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Review Paper on Financial Management in Small and Medium Enterprises

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Abstract: *The primary aim of this study is to examine recent studies on small and medium-sized enterprises (SMEs) with the purpose of identifying the key issues pertaining to the financial management of SMEs. Three essential elements of financial management include: (1) The management of cash flow and liquid assets. Cash is the company's most valuable nonhuman asset. (2) The matter of acquiring assets for the long term, which dictates the operational strategy of a firm in the long run. (3) Worries over the allocation of financial resources, the composition of the company's financial framework, and the expenses associated with obtaining funds. The issue of liquidity management is the most urgent. If a company fails to formulate an effective strategy for effectively managing its working capital, it will not achieve long-term success. The primary cause of SMEs' problems is usually the insufficient financial management skills of owner-managers.*

Keywords: Financial distress, corporate finance, cash flow management, small and medium-sized enterprises

I. INTRODUCTION

A significant number of individuals who form their own firms often evade addressing matters pertaining to finances. One possible explanation is that individuals may be preoccupied with other business-related tasks, such as managing personnel, sales, procurement, and production, which leaves them with limited knowledge or interest in documenting transactions, preparing financial statements, or analysing them. These entrepreneurs depend on their accountants to oversee their company's financial affairs.

While financial management is crucial for a company's overall management, the management of its assets is arguably the most important facet of this function. An asset purchase has a significant impact on the future trajectory of a firm. However, if a corporation fails to establish an effective working capital management program, it will not be able to achieve long-term success. The primary cause of the problems in SME financial management is the inadequate or non-existent financial management skills of owner-managers.Numerous small enterprises experience failure due to their failure to operate as proper firms, rather than due to the entrepreneur's incompetence or the provision of substandard services. Most small business owners possess only a partial comprehension, amounting to 50%, of the factors necessary for achieving success. They lack the capacity to operate and grow their company. Successful small business owners in this field has either prior knowledge of the solutions to these difficulties or acquire them through hands-on experience.

II. REVIEW OF LITERATURE:PRIOR STUDIES HAVE BEEN CONDUCTED ON THE TOPIC OF FUNDING FOR SMALL BUSINESSES

The literature on financial management in small firms is broad and covers all aspects of firm management. Our study report has selected a limited number of publications from the most recent period, with a primary emphasis on exploring challenges related to financial management and small business strategy. The data presented here consolidates research conducted globally and emphasizes the main discoveries.

2.1 Research on the reasons why businesses fail financial failure forecast

In an effort to mitigate the occurrence of small business closures, certain research has attempted to predict the demise of small enterprises. McNamara et al. (1988) developed a model to forecast small business failures based on four specific

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characteristics. During the credit evaluation process, this filter serves several purposes. Firstly, it allows management to quickly respond to changing conditions. Secondly, it educates lenders on the key factors that determine the likelihood of a business failing. Lastly, it assists lending organizations in their marketing efforts by helping them better understand their customers' financial needs. The authors argued that small enterprises exhibit notable distinctions from large businesses in their capacity to secure loans, lack of long-term debt funding, and tax regulations.

Bhunia (2012) examined the correlation between default patterns in small and medium-sized enterprises (SMEs) and the credit histories of their owners. Given that SMEs are evidently more directly and profoundly impacted by their owners compared to large corporations, it is crucial to distinguish and assess the credit risk of SMEs in a manner distinct from that of large firms. This will enable the implementation of a more suitable and effective approach to credit management for small and medium-sized enterprises (SMEs). This study utilizes an empirical study of logistic regression analysis with repeat sampling data to examine the owners' characteristics data, which has been divided into factors representing fundamental aspects, credit capacity aspects, and credit will aspects. The results indicate that variables related to credit capacity features have a more significant correlation with how small and medium-sized enterprises (SMEs) manage loan defaults. This indicates that characteristics related to "credit will" and the history of "personal credit" have the most significant correlations with the probability of default for firms and the proportion of loans that are past-due. These highly important variables function as valuable indicators in the model for estimating default risk.

2.2 Research on the growth and development of small and medium-sized enterprises (SMEs)

McMahon (1998, 2000, and 2001) attempted to develop a theoretically robust and empirically confirmed explanation for the growth of small- and medium-sized organizations. The goal was to establish a comprehensive conceptual framework for research and policy-making in this area. The study argues that the current conceptual framework, which portrays the growth of small and medium-sized enterprises (SMEs) as a sequence of stages in their life cycle, should be reevaluated in light of new research in the field.

The author conducted a follow-up study in 2000 to expand on their previous pilot study. The study aimed to develop, characterize, and apply empirically based development taxonomies for small and medium-sized enterprises (SMEs) in the manufacturing sector. The study used panel data obtained from Australia's Business Longitudinal Survey. To identify any discernible patterns of consistent growth in the data, cluster analysis was utilized, focusing on important variables such enterprise age, size, and growth variables. To assess the results of the cluster analysis across time, each of the four annual data collections was examined individually. Descriptive data for important enterprise factors facilitates the interpretation of cluster analysis results. The longitudinal panel data reveal three distinct and consistent paths of SME development, which can be identified by using the clusters as indicators or guideposts. Initially, there is an observable trajectory of limited expansion that results in the establishment of a traditional or lifestyle small and medium-sized enterprise (SME) structure, which comprises around 70 percent of the sample. The second pathway is characterized by moderate growth potential, ultimately leading to the establishment of a small and medium-sized enterprise (SME) with limited development prospects (about 25% of the panel). The third alternative entails a high growth path that seems to result in the formation of an enterprising small and medium-sized enterprise (about 5% of the panel).

The statistical study revealed considerable discrepancies amongst the identified SME development pathways in terms of firm age, size, and growth characteristics. In 2001, the author explored the matter again in his working paper titled "Stage Models of SME Growth Reconsidered."

In a 2001 paper, McMahon presents a study that examines the impact of financial management features on the growth and performance of small and medium-sized manufacturing enterprises (SMEs). The author suggests that the impact of financial management characteristics on SME success is rather insignificant, save from the use of external financing. The two factors that have the most influence on an organization are its focus on development and the existence of both internal and external constraints.

III. PROTOTYPE FOR THE ADVANCEMENT OF FAMILY ENTERPRISES

Rutherford et al. (2006) conducted a study on family businesses and contributed to the existing body of knowledge by providing the first empirical analysis of the Developmental Model for Family Business (DMFB) devised by Gersick, Davis, Hampton, and Lansberg in 1997. By employing the DMFB model, the authors successfully identified significant clusters of traits that can elucidate the expansion of family enterprises. The researchers conducted hierarchical regression analysis on a sample of 934 companies to identify owner, firm, and family characteristics that could enhance the DMFB. According to the authors, the basic model provides a robust foundation for classifying family firms, while the enlarged model allows for a substantially wider range of family firm development.

Michaelas and Chittenden (1999) conducted a quantitative analysis on the financial structure of small and medium-sized enterprises (SMEs) in the UK, using panel data. An analysis was conducted on the capital structure of small and medium-sized firms (SMEs) in the UK, using financial panel data. To formulate testable hypotheses on the debt levels in small businesses, various theories on capital structure were assessed. In order to verify the assumptions, several regression models were constructed.

The results suggested that most of the factors influencing the capital structure, as outlined in the finance theory, seemed to be relevant to the small business sector in the UK. Various characteristics, such as size, age, profitability, development potential, operating risk, asset structure, stock turnover, and net debtors, seem to influence the level of short-term and long-term debt in small enterprises. The article presents research that demonstrates the fluctuation of small enterprises' capital structures over time and across different industries. The results indicated that the loan maturity structure of small and medium-sized enterprises (SMEs) was affected by both temporal and industry-specific factors.

Significant study has shown that, in general, the usual ratios of short-term debt in small and medium-sized enterprises (SMEs) tend to increase during economic downturns and decrease when business conditions improve. The average long-term debt ratio exhibits a positive association with fluctuations in economic growth (Michaelas and Chittenden, 1999, 114).

Accounting modifications for small and medium-sized enterprises (SMEs)

Struhaová (2010) conducted a comparison between the International Financial Reporting Standard for Financial Management in Small and Medium-sized Enterprises (IFRS for SMEs) and its impact on financial management. The former was utilized for financial reporting in accordance with Czech Generally Accepted Accounting Principles (CZ GAAP). The article analyzed the alterations connected to shifts. The author defined the changes that impact both the entire firm and the accounting departments of small and medium-sized enterprises (SMEs). Additionally, this document presents information regarding financial reporting data that is utilized in financial management. The research also investigated the impact of developments in SMEs' financial management on changes in financial reporting. Fekete et al. (2010) and Asuman Atik (2010) have evaluated comparable impacts on Romania and Turkey, respectively.

The influence of outside counsel on profitability and performance

Robson and Bennett (2000) performed a multivariate analysis, taking into account the influence of various characteristics of small and medium-sized enterprises (SMEs), such as age, industry type (manufacturing/services), level of technological advancement, innovation, workforce skill level, export activity, and number of competitors. The purpose was to investigate the connection between SME growth and the utilization of external business advice. Statistically meaningful connections between external business advice and SME success are only found in a limited number of sources and fields. Engaging external advisors in domains such as corporate strategy and recruitment is associated with enhanced company performance. Private sector sources such as lawyers, suppliers, customers, and business acquaintances exert a substantial impact over advice and performance. Engaging in partnerships with local suppliers is strongly correlated with a notable improvement in profitability. On the other hand, collaborating with national or international suppliers is strongly linked to growth in employment and turnover. There is limited evidence to suggest that there are statistically significant links between business performance and government-supported business advisory businesses such as Business Link.

Escribá-Esteve et al. (2008) focused on the factors that influence the relationship between performance and strategic orientation in small- and medium-sized firms. Previous studies have mostly focused on identifying the contextual components that contribute to the effectiveness of the strategic orientation strategy. According to a recent study, the connection between strategic orientation and performance involves internal moderators that require investigation. The authors present a contingency approach, considering how the characteristics of top management, company and competitive tactics, and environmental factors may lessen the impact of this relationship. The study illustrates that the impact of the firm's strategic orientation can be influenced by several elements such as the environment, the prior experience of the senior management team, and the corporate and competitive strategies implemented by the firm. The study was conducted using a survey of 295 Spanish small and medium-sized firms from seven different industrial sectors.

The literature on financial management in small enterprises is extensive and encompasses several aspects of business operations. Research on SMEs default risk and bankruptcies has broadened to encompass studies on capital budgeting, small business development and growth models, and the relationship between default behaviors of SMEs and the credit profiles of their owners. Exploring the capital structure, management of working capital, and trends in finance proved to be captivating subjects.This paper will specifically address two primary subjects: working capital management and the potential hazards that firms face when allocating a substantial portion of their funds towards long-term assets.

IV. CONCLUSION

The findings of this study should be utilized to formulate the subsequent recommendations for small enterprises.

Additional knowledge on fundamental financial principles is necessary and can be acquired by reading books or periodicals or by participating in workshops focused on the subject. The purpose is to highlight the fact that owner-managers often possess knowledge or training in only a limited number of functional areas, yet they are responsible for managing all aspects of their small firms with minimal internal and external assistance. Given their potential to encompass a wide range of activities, including as phone conversations and product orders, the enforcement of these rules is not consistently or commonly practiced.

One perspective is that successful businesses should prioritize financial management in the same way as physically fit individuals prioritize their breathing. The ability to carry out production, marketing, distribution, and other activities should not continually strain the company's finances. However, this does not mean that a small business owner-manager can neglect financial management or, as is occasionally done, assign it to an accountant. The owner-managers of prosperous small enterprises possess a comprehensive comprehension of financial management principles and actively engage in their application to their own specific situations, regardless of whether it is apparent to casual observers.

The concerns raised in this research study aim to stimulate further theoretical and empirical advancements in the relatively neglected yet essential field of small company research.

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