

**AN EXPLORATIVE ANALYSIS OF FINANCIAL MANAGEMENT OF MSMEs
IN TAMILNADU**

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Abstract

This paper exhibits the Micro Small and Medium Enterprises (MSMEs) sector constitutes an important segment of the Indian economy in terms of its contribution to the country's industrial production, exports, employment and creation of an entrepreneurial base. MSMEs have the advantages of generating gainful employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries into rural, semi-urban and backward areas. The government established the Ministry of Small-Scale Industries and Agro and Rural Industries (SSI & ART) in October, 1999 as the nodal ministry for formulation of policies and programmes/ schemes, their implementation and related coordination, to supplement the efforts of the states for promotion and development of this category of industries in India.

Keywords: MSME, production, exports, employment, investment.

Introduction

The Micro Small and Medium Enterprises (MSMEs) sector constitutes an important segment of the Indian economy in terms of its contribution to the country's industrial production, exports, employment and creation of an entrepreneurial base. MSMEs have the advantages of generating gainful employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries in rural, semi-urban and backward areas. The government established the Ministry of Small-Scale Industries and Agro and Rural Industries (SSI & ART) in October, 1999 as the nodal ministry for formulation of policies and programmes/ schemes, their implementation and related coordination, to supplement the efforts of the states for promotion and development of this category of industries in India. The Ministry of SSI and ART was bifurcated into two separate ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries, in September 2001.

The role of the Ministry of Small-Scale Industries is mainly to assist the States in their efforts to promote growth and development of the SSIs to enhance their competitiveness and to generate additional employment opportunities. In addition, the Ministry attempts to address issues of country-wide common concerns and also undertakes advocacy on behalf of the SSIs. The output of the Small-Scale Industry Sector contributes almost 40 per cent to the gross industrial value-added and 45 per cent of the total exports from India and is the second largest employer of human resources after agriculture. The development of Small-Scale Sector has, therefore, been assigned an important place in India's national plans. In order to facilitate the promotion and development and enhancing competitiveness, it was felt to have a separate legislation for this sector.

The need for a single legislation was pointed out by different committees and also by several associations. In addition, there was no statutory consultative and recommendatory body to look into the promotion and development of this sector. The Government also felt that there was a need for defining the Small and Medium Enterprises concept, to promote service sector, to strengthen existing law on delayed payments and to facilitate closure of sick enterprises. Keeping this in view, the Government of India brought out Micro, Small and Medium Enterprises Development Act 2006, which became operational from 2nd October, 2006. It is a known fact that the service sector has fast emerged as a sector with a lot of employment potential and is becoming a good contributor to the economy. Therefore, manufacturing and service sectors have been defined separately.

Statement of the Problem

Several studies have advocated that the fund management is the great hurdles faced by MSMEs in India as well as abroad. The problems on account of impact of fund management are Small-scale industries find themselves at a loose end in competition with large scale industries with their large organization and resources. In the present difficult scenario, availability of raw material at competitive prices appears to be the greatest, small units suffer from inadequate work space, power, lighting and ventilation, absence of sanitary and safety measures etc., These shortcomings tend to endanger the health of workmen and have adversely affected the rate of production. The inefficiency in financial management comes first among managerial problems. The shortage of finance affects the ability of the small units severely. Every kind of problem, whether of raw material, power, transport or marketing faced by an entrepreneur in its ultimate analysis turns out to be a problem of finance? The small industry gets elbowed out by the large and medium scale industries in the procurement of bank finance and institutional credit. A serious problem which is hampering small scale sector is its sickness. Many small units have fallen sick due to one problem or the other. Some aggregate economic behaviors of the country such as growth in Gross National Product, availability of credit, volume of money supply, capital market activity or level of investment and price level fluctuations, may have important bearing on industrial sickness in the country. The crux of the problem is very often that of finance, the Small-Scale Industries are very poor and have little to offer as security for raising finance. In the background of these developments, a study on the Financial Management has become desirable to formulate the suitable policy measures to the management to achieve business goal in more comfortable way.

Need of the Study

MSMEs in India has been confronted with an increasingly competitive environment due to: liberalization of the investment regime in the 1990s, favoring foreign direct investment at the international level, particularly in socialistic and developing countries; the formation of the World Trade Organizations (WTO) in 1995, forcing its member- countries (including India) to drastically scale down quantitative and non- quantitative restrictions on imports, and domestic economic reforms. So, the MSMEs have forced to undergo changes which include proper financial management as well, the cumulative impact of financial management is a remarkable transformation of the economic environment in which small industry operates, implying that the sector has no option but to „compete“. Tamil Nadu is

urban centric industrialized state so it is imperative to examine the performance of MSMEs industries in Tamil Nadu in order to understand the changing dynamics of the industrial environment and to address the issues pertains to challenges and the attainment of the SSI in Tamil Nadu in the recent past.

Scope of the Study

The present study attempted to throw light on the varied problems of the financial management practices. Further, the study may help the policy makers to formulate of certain policies in the light of changing conditions to resolve the problems of small and tiny sectors, one can probably attribute a large number of business failures in recent years to the inability of financial managers to plan properly and control current assets and current liabilities of their respective firms. Shortages of funds as well as uncontrolled over-expansion of fund have caused many businesses to fail and in less severe cases, have stunted their growth. Especially in small firms, financial management may be the factor that decides success or failure; in large firms, efficient financial management can significantly affect the firm's risk, return and share price. Thus, the outcome of the study would enable to conceive the financial strategy which would be helpful to achieve business goal.

Objectives of the Study

The primary objectives of the study are:

1. To study the financial position in the selected MSMEs in Coimbatore district
2. To study the various components comprised of finance of selected MSMEs in Coimbatore
3. To examine the financial management practice of selected MSMEs in Coimbatore
4. To map out the components of financial crisis of the MSMEs in the study area
5. To examine the impact of financial problems faced by sample units and the role played by financial agencies
6. To study the ways to increase the efficiency of the working capital of the selected units
7. To formulate the suitable policy measures for financial management for MSMEs

Hypothesis of the Study

Null hypothesis

H₀: Educational status of the respondents is not inversely related to their business.

H_o: There is no significant difference between sole proprietors and other forms of ownership in the determining of working capital of selected MSMEs units

Methodology

Methodology plays a most important role in each research. Initially, secondary source utilized for knowledge assortment. Essential knowledge was once accumulated among the many service industrial workers.

Sources of Data

This study is based on both qualitative and quantitative methods. The empirical data have been collected for analyzing performance of MSMEs industries by conducting a survey by using an interview schedule. This study is based on primary as well as secondary data.

Period of the Study

The period of study during 2018 – 2020 as pilot survey and the primary survey have been conducted in a concurrent basis during the referred period in Coimbatore District.

Review of literature

Review of literature gives an understanding of theory in the field to enable the researcher to place his question in perspective. Studying the related literature makes one learn which procedures and instruments have proved useful. The success and failure of the previous studies provides insight for designing one's own study. A thorough study of related literature helps to avoid unintentional replication of previous studies. It also helps the investigator to explore the facts, which has remained unexplored in the previous studies. A synthesized collection of prior studies helps the researcher to identify the significant overlaps and gaps among the prior research works.

Richa Shelly, Tanuj Sharma, Simerjeet Singh Bawa (2020) The Micro, Small and Medium Enterprises (MSME) are vital for the financial improvement of any nation and

assume a critical part explicitly for non-industrial nations as they control monetary movement and create business consequently essentially contribute in neediness decrease. After farming, this area is the second biggest boss in India. Indian MSME area has arisen as powerful and profoundly dynamic area of the economy. MSME, not just assume huge part in creating enormous work by contributing less capital when contrasted with huge enterprises yet additionally help to create nonfarm area by expanding industrialization in rustic regions. The area goes about as the instrument of comprehensive development engaging the most defenseless and underestimated gatherings. The principle destinations of the paper are to investigate the development in the quantity of MSME units, GDP commitment, business what's more, commodities of Indian MSME area, to break down the connection between development of MSME area and satisfaction of Sustainable Development Goals (SDGs) 2030, to see the commitment of MSME area in making green positions in India and to feature the issues of MSME area. This paper is in light of the auxiliary information extricated from different reports and exploration papers identified with MSME. The time span from 2006-2007 to 2016-2017 has been thought about. MSME area is the critical benefactor in GDP, business age, all out sends out, accomplishing SDGs and green improvement which thus go about as spine of the Indian economy.

ManjeetKharub, Rajiv Sharma, (2017) made an attempt to measure and analyse the competitive advantage of micro, small and medium enterprises (MSMEs) based upon the Porter's diamond framework. The major objective is to contribute toward better understanding of various determinants of the diamond model in context within Indian MSMEs. Exploratory factor analysis and internal consistency tests were performed to verify scales validity and reliability of measuring instrument. Study findings indicate that the pharmaceutical sector is more competitive followed by food (112.491) as revealed by the high value of surface area i.e. 150.931. The competitiveness among MSME sectors is mostly affected by demand conditions followed by firm strategy, structure and rivalry. Moreover, the score of diamond axes indicates significant difference with respect to determinants. For instance, in the textile sector, the determinants such as factor conditions and related and supporting industries scored low, for example, 4.710 and 4.280, respectively, which indicates it needs to be strengthened as this sector stands at last position with minimum surface area, for example, 67.398. This study is a result of extended research on competitiveness and provides an instrument to measure firm ability to be competitive.

Charan Singh and KishinchandPoornimaWasdani (2016) identify various challenges faced by MSMEs in sourcing of finance during different stages of their lifecycle. The study further explores whether the financial awareness of MSME entrepreneurs is a major limitation in the identification and utilization of sources of finance. Data was collected through personal interviews using a structured questionnaire from a sample of 85 MSMEs. The survey was conducted mainly in the city of Bangalore covering a wide spectrum of sectors like precision tools, weavers, jewelers, food retailers, metal works, textiles, and book shops. The results reinforce the findings of other studies that utilization of formal sources like banks is significantly small compared with informal sources like personal and family wealth. The study found that the main challenges faced in underutilization of formal sources were in adequacy of collateral assets and lack of financial awareness of entrepreneurs. Based on the conclusion that requirement of finance differs with the life-cycle stage of the MSME, recommendations have been proposed for entrepreneurs, financial institutions, and policy makers.

ParijatUpadhyay, AmitKundu, Sreethi Nair, (2016) made an attempt to explore the linkage between organization climate, politics and enterprise system implementation in context to small and medium enterprises (MSMEs). Organizational climate and politics play a significant role in determining the outcome of enterprise implementations. Primary data used in this study were collected from the users in 62 MSMEs who have been part of the implementation process in their organization. The results highlight that in addition to factors like project execution and management competency, package and vendor competency, top management support and leadership factors, organizational politics and organizational climate factors play a significant role in ensuring success of an implementation process. Organization climate in the form of organization politics emerges as a major inhibitor in context to MSMEs. The analysis also showed a statistically significant relationship between the identified factors like technical, project management competency and vendor- and package-specific competency.

Results and Discussion

Socio-Economic Profile

- In the study 69.7 percent of the respondents constitutes male and 30.3 percent of the respondents were female,

- Around 11.3 percent of the respondents were the age group up to 30, nearly 16.3 percent of them are in the age group between 31-40 years. 34 percent of them are in the age group of 41-50 years, 25.3 percent of them were in the age group of 51-60 years and 13 percent were lies in above 60 years category.
- Nearly 7 percent of the respondents are got the education up to primary level, 18.7 percent of the respondents have completed high school education, 8.3 percent and 15 percent of the respondents have studied H.Sc and degree respectively, 7.7 percent studied post-graduation, around 26 got the diploma in various disciplines and 17.3 percent got the professional degree in which most of them were engineering graduates.
- Around 66.7 percent of the respondents from Hindu religion, 25.3 percent belongs to Muslim and 8 percent belongs to Christian religion.
- Around 18.7 percent of the respondents belong to OC, 70.7 percent of the respondents belong to BC, 7 percent hails from and 3.7 percent belongs to MBC and SC respectively
- Nearly 86 percent of the respondents are married. 7.7 percent of the respondents unmarried, 3.7 percent of the respondents divorced or individual and 2.7 percent of the respondents were widows.
- Nearly 55 of the respondent's income is below 30000 per annum according to the version of the respondents while compare to the investment they made.

Business Profile

- Majority of the respondents have incepted the company around 15 years back around 60 percent of the respondents falls in the category.
- Nearly 56.7 percent were the sole proprietor of the company, 36.7 percent of the respondents were have partnership, 2.3 percent were engaged in co-operative society, 4.3 percent were ancillary unit partner.
- Nearly 3 percent of the respondents run tannery related business, 47.3 percent manufactured engineering spare parts, 21.7 percent producing electrical spare parts, 7 percent were engaging in automobile service, 5.3 percent producing food products, 9.3 percent engaging in garments manufacturing.
- Nearly 56.7 percent are reported as the sole proprietor of the company, 36.7 percent of the respondents owning the concern with partnership, 2.3 percent are engaged in co-operative society, 4.3 percent are ancillary unit partner.

- It is observed from the empirical verification that around 40 percent of the selected companies employed up to 20 employees, around 37.7 percent of the companies engaged 21-30 employees, around 10.7 percent of the companies deployed the employees between 31-40, nearly 7.7 percent of the employers engaged 41- 50 employees and around 4 percent of the employers deployed 50 and above.
- Nearly 70.7 percent of the selected respondents owned the company premises and 29.3 percent doing business in rented premise.

Financial Structure of Your Organization

- Majority of the respondents have made initial investment upto 10 lakhs and the current fixed capital value is between 10 lakhs to 20 lakhs.
- It is clearly indicated that majority of the selected respondents required Rs 40k to 50k per day Nearly 55 percent utilizing their own fund followed by 15 percent borrowed from money lenders, nearly 14.3 percent opined using trade credit and 11.7 percent borrowed from friends and relatives.
- Nearly 92 percent and 85.3 percent have opined that aware about financial assistance given by Govt. and avail technical assistance from banks respectively.
- Around 3 percent of the respondents opined lack of funds is important constraint, 11.3 percent reported lack of Institutional finance, 9.7 percent revealed high interest rate, 11.3 percent outstanding of the payment is important constraint and 58.7 percent revealed all the above reasons were important constraints to mobilize the working capital.

Inventory Management and Financial Regulation

- Around 7.7 percent stated Consumption during procurement time, nearly 12 percent opined that consumption during procurement time and safety stock is the main determinant and 69.7 percent stated all the above reasons are found to be major determinants of raw materials of the selected respondents across study area.
- Around 5.7 percent opined storage space available, 10 percent stated carrying cost of inventory, 7.2 percent opined supply condition of material, 8.7 percent stated price changes and 58.7 percent stated all the above reasons are the determinants of maximum level of raw material inventory.

- Nearly 11.3 percent following classification and Codification in order to avoid the wastage, nearly 9.3 percent stated variety reduction and standardization; nearly 11.7 percent opined ABC Analysis and 67.7 percent stated none of the techniques have followed.

Policy Suggestions

- Get basic working knowledge about the financial software that your business issuing.
- Keep a constant check on items which affect the liquidity of the business level of debtors, stock of raw materials and finished goods.
- Never make hasty decisions about purchasing huge fixed assets or getting into new ventures or diversification. Make a detailed study and apply evaluation techniques like IRR.
- Keep looking for ways to reduce cost – mere cost control procedures may not be long lasting – new innovative methods which will bring down the cost of delivery of your product and services need to be constantly encouraged among all employees of the organisation.
- There is a need in Strengthening of institutional capacity with a nation-wide concern is a part and partial of the development strategy of MSMEs.
- MSMEs should highly regard financial management practices as one of the tools to improve the performance.
- MSMEs should be advised to strengthen and put-up policies regarding debtors on how to collect receivables, be able to know when to write off bad debts so as to minimize losses that accrue as a result of non-payment. Similarly, efforts should be put by MSME owners to ensure that inventory management is improved through setting re-order levels both for minimum and maximum so that the business does not run out of stock as well as tie too much capital in stock which affects the working capital.

Conclusion

The study has explored various prospective to formulate the financial management strategies for MSMEs. The government is striving hard to promote smaller scale industries by announcing different promotional schemes. The first and foremost step of the

government in the direction of providing financial benefits was to announce tax concessions and certain exemptions on indirect taxes. As a matter of fact, there were many sick units, where more funds were to be allotted as they needed rehabilitation. The working capital management is an integral part of overall management of small-scale industries. There is a need for greater co-ordination between small-scale industries and financial institutions. Planning and control of working capital center round sound cash planning which includes setting of cash policies and procedures and the control over cash and credit. The problems of small industries should, therefore, be treated in this spirit.

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