



**“A REVIEW OF FINANCIAL DECISION MAKING PRACTICES
FOLLOWED BY MSME SECTOR OF MAHARASHTRA”**

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Abstract

The study examined financial management or financial decision making practices using four components: working capital Management practices, capital structure management, accounting information and financial reporting practice, and the use of capital budgeting techniques and fixed assets management. Performance of MSMEs was examined from the context of profitability measured by Return on Assets and of growth. The study sampled 120 MSMEs from Maharashtra with data collected through the administration of a questionnaire. Data were analysed using descriptive statistics and Pearson correlation analysis. The results of the descriptive statistics revealed that working capital management practices had the highest mean score, followed by accounting information and financial reporting practices, capital structure management and finally, the use of capital budgeting techniques and fixed assets management, in that order. The Pearson correlation analysis showed a positive association between the four components of financial management practices and between MSMEs profitability and growth. The results emphasize the need for MSMEs to improve on their financial management practice to improve the profitability and growth of these firms. It is recommended that the use of capital budgeting techniques be improved, as this area of financial management, even though it impacts positively on the performance of MSMEs had the least score. Most importantly, the managers of MSMEs should use discounted cash flow techniques to evaluate investment and projects before committing the resources of the company. MSMEs are encouraged to adopt IFRS for MSMEs to enhance their financial reporting practices. This will also improve their decision making and access to capital which will allow these MSMEs to expand.

Key Words: Financial Management Practices, Working Capital Management practices, Capital Structure Management, Capital Budgeting Techniques and Fixed Assets Management et



Introduction

MSMEs have been globally accepted as an engine of economic growth for promoting equitable Development and have emerged as the single most important sector generating employment next only to the agricultural sector. It has acquired a prominent place in the socio-economic development of India. MSME sector contribute significantly to employment generation, dispersal of industrial activity to rural and backward areas ushering in all round economic growth by value addition, ensuring the mobilization of local capital and developing entrepreneurial skills. With decline in agricultural employment and virtual stagnation in the organized manufacturing sector, employment in MSME sector has emerged as the only ray of hope. There is a saying that “Money makes the world go around”. This is also true in the case of every business enterprises. Financial Management is the key factor which determines whether a business will be successful over the long term. An accounting system is the basis of financial management as all the financial data is first of all recorded according to the rules of accounting in the business books of accounts. In order to survive, MSME owners need updated, accurate and timely accounting information. Accounting information is used to measure and communicate financial information of the enterprise that is needed by management in decision making. Accounting information exerts an important influence on the success of MSMEs, therefore it is important that accounting practice of MSMEs could provide complete and relevant financial information needed by entrepreneurs in decision making. In order to enhance the profitability of MSMEs and their continuity, there is need for adequate record keeping which will help the owners to keep track of the performance of these enterprises.

1. Review of literature

Amoako (2013) in his study entitled “Accounting Practices of SMEs: A case study of Kumasi Metropolis in Ghana” found that SMEs do not maintain proper books of accounts. The study recommended that accounting record in SMEs be made mandatory.

Koperuntheyy and Vijarani (2013) in their study entitled “Accounting system in Small Scale Enterprises: A Case Study” found that accounting system in the SSE is not good, but they have prime books to enter Olatunji (2013) in his study entitled “The impact of accounting system on the performance of small and medium scale enterprises in Nigeria — A survey of SMEs in Oyo State Nigeria” found that adoption of accounting system would significantly enhance the performance of SMEs in Nigeria.



Abor et. al (2011) in their study entitled, “E-Accounting practices among SMEs in Ghana” found that the SMEs put in place accounting soft wares to generate their financial performance. The study recommended that SMEs in Ghana adhere to good and standard accounting principles in their operations. The adoption of e-accounting ensures proper accounting practices as well as reversal good implications for entrepreneurs and SME managers.

Research Methodology

This research study titled, A REVIEW OF FINANCIAL DECISION MAKING PRACTICES FOLLOWED BY MSME SECTOR OF MAHARASHTRA

. Thus, “descriptive statistics” is considered as an appropriate research type. Survey Method was chosen as a research technique in this study to investigate and describe financial management practices of small and medium enterprises in Maharashtra. Questionnaires were designed and directly delivered to companies to collect data related to financial management practices. To select sample size of 120 MSMEs Stratified sampling techniques is applied to select sample from target population. Gathered data are processed by computer and the Statistical Package for Social Science (SPSS version 20) is the main computer software utilized in data analysis. In term of data analysis, this study applies descriptive statistics. Descriptive statistical techniques are applied to describe characteristics of financial management practices of MSMEs in the sample. A finding of this study is to be applied to increase efficiency of financial management practices and improve profitability of MSMEs in Maharashtra. This research study used the stratified sampling technique with the fraction of 60 to select the sample and the plan procedure for selecting sampling units was presented. Based on the list of businesses provided by the federal micro and small enterprise development agency, 300 MSMEs was randomly selected from the list for personal interview aiming at obtaining a sample size of 135 MSMEs as described. Ten interviewers were recruited and trained to contact and interview MSMEs selected. One hundred thirty eight of 300 MSMEs contacted (a response rate of 46 percent) participated in the survey. After data editing, eighteen cases were not usable because of important data omission, and thus eliminated from the data set. As a result, a sample of 120 MSMEs was used for data analysis in this study.



Table — 1 ANOVA test for marital status of the respondents and financial problems of the MSMES

Variables of financial problems	F	Sig.	Result
Insufficient Capital	.002	.962	(0.962 > 0.05) Hypothesis accepted
Level of owned capital	.380	.538	(0.538 > 0.05) Hypothesis accepted
Level of borrowed capital	.986	.321	(0.321 > 0.05) Hypothesis accepted
Borrowed for fixed capital	.094	.759	(0.759 > 0.05) Hypothesis accepted
Borrowed for working capital	.096	.756	(0.756 > 0.05) Hypothesis accepted
Securities for loan	.380	.538	(0.538 > 0.05) Hypothesis accepted
Loans from nationalized banks	.175	.676	(0.676 > 0.05) Hypothesis accepted
Loans from private banks	.717	.397	(0.397 > 0.05) Hypothesis accepted
Loans from NBFCs	.096	.756	(0.756 > 0.05) Hypothesis accepted
Loans from moneylenders	.002	.962	(0.962 > 0.05) Hypothesis accepted
Loans from relatives and friends	.353	.553	(0.553 > 0.05) Hypothesis accepted
Delay in sanction	.046	.830	(0.830 > 0.05) Hypothesis accepted
Insufficient financing	.194	.660	(0.660 > 0.05) Hypothesis accepted
High rate of interest	.815	.367	(0.367 > 0.05) Hypothesis accepted
Under table bargaining	.041	.839	(0.839 > 0.05) Hypothesis accepted
Paper formalities	1.002	.317	(0.317 > 0.05) Hypothesis accepted
Heavy losses	1.650	.199	(0.199 > 0.05) Hypothesis accepted
Division of funds	.684	.409	(0.409 > 0.05) Hypothesis accepted
To meet capital and revenue expenditure	.070	.792	(0.792 > 0.05) Hypothesis accepted
To raise credit worthiness of business	.001	.980	(0.980 > 0.05) Hypothesis accepted
Breakeven point	.244	.622	(0.622 > 0.05) Hypothesis accepted
Heavy works cost	1.660	.198	(0.198 > 0.05) Hypothesis accepted
Outstanding sundry debtors	.344	.612	(0.612 > 0.05) Hypothesis accepted
Outstanding receivables	.011	.915	(0.915 > 0.05) Hypothesis accepted
Bad debts	.094	.759	(0.759 > 0.05) Hypothesis accepted
Insufficient reserve and Surplus	.070	.792	(0.792 > 0.05) Hypothesis accepted



Mismanagement of funds	1.670	.197	(0.197 > 0.05) Hypothesis accepted
Wrong credit policy	.253	.613	(0.613 > 0.05) Hypothesis accepted
Discount	.021	.905	(0.915 > 0.05) Hypothesis accepted
Loan Securities	.171	.682	(0.682 > 0.05) Hypothesis accepted
Lack of cost management	.001	.980	(0.980 > 0.05) Hypothesis accepted
Heavy tax	.262	.610	(0.610 > 0.05) Hypothesis accepted
Maintaining books and records	.232	.631	(0.631 > 0.05) Hypothesis accepted
Quantum of capital employed	.013	.917	(0.917 > 0.05) Hypothesis accepted
Heavy Fines and punishment by Government	.125	.724	(0.444 > 0.05) Hypothesis accepted

Based on the result generated, the significant values of variables of the financial problems of the MSMES in respect of Insufficient Capital, Level of owned capital, Level of borrowed capital, Borrowed for fixed capital, Borrowed for working capital, Securities for loan, Loans from nationalized banks, Loans from private banks, Loans from NBFCs, Loans from money lenders, Loans from relatives and friends, Delay in sanction, Insufficient financing, High rate of interest, Under table bargaining, Paper formalities, Heavy losses, Division of funds, To meet capital and revenue expenditure, To raise credit worthiness of business, Breakeven point, Heavy works cost, Outstanding sundry debtors, Outstanding receivables, Bad debts, Insufficient reserve and Surplus, Mismanagement of funds, Wrong credit policy, Discount, Securities for loan, Lack of cost management, Heavy tax, Maintaining books and records, Quantum of capital employed, Heavy Fines and punishment by Government are greater than 0.05. So the null hypothesis is accepted.

Hence there is no significant relationship between the mean score of marital status of the respondents and Insufficient Capital, Level of owned capital, Level of borrowed capital, Borrowed for fixed capital, Borrowed for working capital, Securities for loan, Loans from nationalized banks, Loans from private banks, Loans from NBFCs, Loans from money lenders, Loans from relatives and friends, Delay in sanction, Insufficient financing, High rate of interest, Under table bargaining, Paper formalities, Heavy losses, Division of funds, To meet capital and revenue expenditure, To raise credit



worthiness of business, Breakeven point, Heavy works cost, Outstanding sundry debtors, Outstanding receivables, Bad debts, Insufficient reserve and Surplus, Mismanagement of funds, Wrong credit policy, Discount, Securities for loan, Lack of cost management, Heavy tax, Maintaining books and records, Quantum of capital employed, Heavy Fines and punishment by Government.

Table — 2 Rotated Component Matrix for Financial Problems of MSMES

Financial Problems	Component									
	1	2	3	4	5	6	7	8	9	10
In sufficient Capital	.000	.001	-.021	.057	.099	.182	-.002	.966	-.023	.044
Level of owned capital	.026	-.016	-.025	.169	.114	.947	-.007	.137	.010	.079
Level of borrowed capital	-.027	.054	.012	.256	.416	-.018	.016	.295	.089	.155
Borrowed for fixed capital	.015	-.039	.018	-.012	.021	.012	.978	-.017	.011	-.065
Borrowed for working capital	.008	-.032	.026	.962	.072	.158	-.059	.046	-.012	.071
Securities for loan	.026	-.016	-.025	.169	.114	.948	-.007	.137	.010	.079
Loans from nationalized banks	.001	-.015	-.004	.010	.918	.106	-.025	.050	.002	.044
Loans from private banks	.009	-.007	-.036	.085	.129	.121	.082	.042	.028	.936
Loans from NBFCs	.008	-.032	.026	.961	.072	.158	-.059	.046	-.012	.071
Loans from money lenders	.000	.001	-.021	.057	.099	.182	-.002	.967	-.023	.044
Loans from relatives and friends	.006	-.006	.020	.127	.894	.166	.050	.036	.005	.106
Delay in sanction	.006	.003	.027	.893	.144	.206	-.002	.050	.022	.090
Insufficient financing	.004	.027	-.010	.197	.200	.878	.026	.108	.002	.098
High rate of interest	-.028	-.014	-.010	.058	.939	.138	.029	.044	.009	.083
Under table bargaining	-.016	.030	-.023	.151	.169	.114	.015	.067	-.004	.927
Paper formalities	.025	-.017	.662	.034	.034	-.067	-.021	.101	-.019	.024
Heavy losses	-.015	.040	.968	.003	-.014	-.010	.015	-.049	.014	.000



Division of funds	.182	.015	.662	.027	.007	.052	-.044	-.025	.060	- .085
To meet capital and revenue expenditure	.185	.945	.016	-.016	-.003	.003	-.056	.024	.034	.008
To raise credit worthiness of business	.151	.082	.034	.000	.028	.009	-.029	-.013	.980	.010
Break even point	.977	.189	.030	-.017	-.014	.011	-.012	.006	.053	- .009
Heavy works cost	-.015	.040	.967	.003	-.014	-.010	.015	-.049	.014	.000
Outstanding sundry debtors	.978	.189	.030	-.017	-.014	.011	-.012	.006	.053	- .009
Outstanding receivables	.230	.957	.028	-.011	.000	-.005	-.012	-.010	.047	.002
Bad debts	.015	-.039	.018	-.012	.021	.012	.979	-.017	.011	- .065
Insufficient reserve and Surplus	.185	.945	.016	-.016	-.003	.003	-.056	.024	.034	.008
Mismanagement of funds	-.015	.040	.966	.003	-.014	-.010	.015	-.049	.014	.000
Wrong credit policy	.978	.189	.030	-.017	-.014	.011	-.012	.006	.053	- .009
Discount	.230	.956	.028	-.011	.000	-.005	-.012	-.010	.047	.002
Securities for loan	-.013	-.023	-.037	-.047	.008	-.008	.402	.018	-.042	.145
Lack of cost management	.151	.082	.034	.000	.028	.009	-.029	-.013	.981	.010
Heavy tax	.976	.189	.030	-.017	-.014	.011	-.012	.006	.053	- .009
Maintaining books and records	.977	.189	.030	-.017	-.014	.011	-.012	.006	.053	- .009
Quantum of capital employed	.230	.955	.028	-.011	.000	-.005	-.012	-.010	.047	.002
Heavy Fines and punishment by Government	.244	.130	.048	.088	.017	.008	.047	-.026	.105	.022
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.										
a. Rotation converged in 6 iterations.										



KMO and Bartlett's Test

The dimensionality of Financial Problems of MSMES was examined using factor analysis based on 12 individual statements and the reliability of the subsequent factor structures was then tested for internal consistency of the grouping of the items.

Table — 3 KMO and Bartlett's Test for financial problems of MSMES

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.526
Bartlett's Test of Sphericity	Approx. Chi-Square	1560.459
	df	15
	Sig.	.000

High value of KMO ($0.654 > .05$) indicates that a factor analysis is useful for the present data.

The significant value for Bartlett's test of Sphericity is 0.000 and is less than .05, which indicates that there exist significant relationships among the variables. The resultant value of KMO test and Bartlett's test indicate that the present data is useful for factor analysis. Eigen Value represents the total variance explained by each factor. Percentage of the total variance attributed to each factor. One of the popular methods used in Exploratory Factor Analysis is Principal Component Analysis, Where the total variance in the data is considered to determine the minimum number of factors that will account for maximum variance of data. All the statements are loaded on the two factors.

Major Findings

1. There is no significant association between gender, age, religion, educational Qualification and marital status of the respondents and the financial Problems of MSMEs. (Chi square test).
2. The dimension, Financial Problems of MSMEs comprises 35 attitude statements. Out of 35 statements, 10 statements contribute more towards Financial Problems. The statements are (1) Wrong



credit policy, (2) Outstanding receivables (3) Heavy losses (4) Borrowed for working capital (5) High rate of interest (6) Securities for loan, (7) Bad debts (8) Loans from money lenders (9) Lack of cost management (10) Loans from private banks the 10 statements accounted for 86.261percent of the variance in the original 35 statements. The remaining 25 statements contributed minimum towards Financial Problems of MSMEs (i.e.) 13.739 percent of the variance. (Factor Analysis).

Conclusion

According to the interviews, MSMEs do their financial planning even though they do not always appreciate this themselves. MSME Financial planning is often informal and based on intuition. This issue is still open for interpretation and needs more investigation. There is evidence that MSME Financial management is much affected by the financial competency and personal character of the owner. The results of the interviews prove that respondents make decisions intuitively and very quickly, sometimes even in haphazard way. Interviews also show that some respondents have a relatively low educational background and that companies have not used information technology (IT) efficiently. According to the interviews, there seems to be some kind of “inner circle” that works together even if the parties were competitors. This reflects the financial concepts and strategies of new and old companies differently. The inner circle supports the idea of oligopolistic markets, but it can also be an evidence of some form of a cartel. There might be an opportunity for the respectable businesses if the government can prove the existence of a cartel. Cartels limit competition and are a barrier to new companies seeking an entrance to the business. MSMEs need help in formal financial planning and in Finance in general. The facts mentioned above support the view that MSMEs need more financial skills and training. Technical competency in itself is not enough and professional financial knowledge is also required. Financial practices of the companies interviewed in this research fit well into MSME Financial theories. Interviewees emphasised the importance of price both in interviews and in questionnaire answers. Price is the most important factor when tendering for a contract to the government. It is important for B2B and private sector as well but in these sectors delivery reliability and service also have an influence. According to the interviews, companies seem to conduct a focus strategy as Porter (1985) suggested to small businesses. With



focus strategy companies can gain competitive advantage against large companies. Differentiation is also one opportunity to compete theories of service give MSMEs an opportunity to limit competition and differentiate from competitors and improve their competitiveness. Several sources discuss the importance of the relationship Financial in today's business. The literature review evaluated the importance of networks and personal contacts relationships in the context of MSME Financial. Partnering is the most frequently discussed institutional form of co-operative behaviour in construction industry. Several studies show the advantages of partnering. Therefore, partnering might be an opportunity to compete against large corporations in the future. On the other hand, interviewees' experiences from alliances and partnering are quite negative. Interviewees state the same issues that were found in the literature review, such as scepticism and respondents' fear of the loss of the control. The facts mentioned above have limited the number of strategic alliances.



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