CHAPTER VI
SUMMARY, FINDINGS, SUGGESTIONS AND CONCLUSION

The final chapter aims to sum up the details provided in the earlier section. It takes a quick look at the key findings from the interviews conducted, which have generated exceptionally interesting results with the help of the literature review and has further provided a large room for future studies and research.

6.1 Summary

Accounting which is the basis for effective financial management has been generally termed as the language of business throughout the world. In recent years, accounting issues have become more and more important in the business world. For small enterprises, which often do not have a separate cost accounting or managerial accounting, the financial statements and records can provide some information to owners and managers. It is often stated that business decisions need to be supported by good quality financial information which needs to be relevant, user-friendly and available in a timely manner. Appropriate accounting should be an active steering tool to run and manage a business instead of representing another administrative burden that the small enterprise has to comply with.

Thus, it could be concluded that in all forms of business units, financial management systems are of crucial importance. In fact, they are of significance to business success. Indeed, prior research work carried in African and Western countries have asserted that the quality of accounting information utilized within the MSME sector has a positive relationship with an entity’s performance. But, in Indian context few have considered assessing the financial practices of small business entities which are active in service
activities like retailing. Thus, this study aims to measure the relationship between organizational performance and financial management practices like capital structure, investment and borrowing pattern, working capital management and financial performance assessment in retail sectors in Coimbatore city.

Based on the concept discussed above, the following objectives were constructed- the socio-economic profile and business nature of small business firms in the study area; to analyze the nature of financial practice adhered to by the small business firms; to critically evaluate the working management techniques adopted by the small business firms; to analyze the financial management practices implemented by the small business firms; and to measure the gap in financial practices and its management techniques; and to suggest suitable measures to overcome the existing gap.

The research methodology of the study consists of two stages: exploratory and descriptive. Coimbatore city is selected as the study area. Multi-stage clustered based stratified random sampling technique has been used in the study to select the respondents. The sample subjects were selected from the prime food and grocery retailers/wholesalers from Range Gowder Street, Sukravar Pettai, Raja Street, Oppanakara Street, Thiyagi Kumaran Street, as these areas are located in the South of Coimbatore. Gandhipuram and North Coimbatore form the northern part of the city. From the city corporation data-base it has been observed that they are more than 3000 food and grocery retailers operating in Coimbatore city, who deal with both single and multiple branded retail items.

From the Small Traders Association (2012) data-base, it has been inferred that 3302 grocery retailers’ are existing in the sample two regions of the study area i.e., Coimbatore North and South. From the existing data-base
20 percent was chosen as sample population. A semi-structure interview schedule was prepared and a pilot study was conducted with a sample of 70 respondents in the seven chosen commercial areas. Based on the responses of the respondents, suitable modifications had been made in the interview schedule for the purpose of large sample survey.

Samples of 660 retailers were chosen after first-hand information was gathered from seventy retailers. The data were stratified according to the population available in the study areas. Enough care has been taken by the research scholar in monitoring the sample population in order to avoid the entry of false information, or to check whether the interview schedules are completely filled by the respondents as per the queries raised. At the end of the final data collection it was observed that 35 interview schedules were found to be incomplete and deducted from actual data collected, making the final respondents 625.

6.2 Major findings of the Study

The findings of this empirical work is significant because the analysis of these findings will reveal whether the system of bookkeeping by small traders in their current form reflects accounting principles and practices adopted by the formally organized institutions. The findings will explain how small traders define business success in monetary terms and how relevant accounting is to traders in small and micro enterprises in Coimbatore city. They will also make a case for inclusion of the small and micro enterprises in the business sector data for use in economic statistics.

1. Socio-Economic Profile

- It has been observed that 61 percent respondents surveyed are males and 36 percent small business firm owners are aged between 21-35 years. It has been observed that 45.80 percent of the respondents have completed
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standard by way of educational qualifications. From the study it has been concluded that 53.60 percent of small business owners are married and 75.10 percent of respondents live in their own homes.

II. Business Profile

- It has been observed that 36.60 percent of the sample subjects own small shops, 33.42 percent of retailers have positioned their business in the main market area and 53.80 percent of retailers’ have been in business for the past 1-5 years.

- It has been concluded that making money has been identified as the prime motive for starting a business. This variable is ranked in the first place with a highest mean score of 3.96.

- It has been clearly inferred from the elaborate data analysis that 59.80 percent of retailers surveyed have not changed their business in the past, whereas 62.55 percent of sample retailers’ had changed their business operations for once.

- The data analysis claims that 63.74 percent of the retailers’ surveyed had changed their business due to incurrence of high credit (31.87 percent) and continuous working capital crunch (31.87 percent). They had changed their past business operation to other profitable business.

- It has been observed that 57.12 percent of respondents have sourced their initial investment from their own savings and 50.40 percent of sample subjects had invested below ₹100000 as their working capital.

- From the study it has been inferred that 58.40 percent do not have partner(s) in the business, being sole proprietor business. Out of 41.60
percent partnership firms, nearly 39.23 percent of partners have a share of 25 percent to 40 percent in the business.

- It is therefore concluded that 50.20 percent of retailers’ have been selling 6-10 products in their store. It has also been concluded that 56.30 percent of firms surveyed have 1-2 employees. It is interesting to note that none of the employees of the respondent firms were given appointment letters before they started working in their various firms. As most of the employees are family members, in majority of cases, husband and wife, they did not pay salaries. They did not enjoy any predetermined leave periods as they would go on leave according to their will.

- It has been observed that 56.50 percent of respondents have 1-2 staff in sales services, 65.20 percent of small business have 1-2 reputable employees for financial administration, and 50.40 percent of respondents have 1-2 coolies for loading/unloading purposes. From the elaborate discussion it has been inferred that 40.20 percent of the firms were pursing the objective of “increasing profitability”.

III. Awareness of Financial Management Practices

- The data analysis of the study indicates that 80.67 percent of the sample subjects pay attention towards tax management practices, 77 percent towards investment management, and 73.67 percent firm owners are more knowledgeable in terms of tax payment practices.

- With the conduct of ANOVA test it has been concluded that there exists an association between small business owners’ level of awareness towards effective financial management practice. This is significantly influenced by the size of the business, longevity of business, range of
products sold in the store, number of employees in financial administration and the firm’s objectives.

IV. Accounting Practices

• It has been found that 80.30 percent of respondents had agreed that they maintained proper accounts of their regular income and expenditure of their business operations.

• From the elaborate data analysis it has been inferred that 64.80 percent of small business entities till date, adhere to both traditional and modern accounting practices i.e., usage of books and computerized accounting.

• Further it has been inferred that 36.48 percent of small business entities maintain accounts on a weekly basis.

• From the calculated result of ANOVA test, it has been concluded that bookkeeping practices of unorganized small firms are highly influenced by their business profile. There was significant difference with regard to basic record keeping techniques between firms with experience and others with less than 5 years. The study also indicates that older business units were knowledgeable and diligent enough in record keeping about their business than their younger competitors.

• It has been observed that 75.40 percent of respondents prepare budget for their business income and expenses management and 36.30 percent of financial managers of small business firms have completed secondary level of school education i.e., from sixth to tenth.

• The findings from this study reveal the fact that around 52 percent of small business firms surveyed do not have adequate knowledge on how to prepare a complete or full set of accounts.
• The data analysis indicated that 73.90 percent of respondents acknowledge the fact that they prepare the financial summary to check the efficiency of their business.

• From the study it has been concluded that 30.72 percent of small business entities are under pressure of external auditor/accountant who motivate them to prepare monthly management accounts.

• The results of ANOVA test endorse the fact that longevity of business duly influences the accounting and its management practices by the small business entities.

• From the study it has been concluded that 32.30 percent of small business entities do not prepare regular accounts of their business as they feel that maintaining qualified accountants is too expensive.

IV. Financial Operation-Cash Conversion Cycle

• It has been inferred that 56.30 percent of the respondents have not availed loan from any financing institutions. On the contrary, out of 273 loan seekers’, only 42.86 percent of respondents have applied for loans to nationalized banks.

• It has been inferred that 53.85 percent of respondents pay below 10 percent of interest, as they had borrowed from nationalized and other scheduled banks and the majority i.e., 50.55 percent of respondents’ borrowing valued below ₹1 lakh.

• It has been inferred that none of the small business entities have fully utilized their borrowing for business purpose. It could be concluded that
out of 273 loan borrowers, 58.57 percent of respondents have availed short term loans.

- From the study it has been observed that the majority i.e., 42.10 percent of respondents make sales of ₹1001-₹10000 per day, and 56.60 percent of sample small business entities do not make credit sales. Further it has been observed that 36.90 percent of respondents have been selling less than 25 percent on credit and 36.90 percent of respondents have more than 100 creditors.

- It has been observed that 20.93 percent of respondents provide credit for 2 days or fewer periods and 59.40 percent of the sample small business entities procure their store goods (meant for sales) on credit basis.

- It has been found that 39.08 percent of the retailers’ have been buying 26-50 percent store goods on credit. This implies that their credit practices are low and most of the times they make cash payment while purchasing store goods, which in turn limits the immobility of liquid cash in hand. Further the study indicated that 28.38 percent of the respondents’ take on credit purchase for less than two days and 42.07 percent of the small business entities operate with less than 50 debtors.

- The results of Chi-Square test indicated that there exists a close association between average collection period and average payment period.

- It has been inferred that 53.80 percent of the retailers earn 11-15 percent of average profit from sales. Further, the study reveals that 47.80 percent of respondents’ are able to sell 20-50 percent of their stock holding per month. This indicates that though the majority of small
business entities buy their stocks on cash purchase they do not take adequate measures to quickly convert it into cash. It has been observed from the study that only 3.80 percent of the retailers were able to sell more than 70 percent of the stock in the same month. The financial inefficacy of retailers’ is clearly revealed from this analysis. It has been concluded that 21.12 surveyed retailers adhere to the practice of daily replacement of their store stock.

- From the calculated results of paired ‘t’ test it has been concluded that there exists an association between profit and expenses.

- From the elaborately conducted ANOVA test, it has been concluded that the working capital management practices of sample population is closely related to their business size, longevity of business, and capital investment.

V. Capital Budgeting Practices
- From the data analysis it has been inferred that 62.56 percent of respondents have invested less than ₹.50000 on transportation, 55.60 percent small business entities have invested between ₹.50001 to ₹.100000 on shop interior displays, 42.08 percent of the sample subjects have invested between ₹.100001 to ₹.500000 to build attractive store ambiances, 36.16 percent of sample retailers, in two different sets, have invested less than ₹.50000 or ₹.500000-₹.100000 in packing machinery, 56.64 percent of small business entities have invested in owning storage equipment valued less than ₹.50000, 65.48 percent of the sample subjects have spent between ₹.50001 to ₹.100000 on store exteriors i.e., boards, products & brands and 55.40 percent have
invested between ₹100001 to ₹500000 on other assets like holding store space, creating warehouse/storage area etc.

- It has been perceived that 62.10 percent small business firms practice the pay back of capital budget techniques to realize their capital investment, and 39.80 per cent of respondents have said that their investment could be realized in two years period.

- It has been concluded with the help of Chi-Square test that there exists an association between capital budgeting techniques followed by the small business entities and their calculation of investment return period.

- Finally it has been inferred that 51.60 percent of respondents have availed bank loans to raise capital investment and to meet the working capital needs, and 88.33 percent small business entities’ have expressed satisfaction towards customers’ friendly approach of their bankers’.

6.3 Suggestions

In the light of the above findings the researcher would like to suggest the following to owner/managers, support service agencies and Government policy makers.

I. Suggestions to Small Business Owners and Managers

Careful financial management is vital for the survival of their firms. The business entities must realize the fact that poor management of working capital means that funds are unnecessarily tied up in idle assets. Hence reducing liquidity and also reducing the ability to invest in productive assets such as plant and machinery, affects profitability.
The owner/managers of small firms should do the following if they want to make a better use of sound financial management practices:

- From the study it has been inferred that as small business owners/managers’ level of awareness on financial management practices are very low, very few financial management and accounting tools and techniques have been practiced by the respondent to assess their business unit’s level of performance in fiscal terms. Moreover, it has been observed from the present study that a different pattern of behaviour in financial record keeping in the field of cost accounting, pricing decision, credit management, inventory management, and capital investment decision has been followed which is at total variance with the prescribed standard rules of financial management and accounting. In most of the cases, small business decision process is the result of ‘experience’, ‘intuition’, or ‘guess work’. Thus, it is suggested that these small business owners are financially disciplined and controlled. They must either learn the financial management practices or appoint persons who are good in accounting practices for future sustainability.

- It is also suggested to the micro and small scale retailers that they maintain accurate records of purchases, sales and stock movement to monitor slow moving and fast moving items that need quick replacement.

- Similarly small business entrepreneurs’ should learn the practices of recording cash and deposit cheques promptly to avoid malpractices, miscounting and loss of money in unavoidable personal causes.
Small business entrepreneurs’ should avoid wasting money on shoddy deals and bribes.

Small business entities should avoid relying only on Pay back systems and learn the advantage of undertaking proper multi-period capital budgeting using Net Present Value (NPV) and Internal Rate of Return (IRR).

Small business entities should try to practice corporate entity principle in human resources management i.e., by putting all employees and owner/managers on monthly salaries to avoid unnecessary withdrawals of money from the firm’s resources, and create provisions to meet employee welfare benefits including the monthly bonus paid on festivals like Deepavali.

The business firms must reinvest the surplus earning /idle funds in business and thereby avoid keeping large cash balances in non-interest yielding current accounts. An extra investment also supports business growth in terms of profits, and avoids raising additional borrowing at high interest rates in emergency situations. Thus business can avoid cash flow constraints.

The business firms must learn to avoid mixing business transactions with non-business transactions and they must undertake credible internal and operational audits to assess their business performance from time to time. This will help the small retailer to disclose fully the financial position by keeping full set of information on business transactions to the bankers and government supported financial institution at the time of applying for business loans. This makes it very easy to assess funds like financial agencies which have been set up by
the Government of India. The other benefits availed from continuous internal checks are prevention of errors and to provide correct information of the business updates.

- The result of the study highlights the wide gap between theory and practice of financial management. Small business owner-managers hardly use modern existing financial management techniques in their day to day operations. Thus, it is emphasized that MSMEs’ should seriously consider making financial management an important priority in their overall business management.

- It is suggested to the small business owner/managers learn the standard of financial reporting in small firms. For this they should make good use of available computerized accounting packages. Computer spreadsheets are essential to modern organizations, as they allow managers to prepare a lot of financial reports. For example, cash budgets are vital to the management of cash. Management often makes use of cash budgets in determining cash surplus or deficits.

- Small business owner/managers of small firms should avail themselves of the various training programmes organized by bodies like the District Industrial Center, Trade Association and others to enhance their accounting skills.

II. Suggestions to Support Agencies and Government Policy Makers

- From the study it has been inferred that the inability of sample small firms to pay the high fees charged by qualified accountants is often cited as the main reason why these businesses avoid using their services. Thus, through this study it is recommended to the qualified professional
accountants who are engaged in providing services to small firms that they should charge reasonable fees to enable these businessmen to use their services. At the same time the businessmen should not incur delay in making payments to their accounting service providers.

- The professional accountants must act as nodal agencies in teaching the small business firms to maintain proper and accrual accounts; the methods of posting entries both in books; as well as in the computer; to cut-down addition work or to prevent errors while making entries. That is, for decades external accountants have provided historically oriented compliance and monitoring services (e.g. taxation, compilation and audit) designed around regulatory requirements or to satisfy either statutory or voluntary contractual constraints. These also should come forward to provide non-audit services, which would include business advice, focused on public enterprises/clients’.

The professional account should:

- Help small business owners/managers to analyze and identify gaps in current business planning and budgeting practices, as well as support business development of an action plan and budget.

- To review the working capital requirements of the business and recommend action plans to improve working capital management.

- Review the internal control practices and the standard operating procedures of the small business entities to identify key control weaknesses and to make recommendations to strengthen these controls.
To review the current financial management and performance measurement practices and help the business entities to develop an action plan to upgrade capability.

- The government both at state and central levels should also encourage the setting up of more support service agencies that could help the small firms to reduce the bad debt portfolios, improve their accounting and financial management practices and manage their business risks.

- The government of India can encourage those firms who are regular in financial management and tax paying practice, by granting tax relief or relaxation to encourage their establishment’s sustainability. In turn, it can also help the MSMEs to growth in a hassle free environment.

- In Singapore recently, to help SMEs tackle the challenge of managing their finances, ABS has worked with SPRING Singapore and Stone Forest has developed the ABS SME Financial Management Toolkit. The goal of ABS is to educate and highlight the importance of proper financial management, by equipping SMEs with the necessary skill-sets to adopt and implement the key components of financial management. Similar tools kits can be developed by commercial banks in India for the benefits of small business firms. The banks operating in India can be encouraged by government support service to develop effective financial knowledge management tools.

- Access to finance is fundamental for the survival of SMEs worldwide, and its limited availability of capital is considered as a top barrier to their growth. Studies highlight that this is especially true for young and smaller firms. Banks by means of maintaining and teaching small business the measures of effective financial management can enhance
the creditworthiness of these entrepreneurs’. The sanctioning of loan by banks can be made simpler and with less documentation works.

6.4 Conclusion

The MSME sector has been identified as having the potential to contribute to the economic growth of the country. In order to achieve this objective, it is important that the sector is well managed and that there are sufficient accounting and financial management skills in the sector. Businesses with strong financial management capabilities are better able to overcome obstacles in the business growth journey. As a business encounters various challenges at different stages of its growth, it is important that the entrepreneur recognizes the gaps between these challenges and the financial management capabilities of the business, and develops or enhances such capabilities to sharpen its competitive edge, in order for it to grow to the next level. This is a continuous effort.

From the current study it has been concluded that inspite of the importance given to financial reporting, management accounting and control practices, it is unfortunate to find that these practices are often inadequate and lacking among small business entities. Except for yearly taxation returns and some form of profit and loss statements, other statements such as balance sheet, cash flow statement, fund statement, production report, variance report, are infrequently used. These rather limited usage of financial and management accounting reports could be attributed to the inability small business entities to employ professional managers with functional specialization especially in the financial area due to their limited financial resources.

The findings of this study with regard to the small and medium-sized enterprise show inefficient financial management, small business size and limited resources to conduct business operations. To improve the quality of the
enterprise's management on the basis of the theory of modern financial management, the researcher proposes to change the financial management concept, set up a suitable financial management process and system, by adopting the modern financial management methods and focusing on the size and business nature of the small business entities.

The changes in accounting practice of small business should be focused upon. Without adequate, effective and timely financial reports and analysis, the small business entities are losing out on the benefits gained from improved monitoring of financial health and progress, improved ability to anticipate fortunes or failures, better assessment of MSMEs’ financial risks and greater ease in financial planning and control. Most important, in the context of small business entities requiring extra capital to grow, regular financial reports can provide indications on their ability to produce steady cash flow and service debts. It has been established that the use of appropriate financial reporting and management accounting practices could be one of the determinants of business survival particularly for small business entities. To ensure the contribution of small business entities’ to economy, the enterprise should perform efficiently, which would become effective through practicing accounting system and having an access to finance.

6.5 Scope for Future Research

The findings of the study indicate that very little research has been previously conducted, specifically at micro-entities as these tend to be subsumed in the term MSME. Furthermore, much of the published literature is restricted to studies conducted in developed countries and does not reflect the very different environment in which micro-entities operate in India, or in the regional states. This gap in literature indicates that this is an area that is ripe for
further in-depth examination and research because the current study has limited itself to Coimbatore city alone.

Thus, future researchers could also consider an area such as the relationship between firm size, finance and financial management practices and the relationship between these factors and the firm’s performance in two different states or districts or it could be conducted between two countries.