A literature review is a comprehensive compilation of the information obtained from published and unpublished sources of data in the specific area of interest to the researcher. This includes journals, newspapers, magazines, reports, government publications and computerized databases. Small and Medium scale enterprise problems and prospects are being studied for quite a long time, with approaches varying such as globalization, the changing business environment and the increase in closure of SME business in Tamil Nadu. For the present review, selected literature on SMEs and other demographic characteristics, studies on awareness level of entrepreneurs and adoption of financial management practice variables such as financial planning, financial structure management, working capital management, maintenance of books of accounting and capital budgeting decisions have been considered for their successful functioning. The review is limited to the fields connected with the Indian environment.

Rajendran (1999)\(^1\) made a study to examine the various kinds of assistance given to small scale industries with the prime objective of identifying institutional assistance for the development of small scale industries and the problems faced by these industries in Tiruchirapalli district of Kerala. He concluded that the greatest problem faced by the small entrepreneurs was non availability of adequate financial assistance. Moreover, the small enterprises also face problems relating to the acquisition of raw material, marketing of products and technological and administrative problems. There were complicated procedures in availing loans from financial institutions and there is no coordination between the promotional institutions and government agencies.

D.Nagayya et.al(2007)\(^2\) outlined that as per the revised guidelines for priority sector lending of commercial banks by RBI in April 2007 says that 40% of total advances to Small enterprises should go to micro manufacturing and service
enterprises & 20% to those with investment of Rs5-25 lakhs and Rs.2-10 lakhs respectively. Thus, 60% of small enterprises advances shall go to micro enterprises in the manufacturing and service categories. The remaining 40% of MSE advances will cater to the needs of bigger small enterprises with investment falling between 25lakhs to 5 crore rupees in respect of manufacturing and Rs.10 lakhs-2 crores in respect service enterprises. Advances to medium enterprises falling above small enterprises investment limit is Rs.5 crore for manufacturing and Rs.2-5 lakhs for service categories do not form part of priority sector advances. For foreign banks 10% for small enterprises and export credit target of 12%.

Saif Siddiqui et.al(2008)³ made an attempt to test the impact of non-monetary support for MSME at Delhi. He found that firms which were using non-monetary support were better in every respect than those not using the support. Non–monetary support includes consultancy services, training, information on infrastructure, technology, marketing, quality, production, payment of bills, industrial accommodation, raw materials, human factor and development of designs.

K.Lavanya Latha et.al (2008)⁴ in his study stated that Atkins & low (1997) noted that there are 40 different definition of small firms and have been reported in the literature. The criteria are many such as Number of employees, Annual sales revenue, Value of fixed assets, Plant & machinery and the management structure but in India the small industry is defined in terms of investment ceiling.

Khrystyna Kushnir et.al (2010)⁵ made an attempt to overview of new data on MSME country indicators for 132 economies which reveals firms of different sizes rank obstacles differently. MSME list access to finance as their biggest obstacle than large firms. MSME density is lower in economies where they have some access to credit, but where it is not sufficient.

Steve Mercieca Klaus Schaeckb and Simon Wolfe (2011)⁶ the study found that decreasing effects on the number of bank relationships arising from increased consolidation in banking are offset by increased competition. In addition, the finding that legal obstacles are an impediment to diversifying lending relationships indicates that policies aimed at encouraging SMEs to expand in scope
and scale (which often requires setting up additional bank relationships) are bound to be unsuccessful if legal institutions are not amended accordingly.

Nalla Bala Kalyan Kumar and Sardar Gugloth (2012) made a strong attempt that after globalization the MSMES played a major change and role in terms of its absolute growth in units, employment, production and exports, the study highlighted that the small scale sector has grown rapidly over the years. The study also highlighted that MSMEs are a very important segment in the Indian industrial sector and would continue to play a crucial role in the Indian Economy in the future.

Jacob Nunoo and Francis Kwaw Andoh (2012) states that there is a positive relationship between completions of secondary/technical schooling and financial literacy of SMEs owners, The negative sign of the location variable suggest that it is SMEs in the rural areas that are less likely to utilize financial services. This is because most of the banking and non-banking financial institutions are located in the urban areas and many in the urban centers are more financially literate.

C.Silambarasan et.al (2012) states that India has been witnessing entrepreneurial growth since liberalization and globalization. In India 90% SMEs are self financed. Currently there are 3 crores MSMEs of these the average success rate of this sector is only 12-13%. Successful SMEs have emerged in IT sector, Auto Component, Heavy & light engineering industries & textile sector. But growth of a large number of small and tiny units is under severe constraints of finance, market ability & adaptability of appropriate technology.

Tarek Zarook and Mohammad Mafizur Rahman (2013) investigated the effects of small and medium size enterprises’ (SMEs) management skills on access to financing in Libya. The study reveals management experience and education level to be significant factors regarding SMEs’ access to finance in Libya. In addition, management experience is a very important factor in allowing owners/managers of SMEs to obtain access to finance. Further, the higher level of education of SMEs’ owners/managers is, the better is their access to finance.
Godfred Adjapong AFRIFA (2013)\textsuperscript{11} argues through his empirical research with UK SMEs that managers with highest qualification especially managers possessing professional qualification and many years (21 years) of work experience have the ability to confidently manage all aspects of working capital management and therefore have the best working capital management practices.

Abdul Naser .V (2013)\textsuperscript{12} states through his study that MSMEs contributions are considerably high in the balanced economic growth. It creates 4 million job opportunities in a year and employs semi-skilled and unskilled rural people and thereby increasing the living standard of rural India. With the advent of the Industrial clusters, MSME started to achieve benefits of economies of scale, specialization and innovation, to withstand global competition. At present, there are more than 600 SME industrial clusters & 7000 micro enterprise clusters in India. But still many banks are reluctant to extend loans to MSMEs due to reasons such as risk perception, lack of collateral etc.

Mr.Divyang Kiritkumar Vyas (2013)\textsuperscript{13} says there had been more volatility in the number of MSMEs in the post globalization period as compared to fixed investment, production, employment, exports. But in order to take MSME to the next level, the number of items are reserved for manufacturing by MSME sector & providing support in the field of skill development, credit marketing, technology and infrastructure.

C.Paramasivan et.al(2013)\textsuperscript{14} states that MSMEs are the backbone of the economic development of the country and 94.93% belongs to micro units and 90% of the MSME are under the categories of sole proprietorship type, hence these entrepreneurs need proper training to promote their production & marketing strategies in the modern world and also these sectors should be treated as emerging sectors while providing financial & non-financial assistance.
The Awareness level of the entrepreneurs with regard to SME market, financial management practices play a vital role for the survival and sustainability of Small and Medium scale enterprises. Many researchers have pointed out their findings about the importance of awareness level in successful running of their enterprises and they are as follows:

**Anil Kumar (2006)** The study has revealed that the problems relating to finance have declined considerably under new economic regime. This is due to liberal policies followed by financial institutions towards small and medium size industrial units. However, the women entrepreneurs have been found to be facing shortage of capital in their business. The problem of working capital needs to be solved by providing loans against different assets. Financial institutions should relax conditions regarding the collateral securities while advancing loans.

**Sunil Kumar and Neetu Bala (2007)** discussed some major challenges for SSI sector emerged during India’s liberalized regime, where it faces a threat for its survival in the midst of fierce national and global competition on account of inadequate linkages between small and large enterprises, outdated technologies, poor quality of products, inadequate access to institutional credit, growing sickness of SSI sector resulting into employment loss, etc. In this regard, they held that the role of SIDBI needs to be widened as per Nayak Committee’s recommendations. The authors also called for government support to sick units by providing an access to power, inputs and cheaper credit to do away with their financial difficulties.

**Venkatesh S (2007)** it has been observed that sick industrial units have been suffering from managerial inefficiency, demand recession, obsolete plant and machinery and labour problems. Amongst these problems, it has been found that managerial inefficiency is the most serious one, followed by demand recession or market constraints. Further, study observed that causes of sickness of small scale industries are different from those of large ones. Small scale sector is
being deprived of financial aid by the financial institutions. They lend them only when the security of their loan is guaranteed.

David Deakins and David North (2008) The paper has taken a thematic approach suggested by a theoretical framework which proposes that certain categories of SME owners will face the greatest difficulties in accessing bank finance, based on principles of asymmetrical information, trading records and the nature of relationship banking. Delays to the application process was commonly cited as an issue from SMEs with two fifths of applicants as bank finance took more than six months to get a final decision. Delays were caused by referring applications to centralized teams and bureaucratic procedures, although over half of the businesses that reported difficulties in accessing bank finance were able at the end to undertake the whole project that they required funding for. Overall, many companies have struggled to go ahead with the project because of lack of funding.

Nirankar Srivastav (2008) found out that 72.02% of the SSIs are carrying out their activity without the use of any technical know-how and when it is compared with all India figure of 85.38% SSI in northern, it seem to be doing better in terms of the technical input. The poor quality output (i.e) outdated technology in their production process of the SSI is indeed an important factor why their products are not able to compete in the market.

C.Paramasivan (2009) analysed the sickness of small scale textile industries in Tirupur as it contributes more than Rs. 1000 crores per year for exports. The study further revealed that most of the sick units belongs to individual ownership and based by finance and marketing problems. He suggests that government must undertake all the sick units for certain period and may relax their norms and procedures to obtain the loans and advances by the sick units.

Adamasu Tadasee (2009). Lending to SMEs is hampered by lack of knowledge of the sector, high transaction costs, limited staff capacity in financial institutions, poor credit culture among some target SMEs as well as underdeveloped tools to identify and mitigate risks associated with lending to
SMEs. This results in preference for large borrowers and the purchase of government bonds,

**Elin Grimsholm & leon poblete (2010)** conducted a semi-structures qualitative interviews with managers of SMEs in Bangkok as well as representatives from different institutions cooperating with SMEs in Thailand. The research revealed internal factors such as lack in management competencies, lack of skilled labour, low investment in R&D and new technology, deficiencies in marketing strategies, low awareness concerning Corporate social responsibility. All SME firms in Thailand have experienced similar external and internal obstacles constraining their growth regarding external factors. It could be argued that limitations in finance make Thai SMEs more vulnerable to threats such as macroeconomic instability, corruption, political instability and it also makes it more difficult for them to comply with trade regulations.

**Olawale Fatoki and Francis Asah (2011)** through the survey, indicated that there is a significant positive relationship between the collateral and access to debt finance by SMEs. Those SMEs with collateral (personal or business property) are significantly more likely to be successful in their credit applications compared to SMEs without collateral. The study also suggested that Commercial banks can create awareness of their funding requirements especially the importance of collateral through advertisements and communication with trade associations. Further the study urged that to improve access to debt finance, there is the need for personal development by owners of the SMEs especially in the area of business and financial management skills through training. Government agencies such as SEDA and Development Corporations can organize training for SMEs.

**Anirban Ghatak (2011)** through his research in Bangalore found out that major problems of SMEs are loyal and lasting banking relationships, delayed payment by buyers and time taken for approval & disbursement of amount in case of government schemes is too long, door step banking, reliable service quality and suggest 1) that there should be faster completion of formalities 2) there should be empowerment of SMEs to access not just financial support but entrepreneurial
education 3) E-Commerce can provide good opportunities for MSMEs
4) Government should enhance the developing incentive scheme for SMEs 5) Proper advisory services

Ashim Kumar Das (2012), found through his study that there is a wide gap between theory and practice of financial management. Small Business owner-managers may hardly find the existing financial management techniques of use. At the same time, little effort has been made in the field of research on developing tools and techniques for small business. With their peculiar problems and limited resources, this sector generally relies more on traditional accounting namely financial and taxation matters, rather than financial management. Small business units in India are facing some problems, which makes the application of innovative tools difficult, due to lack of knowledge and awareness of the tools of financial management. The study also suggested that measures should be taken to familiarize the owner-managers with modern tools, and their benefits to be derived from their use etc., through the provision of training, short term courses, conferences, seminars/workshops etc. by the development agencies.

Ashok Kumar Panigrahi (2012), highlighted that SME entity takes risk consciously, anticipates adverse change and hedges accordingly, it becomes a source of competitive advantage as it can offer its products at a better price than its competitors. Any risk management model is as good as the data input. The study stresses the need of improving current planning system within the MSMEs together with enhancing the owner managers knowledge and awareness regarding risks management through proper training and development.

Abanis Turyahebwa and Arthur Sunday (2013) tried to establish the relationship between financial management practices and business performance of SMEs in western Uganda. The study supports the pecking order theory in explaining the financing of SMEs together with resource based view as the theories that help in explaining business performance of SMEs. As a result, the study provided models for efficient financial management practices. These models can then be used to provide a trajectory for improving business performance of SMEs in Uganda. The
owners of SMEs should develop a positive attitude towards adopting financial management practices so as to achieve desired business performance.

Financial Management

Financial management provides a conceptual and analytical framework for financial decision making. The financial management framework is an analytical way of viewing the financial problems of firm. The basic objective of any business venture is the earning of adequate profits through its survival and strong growth. Proper financial management will assist in fulfilment of these objectives by analyzing and forecasting needs, managing working capital, planning financial structure and maintaining proper books of accounting. For the successful running of any business enterprise, the appreciation of financial management is as important as production and marketing.

Thakur (1990) examined the financial management policies and practices in Madhya Pradesh Agro Industries Development Corporation. An effort has been made to evaluate the funds in day to day business operations of this corporation. For this purpose he studied the objectives of financial management i.e (a) Wealth maximization of investors (b) flexibility in the proposed capital structure (c) non-interference by the suppliers of funds (d) survival and growth of the business. He finally concluded that in public sector organizations profit maximization and wealth maximization were not the main objectives but it might be the productivity maximization and provision of certain services at reasonable price to the society.

Sitaramayya (1993) conducted an extensive study to highlight some of the inadequacies in financial management function in small industries. The study covered a few locations in the country and mainly concentrated on capital requirements of small enterprises. The author had pointed out that predominant inadequacies were (1) ignorance of the incidence of cost of capital, (2) margin requirements, (3) repayment, (4) break even calculations and (5) inadequacies in accounting and financial reporting systems. According to the author financial
management is undoubtedly an important functional area in the overall management of an enterprise.

Ranganathan chowdary Gangineni (2010)\textsuperscript{30} The study revealed that neither separate finance department nor professionalism in finance function and requirements of capital determined by SMEs is based on the need of the business and they depend (70\%) on external sources of finance. The liquidity position of them is not satisfactory and there is overstocking of inventories.

Mohd Amy Azhar B. Hj. Mohd Harif (2010)\textsuperscript{31}. Out of the six components of financial management, only three are being practiced by a high percentage of the SMEs in the survey. These are financial planning and control, financial accounting, and working capital management. Three other components, namely management accounting, capital budgeting, and financial analysis are being practiced by only a small percentage of the SMEs.

Ranganathan .G (2011)\textsuperscript{32} have attempted with the objective to understand the importance of the financial management practices and find out research gaps in the chosen area. The review covers the studies related to accounting and working capital management practices in MSMEs and leaves the scope for future research in capital budgeting techniques, capital structure, cost of capital, inventory management practices, dividend policies on compliance with the Tandon committee report and financial structure of the MSMEs. So with this review of research the gap of research in the concerned area can be easily identified and it will be helpful to the researchers in future and highlights the present trends in financial management practices.

Asuquo and Effiong (2012)\textsuperscript{33} SME owners have a low level of management knowledge, and owner/manager’s experience has been seen to be more important than application of theories of financial management. Therefore, training skills of financial management for the owners and managers is essential. SMEs have a strong regard for financial reporting practices, preparation of financial statements, provision of updated financial information for making decisions enhanced the
profitability, in the same line there was not a positive impact between Capital Budgeting Management and Profitability.

Dr.A.I.Asuquo (2012)\textsuperscript{34} SMEs in Nigerian where as there is no positive impact of capital budgeting management and profitability as it is calculated by each month or a year where as capital budgeting management is the process of selecting investment in long lived assets to produce benefits more than one year. The study keeps finding out the result why the financial management practices improve profitability. The reason is that SMEs owner and their manager regularly pay attention and review the financial activities and financial ratios. The SMEs can improve their profitability by raising the efficiency of financial management practices.

Irena Jindrichovska (2013)\textsuperscript{35} made a study to review recent studies on SME inorder to concentrate on the main critical issues of SMEs financial management. According to his research, liquidity and cash flow management is the most precious non human asset, secondly long term investment decisions, capital structure and cost of funding are the main three core elements of financial management. He further says that a business will never see the long term if it cannot plan an appropriate policy to effectively manage its working capital and poor financial management of owner-managers is the main cause underlying the problems of SMEs.

Deresse Mersha Lakew et.al (2013)\textsuperscript{36} made an attempt to investigate about the effect of efficiency on financial management practices such as maintenance of books of accounting, working capital management, financial planning and characteristics such as liquidity, leverage and asset turnover on profitability of business organization in Ethiopia. For this study, he took 135 business organizations out of which 27\% responded and by using correlation matrixes found out that efficiency of financial management practices can bring about higher profitability. Sound financial management practices is essential to the success of business organizations.
Mohd Amy Azhar B.Hj.Mohd Harif et.al (2013) conducted the primary study to investigate the financial management components and techniques practiced by 300 SMEs in Malaysia and found out that 3 components of financial management namely financial planning and control, financial accounting and working capital management has been categorized as core components and the remaining financial analysis, management accounting and capital budgeting as supplementary components.

**Financial Planning, Analysis and Control:**

Financial planning deals with ascertaining the long-term and short term financing requirements of the business and then deciding to choose amongst the various sources, the ones which should cost the least as compared to others. It helps an entrepreneur to develop the strategies, to set the goals in terms of volumes of profit and sales as well as acquisition of capital assets with a view to take care of future development and growth.

Tovo (1991) observes that self-employed women face several problems common to all small-scale entrepreneurs, which include limited access to capital, inputs and markets. Often a large number of small enterprises share one market segment, causing competition to be fierce and prices to be low. The products of small enterprises can be extremely dependable on a limited number of suppliers and wholesalers. This renders the entrepreneur economically vulnerable and often exposes her/him to exploitation. Further, the study also found that the biggest business start-up problems of the ‘typical’ woman entrepreneur were finance, credit and lack of business training. Her greatest operational problem was lack of financial planning experience.

Atrill (2006) argues that lack of financial management skills within SMEs often create problems in an efficient and effective way. The owners of SMEs are not aware that there are costs involved both in holding too much and too little that is terms of inventory and cash management. So in view of both there is a need for careful planning and monitoring of cash and stock flows overtime. He further
found out that poor or careless working capital management is a major cause of SME failure.

Deresse Mersha Lakew et.al (2009)\textsuperscript{40} made an empirical research and revealed that Sound financial management practices can bring about higher profitability which is possible through preparation of sales plan, production plan, cost plan, expenses budget, budgeted income statement, balance sheet and efficient utilization and control and management of acquired fixed assets, regular repair and maintenance and proper disposal of fixed assets will enhance the performance of firms.

Dr. Sukamal Dalta (2010)\textsuperscript{41} in his study on importance of strategic management highlighted through his review on Gable & Topal (1987) have found that small firms do not commonly practice strategic management and Walts & Ormsby (1990) found positive relationship between formal strategic planning & financial performance in Small enterprises.

Pamela Ruth Berry (2011)\textsuperscript{42} through his empirical study states that many manufacturing MSEs in the Tsnware metropolitan area use financial planning, be it formal, informal, traditional (or) modern methods & there is evidence to suggest that by using any of these forms of financial planning firms have a better change of succeeding. The more formal the planning process is, the longer the firm has been operating which would suggest that formal Financial Planning & Control & other management Maintenance of books of accounts do have an influence on the survival of the firm.

Olawale fatoki (2012)\textsuperscript{43} The study revealed that 53 out of 57 respondents are sole proprietorships and more than 90% of the micro do not engage in financial planning and control. 56 out of 57 respondents did not evaluate the feasibility of their business before commencing operations. The results of working capital management are mixed but do grant credit however the banking of takings on a daily basis is limited. This could have negative impact on the depositary history of micro enterprises with commercial banks and also limit access to credit.
Tarek zarook (2013) et.al found out that management experience and education levels have significant positive effects on access to finance and business planning and political connection have negative correlation in regard to access to finance.

Financial Structure Management:

The term financial structure represents the way in which a firm assets are financed. It includes long-term as well as short term sources of funds. For the successful operation and management of any business organization, it needs adequate amount of funds. It is very much important that availability of timely and adequate finance is necessary for the successful running of an enterprise.

Das Guptam, M.K (1994) examined the overall financing of small scale industries and also the contribution of the financial institutions and banks in financing small scale units. To facilitate the study, primary data was collected through a sample survey of 150 small scale entrepreneurs spread over Madras city and its vicinage. The study gives an integrated view of various sources of initial capital available to the sample entrepreneurs and the problems involved in availing the financial help from the institutions. It has been found that the entrepreneur with non-business background relied heavily on external sources like banks and other financial institutions. They face problems like delay in sanction and disbursement, inadequacy of loan, insistence for collateral security, impersonal and non-cooperative attitude of the officials. A single agency approach has been recommended as a solution to these problems in the study.

Kaveri (1998) made an attempt to analyse the issues concerning bank finance to small scale industries. The issues covered in the study were (a) quantum of bank credit, (b) time element in sanctioning the credit, (c) promoters’ contribution, (d) supply of information required for sanctioning the credit, (e) compliance with post-sanction formalities, (f) recovery from NPAs, (g) working of SSI branches, and (h) involvement of SMEs would be high and increasing. To meet
such requirements, both bank and borrowers have to sit together and work out appropriate strategies.

Ramakrishnaiah et al. (1998) have attempted to evaluate the role of APSFC in financing the SSI sector in Andhra Pradesh since its inception 1995-1996. The study was analytical in nature, concentrating on the pattern of financing the SSI sector, examining year-wise, type-wise, constitution-wise, purpose-wise and region-wise credit sanction and disbursement in Andhra Pradesh. The data for this study have been exclusively drawn from the annual reports of APSFC. They find that the major from of loans extended to SSI sector were term loans only. Other forms of loans, such as working capital, soft loans and bridge loans have not only been marginal, but also their share declined gradually over the years.

Patrick Hutchinson (2003) examined influence of growth on determining the capital structure of small and medium-sized enterprises (SMEs), the result stated that growth is not a very important determinant of SME borrowing either short-term or long-term. Profit, asset structure, size and age appear to be much more important. Growth seems to play a part in determining long-term and short-term debt in the Business Services industry and short-term debt in the Manufacturing, Construction and Distribution industries. Growth is also related to long-term debt for medium sized SMEs. But other than these cases, growth didn’t have much influence on capital market structure of SMEs.

Chawla and Batra (2004) attempted to analyse the financing practices and problems of small and medium enterprises. The Researchers suggested that the financial institutions apart from giving loans and offering credit services, should introduce various financial services such as leasing and hire purchasing, factoring and venture capital so that the SMEs can have access to more sources of finance.

Kalyan Kumar Sarkar (2005) conducted a study to show alternative modes of finance for the SME sector in India. He insisted that instead of depending upon the traditional sources of finance such as loans from banks, financial and non-financial institutions, they can go for Venture capital financing, factoring, capital
market etc. This alternative move will a) ensure timely credit delivery with flexibility in enhancing limits b) lead to lesser compliance of rules c) Result in a lesser incidence of sickness due to non-availability of finance from traditional sources d) Have minimal occurrence of NPA & easy exit routes to set up new ventures e) have binding responsibility as a shareholder/promoter. It is expected that the government will support such a move without any hindrance.

**Mausumi Bhattacharya (2010)** in her research paper highlighted the significance of credit rating for an MSME. SMERA is the country’s first rating agency in India that focused on SME segment. It offers data universal numbering system (DUNS) number an internationally acceptable number along with its rating reports. It is a unique 9 digit number which is used to identify a business in a global supply chain. Ratings will help SMEs access to financial services more efficiently by providing benchmarks & improving transparency. On the other hand SMEs can leverage their ratings for negotiating better borrowing rates and strengthening their relationships with bankers & non-financial institution. SMEs can use ratings as a marketing tool. Rating agencies need to work closely with the banks in changing their traditional outlook towards the SME.

**Akterujjaman (2010)** found through his study that SMEs were not preparing proper financial statement which creates problem for the bank in judging financial standings, profitability and credibility, SMEs are not maintaining proper licensing which makes SMEs difficult to trace, create problem for the bank maintaining records and decrease SMEs credibility to the bankers. The study suggested that the bank should develop an official credit-rating system in easier way as soon as possible, so that they can have some idea about the reliability of their SME clients.

**Roopa Kedva (2011)** says A CRISIL SME rating is available for Rs.7,500 owing to the specific subsidy support offered by Ministry of MSME government of India through NSIC for the first year. The rating enjoys wide acceptability with over 30 banks, treating it as part of their internal credit evaluation processes and offering interest rate incentives.
Dr.H.P.Kumar (2011)\textsuperscript{54} NSIC Chairman cum Managing director says in his press release “The concept of external ratings has helped MSMEs achieve an independent identity, access funds, attract foreign interest and develop growth strategies. This is a unique scheme devised by NSIC for MSMEs in the international financial sector. The role played by rating agencies including CRISIL is praiseworthy especially in the last 2 years when the number of CRISIL rated MSMEs have grown exponentially. CRISIL SME ratings enjoy wide acceptability at over 120 locations across India.

Parmendra Sharma and Neelesh Gounder (2012)\textsuperscript{55} examined constraints in bank financing of SMEs and said that research data undertaken by him clearly shows that for both enterprises with and without bank loans, the main concern relates to banks’ collateral, paperwork, disclosure and own contribution requirements, interest, fees and charge.

Yogesh Dixit (2011)\textsuperscript{56} in his Press release “Deccan Herald” may 19 said that Rated MSMEs are able to obtain loans from banks at rates lower by 0.25% to 1.25% than the market rate, gaining adequate access to the market place, ability to build brands (it is hard to enter the market 45 without brand, it is also hard to build a brand without access to market) availability of appropriate infrastructure and skilled manpower and also he pointed out that ratings were assigned to about 20,000 units across India.

Jagongo Ambrose (2012)\textsuperscript{57} in a study of 60 SMEs from Thika Municipal council presented an empirical and first hand report about awareness and usage of venture capital as an alternative financing strategy. Data was obtained by a semi-structured questionnaire and personal interviews. The conclusions drawn were 87% of them used personal savings, 2% of them used venture capital as a source but 90% of the SME stakeholders were largely ignorant about venture capital and also venture capitalists are not willing to finance MSMEs in Kenya due to their volatility, inability to meet the venture capitalists.
Kesseven Padachi and Carole Howorth (2012)\textsuperscript{58} in a study found that the small- to medium-sized Mauritian manufacturing firms face difficulties in procuring financing through the traditional sources. SMEs are not well organized and tend to rely on informal networks for important matters such as the financing of the business, sample firms reported different degrees of difficulty in obtaining financing based on their size, their stage in the business life cycle and their trade credit variables, more particularly to meet their WC requirements..

Abdul Naser .V (2013)\textsuperscript{59} states through his study that MSMEs contributions are considerably high in the balanced economic growth. It creates 4 million job opportunities in a year and employs semi-skilled and unskilled rural people and thereby increasing the living standard of rural India. With the advent of the Industrial clusters, MSME started to achieve benefits of economies of scale, specialization and innovation, to withstand global competition. At present, there are more than 600 SME industrial clusters & 7000 micro enterprise clusters in India. But still many banks are reluctant to extend loans to MSMEs due to reasons such as risk perception, lack of collateral etc. The MSME is expected to have great exposure with the advent of SME exchange at BSE which was commenced operation in March 2012.

Umesh M Awannavar (2013)\textsuperscript{60} states that rating agency CRISIL comprehensive analysis of 12,500 MSMEs revealed that Karnataka is among the top 3 states in India in terms of no of employees per enterprise due to their promoters strong entrepreneurial track record, longstanding relationship with customer, well-defined organization structure, superior profitability, capital efficiency and promoters inclination to higher qualification, good management competence.

David Deakins & mark\textsuperscript{61} feel in his book “Entrepreneurship and small firms” that there are a variety of sources of finance available to SMEs. Internal source of finance include personal savings, mortgages or money raised from friends and family. After the initial start up of the firm, retained earnings & profits provide internal capital. External sources include advances from banks, equity from venture capitalists and informal investors and short term trade credit, factoring, hire
purchase and leasing. The existence of finance gaps will arise because demand from small firms is greater than the willingness of financial institutions to supply the finance at current market conditions.

**Dr. R.Akila & Mrs. N.Padmavathy (2014)** says that Lakshmi Vilas Bank offers loan up to Rs.5 lakhs with no collateral security and third party guarantee to Micro and small enterprises if they are covered under credit guarantee scheme. The research further reveals that banks disbursement of loans to MSME and reimbursement by them is maximum during 2013 comparatively. On an average 44.14% and 59.6% of the loan lent to micro and small enterprises sector respectively would turn out to be NPA. The raise in percentage of NPA leads to decline in profits of LVB.

**Working capital management- cash management practices, receivables management and inventory management**

Working capital is one of the well researched areas of finance in the Indian context. Several scholars have shown their particular preference for this operational aspect. Perhaps the magnitude of investment in this vital component might have attracted the scholars in such a large number. For the present research working capital management performance of SME is evaluated in terms of cash management, receivables management and inventory management.

**Mallikarjunappa (1991)** conducted a case study on inventory and receivables position of small scale units in Mangalore taluk. This study was to compare the norms prescribed by the RBI for working capital finance with the actual inventory and receivable position of 10 selected small scale units. For this study, comparative analysis statements were used for analyzing the data.

**Ramesh (1991)** in his study focused on the problems in augmenting financial resources, limited capacity to raise equity, raising institutional funds, working capital augmentation, private borrowing and exorbitant interest rates, inadequate security base and market pressures etc. He has concluded that the
government should motivate not only new industries but also create mechanism for protecting the existing units. More liberal working capital funds should be made available to small units.

**Surrender S. Yadav, Jain and Rastogi (2001)** had undertaken a study to analyse the working capital management in three major oil sector companies in India, namely, IOCL, HPCL, and BPCL. Working capital ratios, current asset turnover ratios, and inventory turnover ratios, etc., were used to test the efficiency. The study revealed that these companies had, by and large, managed their working capital well. They had to continue doing well and improve upon the person so as to face the ensuing competition from other players including multinationals.

**Revathy and Rao (2001)** conducted a study to analyse the financial pattern of small business units. This study focuses on the problems of shortage of power and raw materials, low demand for products, poor quality, unintelligent marketing plan and imprudent financing pattern. The data was collected from 100 units registered with the District Industries Centre. The authors found that the borrowed funds occupied a dominant position in all the units.

**Anitha and Laxmisha (2001)** have conducted an evaluation study on financing the entrepreneurs by KSFC. The study covered a period of six years, from 1991-92 to 1996-97. To evaluate the performance of KSFC, secondary data were used and collected from annual reports and operational statistics of KSFC and found out that SMEs were the leading borrowers from KSFC, whereas the Corporation mainly providing term loan facilities, had failed to meet the working capital requirements of the enterprises.

**Pedro Juan García-Teruel (2006)** provided empirical evidence about the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms. The study found a significant negative relation between an SMEs profitability and the number of days accounts receivable and days of inventory. However, it is too difficult to confirm that the number of days accounts payable affects an SMEs return on assets.
Atrill (2006) argues that lack of financial management skills within SMEs often create problems in an efficient and effective way. The owners of SMEs are not aware that there are costs involved both in holding too much and too little that is in terms of inventory and cash management. So, in view of both there is a need for careful planning and monitoring of cash and stock flows overtime. He further found out that poor or careless working capital management is a major cause of SME failure.

Rane Bijoy Deb (2010) conducted a case study in Assam to identify the factors inimical to the MSME in utilizing their plant capacities and found that shortage of working capital was the most prominent reason for idle capacity among the sample units, 64.3% of the sample units reported that they have marketing problems followed by power shortage (46.5%); raw material shortage (22.8%); lack of skilled labour (9.9%) and Unfavourable climate (3%). Further, the researcher also highlighted through his study that shortage of working capital was predominant only in sole proprietorship type of organization, where as in partnership and private Ltd Co the same is minimal.

Prof. Vadakarai Meenakshi Sundaram Poniah et al (2011) has conducted a study of 525 MSME entrepreneurs and analysed the association of Receivables management variables and net profit of MSMEs in Tamil Nadu and found that 64.8% of MSMEs do not receive the advance before supplying the goods, 67.2% of MSMEs in Tamil Nadu are not able to receive the advance at the time of supplying goods/providing the services. It is found that 63.8% of MSMEs treat 5% & below of their yearly sales as doubtful debts. The study insists that efficient management of receivables by an MSME is must for sustaining the performance & to achieve growth and explores to be an eye opener for MSMEs to initiate appropriate strategy while managing the receivables.

Anita Pieterson (2012) argues through his research that 72% of SMEs in Sekondi sell goods on credit by undertaking formal credit investigations before granting credit and for a maximum period of 7-60 days and the process of setting
credit standards also allows firms to exercise some degree of control over the quality of accounts to be accepted.

**Ben K.Agyei-Mensah (2012)** found that SMEs of Ghanas contribution towards revenue to the national budget is negligible as the operators of small firms possess limited formal education, weak managerial and financial management skills, lack of qualified accounting staff and suitable accounting software which are motivators to effective working capital management practices and this has affected the viability of their business failure. This case study method research reveals further that 57% of SMEs only prepared cash budget and 67% of SMEs always experience bad debts. 83% did not know anything about Economic order quantity which is an essential part of inventory management.

**Kesseven Padachi (2012)** founded out by using parametric and non-parametric test in his research that the important variable such as improper maintenance of accounting records, information asymmetry, lack of knowledge of financial management practices were viewed as the main barriers to access working capital finance from financial institution. The findings confirmed that internal resources, non-banking and short term debt represent the main source of financing. The research findings provided some new evidence in support of the difference approaches to financing working capital and they are Bootstrap finance and shareholder loans, delayed payments to suppliers.

**Sajid Gul(2012)** investigated through his research the Impact of Working capital management on Performance of Paksitan SMEs. For this, he assumed return on assets which is used as a proxy for profitability as dependent variable and no of days accounts receivable, no of days accounts payable as independent variable & gathered data for a period of 7 years (2006-12) from sources Karachi stock exchange, tax offices, SMEDA, company itself & Bloom Burgee business week..
Maintenance of Books of accounts

Poor record keeping is also cited as a cause for start-up business failure. In most cases, this is not only due to the low priority attached to it, but also due to the lack of basic business management and skills. Most business operators, therefore, end up losing track of their daily transactions and find it difficult to account for their expenses and their profits at the end of operations. Accounting is often called the language of business through which a business house normally communicates with the outside world.

Osuala (1993)\textsuperscript{76}, many enterprises record their transactions randomly without adherence to any established systems of accounting; hence making it difficult in keeping track of the cash flows in the enterprises.

Richard G.P. McMahon (1995)\textsuperscript{77} the study found that financial reporting practices are more comprehensive in larger concerns in employment terms; and that a statistically significant difference in the comprehensiveness of financial reporting practices exists between small enterprises and medium-sized enterprises, with these practices being more extensive in medium-sized concerns.

Mitchel et.al. (2000)\textsuperscript{78} argued that maintenance of books of accounting could help SMEs manage short-term problems in such areas as costing, expenditure and cash flow by providing information to support monitoring and control.

Tony Berry, Bob Sweeting and Jitsuo Goto (2002)\textsuperscript{79} in his study found that the practices of accounting had a very limited penetration among the sample companies. Further, the study depicted that the owner/managers were more likely to regard accounting ideas as having importance to business decisions even if they reported a very low usage of accounting practices. The study also revealed that the larger and older firms have innovated in financial management due to exogenous pressure generated by the peer group industries. At the outset, the study illustrated that the innovative financial management were not in practice among the SMEs.
Ben Kwame Agyei-Mensah (2010)\(^{80}\) says that pressure from bankers (90%), from external Accountants (80%) and providers of capital (70%) are the three most influential factors that did motivate the sample firms in pursuing sound financial management practices and qualified Accountants too expensive to maintain (93%), Accounting records too difficult to understand (87%), lack of internal Accounting staff (73%) are the three most influential factors that prevent them from practising sound financial management practices of small firms in Ghana.

Ben Ebo Atton (2011)\(^{81}\) in his study says that 77.78% of MSME out of 305 in Central region of Ghana have no knowledge about cash control procedures and this lead to financial impropriety and misappropriation of cash as a resource, leading to solve growth of most of the businesses and also only 27% of them keep proper accounts and keeping track of their cash payments.

Asuquo and Effiong (2012)\(^{82}\), in his study found that the efficient capital structure management practices enhance the profitability. The survey also found that SMEs strongly supported all areas of working capital management practices. However, SME owners have a low level of management knowledge, and owner/manager’s experience has been seen to be more important than application of theories of financial management. Therefore, training skills of financial management for the owners and managers is essential, SMEs have a strong regard for financial reporting practices, preparation of financial statements, provision of updated financial information for making decisions enhanced the profitability.

Dr. Regime G. Okafor (2012)\(^{83}\) through his exploratory research design founded out that owners of SMEs in Nigeria take important decisions like the purchase of equipment (or) expansion of facilities are based on intuition, instinct & past experience than on scientific evaluation. Overall, the discharge of accounting & financial management functions in small business is very much limited due to non availability of qualified staff and it is expensive to maintain the services of qualified accountant and also revealing maintenance of books of accounting about the operations would expose to higher tax liabilities.
Kendra Gangata et.al (2013)\textsuperscript{84} outlined through his study that majority of MSMEs in Zimbabwe is not able to access to funding from financial institution due to lack of proper collateral securities, accounting records and reports.

Ita Salsalina lingga (2013)\textsuperscript{85} Majority of MSMEs in Bandung are a sole proprietor which has been in operation for less than 10 years and most of the owners backgrounds are non accounting degree and young with the age of 31-40 years old. Most of the respondents agreed that financial accounting reporting and analysis is important in decision making and raising loans but they prepare accounts only to determine the profit. So due to lack of accounting skill, knowledge and improper maintenance of accounts they are not able to access loans from banks.

Gilbert Kwabena Amoako (2013)\textsuperscript{86} points out that only 35.24% of 210 MSMEs in Ghana maintains accounting records for tracking of receivables and payables and to calculate the profit and loss. Whereas the remaining (majority) entrepreneurs feel that it requires technical skill and knowledge, expensive and time consuming, difficult to maintain the system and if it is maintained, it exposes the financial position and forced to pay more tax, which is a threat to survival of SMEs in Ghana.

**Capital Budgeting or Fixed Asset Management**

Capital budgeting decisions pertain to fixed/long term assets. It is the process of evaluating and selecting long-term investments that are consistent with the goal of the shareholders wealth maximization. Capital budgeting decisions are of paramount importance in financial decision making. Though there is enough literature probing into the conceptualities of the investment decisions, there are only a handful of research studies aimed at touching the practical aspects of the situation in India.

Dhankar R S (1995)\textsuperscript{87} examined methods of evaluating investments and uncertainty in Indian companies. He selected a sample of 75 firms. His findings
revealed that 33% of firms used non-discounted methods like PBP and ARR whereas 16% of companies were using modern DCF techniques.

**Block (1997)** made a research by conducting a survey of 232 small businesses in USA and revealed that payback method remains the dominant method of investment selection for small businesses where as large corporations widely incorporate discounted cash flow models(Proton & Canada 1992) which indicates the reflection of financial pressure put on the small business owners by financial institution

**Jain P K and Kumar M (1998)** made an attempt through the selected sample companies preference for evaluating capital budgeting projects were PBP, due to its simplicity, easy understanding, less cost and less time, followed by NPV and IRR.

**Cooper William D., Morgan Robert G., Regman Alonzo, Smith Margart (2001)** As per the results of their study, the most commonly used primary capital budgeting evaluation technique is the IRR (57%). The second most popular technique is the PBP (20%). The most popular backup technique is the PBP (23%), which is slightly more popular than the IRR and the NPV (21%).

**Anand Manoj (2002)** 85% of the respondents consider IRR as a very important/important project choice. About 65% of the respondents always or almost always use NPV. The PBP method is also popular. Large firms are significantly more likely to use NPV than small firms. Small firms are more likely to use PBP method than large firms. High growth firms are more likely to use IRR than the low growth firms

**Vaihekoski Mika and Liljeblom Eva (2004)** the survey revealed that the Finland companies still lag behind US and Swedish companies in their use of the NPV, and the IRR method, even though it has become more commonly used during the last ten years. The PBP method and IRR are the two most popular primary methods used to evaluate investment projects.
Lord Beverley R. and Boyd Jennifer R. (2004)\textsuperscript{93} the research of the two surveys show that 75\% of local authorities use cost-benefit analysis and NPV in financially evaluating capital investments. However, compared to studies of the private sector, there is a greater focus on qualitative aspects of decision-making. Post-audits were also highly used, but with a focus on quantitative information.

Gupta Sanjeev, Batra Roopali and Sharma Manisha (2007)\textsuperscript{94} has made an attempt to explore which capital budgeting techniques is used by industries in Punjab, and the influence of factors such as size of capital budget, age and nature of the company, and education and experience of the CEO in capital budgeting decisions. Majority of the sample companies still use non-discounted cash flow techniques like PBP and ARR. Only a few companies use DCF, and among them very negligible number use NPV technique to evaluate a new project.

Vinod Kumar Yadav (2012)\textsuperscript{95} through his research authenticates that due to lack of capital budgeting decisions of SSI which are vital to a firms financial well being, 87.5\% of SSI in Haryana face more financial problems and loss in their business. On the other hand, majority of the large firms in Haryana, capital budgets were prepared by committee constituted for this purpose which includes economist, financial expert, tax expert, mathematician, marketing and technical experts and in few firms due to scarcity of funds did not prepare any capital budgets (especially metal products industry). Only 6\% of the surveyed units due to shortage of funds in small scale industries uses the post audit techniques to compare the actual results with the predicted projects.

It is understood from the literature survey that access of finance is the major challenge for Small and Medium scale enterprises all over the world. In order to make the easy access of finance timely and adequately, it is very much important that SMEs has to adopt various financial management practices such as financial planning, analysis and control, financial structure management, maintenance of books of accounting, capital budgeting decisions or fixed asset management and working capital management. The adoption of financial management practices by SMEs enables them to sustain and survive in the present globalised market.
END NOTES:


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