Financial practices and performance measurement of SME in Telangana

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Abstract

According to the MSME Ministry's annual report for 2021-22, India is home to an amazing 63.388 million MSMEs. The MSME industry, which employs 40% of India's workforce (110.98 M), and contributes 45% of output and 40% of exports, is one of the key elements boosting GDP growth in India. To find out the association between financial management practices and the financial management performance of SME entrepreneurs in Telangana present research used financial management measurement is a dependent variable and Financial management practice is independent variable to measure the financial management practice researcher used credit management, Cash management and working capital management. The present study used the online questionnaire collecting data from selected districts of telangana and sample size is 437. The present research provide valuable insight of performance measurement of SME. The current finding and suggestion will be useful to entrepreneur and policy maker.

Keywords: *SME- Cash Management-Credit management-Financial practices*.

Introduction

Small and medium-sized businesses (SMEs) continue to be a topic worth researching because it is well known that these companies contribute significantly to both employment and the GDP. Previous studies have shown that the characteristics of the owner/manager (personal approach) and how the strategy is implemented (managerial approach) affect the growth of SMEs.

Statement of the problem

Previous studies have mainly examined, investigated, and described the behavior of small and medium-sized businesses' financial management in terms of working capital management. To improve the growth for the survival and sustainability of SMEs in the context of globalization, the current researcher has adopted financial management practices, including working capital management, cash management, risk management, credit management, general management, capital accumulation, and financial performance management. The aforementioned research gaps can be used to create a model for a study proposal and research design that will determine the

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financial management practices of SMEs.

According to several studies, fund management is a significant barrier that SMEs in India and other countries must overcome. Due to insufficient and timely financing, small-scale enterprises struggle to compete with large-scale industry. The main obstacle seems to be the scarcity of raw materials at reasonable pricing. Small units struggle with insufficient workspace, Lack of electricity, lighting, ventilation, sanitary conditions, and safety precautions, etc.

These flaws have a tendency to put workers' health in jeopardy and have negatively impacted the rate of production. Among managerial issues, ineffective financial management is the most prevalent. The financial crisis substantially impairs the capacity of the tiny units.

Importance of the Study

SME paly vital role in Indian economic development, so that it is necessary to understand management practices and performance measurement SME providing more employment opportunity so need it needs more consideration

Research Questions

1. What are the factors influencing financial management practises among managers and owners in SME?

2. How financial management practices associated with cash management, credit management and working capital management?

3. How does financial performance impact on SME growth?

Purpose of the Research

The primary objective of the study is to find out the association between financial management practises and the financial management performance of SME entrepreneurs in Telangana. The next aim of the study is to analyse the factors influencing financial management practises. The third and final objective of the study is to evaluate the factors influencing financial management performance.

2 Theoretical Background Financial Management Practices

Risk management, budgeting, and working capital management have been used to measure the financial management practices in microfinance institutions(Nkundabanyanga et al., 2017).

Capital structure decision, dividend policy, investment appraisal techniques, financial ratios, and working capital policies are used to measure the financial management practices in Pakistani corporate sector(Hunjra et al., 2011). The relationship between materialism and the degree of compulsive buying was significantly mitigated by financial management practises but not financial views (Pham et al., 2012).

Cash management

The goal of cash management is to provide adequate funding for the smooth functioning of a business(Abioro, 2013). Cooley and Pullen (1979) referred cash management programme consists of three main components: cash forecasting, investment, and controlling, SMEs practises are likely to vary from those of major corporations due to time constraints, budget constraints, or a lack of understanding.

Cash management techniques contribute to enhance SMEs' productivity level. Horváth and Szerb (2018). The main intrinsic issues of SMEs are poor cash flow management, poor inventory control and bad debts or poor receivables management.

Credit management

Credit management is described as course of action to protect against client late payments or defaults. Credit management plan assist to protect business's cash flow, optimizes the business performance and reduces default. Paul and Boden (2008) states the credit administration is an essential strategic opportunity for businesses to improve their results, liquidity, and profitability. Investment diversification reduces financial risk and offers appropriate rewards. (Venkatesan, 2022).

Whatever the reasons for providing credit, most studies agree that businesses should have a system in place with clear procedures to handle the credit extended to their customers to prevent payment delays, which is a key cause for several UK business failures(Summers & Wilson, 2000).

Paul (2004) discovered that organizations with efficient credit management had lower bad debts and greater control of credit operations than those with ad hoc credit management. Many people believe that improved credit management can solve the issue of in overdue **Working capital management**

According to Hunjra et al. (2011), Working capital policies and financial performance measurement ratios are used widely in Pakistani corporate sectors. Mallikarjunappa (1991) compared the regulations recommended by Reserve bank of India for WCF (Working capital finance) with the actual inventory and receivable position of ten particular SME units. The researcher finally determined that all the particular ten SME units have very lower inventory and receivables level compared to the recommended norms. The managerial subsystem is significantly impacted by inputs, and it has a beneficial impact on the output of the financial management practices(Parrotta & Johnson, 1998).

Performance Measurement

Financial performance (Review)

Maduekwe and Kamala (2016) measures the SME performance through financial and non-

financial factors. Financial performance measured through various financial tools and its movements like currents assets and current liabilities status, sales growth, revenue generation, operating and non- operating income and other overheads.

The effectiveness of the company is positively impacted by performance management. Contrarily, as the quotation above indicates, SME practitioners frequently consider the use of measurements as hindering to firm performance.

Strategic Performance Management appears to have a favourable effect on organisational outcomes, according to researchers concentrating on SMEs However, there is little empirical information on whether the application of measurements genuinely improves the performance of a SME and what role PMS features play in this context. The delivery of high-quality customer service; the extent of customer pleasure; and the acquisition of long-term loyalty are essential in organisation(Venkatesan, 2018)
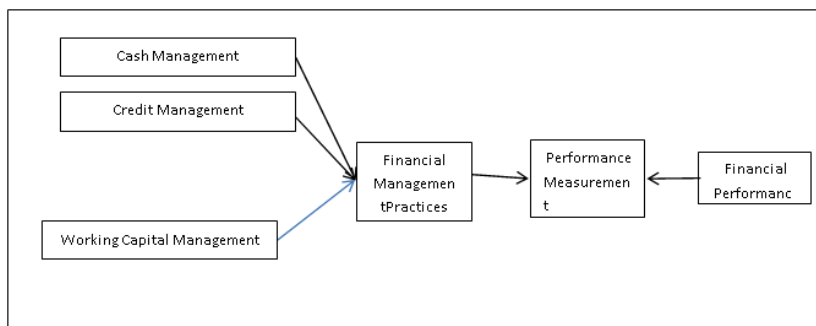
Research Framework

Figure 1 Proposed conceptual of this model

Research Design

A research design is the plan or framework used to conduct a research study. It involves outlining the overall approach and methods that will be used to collect and analyze data in order to answer research questions or test hypotheses. A well-designed research study should have a clear and well-defined research question, a detailed plan for collecting data, and a method for analyzing and interpreting the results. A well-thought-out research design addresses all these features

Survey Design

The primary data are collected through questionnaire survey. The respondents are asked to give their opinion relating to the five crucial financial management practices such as Financial planning, analysis and control, financial structure management, Working Capital management(Inventory management, Accounts Receivable management, Cash management),

Maintenance of books of accounting and Capital budgeting or fixed asset management. The first part of the Questionnaire comprises of five Demographic and eight business profile factors of SMEs with optional questions. The second part includes statements relating to eight Awareness level of SME entrepreneurs with regard to financial management practices with Likert's five point scale. The Third part consists of statements relating to variables of financial management practices with optional and as well as Likert's five point scaling questions. There are five optional type questions and eight Likert's five point scale questions for Financial Planning, Analysis and control. There are 5 optional type questions and 8 Likert's five point scale questions for financial structure management and 5 optional type questions and 8 Likert's five point scale questions for Maintenance of books of accounting. The questionnaire consists of 5 optional type questions and 8 Likert's five point scale questions for Capital Budgeting decisions. The research instrument comprises of 5 optional type questions and 8 Likert's five point scale questions for Working Capital Management.

Measures

Measure the Financial Performance researcher adopted five item scale suggested by Maduekwe and Kamala (2016). Measure the financial management practises author used following variables ; cash management, credit management and WCM. To measure the cash management adopted from 9 item scale and 7 item scale for in credit management which was given by Parrotta and Johnson (1998). TO measure the WCM 3 item scale adopted from Hunjra et al. (2011)

Research methodology

This chapter reveals the methodology of this paper and how the systematically followed the research procedure like sampling technique, primary data and secondary data collected, and the research tools used for this research.

Participants of the survey

Respondents were selected from telengana state, 3 mandals they were Rangareddy (139) Medchal Malkajgiri (140) Yadadri Bhuvanagiri (158) Entrepreneur, manager, sole proprietor, accounts manager.

Sample Size

The researcher distributed printed questionnaire around 400 issued 325 received after scrutinizing the questionnaire 275 questionnaire were usable and remaining questionnaire is unusable due to double entry more missing data and ambiguity simultaneously author send online questionnaire seeking a response through referral chain method and collecting valid data from 162 responses . total sample size is 437

Data Analysis

Validity, reliability, desrtpiticve statistics, correlations , factor loadings ,EFA and CFA , model fit, testing hypothesis , used to find the model fit for the financial management practices.

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Ethical Consideration

Participants had the option to withdraw their consent to participate at any time if they felt that the online and offline filling processes were not satisfactory, but finishing the online questionnaire functioned as indication of their informed consent to participate in the study. The respondents' wholly voluntary involvement in the study was motivated by their own self- interest. Researchers gave respondents full confidence that the information they collected would be kept confidentially and used only for the current study.

Convergent Validity

The table 2 shows that all variable correlation values are more than 0.5 and highly correlated, Cash management (4.320), Credit management (4.220), working capital management (0.976), Financial performance (0.976) present study variables are validated.

Reliability

Variable	Cronbach's Alpha
Cash Management	0.952
Credit Management	0.975
Working Capital Management	0.768
Financial Performance	0.886

Cash management and credit management are highly reliable and Financial Performance variable are closer to 0.9 and Working Capital Management is near value to the accepted values.

4 .1 Results and Discussion

Table 1 Demographic profile of the respondents (N=437)

Demographic Profile N = 437	Frequency	Percent
Gender of the Respondents		
Male	348	79.6
Female	89	20.4
Category of Respondents		
Proprietor	79	18.1
Manager	358	81.9
Location of the Respondent		

Rangareddy	139	31.8
Medchal Malkajgiri	140	32.0
Yadadri Bhuvanagiri	158	36.2
Marital Status of the Respondent		
Single	124	28.4
Married	313	71.6
Age of the Respondents		
Below 30	68	15.6
30 to 40	165	37.8
40 to 50	161	36.8
50 and above	43	9.8
Educational Qualification		
SSC	38	8.7
Intermediate	61	14.0
Undergraduate Degree	140	32.0
Postgraduate degree	186	42.6
Research Degree	12	2.7

Table 2 Behavioural characteristics of respondents

Behavioural characteristics	Frequency	Percent	Behavioural characteristics	Frequency	Percent
Work Experience in SME			Type of Industry		
Less than a Year	22	5	Chemical	46	10.5
1 to 5 years	41	9.4	Health Care	48	11
5 to 10 years	134	30.7	Information Technology	52	11.9
10 to 15 years	141	32.3	Rubber	45	10.3
Above 15 Years	99	22.7	Automobile	74	16.9
Area have you specialized			Food and beverage	53	12.1
General Management	44	10.1	Textile	61	14
Operational	100	22.9	Trader	40	9.2
Marketing & Sales	147	33.6	Service sector	18	4.1
HR	88	20.1	Type of business		
Financial management	46	10.5	Manufacturing	197	45.1
Other Areas	12	2.7	Trading	143	32.7
Size of business			Services	33	7.6
Small	247	56.5	Others	64	14.6
Medium	190	43.5	How long has your business been Operating		

Less than a year	98	22.4
1-3 years	103	23.6
4-10 years	101	23.1
More than ten years	135	30.9

The above table 1 and 2 shows that detailed demographic profile of the respondents and behavioural characteristics of the study.

Descriptive Statistics

Table 3 : Mean , Standard deviation and correlations of the research variable

Variable	Mean	Std. Deviation	A_Cash	A_Credit	A_WCM
A_Cash	4.320	0.733			
A_Credit	4.240	0.830	0.705		
A_WCM	4.220	0.748	0.856	0.796	
A_FinPer	4.200	0.746	0.623	0.882	0.976

**. Correlation is significant at the 0.01 level (2-tailed).

Table 2: Standard deviation and Correlations of research highly correlated variable is financial performance with credit management and the value is 0.882, cash management standard deviation value is 0.733 and its correlated credit management with the value 0.705 with low correlated leading variable least variable, working capital management correlated with credit management the vale is 0.796 , financial performance correlated with working capital management value is 0.796.The least correlated value is 0.623, that is financial performance correlated with cash management.

Exploratory Factor Analysis

Table 4 : Factors loading and uniqueness of research items

Factor Loadings								
Variables				Factor				Uniqueness
	1	2	3	4	5	6	7	8
Cash1	0.674							0.3220
Cash2	0.985							0.0781
Cash3	0.681							0.3269
Cash4	0.978							0.1593
Cash5	0.850							0.2280
Cash6	0.829							0.3616

Cash7	0.891	0.2340
Cash8	0.744	0.2518
Cash9	0.691	0.3335

Credit1	0.578	0.0412
Credit2	0.573	0.0642
Credit3	0.880	0.0435
Credit4	0.587	0.1113
Credit5	0.769	0.0969
Credit6	0.687	0.1344
Credit7	0.794	0.1338
Working1	0.997	0.0029
Working2	0.979	0.0119
Working3	0.886	0.0483
FP1	0.997	0.0029
FP2	0.973	0.0328
FP3	0.886	0.0483
FP4	0.891	0.1316
FP5	0.678	0.0245

Note. 'Minimum residual' extraction method was used in combination with a 'oblimin' rotation

All factor loadings are above 0.5 and accepted. working capital management loadings are high in that leading variable is "We usually have alternative cash sources if we forecast a deficit" value is 0.997 and the least variable is from credit management is "I get myself into more debt each year" and the value is 0.573.

The above table interprets factor loading for cash management in this variable there are nine factors in that " I use banking accounts that pay me interest." is the high factor loading among other factors value is 0.985 and the low factor in cash management is " I save receipts for major purchases" value is 0.674. other variables loading are gradually from 0.6 to 0.9 like "yearly expenses out of current income, saving receipts for major purchases, compare my checking account records with my monthly statement, review and evaluate my spending habits in business, sometimes receive overdue notices because of late or missed payments, write down where money is spent, regularly set aside money for large expected expenses (like insurance or taxes) these are the loading which has the gradual value between 0.68 to 0.97 and all the values are accepted.

In the loading Credit management have seven variables in this first leading variable " I obtain cash advances in order to pay other credit balances" value is 0.880 and the low factor lading is "I get myself into more debt each year" value is 0.573. "often spend more money than I have, rarely pay finance charges, pay bills as due, make payments on large debts as scheduled, compare my credit card receipts with my monthly statements" these variable stands between the value 0.578 to 0.794 all the values are significant in nature.

Working capital management have three variable in this high factor loading variable is "We usually have alternative cash sources if we forecast a deficit" value is 0.997 and the low factor loading among other variable is "The credit manager establishes all credit limits " value is 0.886.

In the loading financial performance have five variables in this first leading variable " sales growth of the SME" value is 0.997 and the low factor lading is " Return on investment in business" value is 0.678. " cash flow, operating income , net profit margin are other variables that have the value from 0.886 to 0.973 all values are accepted.

5 Managerial Implications

These findings indicate that financial performance measures such as cash management, credit management, and working capital management explained by the implementation of financial practices. Our findings suggest that improvements designed to upgrade existing business financial practices. or to introduce new ones should not necessarily be terminated if there. According to Venkatesan (2021), a number of conflict factors are increasing day-by-day, both in the family and at work, which adversely affects the performance measurement of businesses.

6 Conclusion

SMEs owners and managers need to improve their performance to face business competition. Performance management systems are often difficult to implement in SMEs due to inadequate knowledge about financial management practices like cash, credit, risk, and working capital management. In order to enhance financial practices and performance measurement of SME, officials could gain insights into financial literacy. The development of SME not only depends on the entrepreneur but also on knowing government guidelines, procedures, taxation, and updated financial rules and regulations.

Limitation and Extension

The current study sample size is 437; if it goes more than the present study, the research result may vary. Another major limitation in the sampling area is that the present study focuses only on three districts in a state. It may not generalize the overall results. The future study may be conducted in more districts, adding states, or doing research across the country. SME has a greater impact on financial, economic, and employment generation. So we need to do more research on this area in future studies for continuous development in this area.

Declaration of Conflicting Interests

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Informed Consent:

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