Vol 8, Issue 5, 2025 **Impact Factor: 8.535** DOI: https://doi.org/10.31426/ijamsr.2025.8.5.8325

International Journal of
Advanced Multidisciplinary Scientific Research (IJAMSR) ISSN:2581-4281

Critical Study of Financial Management Practices in Small and Medium Scale Enterprises (SMEs) in West Bengal

Debasish Roy [1], Dr. Purnima Tiwari [2]

[1, 2] Department of Commerce, Mansarovar Global University, Sehore, M.P., India.

ABSTRACT

Small and Medium Scale Enterprises (SMEs) are recognized as a driving force for equitable development and economic advancement worldwide. The primary advantage of the industry is its little capital expenditure and potential for job creation. This sector has significantly greater labor intensity than large enterprises. It serves as a sanctuary for entrepreneurship, often driven by individual creativity and innovation. These enterprises are vital to the overall development of India's industrial sector. In comparison to the overall industrial sector, Small and Medium Scale Enterprises (SMEs) has consistently demonstrated higher growth rates in recent years. Small and Medium Scale Enterprises (SMEs) are essential for attaining the objectives of inclusive and fair growth at the national level. This paper reflects critical study of Financial Management Practices in Small and Medium Scale Enterprises (SMEs) in India.

Keywords: *Small and Medium Scale Enterprises (SMEs), Inclusive, Economic Development, Finance, Financial Management.*

I. Introduction

Finance constitutes the fundamental basis upon which businesses are established and operated. Financial access can facilitate a firm's expansion and growth. Likewise, insufficient money might result in limited operations and, in severe instances, precipitate the complete financial failure of the enterprise. Regardless of the business type, finance is an essential resource that must be managed effectively for the seamless and prosperous operation of organizations and markets. Financial management is the process by which a firm establishes and executes a system that facilitates the attainment of its objectives and enhances shareholder value by optimizing resource utilization and allocation across diverse asset classes.

It is a managerial role that involves the planning, organising, allocation, and oversight of a firm's financial resources.

In numerous organizations, it is integrated inside the accounting and finance department, leading to frequent confusion with accounting and involves the procurement of capital, its effective allocation, planning, and performance management.

Finance is a crucial resource for executing any business activity, including daily operations, expansion initiatives, and inorganic growth. Finance is intricately integrated into all business decisions and is essential to corporate objectives. Scenarios of stringent financial oversight necessitate distinct tactics for survival and growth, whereas scenarios of ample funding catalyse

International Journal of
Advanced Multidisciplinary Scientific Research (IJAMSR) ISSN:2581-4281

several new initiatives and activities within the organization. Indeed, "strategic planning" is deficient without the inclusion of a "strategic financial management" strategy. It functions at many levels within an organization, as seen in the picture below.

Three Pillars of Finance Function

The finance function rests on 3 key pillars:

1. Investment
2. Funding or financing
3. Shareholder returns such as dividends etc.

Consider a capital investment decision undertaken by an organization to optimize shareholder value. A corporation may assess several project alternatives based on net present value and use a suitable discount rate to account for risk factors. Consequently, the funding of these initiatives must be determined, and the associated costs should be integrated into the net anticipated returns for each project under evaluation. Projects must generate anticipated returns for shareholders; otherwise, the corporation may dismiss all initiatives and distribute funds to shareholders as dividends.

Risk And Return Issue in Financial Management

A fundamental principle in financial management is the trade-off between risk and reward. Numerous individuals are familiar with the adage 'high risk correlates with high profits and vice versa.' This is accurate in most instances, and many individuals have been deceived into believing in a zero-risk proposition regarding specific investment categories that promise great returns. Articulate in uncomplicated language:

Risk-weighted return = Risk-free return + risk premium

The risk-free return often refers to the yield anticipated from a zero-risk asset. While no asset is entirely devoid of risk, sovereign risk can be regarded as the closest approximation to a zero-risk asset; nevertheless, this assumption may not apply in multinational operations, which we shall overlook in this context. The risk premium will differ among companies depending on their risk appetite, allowing for the calculation of the target risk-weighted return. Consequently, it is an essential responsibility of the manager to meticulously uphold this equilibrium. Excessive risk aversion will result in suboptimal results for the company, while excessive exposure to high risk will render the firm vulnerable to financial collapse.

Significance of Finance Manager

Financial management include the planning, execution, and regulation of a firm's finance-related activities. Consequently, managers are accountable for the financial well-being of their business through participation in diverse investment and financing operations.

Financial manager generally encompasses the following functions:

- Create financial management reporting, forecast and performance reports
- Advise the management on ways to improve the financial performance of the organization.

- Monitor on compliance and other legal and regulatory aspects
- Participate in development of strategies and plans of the organisation.
- To take financing decisions
- Interact with analysts and other external entities in required.

Critical skills of Finance Manager

- Analytical skills – To analyse data, areas of optimization, perform scenario analysis.
- Communication skills – communicating effectively in written and oral forms.
- Knowledge of finance areas – knowledge of sound financial theory, ratios, and benchmarks.
- Organisation and relationship skills – ability to manage inter-departmental relationships and external relationships in a time-bound effective manner.
- The function of the finance manager has transitioned from mere reporting and oversight to that of a perceptive business counsellor to senior management.
- Therefore, a finance manager nowadays necessitates a combination of financial acumen, industrial insight, and technology expertise to effectively fulfil this function.
- Technology has emerged as a crucial component in research and reporting, making it an indispensable ability.

Financial decision-making necessitates reconciling the goals of the enterprise with the aspirations of the person. Financial management, a domain under business management, concentrates on the judicious allocation of funds and the prudent selection of capital sources to facilitate the organization's progress toward its objectives. Financial management principally concerns the transfer and regulation of cash for diverse commercial operations. Financial management practices are crucial for the success of a small firm. The assertion that financial management is a crucial problem for small enterprises is substantiated by an expanding body of literature on the topic. It influences a business's performance level while also enhancing the success rate.

Optimal financial performance is finally attained through the cultivation of various competencies in financial management procedures. The conduct of a corporation and its use of financial planning principles dictate its financial management practices. SMEs, whether headed by owner-managers or hired managers, often encounter significant financial performance challenges stemming from insufficient financial management skills and the volatility of the business environment. Inadequate financial decisions will adversely affect the company's profitability. Thus, inadequate financial management can adversely affect the profitability of SMEs. Small and medium-sized enterprises often falter due to a deficient comprehension of proficient financial administration.

Establishing financial objectives, formulating financial policies, and devising financial procedures constitute the components of financial planning. This preparation is essential for achieving the objectives and ensuring the smooth running of any company effort. A deficient financial strategy has resulted in the failure of several technically sound and mechanically viable manufacturing ventures. Financial planning is essential for both small and large enterprises during the beginning and operational periods. Financial planning must be a continuous process in today's dynamic business environment for enterprises to thrive and grow. Financial structure pertains to the amalgamation of long- and short-term funds within a

IJAMSR

International Journal of Advanced Multidisciplinary Scientific Research (IJAMSR) ISSN:2581-4281

company's capitalization, whereas capital structure delineates the composition of long-term funds in a company's capitalization. It is more suitable to use the term financial structure management instead of capital structure management, as most SMEs in India depend on both long- and short-term financing for their sustainability. The predominant consensus among scholars is that the financial structure of SMEs comprises the company's own capital, loans from acquaintances, banks, and non-banking financial institutions. Consequently, overseeing the financial framework poses a difficulty for SME firms. A small business owner-manager must possess a comprehensive understanding of the company's daily operations to manage it effectively. Beyond legal obligations, maintaining comprehensive records is essential for ensuring seamless corporate operations and guiding the organization effectively. However, to date, no broadly accepted normative framework has been established in these domains to delineate which financial reports are most beneficial for financial management and the frequency of their utilization. An examination of the poll regarding SMEs' accounting and financial concerns reveals that a significant proportion of enterprises lack bookkeepers or credit controllers on their payroll. Maintaining precise financial records and employing sound accounting concepts is essential for ensuring effective financial management in SMEs. According to many research, it seems that the majority of SMEs refrain from maintaining thorough accounting records due to concerns that such practices would reveal their financial status, incur significant costs and effort, and lead to increased taxation for the enterprise.

Large-scale industries outbid small and medium-sized enterprises in securing bank funding and institutional credit. Illness is a significant obstacle hindering the small-scale industry. A multitude of little units have suffered from ailments due to diverse complications. Specific national economic behaviors, including GDP growth, credit accessibility, money supply volume, capital market activity, investment levels, and price fluctuations, might significantly influence industrial disease inside the nation. Financial difficulties are often central to the problem. Small-scale enterprises, owing to their severe poverty, are unable to offer substantial security when securing capital. A study on financial management is essential due to these developments to formulate suitable policy measures that will facilitate management in achieving company objectives more effectively.

Overview of Small & Medium Scale Enterprises (SMEs)

Small and Medium Scale enterprises (SMEs) have historically served as the foundation for global economic progress. They serve a crucial function in employment, innovation, and societal transformation. Researchers and educators have acknowledged that management procedures in SMEs diverge from those in large enterprises, necessitating specialized tools and management principles. Small firms require specialized human resource management techniques; they implement distinct strategies and employ various ways of strategic management; furthermore, organizational learning within the firm is intricately connected to the entrepreneur and their team.

Investment in SMEs

The investment cap for plant and machinery/equipment in a SME (Small and Medium Enterprise) is contingent upon the enterprise's classification (Micro, Small, or Medium). The investment cap for a Micro-enterprise is a maximum of Rs. 1 crore. For a small firm, the limit is not exceeding Rs. 10 crores. The threshold for a medium enterprise is capped at Rs. 50 crores.

IJAMSR

International Journal of
Advanced Multidisciplinary Scientific Research (IJAMSR) ISSN:2581-4281

Here's a more detailed breakdown:

Micro-Enterprise: Investment in plant and machinery or equipment should be below Rs. 1 crore.
Small-Enterprise: Investment should be below Rs. 10 crores.
Medium-Enterprise: Investment should be below Rs. 50 crores.

These limits, along with turnover limits, are used to classify enterprises as Micro, Small, or Medium under the MSME Act 2006. The MSME definition was updated in 2020, with some changes to investment and turnover limits, according to the Ministry of Micro, Small & Medium Enterprises.

Challenges of SMEs

It is often hard for MSMEs to expand their businesses and opportunities due to

- Limited connections leading to a limited means to promote themselves.
- Limited resources to run and grow their businesses due to various reasons like labour and talent crunch.
- Lack of affordable working capital and tools to improve operation.
- Lack of information which is reliable, affordable and easily available at the time of need.
- Going digital put forth an obstacle in the form of costly technology.

The COVID-19 pandemic significantly affected the global landscape, resulting in considerable challenges for SMEs. This was due to the insufficient production of masks, PPE, and sanitizers relative to the surge in demand. In Bengal, it was guaranteed that all of these were produced by SMEs. Many of these were reopened following the relaxation of lockdown measures; nonetheless, during the period when the whole value chain and supply system had ceased operations, over 2.5 to 3 million employments were created. Despite the poor performance of Manjusha and Biswa Bangla due to the closure of all shops, measures were taken to enable weavers and artisans to sell a portion of their inventory and generate some cash.

The state facilitates clusters or organizations engaged in the production of items such as wooden and steel furniture or handloom/katha, among others. The MSME Department offers essential training and resources, as well as establishes common facility centres in response to public inquiries to the government. This improves productivity, enhances marketability, and cultivates their ecology through interventions. This has been made possible due to the cooperation from the banking sector. The MSMEs of the State obtained bank credit amounting to 1 lakh crore immediately following the COVID-19 pandemic, marking a significant milestone. This facilitated the future growth of MSMEs. Nevertheless, MSMEs located in districts encounter challenges in obtaining finance access. Entrepreneurs in the district encounter a degree of information opacity in numerous banks when applying for loans, which may or may not be deemed creditworthy. Comprehending their lack of creditworthiness requires some time. Consequently, to streamline and democratize the process, the government is collaborating with banks to enhance the convenience of conducting business. The Department has addressed the issue of credit provision to industries by awarding a contract to the Small Industries Development Bank of India (SIDBI), which will establish a support desk for MSMEs. The MSMEs in West Bengal employ around 13.5 million individuals, comprising 9.195

IJAMSR
International Journal of
Advanced Multidisciplinary Scientific Research (IJAMSR) ISSN:2581-4281

million males and the remainder females. West Bengal is the foremost state in India for offering employment chances to women in MSMEs, employing 4.351 million female workers. The State ranks highest in India for female MSME entrepreneurs, comprising 23.42% of the total (2,901,324 female-owned enterprises).

These MSMEs have varied products and services to offer. The 548 MSME clusters located in 23 districts of West Bengal encompass a diverse array of products, including electrical and electronic goods, engineering components, transport equipment and parts, leather and allied products, textiles and ready-made garments, embroidery, chemical products, plastics, gems and jewelry, basic metals and alloys, jute and other fiber products, food and processing, clay and ceramics, wooden furniture and related items, among others.

Financial Management Practices in SMEs

Financial management approaches cultivate diverse competencies that subsequently result in optimal financial success. The financial management practices of an organization are contingent upon its behavioral tendencies and application of financial planning expertise. The absence of financial management acumen, coupled with the unpredictability of the business landscape, frequently results in significant financial performance issues for SMEs. This holds true for both owner-managers and hired managers; erroneous financial decisions will negatively impact the company's profitability. Consequently, the profitability of SMEs may be adversely affected due to ineffective financial management.

Financial management for SMEs is the organization, planning, control, and monitoring of financial resources to attain business objectives. Essential domains encompass budgeting, cash flow management, cost regulation, and investment strategy. Efficient management is essential for the success and sustainability of SMEs, allowing them to overcome problems, make informed decisions, and attain growth.

Key Financial Management Practices for SMEs

- *Financial Planning:*

Setting specific financial goals, outlining steps to achieve them, and creating a roadmap to measure progress.

- *Cash Flow Management:*

Ensuring sufficient cash on hand to cover daily operations and unexpected expenses. Poor cash flow management can lead to insolvency.

- *Budgeting:*

Creating a plan for allocating and managing financial resources, including income, expenses, and investments.

- *Cost Control:*

Identifying and eliminating unnecessary expenses to maximize profitability.

I J A M S R
International Journal of Advanced Multidisciplinary Scientific Research (IJAMSR) ISSN:2581-4281

- *Investment Planning:*

Evaluating and selecting investment opportunities to maximize returns.

- *Accounting and Record Keeping:*

Maintaining accurate records of all financial transactions for reporting and decision-making.

- *Financial Reporting:*

Preparing and analyzing financial statements (income statement, balance sheet, cash flow statement) to track performance and make informed decisions.

- *Working Capital Management:*

Managing the flow of cash between current assets and current liabilities to ensure smooth operations.

- *Financial Risk Management:*

Identifying, assessing, and mitigating potential financial risks that could impact the business.

- *Compliance:*

Adhering to relevant financial laws and regulations.

Importance of Financial Management for SMEs:

- *Survival and Growth:*

Effective financial management is essential for long-term sustainability and growth.

- *Informed Decision-Making:*

Provides the information needed to make sound financial decisions.

- *Access to Funding:*

Well-managed financial records can increase the likelihood of securing loans and investment.

- *Improved Competitiveness:*

Helps SMEs compete more effectively in the market by optimizing resources and reducing costs.

- *Enhanced Financial Health:*

Contributes to the overall financial stability and resilience of the business.

Conclusion

One of the most lively, dynamic, and powerful sectors of the West Bengal economy is the SMEs. In addition to helping to industrialize rural and underdeveloped areas with a focus on inclusive growth and the economically and socially disadvantaged segments of the population, the State's SMEs are vital in creating significant employment opportunities at relatively lower capital investment. SMEs are found in West Bengal Districts. Hence the issue of Financial Management in SMEs directly affects growth and sustainability.

IJAMSR

International Journal of
Advanced Multidisciplinary Scientific Research (IJAMSR) ISSN:2581-4281

References

1. Manjeet Kharub, Rajiv Sharma, (2017) "Comparative analyses of competitive advantage using Porter diamond model (the case of MSMEs in Himachal Pradesh)", Competitiveness Review: An International Business Journal, Vol. 27 Issue: 2, pp.132-160.
2. Charan Singh and Kishinchand Poornima Wasdani,“Finance for Micro, Small,and Medium-Sized Enterprises in India: Sources and Challenges” working paper No. 581, July 2016. Asian Development Bank Institute. Tokyo
3. Parijat Upadhyay, Amit Kundu, Sreethi Nair, (2016) "On managing business, organization climate and enterprise system implementation: Insights from Indian MSMEs", Journal of Workplace Learning, Vol. 28 Issue: 8, pp.472-483.
4. Rathnasiri, “The Financial Management Practices of Small and Medium Enterprises in Sri Lanka” Global Journal of Contemporary Research in Accounting, Auditing and Business Ethics (GJCRA), 2015 Vol: 1 Issue: 2.
5. Viktor Kovelskiy, “Comparative Analysis of Working Capital Management of MSMEs In India” Wseas Transactions on Business and Economics, Volume 12, 2015.
6. Chandraiah and Vani, “The Prospects and Problems of MSMEs sector in India an Analytical study” International Journal of Business and Management Invention, Volume 3 Issue 8 , August . 2014, PP.27-40.
7. Nishanth, “Barriers Faced by Micro, Small and Medium Enterprises in Raising Finance” Abhinav National Monthly Refereed Journal of Research in Commerce & Management, Volume 3, Issue 5 (May, 2014).
8. Antima Agarwal and Surender Kumar Gupta, “A Study on Various Schemes for MSMEs: With Special Reference to SIDBI” International Journal of Advanced Research in Management and Social Sciences, Vol. 2 | No. 4 | April 2013.