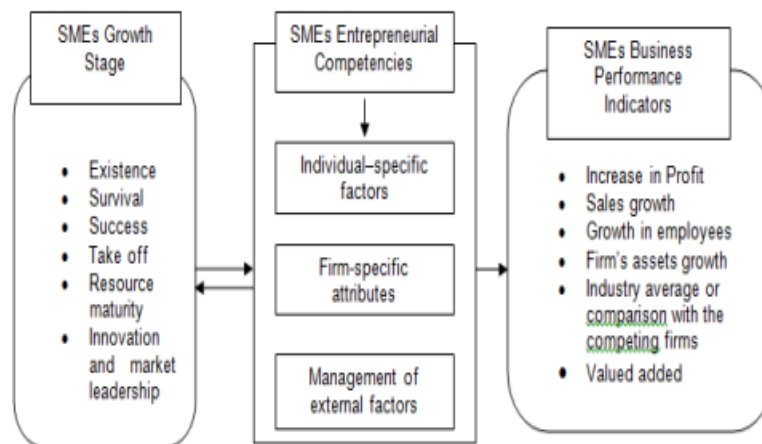


Figure 2: Conceptual Framework for SMEs entrepreneurial competencies and business performance indicators

Source: Sazilan et al. (2016)

4.1 Challenges faced by SMEs

The SME sector in India has not seen significant growth despite the high volumes. SME owners are hesitant to increase their market presence for a number of reasons, including taxation and other regulatory barriers.

Lack of access to necessary capital and support systems ranks second among the causes of SMEs' failure to expand. Growing interest rates are a major challenge for small and medium-sized enterprises (SMEs), according to a market survey of 15,000 listed and unlisted businesses in the information technology (IT), utility (power), textile (textile), and agricultural (food) sectors.

A major factor was the high interest rates, but the short repayment periods also played a role. For large corporations, interest-free loans with a 120-day repayment period are available, while small and medium-sized enterprises (SMEs) have only 60 days. This leaves small and medium-sized enterprises (SMEs) unable to expand due to a lack of capital.

National consumer demand in sectors like real estate and automobiles has dropped, and the global economy as a whole has slowed, especially as a result of unrest in West Asian countries. Some of the reasons why SMEs have not been able to grab the spotlight are supply-chain inefficiencies, a lack of skilled labour, global and local competition, and shrinking profit margins.

4.2 The Indian Small and Medium Enterprise Funding Market

The government of India, along with India's banks and NBFCs, recognises the unique difficulties faced by SMEs and provides a wide range of financing options to help them succeed. Among the available financial resources are:

Bank Loans-Although banks do provide small and medium-sized enterprises (SMEs) with business loans (including term loans and working capital loans), few SMEs are able to satisfy the banks' stringent eligibility criteria.

Loans from Overseas Banks - Small and Medium-Sized Enterprises (SMEs) are not limited to receiving financing from Indian banks. With more competition between domestic and international banks, loan rates can be lowered.

Venture capital is a popular source of financing for new businesses because it facilitates rapid access to large sums of money.

NBFC Loans - NBFCs (Non-Banking Financial Companies) are an alternative source of financing for small and medium-sized enterprises (SMEs). To fill the gap in the market, a slew of new online lenders have emerged to provide unsecured peer-to-peer loans to small and medium-sized businesses.

5. Conclusion

This paper's primary theoretical contribution is the establishment of a framework for the entrepreneurial capabilities and key performance indicators of small and medium-sized enterprises (SMEs). Since the 1980s, when the social and economic significance of small and medium-sized enterprises (SMEs) began to be widely recognised, factors affecting the development and growth of SMEs have been among the primary concerns of public authorities, academic institutions, and the business community at large. Previous SME finance literature, especially in developing countries, has focused on the difficulties SMEs face in gaining access to financial resources. This is despite the fact that a number of empirical studies have examined the relationship between financial management practises and the performance of organisations in different countries. However, the survival of SMEs depends just as much on the efficient use of the obtained funds, such as having a robust cash management system. Therefore, academics and policymakers may benefit from a move away from the narrow "funding focus" and toward the more all-encompassing "strategic financial management" perspective in their study of financial management in small and medium-sized enterprises.

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