CHAPTER 6
CONCLUSION AND MANAGERIAL IMPLICATIONS

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6.1 Introduction

This study was designed to focus on financial competitiveness of small and medium sized enterprises specifically working in manufacturing sector. This study contributes knowledge about SME development by addressing areas of research in financial competitiveness and growth determinants of SMEs. Results of this study conclude with deeper understanding of various determinants to growth of small and medium enterprises and their financial competitiveness. By summarizing the findings of the study, this chapter discusses importance of various factors that lead to firm growth and competitiveness. This section of the thesis explains the conclusion of the study and its contribution to the theoretical framework. In the end implications for the managers and policy makers of small and medium enterprise are discussed.

6.2 Conclusion of the Study

This research set a framework to measure the growth of small and medium enterprise, financial competitiveness of the firm and answer the following questions.

- How important are SMEs in economy and its presence in various sectors?
- Which are the factors impacting the growth of manufacturing SMEs?
- How small and medium enterprises are different from their large counterparts?
- Does small and medium firm’s characteristic impact capital structure and profitability of firm?
- How capital structure of small firm impact SMEs’ financial performance and competitiveness?

6.2.1 Small and Medium Enterprise Growth and Its Significance

As found in earlier discussion in chapter one, small and medium sector will play a significant role to lead India as growing economies world over in next decade. Small and medium enterprises (SMEs) segment is expected to play a significant role
in the GDP contribution of the Indian economy. India’s GDP is expected to touch 8.5 per cent, with the country likely to be a USD 5 trillion economy by 2025. The SME segment has the potential to emerge as a backbone for this economy and act as an engine for growth, given the right set of support and enabling framework.

6.2.2 SMEs’ Growth Factors

Using a cross sectional data set for consecutive three year period (2011 – 2013) of 175 small and medium enterprise, this study indicates that SMEs growth hinders due to many determinants such as firm size, capital structure of firm, productivity and cash flow generation capacity of the firm. Important insights are gained in relation to SMEs growth and its determinants for both the dependent variable: Operating Revenue and Total Assets. Result shows impact of explanatory variable (total assets, current ratio, capital productivity and cash flow) found significant and have positive relationship. These positive relationships indicate that as small and medium firm growth largely depends on their cash flow generation capacity, short term liquidity and effective utilization of the available fixed resource. The study finding also argues that, there is negative relationship found with SMEs growth and leverage presence in the firms’ financial statement. The observed reasons for negative relationship harness that higher cost of external finance and lack of access to formal financial market. Also large numbers of small and medium firms heavily rely on internal generated funds for financing their assets acquisition and growth needs. This study finding suggests that firms with better investment opportunities will choose to maintain lower liquidity in order to support their current growth. Further, on the basis of research inferences study confirmed that SMEs growth determinant and its categories on basis of size and sales turnover have no significant difference. This result indicates that firm’s growth determinants are not varies with respect to its size and sales turnover. This study concludes that, key growth factors of small and medium enterprise have significant impact on organizational financial performance of SMEs. This is a significant contribution to the theory in measuring growth of SMEs and firm financial competence.
6.2.3. SMEs’ Characteristics and Capital Structure

The study has demonstrated the relationship between firm’s characteristics and capital structure of firms. This null hypothesis is rejected, which shows that there are statistically significant relationship between SME firm’s characteristics and capital structure of firms. Important insights shows impact of explanatory variable (non-debt tax shield and size) found significant and have positive relationship. While profitability variables found significant and has negative relationship with firm’s capital structure. The observed reasons for this negative relationship harness that most of the small and medium enterprise meets their fund requirement by using option mortgage of their fixed assets and they have little bargaining power compare to their large counterparts. So, from the study inference it can be conclude that small firm’s performance largely impacted by presence of financial leverage presence in the financial statements of the firm.

6.2.4. SMEs’ Capital Structure and Financial Performance

This study measured impact of capital structure and its impact on important financial indicators like gross Profit margin, return on assets and return on capital employed. A result inference concludes that small and medium enterprise financial performance is negatively related to leverage presence in firms’ financial statement. This inference is same for all the data set year (2011 to 2013). The results for all three dependent variables: (1) Gross profit margin (2) Return on assets and (3) Return on capital employed were checked with leverage presence in firms’ financial statement, but the impact found negative. The observed reason for negative relationship harness to the agency conflicts due to leverage in a firm’s capital structure. The agency conflicts between managers and shareholders by constraining or encouraging managers to act more in the interest of shareholders and, thus, can alter manager’s behaviors and operating decisions, which means that the amount of leverage in capital structure affects firm performance.
6.3 Managerial Implications

As explained in previous chapter, the findings of this research contribute number of implications for both managers and policy makers of small and medium enterprise. The evidence shows that growth of small and medium sized firms is impacted by many key growth factors (size of the firm, leverage, capital productivity) thus policy makers and managers needs to incorporate and focus on them to improve competitiveness of firms. The evidences from the results of the study show that small and medium sized firms in India largely rely on internally generated sources of finance to support their growth. SMEs also find it very difficult to obtain lower cost external finance. Thus, the policy makers in developing economies like India need to pay increased attention to create an environment that benefits the growth and development of SMEs. Further, managers’ better understanding of how firm specific characteristics impact firms’ growth can help managers engage in more efficient decisions related to their capital structure in order to lower the cost of capital. Also increasing the capital productivity and short term liquidity help SMEs to improve their competitiveness and enhance their growth potential.