

“AN EMPIRICAL STUDY ON FINANCIAL ENGINEERING PRACTICES ADOPTED BY MICRO, SMALL AND MEDIUM ENTERPRISES IN KARNATAKA”

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ABSTRACT

Financial management mainly focuses on the profit maximization and wealth maximization of the business. Any business for survival needs to maximize the wealth along with the competition prevailing in the business enterprise. Financial manager plays a key role in the financial decision of the organization. Minimizing the capital cost incurred in the business helps in gaining profit. The present study highlights about the financial engineering practices conducted at Micro, Small and Medium Enterprises, the businessmen or entrepreneur's perceptions of enterprises is that very difficult to conduct the business because of high competition prevailing in the market, lack of raw materials shortage. The researcher in the study reveals that some of the enterprises are unorganized the business runs without any goals, vision, entrepreneurs feel that it's a burden to run business in organized manner, the implementation of GST bill had a huge effect on the business. The government initiative policy to bring uniformity in tax to some an extent as an impact on the business

KEYWORDS: Financial Engineering, Micro Enterprises, Financial Management, budgeting. etc.

I. INTRODUCTION

Financial Management plays a major role in the efficient and effective utilization of the management of money to accomplish the objectives of the organization. It is the operational function of a business which is responsible with the procurement of funds and effectively utilizing the funds in the operation of the organizations. It is also concerned with the planning, controlling and administration of funds, and effective use of capital structure of its operations.

Financial management mainly focuses on the profit maximization and wealth maximization of the business. Any business for survival needs to maximize the wealth along with the competition prevailing in the business enterprise. Financial manager plays a key role in the financial decision of the organization. Minimizing the capital cost incurred in the business helps in gaining profit.

The enterprises need to plan before starting up any business about the estimation of cost and sales. The estimation of working capital is much required to continue with the functioning of the enterprises. The enterprises need to calculate the cash flow requirement in the enterprise for smooth running business. The estimation of the cash requirement as well as the capital requirement depends on the size of the enterprises. Any business to withstand the competition and survive in the business world needs to have an estimation of budgeting, needs to have targeted customers and as well as the research and development department to survive in the business. The entrepreneurs with the help of finance manager do the estimation to overcome the difficulties.

II. BACKGROUND OF THE STUDY

The research titled “An Empirical Study on Financial Engineering Practices Adopted by Micro, Small and Medium Enterprises in Karnataka” has been carried out with finance manager of various enterprises with different sectors in Karnataka. The population has been segregated based on the manufacturing and service enterprises as well as based on the investment criteria of the enterprises such as micro, small and medium enterprises. Further the population includes from districts across the state.

Non-probability sampling design is adopted in which convenience sample method is adopted to collect the data. Questionnaire design is structured and distributed to various enterprises covering various sectors. The data intended to be collected consists of variables, namely the name of the company, manufacturing or service sector, products manufactured, and service rendered by the enterprises, number of employees working in the enterprise, it also consists of organization variable such as type, nature and size of the enterprises. Another section consists of loan facility availed at the financial institutions by the entrepreneurs, credit limit sanctioned, working capital requirement, rating system to avail loans etc. which are measured using Likert Scale, a Crownboach Alpha test.

III. STATEMENT OF THE PROBLEM

Karnataka is considered as an agriculture driven state with rich in natural vegetation and natural resource. The state has lots of enterprises, but some of the enterprises are not organized in proper form. The Federal government has come up with a lot of schemes, policies and regulations. The Government of India has come up with MSMED Act 2006, later in the year 2015 the amendment has started where the bill needs to be passed. The enterprises find difficult to operate a business in the process of recovery mechanism, some units are considered as sick units without able to operate efficiently. Some enterprises are making huge profit by doing even export oriented business. Some district is undeveloped which has led to less production because of poor in technology upgradation. Micro, Small and Medium Enterprises find difficult in its operations, internal and as well as external functioning of the enterprises. Financial institutions find difficult to sanction loans to the small-scale enterprises because of recovery problem. Micro, Small and Medium Enterprise Act 2006 was amended in the year 2015, by proposing of the increasing the limit of the amount. The enterprises which are working under MSME have not received the subsidies from the government bodies. Venture capitalists are not showing much interest in the enterprises because the enterprises find difficult to sustain the competition in the business world.

IV. OBJECTIVES OF THE STUDY

1. To analyze the financial capabilities and competitiveness of MSME.
2. To study and analyze the status of credit flow to MSME sector against the set benchmark under MSME guidelines.
3. To identify major issues in MSME financing from credit users (borrowers) and loan providers (banks)
4. To study the opportunities and challenges of banks in designing proper financial products to MSME.
5. To know the difficulties faced by the entrepreneurs and to study the measures taken to overcome the difficulties during the start-up and inception stage.

V. LIMITATIONS OF THE STUDY

Micro, Small and Medium Enterprises operating in Karnataka region are considered for the study. Selected districts in the study are in Bangalore Rural, Bangalore Urban, Mysore, Ramanagara, Mandya, Tumkur, Hubli-Dharwad, etc., The responses were collected by the company proprietor, or company finance manager were collected during a particular time period, hence it is chance at information collected will change as per the year changes. The data collected, a hypothesis testing, analysis and interpretation, finding of the study is restricted only to Karnataka State. It may not be appropriate to draw a common inference nationally or globally. The method of sending the questionnaire by e-mail or post were not applicable, as well as not possible since majority of the respondents are quite busy in their working in the enterprises, they find difficult to fill the questionnaire. So, it was necessary for the researcher to personally visit and collect data. The process of personal visits was time consuming, but it increased the genuinely and authenticity of the data collection.

VI. REVIEW OF LITERATURE

ShambhuGhatak et al (2010): has studied that Indian small medium enterprises are better compared to neighboring countries Bangladesh and Pakistan. A smaller fraction of SMEs in Pakistan borrows from banks as compared with SMEs in other countries of South Asia region including India and Bangladesh.

Tulus T. H. Tambunan et al (2011): The paper presents that recent development of MSMEs and their constraint in Indonesia by focusing on GDP and productivity.

FrancesaCassano et al (2013): This paper emphasizes the aspect of cash flow v/s collateral-based credit performance of MSME's in ever changing or transition economics. The primary objective of the research paper is to know the factors affecting MSME's performance.

ParulSharda et al (2014): This paper focuses on the impact of information technology on MSME's in Indore region. An insight is probed with respect to investigating MSME's competitiveness and information technology in Indore region. The outcome establishes that there is a relationship that exists between environmental factors and information communication and technology adoption.

VII. RESEARCH GAP

- Review of literature has been done to identify the gap in the research.
- Government of India has come up with MSMED Act, 2006 by reforming the new criteria for the investment pattern.

VIII. NEED FOR THE STUDY

The present study highlights about the financial engineering practices conducted at Micro, Small and Medium Enterprises, the businessmen or entrepreneur's perceptions of enterprises is that very difficult to conduct the business because of high competition prevailing in the market, lack of raw materials shortage, very difficult to create demand for the product/service, lots of duplication of products. Lack of technology upgradation, enterprises find difficult to purchase sophisticated machineries, federal government have come up with many other schemes and subsidies for the entrepreneurs in order to take up the business. In order to identify all the problems this study is taken up and also to identify economic parameters contribution for the growth of the economy.

IX. RESEARCH METHODOLOGY AND DESIGN

The research methodology followed in the study is descriptive, survey, analytical. The study is described because the researcher can only say what is happening and what has happened.

The study comprises of both the primary and as well as secondary data. Primary data are collected based on the questionnaire administered to various micro, small and medium enterprises in the Karnataka State. The information will be sought from the financial manager of MSME regarding the usage of financial products. The secondary data is collected from published, unpublished records and reports of Government of Karnataka. The data have been analyzed with the help of SPSS package. Findings and conclusions were drawn thereafter.

The study comprises of analytical skills based on the existing programmes followed in the company, policies and procedures on the promotion and growth of micro, small medium enterprises are analyzed, and constructive suggestions are offered for the study.

9.1 Financial Position and Challenges faced by micro small medium enterprise

The researcher was able to identify challenges faced by the entrepreneurs such as during start-ups, marketing of products, repayment of loan, managing working capital requirement, conflicts among employees, competitor's tough competition.

9.2 Enterprises policies and regulations

The researcher in the study reveals that some of the enterprises are unorganized the business runs without any goals, vision, entrepreneurs feel that it's a burden to run business in organized manner, the implementation of GST bill had a huge effect on the business. The government initiative policy to bring uniformity in tax to some an extent as an impact on the business.

9.3. Better usage of financial products

The researcher in his study examines that financial products usage is quite moderate in most of the enterprises. Some of the entrepreneurs find it difficult to manage the financial crisis in case of machine breakdown or during working capital requirement in case of shortage of raw materials financial products usage needs to be utilized by the entrepreneurs.

X. SUGGESTIONS

The following discussions were made based on the collected data, from the respondents of the enterprises

- The researcher after conducting the survey was able to identify that in order to maintain the same turnover output the company needs to regularly do research and development and go through the profile of competitors and have a close watch on the price movement.
- An online product needs to be given more importance so that market demand for the products increases. Intermediaries should not be given importance as the entrepreneurs fails to get the cost of the product/service involved. Now a day intermediary is playing major role such as amazon, flip kart etc., where the manufacturers are not getting market to sell their products. After conducting the research while

collecting the entrepreneurs' opinion and remarks the researcher was able to find out creating a market for the customer was a challenging, the government intervention and support will have an effect on the market creation for goods to be sold.

- The researcher feels that government should take care of sick units by funding them from the both the union government as there is huge requirement for service industry government may introduce optimal venture capitalist to take up the upliftment of that particular industry.
- The researcher feels that most of the entrepreneurs do not give much importance to financial products such as goodwill, venture capitalist they fail to maintain the goodwill of the firm. The research activity needs to be done very stronger in order to maintain the healthy competition.
- The researcher feels that government should take care of sick units by funding them from the both the union government, as there is huge requirement for service industry government may introduce optimal venture capitalist to take up the upliftment of that particular industry.
- Union government should take initiative in getting listing of the enterprise in the stock exchange a platform needs to be created only for small scale enterprises rather
- than not to compete with large scale enterprises. As we have credit rating agency for large scale enterprises same manner a separate agency needs to be set up to create the rating for the enterprise.
- Awareness about the schemes provided by the government should reach all the business enterprise. Some of the enterprises are not aware of the scheme available especially in the rural areas.

XI. RECOMMENDATIONS FOR FUTURE WORK

Several recommendations for future research are:

- 1 Present study focuses on the innovative practices adopted by the enterprises to overcome the challenges in the working enterprise. Further investigations can be conducted to explore the opportunities and challenges faced in the globe.
- 2 The research study for future can be conducted with specific areas by focusing more on import/export of products or outsourcing the service sector.
- 3 The future research can be conducted on innovative practices adopted in different countries.
- 4 In future, studies can be conducted on criteria between the countries in selection of the enterprises based on investment by the entrepreneurs.
- 5 The future study can be extended to understand the future growth of the economy.
- 6 The future research can be extended with the enterprises which are organized and unorganized enterprises.
- 7 The future studies can be conducted on the digitalized economy related to marketing of product and services.

XII. CONCLUSIONS

Micro, Small and Medium Enterprise is an age old enterprises in existence. Before 5 decades, people used to manufacture goods for themselves for their daily needs, and requirements.

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