

Financial management practices and business performance of small and medium enterprises

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Abstract

Little and medium Enterprises are viewed as a main thrust for the advancement of an economy. The motivation behind the study was to set up the relationship between money related management practices and business execution of SMEs in western India with a view to setting up an intelligible model coordinated at enhancing business execution and it was guessed that budgetary management hones emphatically impacts Business execution. The study received a positivist (quantitative worldview) with cross sectional and correlational plans. The study utilized a respondent specimen of 335 SMEs working in Mbarara, Sheema and Bushenyi whose proprietors/administrators were the unit of enquiry. Auxiliary Equations Modeling with Analysis of Moment Structures were utilized to for measurable displaying. The discoveries in regard of the fundamental motivation behind the study showed that budgetary management rehearses represented 33.8% of the difference in business execution of SMEs. The outcomes likewise demonstrated that working capital management impacts exceedingly since it predicts more than 22% of the change in business execution.

Key words: *Financial Management, Business Performance, SMEs.*

Introduction

The present study upheld a multi-theoretic approach in clarifying business execution of SMEs in India. The study underpins the pecking request theory in clarifying the financing of SMEs together with asset based view as the speculations that assistance in clarifying business execution of SMEs. The study affirmed proficient money related management rehearses

consider structure of watched variables and the dormant variables. Therefore, the study gave models to effective budgetary management rehearses. These models can then used to give a direction to enhancing business execution of SMEs in India. Arrangement creators, ICPAU, PSFU and SMEs proprietors may utilize these discoveries as a method for enhancing business

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execution of SMEs in India since the SMEs are incredible patrons to the Indian economy. The proprietors of SMEs ought to build up an inspirational state of mind towards embracing money related management hones to accomplish wanted business execution.

LITERATURE REVIEW

SMEs and financial management practices in India

To date there is no generally acknowledged meaning of little and medium ventures (IFAC, 2011). The definition changes crosswise over nations and ventures. In India, Small and Medium Enterprises are formally characterized on the premise of both the quantity of individuals utilized and the yearly turnover of the endeavor (Ernst and Young, 2011). Service of Finance, Planning and Economic Development characterizes a little venture as an endeavor utilizing at least 5 individuals and a most extreme of 50 individuals; and additionally has a yearly deals/income turnover of a greatest of Indian Shillings 360 million and aggregate resources of a greatest of Indian Shillings 360 million, while a medium undertaking is characterized as an undertaking utilizing somewhere around 50 and 100 individuals; as well as has a yearly deals/income turnover of more than Indian Shillings 360 million and

aggregate resources of more than Indian Shillings 360 million (MFPED, 2008).

In India the normal phrasing for SMEs is private company (Ernst and Young, 2011). The commitment of SMEs to India economy can't be over stressed since SMEs contribute more than 90% of aggregate non-cultivate private segment job, constitute roughly 20% of the national GDP, contribute more than 20% of salaries of the work compel, and have extraordinary potential for lessening neediness levels (UIA, 2008).

Namatovu et al. (2010) watched that dominant part of the undertakings are found in eateries and sustenance handling, carpools for motorcars and cruisers, retail and entire deal exchange, metal creation, furniture amassing, schools and transport administrations. Given the way of the undertakings regularly working in India and the earth they are working in, they will undoubtedly confront various difficulties (Ernst and Young, 2011). Greater part of the SMEs don't get ready formal books of records, don't grasp data innovation and are confronted with difficulties in getting to finance (Briggs, 2009). SMEs in India work in what is privately named as "juakali" that is basically working simply as noted by (UNCTAD, 2002). This is ascribed to the earth in which SMEs are working for instance, clients don't request receipts at

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whatever point they buy products, likewise the providers don't request solicitations either, private contracts are infrequently archived and prerequisites for inspected records are not implemented along these lines making it troublesome for SMEs proprietors to record the underlying exchanges which in the long run keeps SMEs with poor money related management hones (Ernst and Young, 2011). Monetary oversee ment of SMEs came to spotlight in India in mid 2000s. The meeting on routes for overseeing finances of little and medium Enterprises occurred on 30 April 2002 at the International Conference Center in Kampala, India with participation of around 260 members (UNCTAD, 2002).

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The study audits the connections between money related management practices and business execution of SMEs. This is done basing on the writing by basically checking on discoveries of the past scientists. Un-luckily, these discoveries are not clear in light of the fact that most past analysts just concentrate on looking at and portraying money related management hones and monetary qualities yet don't concentrate on inspecting the effect of budgetary management hones on SME gainfulness. Worried with the connections

between working capital management practices and SME benefit, Abdul Raheman et al. (2007) give some significant discoveries as takes after: Profitable firms checked on their working capital approaches on month to month and quarterly bases; productive firms utilized a ROI (rate of return) measure in taking a gander at changes in the management of certain working capital parts; gainful firms dependably or in some cases take rebates on payables though forceful firms and those with composed working capital arrangements were net clients of exchange credit.

METHODOLOGY

The study embraced a positivist (quantitative worldview) with cross sectional and relationship plans. Connection plan was utilized to set up connections between monetary management practices and business execution of SMEs. Coherent positivism quantitative plans were extremely useful in information gathering, examination and presentation which additionally tried speculative deductive Turyahebwa et al. 3879 speculations. The study populace comprised of 10,730 SMEs from where the example size of 335 SMEs were resolved bunch testing, straightforward rondom examining tequiques were utilized. Essential and auxiliary information sources were utilized as a part of the study. Basic Equations Modeling with

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Analysis of Moment Structures were utilized to for measurable displaying.

RESULTS AND DISCUSSION

Comes about demonstrated that monetary management rehearses among SMEs are characterized as far as the five watched variables, working capital management, financing, contribute ting, and bookkeeping data framework and money related reporting and investigation Table 1. Working capital oversee ment watched variables are made of money management, receivables management and stock management.

The estimation display Figure 1 demonstrates NFI of 0.921, which showed solid united legitimacy. The chi-square estimation of 98.5 which is huge at the 0.05 level. The p-esteem is 0.024 recommending that the model fitted the information acceptably in our populace. Other fit files included TLI = 0.914, GFI = 0.916, AGFI = 0.901 and RMSEA = 0.03. The p-qualities are huge (< 001). The watched calculate loadings contrasted and their standard blunders uncovered confirmation of a relationship between effi-cient money related management rehearses builds among SMEs in India.

The corroborative variable examination Table 2 and 3 demonstrated that a five-consider

conceptualization fitted the information appropriately (GFI = 0.953, RMSEA, = 0.014, NFI = 0.960, Chi-Square = 14.7, df = 5, p = 0.012, TLI = 0.945, and AGFI = 0.860). Figure 2 demonstrates money related management hones display which demonstrates a solid focalized legitimacy.

The discoveries uncovered that institutionalized relapse weights for working capital management, financing, in-vestment, money related reporting and bookkeeping data framework Table 4, in clarification of monetary management practices were critical ($p < 0.001$). The discoveries assist uncovered a solid relationship between budgetary oversee ment practices and business execution among SMEs in India and Zero request was connected to decide the connection between's money related management practices and business performance (Table 5).

Results clearly shows that there is a positive and signi-ficant relationship between working capital management practices and business execution ($r = 0.471$, $p < 0.05$). This implies effective management of working capital practices like money management, receivables oversee ment and stock management is profoundly connected with enhanced business execution among SMEs.

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Table 1. Financial management practices among SMEs. Variables	N	Minimum	Maximum	Mean	Std. Deviation	Variance	
Statistic				Std. Error			
Investment	335	1.00	3.56	2.1619	.02404	.43998	.194
Accounting Information System	335	1.17	3.67	2.1915	.02001	.36621	.134
Financing	335	1.40	3.00	2.2233	.01882	.34441	.119
Working Capital Mgt	335	1.37	3.44	2.3477	.01629	.29816	.089
Business Performance	335	2.03	3.83	2.6913	.01535	.28092	.079

Table 2. The confirmatory factor analysis.

Model	df	χ^2	p	NFI	TLI	GFI	AGFI	RMSEA
Five-factor CFA model (WCM)	1	.042	.526	.999	.996	.998	.999	.003
Five-factor CFA model (AIS)	1	.035	.531	.998	.998	.998	.999	.003
Five-factor CFA model (Financing)	1	.018	.584	.998	.962	.996	.999	.003
Five-factor CFA model (FRA)	1	.016	.621	.953	.981	.994	.996	.003
Five-factor CFA model (Investment)	1	.025	.588	.942	.916	.948	.995	.003
Overall Five-factor CFA	1	.212	.517	.921	.914	.916	.916	.003

It is clear that there is a positive and huge relationship between's monetary management practices and business execution ($r= 0.527, p < 0.05$). The multiplicative impact of all works on including working capital, financing, contributing, budgetary reporting and bookkeeping data framework have a solid relationship with business execution. The connection between's monetary management practices and business execution was as per the following: working capital management $r = 0.471, p < 0.05$; budgetary reporting and To test the prescient force of the study

examination $r = 0.460, p < 0.05$; speculation rehearses $r = 0.289, p < 0.05$; financing hones $r=0.134, p < 0.05$; and bookkeeping data framework $r = 0.509, p < 0.05$. Since all relationship coefficients were certain and critical it demonstrates that all budgetary management practices were decidedly identified with business execution. This suggests proficient money related management hones consolidated together are connected with high business execution levels among SMEs.

variables, from the gussed model $Y =$

Where Y is the Dependent Variable – Business Performance

$\alpha =$ Constant

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X = representing the components of the Independent Variable- financial management practices;

X1 = Working capital management

X2 = Financing

X3 = Investment

X4 = Accounting information System

X5 = Financial reporting and analysis

β_{1-5} = Coefficients of beta

e = error term in ascertaining the influence of individual element on business performance, all the models were significant since the model fit was met, then the details are shown as follows;

Model1: $Y = \alpha + \beta_1 X_1 + e$

$Y = 1.650 + 0.444 X_1$

(t = 15.305), (t = 9.740), $R^2 = 0.222$, F = 94.87, DW = 1.467

Model2: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$

$Y = 1.470 + 0.263 X_1 + 0.276 X_2$

(t = 14.018), (t = 5.190), (t = 6.693) $R^2 = 0.314$, F = 76.07, DW = 1.467

Model 3 $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$

$Y = 1.427 + 0.240 X_1 + 0.265 X_2 + 0.056 X_3$

(t = 13.303), (t = 4.617), (t = 6.364) (t = 1.770) $R^2 = 0.321$, F = 52.08, DW = 1.467

Model 4 $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$

$Y = 1.474 + 0.202 X_1 + 0.225 X_2 + 0.047 X_3 + 0.071 X_4$

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(t =13.472), (t=3.645), (t= 4.883) (t=1.491) (t =1.976) R2= 0.329, F = 40.38,

DW = 1.467

Model 5 $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$

$Y = 1.295 + 0.200X_1 + 0.224X_2 + 0.037X_3 + 0.068X_4 + 0.080X_5$

(t =9.420), (t=3.623), (t= 4.897) (t=1.495) (t =1.910), (t = 2.130) R2= 0.338, F = 33.56, DW = 1.467

In Model 1, working capital management practices accounts for 22.2% of variance in business performance (F = 94.87, P < .005) and caused a statistically-significant non-standardized coefficient (B =0.444, P <0.05).

In Model 2, the introduction of financing practices in the equation yielded an extra effect 9.2% to the explanatory power of the model. This clearly implies that financing practices accounts for an additional 9.2% of the variance in business performance. This implies a unit change in financing prompts 9.2% expansion in business performance (F=76.07, p < 0.05), and created a measurably critical coefficient (B =0.276, p <0.05);

As a result, the study provided models for efficient financial management practices. These models can then used to provide a trajectory for improving business performance of SMEs in India. Policy makers, ICPAU, PSFU and SMEs owners may use these findings as a way

improving business performance of SMEs in India since the SMEs are great contributors to the Indian economy. The owners of SMEs should develop a positive attitude towards adopting financial management practices so as to achieve desired business performance.

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