International Research Journal of Human Resource and Social Sciences
ISSN(O): (2349-4085) ISSN(P): (2394-4218)
Impact Factor 6.924 Volume 9, Issue 12, December 2022
Website- www.aarf.asia, Email : editoraarf@gmail.com

FINANCIAL MANAGEMENT BY THE MEANS OF INNOVATIVE APPROACHES IN SMALL SCALE INDUSTRIES

SURESH DURGADASHEEMI
RESEARCH SCHOLAR, SUNRISE UNIVERSITY, ALWAR, RAJASTHAN

DR. SARWAN KUMAR SAINI
RESEARCH SUPERVISOR, SUNRISE UNIVERSITY, ALWAR, RAJASTHAN

ABSTRACT

Finance plays a significant role in the operations of any purposive organization. Proper planning and control of business finance leads to the efficient utilization of resources. Financial decisions also alter the size and variability of the earnings stream or profitability. The value of the firm is determined by financial policy decisions, such as risk and profitability. Effect financial management is basic to the survival and accomplishment of each business endeavors. Tragically, numerous MSME proprietors have moderately restricted introduction to financial management and have been uninformed of how deliberately significant it is to their business execution. The financial management function is not a standardized operation. The functions vary from firm to firm depending upon the size of the company, nature of industry and tradition. Countries over the globe don't utilize a similar definition for grouping their Small and Medium Enterprise (SME) area nor completes an all-inclusive definition give off an impression of being vital. In India, the area has been by and large alluded to as the Micro, Small and Medium Enterprises. It assumes an essential job in the by and large mechanical development of the nation. Lately the MSME segment has reliably enlisted higher development rate contrasted with the general development pace of the mechanical division. The real preferred position of the area has been its business potential at low capital expense.

Keywords: - Small Scale Industries, Financial, Capital, Management, Practice

I. INTRODUCTION

Finance plays a significant role in the operations of any purposive organization. Proper planning and control of business finance leads to the efficient utilization of resources. Financial decisions also alter the size and variability of the earnings stream or profitability. The value of the firm is determined by financial policy decisions, such as risk and profitability.

The assignment of financial management is to strike a harmony among hazard and productivity by contributing the most astounding long haul an incentive to the protections of the firm. Financial management, subsequently, plays out a pivotal job in the survival and achievement of business undertaking. The goals of budgetary administration spread the augmentation of benefits, riches and prosperity of investors. Towards this end the management must be cautious in making speculation, profit and financing choices. Financing is the basic management work which gives the methods for curing shortcomings in different zones.

Financing thus is an integral part of managerial functions and responsibilities affecting an organization's performance. Further, the revolutionary changes also manager used to project sales; the engineering and production staff would determine the assets necessary to meet these demands; and the financial manager would simply raise the money necessary to purchase the plant, equipment and inventories.

This mode of operation is no longer prevalent. Today, decisions are made in a much more co-ordinate manner, with financial manager directly responsible for the control process. The importance of financial management is, thus universally recognized in the business undertakings.

Small and medium enterprises (SMEs) account for 84% of the employer firms, generate half of all private gross domestic product (GDP), and employs 60% of the private sector workforce in Nigeria . Sustaining SME business performance over a period beyond five years in Nigeria remains a challenge because of the turbulent business landscape, which can be summarized using the managerial acronym "VUCA" volatility, uncertainty, complexity, and ambiguity. This research is in Lekki town, a fast-developing neighborhood in Lagos, the commercial capital of Nigeria. Lagos State is also the fastest-growing state with a population of 24 million people. Lekki is a new town that attracts young people and new businesses in Nigeria (New Towns Development Report, 2018).

Concept of Financial Management

According to Author, "Business finance can be broadly defined as the activity concerned with the planning, raising, controlling and administering the funds used in business. This definition is concerned with financial management of profit-seeking business organizations engaged in all types of activities.

II. INNOVATION PRACTICES AND SME PERFORMANCE

Innovation has become a necessity for all contemporary enterprises that want to survive in a world characterized by competition, technological change, and recurring crises. The concept of innovation refers to the use of new technology or new management practices in an organization to achieve a targeted improvement in its operations. From a SME perspective, innovation commonly indicates new products or processes that address customer needs more competitively and profitably than existing ones. We use the term "innovative practices" in this study to refer to the effective implementation of new solutions to challenges faced by SMEs, which include effective implementation of new ideas in relation to the organization's product, services, or processes; new marketing mechanisms; or new administrative practices for work amelioration and upgraded performance.

The key driver of innovation practices in enterprises is the ambition to get reimbursement in the form of better performance. Therefore, innovation is defined as creation of some modifications in the enterprise's practices that are intended to obtain an improvement in performance. Based on the literature, performance in this study is defined as achieving the institution's objectives related to sales, profitability, competition, market share, and any other strategic goals. Researchers also defined performance as achieving a set of desired outcomes resulting from the realization of the marketing objectives.

III. BUSINESS FINANCIAL MANAGEMENT PRACTICES

Working capital management:

Working capital refers to surplus of current assets over current liabilities. Working Capital Management hence is concerned with the issues faced in managing current assets, current liabilities and their interrelationships. The objective of working capital management is to maintain an optimum level of working capital by efficiently managing current assets and current liabilities.

The success and failure of any organization substantially depends upon the efficient system of working capital management. Both inadequate as well as excessive working capital positions are not favorable for any business therefore every business should strive to avoid any of these conditions. Inadequacy of working capital may lead the firm to insolvency and excessive working capital implies idle funds which earns no profits for the business further leading to lesser financial productivity.

Capital structure management:

Capital structure is the mixture of both long-term debt and equity employed to finance the firm's assets. Thus the composition of various sources of capital like equity shares, preference shares, debentures, and other long-term financing sources is known as capital structure. The optimum capital structure of any firm will lead to the increase in its value so it is the responsibility of every firm to decide the source of finance in a proper way.

Investment decision:

The investment decisions are those which are taken by the business with respect to the purchase of the assets in the firm. All the money which is raised by the firm through the financing decision is invested in various assets. The assets have to be purchased while keeping in mind, that the returns generated through these assets should be more than the cost of capital employed. The small scale industries invest mostly in the local resources. They have limited scope, whether it is the physical or human resource.

Trend analysis:

The direction of change is very important while analyzing the financial information of the organization. Trend analysis gives the direction of change. The trend in the growth of sales and net profit can be measured in terms of secular trend in the growth of the business. In general the most common practice is to use index numbers. The base year variables like sale, income, expenditure are taken as 100, and then each variable is taken as a percentage change with respect to the base year. This can be called as trend Percentage method.

Small scale enterprises:

Small scale enterprises play an important role in the development of economy, mainly in developing countries. In countries like India, these small scale industries are the lifeline of the economy. Small Scale enterprises (SSE) play avital role in strengthening the industrial structure of a country. They enable the exploitation of resources for fruitful purposes, with the least amount of capital investment. SSE have added, greatly, in bringing-down regional disparities; creating employment prospects, growing industrial productivity, and exports, nurturing entrepreneurship and fast-tracking economic development.

IV. FINANCIAL PLANNING

The second theme resulted from analysis and interpretation of the data collected from the semi structured interview questions. I found that financial planning was the strategies leaders of SME business in Lekki, Nigeria used that have contributed to their sustained success in operating their small to medium enterprises beyond five years. The financial planning entails a comprehensive assessment of one’s current and future financial status. Financial planning is in itself a complex multidimensional task and includes a wide array of activities, such as cash flow management, savings, investments, tax planning, real estate management, insurance planning and retirement planning. Small- and medium-sized enterprises play a crucial role in every economy due to their significant contribution to new job creation, entrepreneurship and innovation. However, these economic units face several challenges in their management systems, lack of an efficient and effective financial management being a major one described financial planning as concerned with understanding the factors that determine the value of a business’s uncertain cash-flows over time, and with management of these factors through careful financial management and control and sound financial decision-making. Financial planning was a strategy used by the SME leaders at Lekki to sustain their businesses beyond 5 years.

V. CONCLUSION

Financial Management is a fundamental piece of the financial and non-economic exercises which prompts choose the effective acquirement and use of account with productive way. In the days of yore the subject Financial Management was a piece of bookkeeping with the conventional methodologies. Presently a days it has been developed with creative and multi-dimensional capacities in the field of business with the impact of industrialization. Financial Management has turned into a fundamental piece of the business concern and they are moving more in the field of Financial Management. Financial Management additionally created as corporate fund, business money, monetary financial aspects, money related science and financial engineering. Understanding the fundamental idea about the financial management turns into a basic part for the understudies of financial matters, trade and the board.

This study investigated the financial management practices of small firmsin.The study focused on fourspecificvariables of financialmanagement ofsmall enterprises such as, working capital management,capitalstructure management, investment decision, trend analysis. The study also triesto find out innovative financial management practices used by small scaleindustries.

The findingsrevealed that, that working capital is not properly managed by thesmall scale sector. The small enterprises under survey are not much carefulabout the amount of working capital in their business operations. There was novalid technique which they are using to estimate the working capitalrequirement of the concern. They check their working capital in informal wayor simply prepare cash or inventory account book. They base their workingcapital on the basis of past experience and percent of sales of their enterprise.

REFERENCES

1. Prasannachadra, “Financial Management-Theory and Practice”, Tata McGraw Hill Education Private Limited, New Delhi, 2009.

2. Export–Import Bank of India, Occasional Paper No.153, 2012,pp.9.

3. Fourth All India Census of MSMEs, Ministry of MSME 2011, pp(xi).

4. Agostini, L., Nosella, A., &Soranzo, B. (2017). Measuring the impact of relational capital on customer performance in the SME B2B sector. Business Process Management Journal, 23, 1144-1166.https://doi.org.10.1108/BPMJ-10-2016-0205.

5. Agwu, M.O., &Emeti, C.I. (2014). Issues, challenges and prospects of small and medium scale enterprises (SMEs) in Port-Harcourt city, Nigeria. European Journal of Sustainable Development, 3, 101-114. doi:10.14207/ejsd. 2014.v3n1p101.

6. Ajayi, B. (2016). The impact of entrepreneurial orientation and networking capabilities on the export performance of Nigerian agricultural SMEs. Journal of Entrepreneurship and Innovation in Emerging Economies, 2(1), 1-23. http://doi: 10.1177/2393957515619720.

7. Arasanmi, C.N. (2019). Training effectiveness in an enterprise resource planning system environment. European Journal of Training and Development, 43, 456-469.https://doi.org.10.1108/EJTD-09-2018-0087.

8. Mensah, B.A.K. (2012) Working capital management practices of small firmsinthe Ashanti Region of Ghana.International Journal of Academic Research inBusiness and Social Sciences, 2(1): 567-583.