CHAPTER VI

FINDINGS, SUGGESTIONS AND CONCLUSIONS

The study began by introducing the Financial management practices which is the need of the hour of any businesses in the world, especially for the SMEs in India. Since many Small and Medium scale enterprises in India have become sick, many units have been closed due to lack of proper financial system and improper financial education. SME sector is often referred as the backbone of the economy, but this sector faces immense challenges when it comes to access to finance. Finance is required not only to start a business but also for sustenance, diversification, modernisation as well as expansion and the lack of which can severely hamper the growth of the sector. This is a major concern which demands the urgent attention of the policy makers.

Hence the present research would help the stakeholders and supporting bodies to understand the prevailing problems and solutions of SME market. It helps in understanding that proper adoption of financial management practices will ease their business successfully and survive in the globalised market.

Based on the data analysis, this chapter summarises the major findings of the research, gives suggestions for the stakeholders of Small and Medium scale Enterprises and conclusions were drawn based on the prevailing financial management practices of SMEs in the present study.

6.1 SUMMARY OF FINDINGS:

Personal and Business profile of SME entrepreneurs

The Profile of the SME reveals that majority of the SMEs in Tamil Nadu are owned by Male entrepreneurs in the age bracket of 31-45 years followed by 18-30 years. Only 15.4% of women entrepreneurs choose their carrier as business due to the risk involved in it. The financial matters and decision making power of the
SME in Tamil Nadu are dealt only by the owners followed by managers. Most of the entrepreneurs are educated with a basic qualification of degree followed by Post graduates. This can be inferred that from the year 2011, many educated people have come forward to take up risk and chosen their carrier as business. This facilitates for better economic growth in Tamil Nadu.

Nearly 71.6% of the entrepreneurs of SME in Tamil Nadu have started their business with passion, 7.8% of them has continued their forefathers business and only 0.4% of the respondents has been forced to take up business. Almost all the SMEs (96%) in Tamil Nadu are registered which indicates that SMEs prefer to have regulisation of the sector. 45.9% of the SMEs in Tamil Nadu are able to survive for more than 10 years in the globalised market which indicates that Tamil Nadu market is favourable for SMEs. Majority of the SMEs in Tamil Nadu are involved in Small scale manufacturing business and only few SMEs are involved in export business.

The research reveals that 44.6% of the entrepreneurs of SMEs in Tamil Nadu belong to the category of Sole proprietorship which may be the reason for more number of sick units or closure of business in short span of time as their capital and all other resources are limited. It is also evident from the research that that majority of the SME entrepreneurs run manufacturing enterprises while only 18.8% of the entrepreneurs manage service industries.

Financial Management awareness of SME entrepreneurs

The entrepreneurs of SMEs emphasize that efficient financial management practices are essential for sustainability and survival of business. The entrepreneurs have insisted on one fact that attitude and knowledge of the entrepreneurs of SMEs play a vital role in risk management. The entrepreneurs of SME highlighted that preparation of financial budget is essential for the proper financial planning of the organisation. They also revealed that analysis of trend of cost, sales and profit are essential for appropriate financial planning. The entrepreneur of SME has highlighted the fact that growth is an important determinant for SME in the business life cycle while framing the financial structure.
They also found that getting loans from external source is costly, involve time delay and require collateral security.

The entrepreneurs of SMEs strongly believed that the accountant should be well versed not only in accounting principles but also a computer literate apart from adequate technical skills and appropriate accounting knowledge for maintenance of books of accounting. The liquidity position of SMEs in Tamil Nadu gets enhanced by an appropriate preparation and review of cash budget which is the main component of working capital management. The study also revealed the fact that computerisation of cash; receivables and inventory management will enhance working capital management.

The entrepreneurs of SME had the opinion that efficient utilization, control and management of acquired fixed assets are important for determining capital budgeting. They also insisted the fact that regular repairs, maintenance and proper disposal of fixed assets will enhance the performance of the SME enterprises.

The application of t-test of the variables of financial management clearly reveals different t-values with 5% level of significance. This implies the factors of financial management practices differ significantly. The Hypotheses is rejected at 5% level and can be concluded that factors of financial management differ significantly.

Factors of Financial Management Practices

From the current study it is found that ‘Transparent Entrepreneurs’ emphasize the fact that general awareness level of entrepreneurs will improve the efficiency of financial management practices. ‘Development seekers’ moderately agreed the fact that general awareness level will increase the effectiveness of financial practices. It is also decided that there is an association between General awareness of entrepreneurs and financial structure, financial planning, maintenance of books of accounting, working capital and capital budgeting. The researcher found that ‘Knowledgeable Entrepreneurs’ highlighted that financial planning, analysis
and control are essential financial practices. The focused entrepreneurs believed the fact that financial planning; analysis and control will improve the financial growth of SMEs.

It is determined that there is an association between financial planning and growth objectives, comparison of financial objectives with their performance, preparation of sales and cash budget and type of financial planning at 5% level of significance. The study also determined that realistic entrepreneurs emphasised the fact that financial structure is an important determinant for growth of SMEs in Tamil Nadu. ‘Adaptive Entrepreneurs’ moderately agreed that financial structure management aspects like venture capital, factoring and capital market are essential for improving the efficiency of SMEs.

It is understood that there is an association between financial structure and high interest rate charged for SME by external financiers, demand of collateral security and SME stock exchange. The researcher identified that ‘Systematic Entrepreneurs’ prefer proper maintenance of books of accounting. ‘Committed Entrepreneurs’ strongly believe that adherence to proper Maintenance of books of accounts will enhance the financial performance. The study further revealed that there is an association between maintenance of books of accounting and maintenance of formal maintenance of books of accounting, persons responsible for recording, preparing and interpreting the maintenance of books of accounting, preparation of financial statements such as income statement and statement of funds at 5% level of significance.

The researcher determined that ‘Pragmatic Entrepreneur’ give great emphasis for working capital management. The ‘Consistent Entrepreneur’ are systematic in working capital management practices. There is an association between working capital management and maintenance of track of cash receipts and payments, sale of goods or services on credit, credit period allowed to customers, cash discounts to customers for making prompt payments, percentage of bad debts and stock checking practices of SME at 5% level of significance. The researcher inferred that ‘Bootstrap Entrepreneurs’ highlighted the fact that capital budgeting or
fixed asset management are essential for appropriate financial management practices. The visionary entrepreneurs also insisted that capital budgeting decisions is important for business.

The researcher determined the fact that there is an association between capital budgeting decisions and evaluation of capital projects before capital investment, methods of capital budgeting, risk factor in capital investment proposals and review of efficiency of fixed assets at 5% level of significance.

The application of K-means cluster analysis followed by non-parametric Chi-Square analysis of association clearly reveals the existence of heterogeneous groups of SME entrepreneurs. Therefore the hypotheses is rejected at 5% level and concluded that there is significant difference among the SME entrepreneurs in the awareness level.

The application of non-parametric Chi-Square analysis is applied for the two domains of financial management practices and business details of SMEs and clearly revealed the existence of significant association. Therefore the Hypotheses is rejected at 5% level and concluded that there is association between the business background and the financial management practices of SMEs

**Association between business background and financial management practices of SME entrepreneurs**

Business position categories such as owners, managers and chief accountant differ in perception towards financial planning at 5% level of significance. Comparison of mean 4 types of entrepreneurs also revealed that chief accountants strongly agreed for financial planning, analysis and control. Gender category of entrepreneurs differ in perception on the awareness level and financial management. Comparison of mean between gender category envisaged the fact that women entrepreneurs strongly agreed that general awareness, financial planning and financial management practices will improve the business successfully.
Different age category has different perception towards financial planning, financial structure and general awareness at 5% level of significance. It is also understood that age category 18-30 years strongly agreed for awareness level and financial management perception. Educational level of entrepreneurs differs in their perception of influence on the awareness level and financial management perception. Comparison of mean revealed that entrepreneurs with technical qualification have robust agreement with the financial planning. The different reasons for starting SME by the entrepreneurs differ in their perception towards awareness level and financial management. The study also revealed that entrepreneurs who started their business because of their unemployment of their choice preferred awareness level and financial management perception.

Entrepreneurs with different registration status differ in perception towards general awareness level and financial structure management at 5% level of significance. Entrepreneurs of SME with the registered status emphasize the fact that general awareness level is important for their success. Unregistered entrepreneurs strongly agree the fact that proper financial structure management will improve the financial performance.

There is a perceptual difference shown among 4 categories of entrepreneurs according to year of establishment from the analysis of variance table at 5% level of significance. Mean comparison among different types of entrepreneurs showed the fact that entrepreneurs who has started the business during 1971-80 strongly agreed that general awareness level is important for any business.

The researcher determined the perceptual difference among 5 categories of business (manufacturing, trading, assembling, servicing and wholesale and retail) towards awareness level and financial management perception. Comparison of mean showed that entrepreneurs who are engaged in manufacturing business have robust agreement on the awareness level and financial management. Categories of entrepreneurs involved in different lines of activity (mechanical, electrical, computer and IT, plastics, garments, paints and chemicals, leather, rubber, automobile and engineering) differ in perception towards awareness level and financial management.
perception. Entrepreneurs who are engaged in Rubber business emphasised financial planning and working capital management.

The study on perception difference of age of business revealed the fact that different age of business category has different perception towards awareness level and financial management perception. The comparison of mean leads to the finding that entrepreneurs who run business for more than 10 years strongly agreed for working capital management decisions. The sector level study revealed that small and medium scale manufacturing enterprises differ in perception towards financial planning at 5% level of significance.

The comparison of mean showed that Medium scale manufacturing entrepreneurs strongly agreed for financial planning, analysis and control. The perception level computation determined that small and medium scale service sector differ in their perception towards financial structure management, maintenance of books of accounting, general awareness and capital budgeting decisions at 5% level of significance. The comparison of mean showed that entrepreneurs of service sector at Medium scale level exhibit an enhanced opinion about capital budgeting decisions.

**Association between awareness level and the effective financial management practices of SMEs**

There is a positive relationship between general awareness and status of registration. This is evident from the fact that registered SMEs have been increased with the passage of time and general awareness among entrepreneurs about the importance of registration of SMEs. It is also evident that general awareness and borrowings from non banking financial institution are closely associated. This could be possible only due to increased awareness among entrepreneurs in Tamil Nadu. Financial planning and comparison of financial objectives with their performance are found to be closely related. This emphasizes the effectiveness of financial management practices.
The financial variables such as type of business, revenue earned through export business, net profit earned at the end of three years, collateral security are important factors which are positively related with financial structure. This emphasizes the fact that financial structure is a key management practice for improving the effectiveness. Maintenance of books of accounting of the firms and designations and education level of the persons who are in-charge of maintaining maintenance of books of accounting are closely associated. Systematic accounting reporting and analysis practices will improve the effectiveness of financial management. It is found from the current study that age of business and net profit level are statistically significant at 5% level of significance.

Thus it is determined that working capital management depends upon age of business and net profits of the firm. This influence of financial management variables such as age and net profit increases the effectiveness of financial management practices of SMEs in Tamil Nadu. The current study determined the fact that capital budgeting depends upon type of business. Depending upon the industry type capital budgeting decisions vary. Thus type of business and capital budgeting decisions are essential factors for measuring the effectiveness of financial management practice.

The application of linear multiple regression analysis on the variables of awareness and the factors of financial management practices clearly revealed through the existence of significant capital F-values. Therefore the Hypotheses is rejected at 5% level and concluded that there is a significant relationship between awareness level and effective financial management practices.

6.2 SUGGESTIONS

SMEs in TamilNadu produce over 8000 varieties of products This sector contributes about 10 per cent to the Gross Domestic Product (GDP), provides employment to about 58.33 lakhs persons and accounts for a total investment of Rs. 48,189 crores. But due to lack of availability of timely and adequate finance, many SMEs in Tamil Nadu have been collapsed. So in order to make the Small and
Medium scale Enterprises operate in dynamic, global, uncertain and competitive environment the following suggestions were made by the researcher based on the research undertaken and also based on the observation made by the researcher while collecting the data and they are as follows.

- The entrepreneurs who are lacking decision making practices should be trained for decision making. Entrepreneurs in the age category of above 45 years should be given entrepreneurship training and awareness to start their own business.

- More women entrepreneurs should be encouraged. The various supporting bodies of SME should come forward to encourage women entrepreneurs as the present research reveals that only 15.4% of women has chosen their carrier as entrepreneurship. The government should encourage women entrepreneurs by granting more incentives and subsidies and launch special schemes for their participation.

- Uneducated entrepreneurs of SMEs in TamilNadu should attend financial management awareness workshop and undergo training programs by organised by government/NGO to improve their knowledge. The financial institutions while providing finance to SMEs should give weightage to entrepreneurs who have undergone financial training programs so as to encourage them to take up the programs seriously.

- Unemployed persons should undergo entrepreneurship training to bring entrepreneurial spirit in them. Registration of SMEs should be made compulsory by the Government. The entrepreneurs should be encouraged to start their business as Partnership or Private or Public companies.

- More number of entrepreneurs should be engaged in whole sale and retail business. Only few SMEs in Tamil Nadu are involved in export business so government should encourage and create awareness about export market among the entrepreneurs. The quality of the SME products should be enhanced by introducing modern technology.
• As computerisation will reduce cost and save time, it is essential to computerise financial information. The entrepreneurs in the age category of above 30 years should be given training in computerised accounting. As maintenance of books of accounting is difficult and time consuming, introducing the appropriate accounting software is need of the hour.

• Majority of the SMEs depend upon own sources of funds which is not sufficient and secondly they depend on bank loans which is not adequate and easily accessible. Hence SMEs should go for alternative sources of funds such as venture capital, capital market, micro credit and FDI in order to sustain in the market.

• Entrepreneurs should ensure optimum working capital in their business and make proper provision for working capital, as many entrepreneurs often make proper arrangements for investments in fixed assets but they fail to make proper provision for reserves. The business becomes sick for want of capital.

• The liquidity position should be improved in order to meet the day to day expenses. Unambitious entrepreneurs should be given proper training in awareness workshop, training by government and NGO in order to acquire the knowledge of understanding government, financial and non-banking financial institution schemes and policies.

• Ignorant entrepreneurs should acquire the knowledge about preparation of budgets, proper financial planning, liquidity position and analysis, computerisation of maintenance of books of accounting and tackling risk situations during financial crisis.

• Awareness should be created among Comfortable entrepreneurs regarding importance of venture capital, factoring, capital market and micro credit. They should understand that growth is the important determinant during borrowing stage in the business life cycle. Importance of Proper
understanding of financial structure should be taught to Comfortable Entrepreneurs.

- **Conversant Entrepreneurs** should be trained in implementing proper maintenance of books of accounting, learn the principles of accounting and acquire the appropriate technical knowledge of maintenance of books of accounting.

- **Unorganised entrepreneurs** should be informed about the importance of preparation and review of cash budget, assessing the credit worthiness of customers, application of theories of inventory management to maintain the optimum level of inventory to improve the efficiency of working capital management.

- The **Blurred entrepreneurs** should be given proper training about the importance of fixed asset management practices such as efficient utilisation, regular maintenance and capital budgeting process as they are vital for the success of any business.

- Entrepreneurs in different business position, gender category level should acquire knowledge about Capital budgeting decisions. Entrepreneurs with different educational qualification should learn about the importance of working capital management.

- Entrepreneurs who are starting their business for various reasons should know the importance of maintaining books of accounting, working capital management and capital budgeting. While imparting general awareness to the entrepreneurs importance should be given to position in the business, sales maximisation and growth, sources of capital and methods of capital budgeting.

- Proper maintenance of maintenance of books of accounting by the SME entrepreneurs reduces the time delay in getting loans and enhances the financial structure. Entrepreneurs in manufacturing sector should give
importance for proper maintenance of books of accounting, working capital management and capital budgeting decisions.

- Banks should relax norms and procedure especially for SME so that they can approach even during emergencies. Like public sector banks, private and foreign banks should come forward for direct financing to SMEs.

- Banks may explore the possibility to incentivise their large corporate clients for procuring products from SMEs financed by them. This would facilitate ready market to SMEs thereby mitigating risks associated with SME financing. Further it will help in effective monitoring their accounts.

- Credit rating should be made mandatorily for SMEs by all financial and non-financial supporting bodies which help in streamlining their financial activities thereby avoiding Non-performing assets. SME stock exchange should be welcomed in India by entrepreneurs in order to avoid red-tapism of financial supporting bodies of SME and also to solve financial problems.

- Bad debts are a major problem faced by the entrepreneurs of SMEs in TamilNadu. So in order to overcome, the entrepreneurs should investigate the customers before granting credit to customers, by granting cash discounts to prompt payers, making proper provision for bad debts and also by adopting factoring process in recovery of receivables.

- Government should take effective steps in providing basic amenities such as continuous power supply as it is a major hurdle for their functioning and reduction in tariff for current usage to SME. The government should come out with necessary legal instruments to make the preparation of proper books of accounts mandatory in order to improve SMEs survival easier.

- Various Chamber of Commerce must organise business fair at local as well international level for the benefit of SMEs. So that entrepreneurs of SMEs could acquire information about local/ global market which would provide vital inputs to them about demand for their products and would also help to develop networks among suppliers and clients. The owners of SME should
develop positive attitude towards adopting financial management practices and their knowledge towards risks, so as to achieve desired business performance and also plays a vital role in risk management.

6.3 CONCLUSION

This study reveals a bleak state of affairs about the financial management practices and systems followed by Small and medium scale enterprises in Tamil Nadu. This is evidenced by exploring the awareness level of entrepreneurs of SMEs on financial management practices which are considered to be very much essential for the survival and sustainability of SMEs in the global competition. Such financial management practices include financial planning, financial structure management, working capital management, maintenance of books of accounting and capital budgeting decisions.

The dynamic activities of SMEs are similar and equally challenging for all business ventures then the success of these SMEs rely upon following a sound financial management practices. The policies of the Government of India gives more weightage to vocational and skill based sector so as to promote the SME self sustainable. In this scenario the SMEs must be encouraged and motivated to plan their finance properly through effective financial management practices which will enable them to overcome the difficulties of finance and win-over the large scale sectors. It becomes bounded duty of entrepreneurs of SMEs to participate in all the awareness and training programs offered by various bodies, get benefited and implement the ideas for the individual growth and development as well as the over all SMEs in India.

The study strongly suggest that all the supporting bodies are expected to facilitate the SMEs in their overall development and understand that Yesterdays micro and small scale enterprises are today’s medium scale units and today’s medium scale units are tomorrows large scale units. Therefore all sections of the society should support and help them for their growth and development which in turn take the nation forward.
6.4 SCOPE FOR FURTHER RESEARCH:

The present study of Financial Management Practices of Small and Medium scale enterprises in Tamil Nadu has been carried out in an exhaustive manner. A detailed and elaborate research may be conducted in the following areas.

1. Venture capital, Foreign direct investment and SME stock exchange of SMEs as alternatives sources of capital for its survival.

2. Comparing the Financial management practices of SMEs in urban and rural areas

3. The Impact of entrepreneurial characteristics on the financial management practices of Small and medium scale enterprises.

4. Role of networks and innovation in Small and Medium scale enterprises and firm performance.

5. Each elements of financial management practices such as financial planning, financial structure management, maintenance of books of accounting, capital budgeting decisions and working capital management could be studied in detailed.