



## AN EXPLORATIVE ANALYSIS OF FINANCIAL MANAGEMENT OF SMALL AND MEDIUM ENTERPRISES (SMES) IN TAMIL NADU- WITH SPECIAL REFERENCE TO SMES IN CHENNAI

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### **Abstract**

*A proper financial management provides a strong motivation for work in the right direction. Each source of funds involves different considerations regarding cost, risk and control. Keeping these in mind, a proper mix of the various sources has to be worked out. Long-term funds' investments are to provide for the core working capital. Objective of the study is to find the impact of financial planning and control, working capital management practices, accounting reporting & analysis and capital structure management .and also to find the relationship between inventory management practices and financial management practices. It focuses on financial decision making within the firm. So, the main purpose of the research is to be helpful to take financial and managerial decisions by the external and internal stake holders. This study would investigate the financial management practices of selected SMEs. The study focused on six areas of financial management namely financial planning, analysis and control, accounting information, working capital management, investment management and management accounting.*

**Key Words:** *Financial Management, Small Scale Entrepreneurs, Working Capital Management.*

### **Introduction**

The changing global economic scenario has thrown up many opportunities and challenges in front of the small scale industrial sector. Capital availability and its formation is a necessary concomitant to enhance productivity and look for new markets in other countries. Availability of sufficient funds is a pre-requisite for the mobilization of real resources for organizing production. The issue of credit dispensation is especially important for small scale industrial units because of greater dependence on borrowed capital in their day to day operations. Small scale industrial units invariably rely on the friends, relatives or borrow from money lenders at exorbitant rate of interest for initiating the enterprise and later on try to obtain loan from banks and other financial institutions. In the same line improper utilization of the funds also an important lacuna for the failure, but the changing dynamics of the pressurize the SMEs to follow the financial management; on this backdrop the present study would propel to understand the financial management of the SMEs in Chennai. Efficient management of funds enables the firm to prosper and grow. It is the mismanagement of resources of the firm that converted an otherwise successful business into an unsuccessful one. Thus without adequate finance no business can survive and without efficient financial management no business can survive. The survival and growth of a firm depends in utilization of funds in an optimum manner. The maximization of shareholders wealth is possible if the funds of the company are procured from the right sources and invested in an efficient manner. Bad production management and bad sales management have slain their hundreds, but faulty finance has slain its thousands. If firm ignores finance, it does so at its own peril. A proper financial management provides a strong motivation for work in the right direction. Each source of funds involves different considerations regarding cost, risk and control. Keeping these in mind, a proper mix of the various sources has to be worked out. Long-term funds' investments are to provide for the core working capital. Funds should be procured at optimum costs with the least risk and the least dilution of control of the present owners. These decisions come under the broad term „the financial decision“. Originally, the finance function was concerned with the procurement of funds and legalistic matters relating to them. Financial management at this stage concentrated on the description of financial markets, types of securities, and techniques of raising funds. The financial manager was not involved in the process of decision - making about critical financial matters. It looked at finance from the point of view of an outsider such as creditors and shareholders, rather than focus on financial decision making .Financial decision making occupied the prime place in the studies of corporate finance. Greater attention was paid to the administrative aspects of financial management such as cash budgeting and forecasting, management of assets, control of expenses etc. Majority of the studies have illustrated that improper financial management is the important lacuna for the effective performance of the SMEs, in the same line several studies have concern to the financial issues pertains to capital oriented but paucity of the studies pertaining to the comprehensive analysis financial management of the SMEs. Thus, the present study would propel to engage with rigorous analysis of the totality of the finance function, and provides practical guidance to decision - makers. It also introspect the capital budgeting, management of fixed and current assets, valuation of firm, dividend policy and the procurement of funds. It focuses on financial decision making within the firm. So, the main purpose of the research is to be helpful to take financial and managerial decisions by the external and internal stake holders. This study would investigate the financial management practices of selected SMEs. The study focused on six areas of financial management namely financial planning, analysis and control, accounting information, working capital management, investment management and management accounting.



### Statement of the Problem

Several studies have advocated that fund problem is the great hurdle faced by SMEs in India as well as abroad and Small-scale industries find themselves at a loose end in competition with other organization and resources, small industry gets elbowed out by the large and medium scale industries in the procurement of bank finance and institutional credit. A serious problem which is hampering small scale sector is its sickness. Many small units have fallen sick due to one problem or the other but paucity of the studies on the inefficiency in financial management to the SMEs have found to the lacuna in the domain, Every kind of problem, whether of raw material, power, transport or marketing faced by an entrepreneur in its ultimate analysis turns out to be a problem of finance, in the same line the impact of various aggregate economic behaviour of the country such as growth in Gross National Product, availability of credit, volume of money supply, capital market activity or level of investment and price level fluctuations also have ample of impact on the financial issues of SMEs, so the effective financial management in accordance with the existing business atmosphere and the macro economic conditions considered to be important managerial process of the owners, on this backdrop present study would propel to examine the internal financial management process of the SMEs and how did the SMEs adopt the strategies for financial management for the better performance of the selected SMEs, how did the effective financial management diminish the scope for sickness of the SMEs in the study area. At the outset it is imperative to examine the financial management to formulate the suitable policy measures to the management to achieve business goal in more comfortable way.

### Purpose of the Study

The main purpose of the study to examine the existing financial management practices of the SMEs and strategies in the study area

### Objectives of the Study

1. To examine and bring out the existing financial management practices commonly prevailing in selected SMEs Chennai. a) Financial planning and control b) Working capital management practices c) Accounting reporting & analysis d) Capital structure management
2. To measure the factors influencing the a) financial planning and control b) working capital management practices c) accounting reporting & analysis d) capital structure management.
3. To find the impact of a) financial planning and control b) working capital management practices c) accounting reporting & analysis d) Capital structure management.
4. To find the relationship between inventory management practices and financial management practices.
5. To evolve the suitable financial management practices applicable for SMEs in Chennai for their successful functioning.

### Research Questions

1. What area the financial management practices have been followed by the selected SMEs in the study area?
2. How did the financial management practices have influence the organizational performance of the selected SMEs in the study area?
3. How far effective financial management decrease the prospective o industrial sickness of the SMEs?

### Hypotheses

Ho: There is no significant influence of financial management strategies on the effective performance of the selected SMEs in the study area.

Ho: There is influence of excising business environment on financial management of the selected SMEs in the study area

Ho: There is no influence of business awareness attributions on the financial management of the selected SMEs in the study area.

Ho: There is no association prevails between financial planning and working capital management among the selected SMEs in the study area.

Ho: There is no correlation exists between inventory management practices and financial management practices among the selected SMEs in the study area.

### Significance of the Study

SMEs in India has been confronted with an increasingly competitive environment due to: liberalization of the investment regime in the 1990s, favouring foreign direct investment at the international level, particularly in socialistic and developing countries; the formation of the World Trade Organizations (WTO) in 1995, forcing its member- countries (including India) to drastically scale down quantitative and non- quantitative restrictions on imports, and domestic economic reforms. So the SMEs have forced to undergo changes which include proper financial management as well, as they need to cater the decision on production, purchase and other activities which are largely confined to financial issues. So, the



cumulative impact of financial management is a remarkable transformation of the economic environment in which small industry operates, implying that the sector has no option but to 'compete'. Since, Tamil Nadu is a urban centric industrialized state so it is imperative to examine the performance of SMEs industries in Tamil Nadu in order to understand the changing dynamics of the industrial environment and to address the issues pertains to challenges and the attainment of the SMEs in Tamil Nadu in the recent past.

### **Scope of the Study**

The present study attempted to throw light on the varied problems of the financial management practices. Further, the study may help the policy makers to formulate of certain policies in the light of changing conditions to resolve the problems of SMEs. One can probably attribute a large number of business failures in recent years to the inability of financial managers to plan properly and control current assets and current liabilities of their respective firms. Shortages of funds as well as uncontrolled over-expansion of fund have caused many businesses to fail and in less severe cases, have stunted their growth. Especially in small firms, financial management may be the factor that decides success or failure; in large firms, efficient financial management can significantly affect the firm's risk, return and share price. Thus, the outcome of the study would enable to conceive the financial strategy which would helpful to achieve business goal.

### **Limitations of the Study**

The present study is based on the reliability of the primary data. The sample units would be selected from the population having multidimensional features of a large group. The SMEs functioning for a period less than 5 years were not selected for the study. Since the industries involved in the production of Leather, handloom, metals, agricultural farming, coconut fiber shell products, plastics, plywood and fishnet are assumed to be surviving and facing problems. The samples would be selected at random out of these selected industries.

### **Sources of Data**

This study is based on both qualitative and quantitative methods. The empirical data have been collected for analyzing performance of SMEs industries by conducting a survey by using an interview schedule. The secondary data are used to analyze the growth, performance of financial indicators of SMEs. Primary data from these units were collected by using a pre-tested and pre-coded schedule by personal interview with the entrepreneurs by the researcher. Secondary data were collected from published and unpublished sources. They were collected from books, journals, reports and published documents of District Industries Centre, Tamil Nadu Industrial Investment Corporation, Department of Statistics, Government of Tamil Nadu, Ministry of SMEs and Agro Rural Industries, Government of India, New Delhi. District Industrial Corporation Thiruvallur, SIDCO Ambathur, SIPCOT Guindy.

### **Construction of Tools**

This study is based on primary as well as secondary data. The primary data were used mainly for evaluating the performance and problems of SMEs in Chennai. The interview schedule has been structured by the researcher himself. For identifying the variables to be used in the interview schedule, the researcher would be conducted a trial interview with 10 SMEs entrepreneurs. A rough draft of the interview schedule would be prepared and would be circulated among fellow researchers for critical evaluation. The draft was then revised in the light of their comments. The revised interview schedule thus likely to be prepared would be given to 15 small scale industrial entrepreneurs for a pretest. Their suggestions will be incorporated and the final draft is to be prepared.

### **Sampling Design**

The survey was conducted on the basis of sampling method. For developing sample design, the researcher collected the list of small scale industries registered with the District Industries Centre, , 300 samples would be selected by using stratified random sampling, the study area divided into four zones viz North, South, East and West, 100 samples from each Zone selected for the study.

### **Field Works and Collection of Data**

The researcher himself will carry out the field work for the study. The researcher will be used interview schedule for the collection of data from SMEs. The filled up schedules will be checked and edit. The omissions and commissions in the schedule would be rectified on the spot.

### **Frame Work Analysis**

Appropriate statistical tools would be used for analyzing the data. To measure the difference in the growth performance, compound Growth rate would be applied for each industry.



## Conclusion

For entrepreneurs, small business financial management is a vital aspect of growing a profitable company. Implementing sound economic principles and keeping a close watch on cash flow will help lay a solid financial foundation for the new venture. Monetary policies and procedures for effective cash management need to be part of the entrepreneur's business plan. Though it may be more exciting for the entrepreneur to dream about the actual services or products that the company will provide, a business cannot thrive, and may not survive, if the financing aspects are left to chance. In order to arrest sickness at the incipient stage banks & financial institutions should periodically review the accounts of the small scale industries borrowers to identify units which are becoming sick or are prone to sickness. The Government of India & the RBI should be requested to direct commercial banks & financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programme to facilitate them to take up appropriate action. It is also suggested that Government should conduct special EDP's for training the entrepreneurs in financial aspects.

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