

Financial Management Practices in Micro Business Enterprises

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ABSTRACT

The present study focused on the status of financial management practices in selected micro business enterprises in Vijayapur district Karnataka. The relevant data for the study were collected from a set of open and closed ended questionnaire. The convenient sampling method was applied to as many as 30 micro business units functioning at different parts of the study area. The results of the study revealed that the majority of the respondents implemented financial management practices. It was also revealed that there was no uniformity in financial management practices across micro business enterprises covered in the study.

Key words: Financial Management, Micro Business, Entrepreneurship, etc.

investors by financial projections, planning and budgeting financial needs, etc. The micro enterprises sector played significant role in Kerala, Karnataka, Tamil Nadu and West Bengal states wherein the ratio of entrepreneurs are more comparing to other states in India. Entrepreneurship is getting accelerated as there is continuous supply of financial assistance from bank, nonbanking sectors and self-help groups. The government of India has various schemes to meet the finance gap of business enterprises. Knowledge of financial management and its practices in small scale business is crucial to study as to how entrepreneurs manage finance or financial activities in order to keep their business growing and developing.

I. INTRODUCTION

Starting up a business is more challenging and so the problems of it. As an entrepreneur it is important to study the needs, demands and expectations of customers in order to achieve business goals. The growth and development of any business require continuous update in every aspect related to business and financial management is one of such aspects. Hence, financial management plays a vital role in entrepreneurship. Financial skills make entrepreneurs to understand problems of areas, demand, needs, challenges, etc. A good financial management practice can lead to plenty of growth opportunities by lowering the cost, wrong decisions and defaults, if any. With right capabilities of financial management in their business can get full potential.

Better understanding of financial aspects and their practices in business enterprises irrespective of nature and size of business helps enterprises to develop systematically. Financial management help business by giving idea of arranging money from various sources at cheaper cost, convincing lenders/ creditors by giving information about financial status of business, help

II. REVIEW OF LITERATURE

Irena Jindrichovska (2013) reviewed recent studies on small and medium sized companies in order to study critical issues of SMEs financial management. Three core elements of financial management: (1) liquidity management and cash flow management, (2) long term asset acquisition, (3) capital structure and cost of funding. The most important question is the liquidity management. A business will never see the long term if it cannot plan an appropriate policy to effectively manage its working capital. In general, the poor financial management of owner-managers is the main cause underlying the problems of SMEs.

Marvin C. Hernandez and et al. (2021) study aimed to assess the financial management practices of small and medium enterprises in Nasugbu, Batangas. Study used descriptive method. Frequency, percentage, and mean were used as statistical tools in the study, and analysis of variance was used to determine the significant differences between variables. The results of the study revealed that the majority of the

respondents implemented financial management practices which included financial planning, investment, and working capital management.

Hendrik Wolmarans and Quentin Meintjes (2015) study concluded that the practice regarding working capitals as well as profitability were much more relevant than those regarding a balance sheet or strategic finance. Likewise, financial practices related to cash flow and decision making were more relevant than those related to planning or analysing. It might be true, due to the high risk and volatile environment of SMEs, as well as the challenges often underestimated that financial practices which academics regard as important were not always implemented by these companies.

Jose Marie M. Anos, et al. (2020) their study aimed to unveil the financial management practices and challenges confronting the MSMEs in Danao city, Philippines. The study applied the descriptive correlational research method among the MSMEs. The respondents were the 354 owners and employees of MSMEs. They were chosen using the cluster-sampling technique. This investigation further utilized a researcher-made survey tool to gather vital information on the profile, financial management practices, and challenges faced by the MSMEs. Simple

percentage, frequency, chi-square test of independence, weighted mean and ANOVA were used to treat the collected data. The study revealed that the financial management system was moderately practiced.

Statement of the problem

It is crucial to know how micro business enterprises manage finance or financial activities in order to keep their business growing and developing. In view of the above reason, it is an attempt to study and understand how micro enterprise in Vijayapur district practice financial management.

Objective

- To study the financial management practices in micro business enterprises in the study area

Methodology

The paper is descriptive in nature. The primary data was collected from a set of open and closed ended questionnaire and required secondary data was collected from the various published sources. The convenient sampling method was applied. Further, survey was carried out considering as many as 30 micro business units functioning at different parts of Vijayapur district, Karnataka.

III. RESULTS AND DISCUSSION

Table: 1 Registration of Micro business enterprises

Particulars	Frequency	Per cent
Single	20	66.67
Partnership based	6	20
Family owned	4	11.11
Total	30	100

Source: Field survey

Table 1 indicates registration of micro-business enterprises in the study area. As such, a majority of the chosen business enterprises were found as single owner firms ranging up to 66.67 per cent followed by partnership based enterprises with 20 per cent and the least of 11.11 per cent business owned by family respectively. In fact, family owned business shown a desperate growth indicating the lack of support by family members which is still one of the hurdles to women entrepreneurs not only in the study area but also in the Indian context.

Astoundingly, single owned firms were tremendously increasing on account of credit availability by banking and non-banking financial institutions associated with the advent and effective utilisation of technology showing that there is a greater scope of entrepreneurship development by women. Further, women in the study area are going to be financially independent by holding a single owner business leading a dignified life and getting at par with men in all respects.

Table 2: Financing Decisions

Variable	Categories	Value Label	N
Own fund	1	Y	25
	2	N	5
Own reserves & surplus	1	Y	20
	2	N	10
Source of financing is reserves	1	Y	22
	2	N	08
Source of financing is term loan	1	Y	13
	2	N	17
Calculate cost of capital	1	Y	22
	2	N	08
Satisfied with financing options available	1	Y	20
	2	N	10

Note: Y-Yes, N-No.

Source: Field survey

Table 2 shows financing decisions are taken by selected enterprises in the study area. Thus, the findings of the study revealed that 25 enterprises out of 30 run their business with own fund and the rest were relied on other sources for business regarding the variable of own fund. In terms of own reserves & surplus variable, 20 enterprises out of 30 were conducted a business by their own financing along with the use of surplus finance and there was also an availability of reserve funding to almost 22 enterprises in respect of source of financing reserves. Interestingly, the financing decision with regard to term loan by enterprises found discouraging figure with just 13 enterprises out of 30 were banked upon the aforementioned source of financing and rest of the

enterprises had other source of financing. Further, 22 enterprises of 30 were found with a little financial literacy of knowing their cost of capital which was said to be one of the prerequisite for taking a sound financial decision. Additionally, there were 20 enterprises found with content of availability of financing avenues and rest were found unsatisfied owing to socio-economic and financial constraints, etc. finally, one of the discouraging aspect of financing decisions is term loans which had shown that less than half of the aforementioned enterprises were found reluctant taking a term loan because of an unfavourable rules & conditions put forth by financial institutions along with other perceptions by women entrepreneurs.

Table 3: Capital Budgeting Decision

Variable	Categories	Value Label	N
Capital budgeting techniques adopted	1	SD	1
	2	D	3
	4	A	20
	5	SA	6
Discounted cash flow method(DCF)	1	SD	18
	2	D	8
	4	A	2
	5	SA	2
Payback period adopted(PP)	1	SD	2
	2	D	3
	4	A	10
	5	SA	15
Average rate of return(ARR) adopted	1	SD	10
	2	D	6
	4	A	8
	5	SA	6

Note: SD-Strongly Disagree, D-Disagree, A-Agree and SA-Strongly Agree

Source: Field survey

Table 3 highlights capital budgeting decisions of the business enterprises chosen in the study. Thus, as many as 20 enterprises out of 30 were found agree indicating that women entrepreneurs were much aware of budgeting techniques followed by 6 enterprises who were much advanced and identified with strongly agree and rest of the enterprises viz., 3 & 1 showing a lack of interest in adopting techniques respectively. In terms of discounted cash flow method, about 18 enterprises had a strong disagreement owing to a lack of financial literacy followed by 8 enterprises with disagree and each 2 enterprises were having the preference towards agree and strongly agree which had a very good financial literacy and also a good sign of conducting a business. Besides, payback period is one of the key capital budgeting

decisions was found a very useful decision by half of the enterprises with strongly agree who opted this method to estimate their future cash flow till the investment reaches breakeven point and 10 more enterprises which also had a preference of agree decision as compared to 3 enterprises with disagree and 2 enterprises had found with the preference of strongly disagree respectively. Lastly, as many as 6 enterprises shown a strong disagree in terms of average rate of return without realising of time value of money followed by 6 enterprises with disagree and a half of the enterprises also adopted a method of rate of return which had indicated that these enterprises were expected to run their business as successful as possible with a little knowledge of financial management.

Table 4: Financial Accounting Practices

Variable	Categories	Value Label	N
Maintaining own accounting system	1	Y	25
	2	N	5
Maintaining computerised accounting system	1	Y	5
	2	N	25
Using accounting software	1	N	25
	2	Tally	2
	3	Others	3
Number of accounting staff employed for business unit	1	0	26
	2	1	4
	3	2	0
Preparation of cash flow statement	1	Y	10
	2	N	20
Preparation of cost sheet	1	Y	20
	2	N	10
Preparation of production statement	1	Y	18
	2	N	12
Preparation of balance sheet of enterprises	1	Y	22
	2	N	08
Preparation of Profit and Loss Account of enterprises	1	Y	22
	2	N	08

Note: Y-Yes, N-No.

Source: Field survey

Table 4 depicts financial accounting practices by women entrepreneurs in the study area. Thus, over 25 enterprises had their own accounting system indicating a sign of good financial accounting strategies and 5 enterprises were not maintaining a proper accounting system on account of illiteracy and ignorance of their loss and profit from the business. Desperately, the majority of women entrepreneurs were not having technology enabled accounting system which was said to be one of the major impediments for smooth running

of the business on account of their illiteracy and this also held same in the case of using accounting software as well as accounting staff. Additionally, preparation of cost sheet, cash flow statement, production statement being done. preparation of profit/loss and balance sheet done periodically.

IV. CONCLUSION

Although micro enterprises covered in the study had limited skills in recording and managing

their financial activities effectively, the efforts in learning and implementing the said work in their business units is appreciable. Of course being not implemented financial management practices satisfactorily could be the reason behind their ability to influence their business to grow and develop further. Study also observed that some of the micro enterprises did not follow basic skills such as bookkeeping, personal account and inventory management. However, the overall condition of financial management practices in selected micro enterprises is average and traditional.

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