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Strategic Insights into Financial Management Challenges Faced by SMES

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ABSTRACT

Micro, Small, and Medium-Sized Enterprises (MSMEs) are acknowledged as drivers of socioeconomic development and are essential to GDP growth, employment generation, and the encouragement of innovation and entrepreneurship. This is applicable to both established and developing economies, with special attention to the role that MSMEs play in the Indian economy. These labor-intensive organizations play a major role in preserving socioeconomic balance. But in developing countries like India, MSMEs' top issue is getting financing, which is why this study aims to highlight the difficulties small businesses confront. Utilizing a quantitative approach, the research identifies five distinct challenges as access to bank credits, strategic financial management, liquidity crunch, non-availability of other credit, poor management of finance encountered by MSMEs in India. The report emphasizes how important it is for people to have access to financing in order to promote entrepreneurship and boost economic growth. Encouraging the start of new entrepreneurial endeavors while facilitating timely access to funding becomes essential for the survival and further expansion of micro, small, and medium-sized businesses. The purpose of this research is to examine the obstacles MSMEs face in obtaining financing.

Keywords: Financial, Challenges, MSMEs.

1. INTRODUCTION

MSMEs are essential to economic growth and innovation, not just in India but in other emerging and developed countries as well. Their importance encompasses their role in industrial production, creation of jobs, GDP growth, regional development, revenues from exports, economic diversity, social stability, and promoting the independence of indigenous peoples. This paper's first section conducts exploratory research with the goal of clarifying the critical role that MSMEs play in the Indian economy. This booming sector faces many obstacles in spite of the government's proactive actions. Based on secondary data, the literature study explores the complex challenges that MSMEs confront, including those pertaining to operations, finance, marketing, technology, human resources, export potential, strategic management, financial literacy, and talent retention [1]. The challenges encompass a range of issues, such as obtaining working capital in a timely manner, complex documentation procedures, inadequate support from consultants, the absence of research programs based on needs, a lack of up-to-date technological skills, low ICT literacy, low motivation, high employee attrition rates, substandard product quality, lack of foreign quality certifications, inefficient logistics, weak bargaining power, gaps in information and infrastructure, and complexities resulting from uncertain laws and policies. A few of these crucial elements are examined through primary research in order to confirm their significance. Furthermore, attempts are made to suggest corrective measures [2]. Acknowledging the critical role that MSMEs play in planned economic development, governments underscore their importance in creating jobs and encouraging entrepreneurship, hence facilitating social transformation. Small businesses are now recognized for their contribution to attaining balanced regional development and employment generation. Government plans delineate critical strategic factors, emphasizing the significance of skill development—both managerial and technical—for the progress of MSMEs, along with the facilitation of economic processes and standardization of production techniques [3]. The present inquiry is important for resolving the financing-related issues facing MSMEs. In order to ensure that MSMEs are eligible for different financial support mechanisms including loan programs, subsidies, and tax benefits, government agencies play a critical role in promoting entrepreneurship. This helps MSMEs expand sustainably and serves as inspiration for the creation of new companies. Significant provisions for MSME finance are frequently included in government policy [4]. According to a 2018 International Finance Corporation (IFC) survey, the bulk of MSME debt financing came from informal or self-supported channels, with official funding accounting for just 16% of the total.

2. LITERATURE REVIEW

In India, where there are a lot of MSMEs and a vibrant entrepreneurial scene, overcoming significant financial barriers is a common occurrence. These businesses, which are recognized as the foundation of the Indian economy, encounter numerous obstacles while trying to obtain essential funding. Financial restrictions impede the growth trajectory of MSMEs, ranging from procuring appropriate operating capital to navigating intricate documentation requirements [5]. The challenges of achieving strict qualifying requirements for official financing sources, the complexities of acquiring cash in a timely manner, and the absence of consulting support are all major obstacles. The financial difficulties that MSMEs confront are further exacerbated by problems including poor financial literacy, restricted access to the newest technical capabilities, and a lack of foreign quality certificates. Let’s consider each

2.1. MSMEs

This introduction lays the groundwork for a thorough examination of the complex financial environment, revealing the various challenges that mold the financial story of MSMEs in India. Prior to discussing problems, let us categorize SMEs within the Indian setting. MSMEs are categorized in India according to annual turnover and the amount invested in plant and machinery or equipment. In the manufacturing sector, Micro, Small, and Medium Enterprises are classified based on the amount invested, with Micro enterprises having a turnover below INR 5 crore, Medium Enterprises between INR 10 crore and INR 50 crore, and Small Enterprises between INR 1 crore and INR 10 crore. Within the service industry, there are three types of businesses: Micro Enterprises, which have a turnover under INR 5 crore and an equipment investment below INR 10 lakh; Small Enterprises, which have a turnover under INR 50 crore and an equipment investment between INR 10 lakh and INR 2 crore; and Medium Enterprises, which have a turnover under INR 250 crore and an equipment investment between INR 2 crore and INR 5 crore. These classifications, which are updated on a regular basis determine which SMEs in India are eligible for government programs and customize assistance to meet their various needs.

2.2. Challenges

The extraordinary difficulties that MSMEs are facing in the wake of the Covid-19 outbreak. Apart from the short-term disturbances like halted activities, problems in the supply chain, and a lack of workers, the industry faces enduring challenges including a shortage of cash and a decline in the demand for products and services. The MSME sector, which accounts for 32% of GDP, 25% of employment, and 45% of exports, is crucial to the economy, but there are gaps in the Rs. three trillion credit line that is accessible to it. This problem is made worse by lenders' reluctance to give loans without collateral. The financial noose is further tightened by the government, PSUs, and top private sector companies' dues, resulting in a round-robin situation where resources for necessities during lockdowns are limited [6].In contrast to the common perception, MSME owners exhibit a robust willingness to take risks, utilizing bank financing less frequently, and demonstrating ingenuity in structuring their businesses [7]. Their research highlights a number of significant obstacles facing MSMEs in India, including a lack of funding for working capital and capital investments, a lack of marketing opportunities, inadequate infrastructure, a shortage of skilled labor, and strict government rules and regulations. Financial resources and markets are frequently obstacles for recently founded enterprises, according to another study [8]. Below are some of the financial issues that exist:

2.3. Access to bank credits

Capital is crucial to the expansion and development of MSMEs. Access to bank credits continues to be the biggest obstacle for the majority of MSMEs, despite numerous government programs and clear directives from the RBI intended to encourage credit flow to smaller businesses. Even with one of the biggest banking systems in the world, India faces significant challenges when it comes to lending money to small businesses. A nationwide research study identifies organizational structures and procedures inside banks that diverge from task orientation, creating a bias against small loan portfolios, as evidence of structural barriers to the flow of credit [9]. Inadequate financing availability, compounded with incomplete and inefficient MSMEs handling procedures, is a barrier to the growth of the MSME sector in India. It is still relevant to consider whether relationship-based lending or transaction lending is better suited to handle information-related problems. MSMEs have the lowest business loan default rate, but they still have trouble getting loans at fair interest rates, which limits their ability to support economic expansion. Governments and policymakers emphasize the importance of a strong MSME sector for entrepreneurship and economic growth, as well as the necessity of institutional and financial development to remove growth constraints and improve access to external finance [10]. Financing barriers obstruct optimal growth and require unique financial instruments and techniques designed to get around these constraints, especially for small enterprises. Relationship banking is essential for lending money to smaller, less well-known companies and is regarded as a hallmark of a system that supports SMEs. But the expenses of possible borrower insolvency present a problem, which discourages financing to small companies. Small enterprises' operational capacities are further impacted by their financial struggles, which make it more difficult for them to carry out essential tasks like product promotion, training initiatives, and raw material purchases [11]. To overcome these issues and encourage entrepreneurship, the government is thought to need to get involved in assisting MSMEs through initiatives like the creation of special funds. The lack of knowledge regarding MSMEs' finances is a basic problem in India's financial system, which makes traditional lending institutions hesitant to give money to small enterprises.

2.4. Strategic Financial Management

Competitiveness and earmarking the deliberate distribution of resources or monies within an organized budgetary system are closely related concepts. According to research findings, the financial performance of MSMEs is directly impacted by organizational strategic planning, a continuous and transparent process that involves strategy development, review, and goal definition. In spite of this, a sizable percentage of MSMEs disregard strategic financial planning, which eventually prevents them from being competitive and from surviving in the market. Systematic budget planning is essential and includes developing methods, allocating resources, and defining long-term organizational goals [12]. The goal of a strategic budget system is to give businesses a long-term competitive edge that encourages innovation and global expansion. However, MSMEs frequently experience capacity constraints that impede efficient fund use. As a result, they may turn to remote management techniques, which can result in inefficient resource utilization because of inadequate goal-setting, control, planning, funding, and administration. MSMEs also show a poor comprehension of risk, profitability, and viability. To optimize capital usage, a variety of financial strategies can be used, highlighting the significance of a competitive strategy that includes investments in firm-specific assets and strategic positioning in the marketplace [13]. These resources—such as knowledge and capacities for research and development—help a company stand out from the competition and grow more competitive overall.

2.5. Liquidity Crunch

Liquidity is a vital component of any business's operational structure since it represents the necessary capital needed for daily operations. The proceeds from sales of debtors' assets are usually the main source of liquid capital. However, businesses, even MSMEs, frequently turn to short-term financing options like Cash Credit or Bank Overdraft in cases of a cash crunch brought on by late payments and bills receivable [14]. The problem of a liquidity constraint has become more severe for MSMEs, especially in light of the COVID-19 situation at the moment. Because a major percentage of MSMEs are suppliers to larger companies, the performance of these companies and the promptness of credit payments have a direct impact on MSMEs' financial stability. MSMEs' cash stream might be disrupted by larger companies' payment delays or operational pauses, which exacerbates liquidity problems [15]. Furthermore, bad debts and late repayments from creditors are issues that MSMEs frequently face. The absence of efficient recovery methods further affects the availability of working capital for these businesses. These worries have been made worse by the ongoing pandemic, as lockdown procedures have caused operations to stop and MSMEs' cash flow to be disrupted. This has thus made it much harder to obtain liquid capital, forcing many MSMEs to deal with the possibility of having to scale back operations or perhaps liquidate their businesses.

2.6. Non - Availability of other Credit Sources

The availability of credit is directly related to the liquidity difficulty faced by MSME sector, and the ability of enterprises to grow and diversify depends on their ability to get credit. For MSMEs to exist and thrive, timely and adequate financing is still a major barrier, which presents a serious obstacle to their overall growth trajectory [16]. Financial institutions are frequently viewed by MSMEs as a source of assistance when trying to reduce operating expenses. Unfortunately, not all financial institutions are willing to lend money to this industry, which makes credit availability a serious issue. MSMEs face significant barriers to credit accessibility due to the complex documentation, severe regulatory requirements, collateral requirements, strict payback terms, and high interest rates associated with the loan application procedure [17]. Financial institutions' unwillingness to work with MSMEs stems from the difficulties presented by the small loan sizes, more servicing costs, and the perception of MSMEs' inadequate ability to offer sufficient security for the necessary funding [18]. MSMEs make a substantial contribution to the economy, but often struggle to obtain loans and achieve financial independence since banks are reluctant to give capital to them. MSMEs now face difficult circumstances as a result of this lending aversion, which limits their capacity to apply for loans and dashes their hopes of becoming financially independent.

2.7. Poor Management of Finance

Appropriate record-keeping procedures and efficient financial management are closely related to MSMEs' performance. A competent manager or owner who understands finance issues can drive the company's significant expansion. Important components of financial management include the availability and allocation of funds as well as the continuous assessment of financial performance. A person possessing a strong grasp of finance can create persuasive recommendations to get capital for company operations [19]. On the other hand, a business owner with poor financial literacy can find it difficult to make important choices, which could result in higher expenses. The problem is made worse by inadequate record-keeping, which raises operating costs and impairs MSMEs' ability to make money. MSMEs frequently struggle to obtain funding from financial institutions, which is made worse by the lack of managers or employees who are competent and experienced in making financial choices and keeping records. The Government of India is working to inject liquidity into the MSMEs sector as a result of these financial obstacles, which are significant problems for them [20]. A number of initiatives have been launched by the Ministry of Finance to help MSMEs with their loan availability issues. These obstacles can be successfully overcome with driven business owners and the right assistance from the government and financing organizations, guaranteeing the MSME sector's survival and expansion.

3. RESEARCH OBJECTIVE:

To identify the impeding financial obstacles for MSME growth through literature review, conduct primary research and analysis using statistical techniques.

4. RESEARCH METHODOLOGY

The study used a quantitative approach, gathering data through the use of a questionnaire. This methodology enabled a transparent and concise examination of the collected information. Because the 80 SMEs were thought to be relevant and readily available for the study, the researchers decided to select them using the convenience sample method [21]. Using this method, replies from accessible and willing respondents inside the sample frame are gathered. The fact that individuals willingly chose to participate in the study ensures that their participation is voluntary. This method was especially selected to increase the response rate because respondents in this industry are naturally reluctant to divulge information. This reluctance is exacerbated by worries about possible tax authorities' exposure and competitor information leaks [22]. Furthermore, because participants took the time to carefully consider their interactions with the questionnaire, the convenience sampling strategy was successful in producing high-quality replies.

Characteristics of SMEs

Table 1: Frequency Distribution of Forms of Participant SMEs

Form	Frequency	Percentages (%)	Cumulative (%)
Private Ltd Company	39	49	49
Partnership	12	15	64
Sole Proprietorship	18	22	86
Family Owned Business	11	14	100

The data shown in Table I indicates that a substantial proportion of the SMEs examined, or 39 out of 80, are registered as Private Limited Liability Companies, accounting for 49% of the total respondents. 12 respondents were classified as partnerships, and 18 respondents, were sole proprietorships and 11 of the SMEs polled were family-owned enterprises.

Table 2: Reliability Test

Variable	Number of items	Cronbach's Alpha
Access to bank credits	06	0.885
Strategic financial management	07	0.728
Liquidity Crunch	05	0.704
Non Availability of Other Credit	08	0.802
Poor Management of Finance	05	0.811

Table 2, states the Cronbach's values and all the above stated values are well over the threshold values of 0.7, so considered good for further research.

Table 3: Descriptive Analysis

Variable	Mean
Access to bank credits	4.68
Strategic financial management	3.76
Liquidity Crunch	4.26
Non Availability of Other Credit	4.33
Poor Management of Finance	3.93

From above table 3, the mean values are stated, and interpreted clearly access to bank credits is the major factor, when looking at financial constraints, followed by non-availability of other credit, liquidity crunch, poor management of finance and finally strategic financial management.

Table 4: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.567a	.256	.322	0.029

Table presents the model summary of the financial management difficulties for SMEs as determined by the regression analysis. The table shows that these financial management issues, access to bank credits, strategic financial management, liquidity crunch, lack of availability of other credit, and poor finance management, explain 25.6% of the variation in financial obstacles. As a result, this model cannot account for 74.4%. Additionally, it was discovered that the regression's standard error was 0.029. This always implies that there is a significant relationship between the explanatory variables and the dependent variable (financial challenges).

Table 5 : ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	247.290	6	41.215	16.548	.001b
Residual	474.624	179	2.652		
Total	721.914	185			

Table 5 shows the results of the ANOVA of the financial management and SME financial management difficulties variables. Financial challenges and financial management challenges variables are shown to be statistically significantly correlated, as indicated by the F value of (16.548: $p = 0.001$) being smaller than.05.

5. DISCUSSION AND CONCLUSION

Over the last ten years, there have been substantial changes to the MSME sector, including a twofold increase in registered enterprises and a major rise in services-oriented businesses. In comparison to larger sectors, the MSME sector is a significant source of employment creation and does so at a significantly lower capital cost. Beyond its effects on the economy, it also helps industrialize rural and urban areas, reduces regional disparities, and makes sure that wealth and income are distributed more fairly. The MSME sector, which accounts for almost one-third of India's GDP, is vital to the country's society, which is why policymakers must assist this essential sector. MSMEs face enduring obstacles in spite of efforts to support this industry, such as restricted bank credit availability and the onerous documentation needed to establish a firm in the nation. Financial management, credit accessibility, talent shortages, sourcing raw materials, and logistics are common issues faced by numerous MSMEs. MSMEs' ability to survive and expand depends critically on their ability to obtain financing in a timely manner. The results of the study highlight the variety of financial obstacles that MSMEs must overcome.

6. LIMITATION AND FUTURE SCOPE

There are certain limits to the research that should be taken into account. First off, there may be difficulties in adequately reflecting the varied situations of MSMEs with regard to their access to financing across different Indian cities and states due to the comparatively small sample size of 80. It is advised to conduct a more thorough study with a larger sample size in order to include a wider range of MSMEs spread throughout several states and cities. Second, the study ignores other variables like the entrepreneur's demographic profile and only includes a small number of characteristics that could affect access to financing. Future studies could investigate these unstudied facets in order to have a thorough understanding of their impact on MSME financing accessibility.

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