CHAPTER –2

LITERATURE REVIEW

"A great memory does not make mind, any more than dictionary is piece of literature."

John Henry Newman

SURVEY OF LITERATURE

2.1 Purpose of Literature survey

2.2 The international studies related to SMEs in other countries except India

2.3 Studies related to Indian industry and SMEs and SMEs in Maharashtra

2.4 Studies related to financial factors affecting industry performance

2.5 Research Gap

2.6 Chapter summary

2.1 PURPOSE OF LITERATURE SURVEY

In Chapter I, elementary information about the status of the industrial sector in India is presented with respect to the definition and the expanse of the units that fall under MSME, their locations and nature of activities in the state of Maharashtra. This has provided foundation for a sound understanding of the problem that the researcher has undertaken to investigate.

The present Chapter is related to the past studies taken place in this area. In order to get a broader perspective of the MSME sector the studies conducted outside the state/country are also included in the review. This is done with a purpose to understand if the challenges faced across the industry in different geographies are similar and if the same solutions can be replicated for their resolution.

In order to make review meaningful, it has been presented in the following three sections:

I) Studies related to SMEs in countries other than India,

II) Studies related to SMEs in India and

III) Studies related to financial factors affecting industry performance

2.2 STUDIES RELATED TO SMES IN COUNTRIES OTHER THAN INDIA

1 Babajide and Abiola (2011)[20] carried out "Impact Analysis of Microfinance in Nigeria and studied about the financing restraints approach to identify whether microfinance institutions' enhanced access to credit for micro enterprises in Nigeria works or not. According to this approach, microenterprises with upgraded access to credit rely less on internal funds for their investments. They compared investment sensitivity to internal funds of micro . (a municipal with significant presence of Microfinance Banks (MFBs) with that of micro enterprises in Ekiti State (a municipal with no (or limited) presence of MFBs). They conducted a cross sectional study and collected data about Microfinance Institutions (MFI) branch location. The study conclusions reveal that MFBs eased micro businesses' financing constraints."

"This approach is used in appraising microfinance impact in other countries as well. The influence of Small and Medium Scale Enterprises (SMEs) on nation's economy has been accepted as main sustenance of the economy because of their capability in augmenting the economic productivity and thus enhancing human welfare. The SMEs' suffer from paucity of access to relatively cheap and good source of finance. These have been acknowledged as the major factors obstructing their contribution to economic growth."

"The researchers assessed specific financing options available to SMEs in Nigeria and their relationship with economic growth via investment level. Indicators were appraised to measure the financial performance of SMEs."The correlation coefficient between SMEs financing and investment level was 0.643 (significant at 0.1 level of significance).

"It has shown that there is a significant positive relationship between SMEs financing and economic growth in Nigeria via investment level." Higher the SME financing, significantly higher is the economic growth. Hence the SMEs should be provided low interest rate finances to propel national economy."

2 Mwaniki, Moffat Karo (2012)[21] conducted "research on 'Factors affecting performance of small and medium enterprises in Kenya: A case study of SMEs in Thika Municipality'.

The study concluded that most SMEs in Thika Municipality fund their businesses from loans from bank, family and relatives; personal savings; loans through government institutions; and through Non-Governmental Organizations."

"Respondents accessed finance for their businesses from all possible sources including commercial banks, NGOs, micro finance institutions, government institutions, and SACCOs. What prevented them from borrowing money from the banks was the fear of losing the property." Moreover the banks required collateral and had high interest rates which is why they disliked borrowing from the banks. The study concluded that marketing is the main obstacle forthe enterprise performance. The owner managers marketed their products using print media as newspaper classifieds, pamphlets, and leaflets. Word of mouth helped them to some extent in marketing their product. They opined that red tapes attitude in the bureaucracy in registration offices hampers SME growth. Corruption affected their legitimate rights as beneficiaries. Compliance and tax cost being high coupled with complex custom system adversely affect the growth prospects of the enterprise. To top it all government support was also very minimal.

3 Kamunge, Njeru & Tirimba (2014)[22] studied "the Factors affecting the Performance of SMEs in Limuru Town Market of Kiambu County, Kenya. The study concluded that facility to use finance and having administrative and managerial experience are the important socio-economic factors impacting the outcome of businesses in Limuru

Town Market. These two have the potential of leading to improved business performance”.

“The other significant factors that were found to impact performance of SMEs in Limuru Town Market positively are: right to use to business information, supportive government policy and regulations and facility of infrastructure.”

4 Research by Afeef (2011)[23] aimed to study “the potential effect of working capital management on the profit performance of SMEs in Pakistan. Effect of working capital management was studied on profitability of a sample of 40 Pakistani SMEs listed in Karachi Stock Exchange for a period of six continuous years from 2003 to 2008. The researcher scrutinized totally 240 (40X6) firm-year observations. Correlation analysis was conducted to decide the relationship between efficient working capital management and corporate profitability for the sample under study while the Multiple Regression analysis was employed to explore the combined interactive effect of the variables of working capital management on profitability of selected firms. Results of the analyses revealed that indicators of working capital management had an appreciable impact on financial performance i. e. profitability of firms under study.”

5 Jaimin R. Vasa April (2016)[24] while doing a comparative study of SMEs’ Contribution In India And China: -- A Study Of Selected Sectors concluded that the SMEs under chemical sector, Pharma sector and Textile Sector have grown significantly in both the countries continuously with almost similar growth rate during the study period.

The production capacity and utilization of capacity of SMEs in China was bigger than Indian SMEs and even smallest SME unit in any sector was five to six time bigger than Indian SMEs in terms of production, productivity, labor, employment and export. Despite of huge growth of SMEs in India in 2006-07 by inclusion of several existing small industries under SME fold, the position of SMEs in India was found trivial in compare to China. The progress of Chinese SMEs of all the selected sectors were found extra ordinary because the policies of Chinese government to promote the SME sector by providing several supports like cheaper labor, low cost raw material. For the growth and development of SMEs under chemical, pharma and textile sectors in China, “research suggest that to provide SMEs with plenty of financing opportunities, the government should strive to develop corporate bond market, and allow some SMEs, which have good operating conditions, to enter the bond market for financing."

6 Voulgaris ,D. Asteriou ,G. Agiomirgianakis[25] "The aim of this paper was to identify what factors contribute to manufacturing SMEs growth in Greece.

Factors found to influence significantly manufacturing small firm growth in Greece are: • profitability of total assets (positively) • liquidity (negatively) • long-term debt reliance (positively) • employee productivity (positively) • credit policy (negatively) and • fixed assets turnover (negatively) Business size (smaller is better) was shown significant when entered by itself, but its significance decreased when other explanatory variables were added. Also, in the case where Total assets were used as size variable, it did not show any significance at all. Since in most firms the number of employees does not change significantly throughout all years, we just have the same vector in both regressions and the only effect goes to the constant."

7 Kinyua (2014)[26] studied "Factors Affecting the Performance of Small and Medium Enterprises in the Jua Kali Sector in Nakuru Town, Kenya' and concluded that SMEs who have easy access to finance had the potential to significantly and positively influence performance of SMEs in Jua Kali Sector, however access to finance were yet to be fully utilized to the advantage of the SMEs in the study area. Management skills had the capability to positively and significantly influence the performance of SMEs and yet had only been marginally adopted by the SMEs in the study area. Similarly, the study came to conclusion that the effect of macro environment on performance of SMEs was positive and significant especially on production output despite being moderately rated among the SMEs. Finally, the study concluded that infrastructure was not statistically found to be significantly impacting the performance of SMEs in the study area."

8 Rym Ayadi and Emanuele Sessa (Editors) Hala Helmy El Said and Rana Hosni Ahmed (Egypt) Nooh Alshyab, Serena Sandri and Fuad Al Sheikh (Jordan) Mohamed Larbi Sidmou and Jad Allah Rami (Morocco) Rim Ben Ayed Mouelhi and Monia Ghazali Ferchichi (Tunisia) (2017)[27] The MSME sectors of Egypt, Jordan, Morocco and Tunisia, This last point is particularly important, considering that MSME sectors

in the countries under investigation are dominated by micro firms, most of which were established for subsistence reasons and consequently with low growth potential. These micro firms often take the decision to remain informal in order to avoid a number of administrative hurdles and costs that they are not willing or able to sustain, something that in turn further hinders their growth potential. In this sense, the dominance of micro firms, and especially the range of factors underlying their establishment as a subsistence solution, can be considered as the main determinant of widespread informality in the region.

9 Rufo R. Mendoza[28]"The correlation revealed that a significant linear relationship exists between liquidity and activity, liquidity and leverage, and activity and leverage. However, the three performance measures showed no significant relationship with profitability. Conversely, it is clear from the study that while the MSMEs have high scores on liquidity, leverage, and most aspects of activity, they suffer from low profitability. The t-test showed no significant difference in the liquidity, profitability, and inventory turnover of the enterprises when grouped according to the organizational form, business type, and asset size. Nonetheless, a significant difference exists in receivable turnover, asset turnover, and debt ratios." "The t-test revealed that single proprietorships have significantly higher receivable turnovers than corporations, while small enterprises have significantly higher receivable turnovers than both the micro and medium enterprises. Both manufacturing and trading businesses have significantly higher asset turnover than those engaged in services while small enterprises have significantly higher asset turnover than both the micro and medium enterprises. Corporations showed significantly higher debt ratio compared with sole proprietorships; manufacturing business, compared with trading business; and medium enterprises, compared with both micro and small enterprises. The subject MSMEs should revisit their strategies on the use of financial resources to maximize profit and the overall value of their business. Since liquidity, activity, and leverage have been the core advantages of these MSMEs, efforts should be geared towards improving profitability aspects."

10 Emmanuel Tweneboah Senzu and Haruna Ndebugri (2018)[29] suggested, "it largely caused by poor business environment as a result, most of the MSMEs collapse nearly in their 5th year, for a new born of ventures in a continual circle of this nature and this

call for an urgent critical look into Business policies of Ghana by the Ministry of Trade & Industry as the government arm in charge of business development. Largely most of the MSMEs engage in business transactional records that lack quality accounting records to affect performance of business. Hence government interest should be shifted to this direction as well, as a vital sector of the economy to support the difficulties in addressing this issues of quality records keeping for a sustainable and profitable ventures that stand to significantly contribute to the macro economy of Ghana."

11 Bassey Ina Ibor, Amenawo Ikpa Offiong , Enyeokpon Samuel Mendie[30] "This study concludes that there is significant relationship between financial inclusion and the growth of micro small and medium scale enterprises in Nigeria. That financial inclusion policy significantly and positively impacts on the operations of micro, small and medium scale enterprises. However, distance to finance financial services access points and infrastructural deficiency could challenge how fast and effectively micro, small and medium scale enterprises would access financial services in Nigeria."

12 OECD Report[31]SMEs are lagging behind in adopting digital technologies. While, in most countries, the divide is narrow for simple connectivity and web presence, the gap broadens when considering participation in e-commerce and, especially, more sophisticated applications. For instance, across OECD countries, enterprise resource planning (ERP) software applications to manage business information flows are popular among large firms (more than 75% adoption rate in 2014) but less used by SMEs (less than 20%). In many countries, a large adoption gap is also observed for cloud computing, i.e. the renting of computer power from an external provider, which can allow smaller firms to use Big Data, while overcoming some of the barriers associated with the high fixed costs of ICT investment.

13 Bergthaler W., Kang K., Liu Y., and D. Monaghan (2015)[32] Debt-distressed SMEs in Europe face a number of challenges in restructuring. Their large numbers, small size, and weak balance sheets increase the fixed costs and risks to banks of restructuring. Despite recent reforms, insolvency systems and out-of-court workout frameworks in Europe are still ill-suited to the particular needs of SMEs, limiting their usefulness. Difficulties in foreclosure have also slowed the pace of loan resolution, contributing to the backlog of tackling small and medium sized enterprise problem loans in Europe

international monetary fund 27 corporate debts over hangs. If left unaddressed, SMEs' high levels of indebtedness and bad loans will remain a drag on the recovery and financial stability.

2.3 STUDIES RELATED TO INDIAN INDUSTRY AND SMES AND SMES IN MAHARASHTRA

14 Margaret Mutiria (2017)[33] this study established the existence of a significant relationship between measures for enhancing access to SME financing and actual access to SME financing, the study recommends that government intervention like youth funds should be enhanced to allow more young entrepreneurs in SME businesses to access financing. The study also concludes that there is need for commercial banks and other financial institutions to provide exclusive bank loan products to SMEs, and, Micro-finance loan products to SMEs should carry sufficient finance skills training on business finance management, loan application, and loan repayment. Finally, the study recommends that rotating savings and cooperating associations (ROSCAs) should also be enhanced since they are essential and necessary channels for enhancing SMEs access to financing.

15 Madiha Shafique Dar 1 ,Shakoor Ahmed 2 and Abdul Raziq[34]

Credible definition will operate as a functional key in the formulation and effective monitoring of SMEs. It activates the policy makers who can create a benchmark to gauge progressive improvements in SMEs standards and working. The paper projections hope to persuade the government officials and SMEs to come together in order to remove the degree of diversity and conflicts among SMEs definitions as the current definitions vary greatly in proportions to national economies. It concludes that the definition by employment, assets and turnover has multiple advantages.

16 Uma (2013)[35] stresses that "all industrial and business organizations have to take up the accountability to meet the challenges posed by globalization.

Not only the large size businesses, but even a small and medium size businesses enterprises in India has to undertake the responsibility to meet the stringent global standards, excellent qualities, technological up gradation, skills technical know-how needed in the global market for sustaining in the competition. Forty years ago, economist Ernst Friedrich Schumacher published in Britain his book 'Small is Beautiful' in which he argued in favour of human-scale, decentralized and suitable technologies which small businesses could tie together effectively. It means that even a small scale unit functioning anywhere in India has to fulfil the standards set by the international titans who operate in India." For all the units --- including those who make final products as well as auxiliary or skilled workers.

17 Desai (1983)[36] stated that "SMEs has vast capability in terms of generating occupations and output, up-gradation of export, development of base for indigenous entrepreneurship and Diaspora of businesses and entrepreneurship skills in both rural as well as backward areas. Desai also stated that rapid industrial development in India rests on the progress of SMEs. Most of the SMEs are functional under some hindrance like scarcity of raw materials, low levels of technical knowledge and counselling, poor setup structures, insufficient capital and credit facilities, improper logistics system, lack of amenities for market analysis, research and development. They are also weak in marketing their products beyond their localities especially in international markets."

As per the India's New Industrial Policy, 1991, "the industrial Reforms (1991) were introduced in five areas namely Industrial Licensing, Foreign Investment, Foreign Technology Agreements, Public Sector Policy and Monopolies and Restrictive Trade Practices Act (MRTP). The government permitted foreign investments with a limit of 51% in industries that required the use of advanced technology and large scale investments."

"The terms of agreement with reference to the transfer of technology was left to beneficiaries of the contract with minimal government interference. Regarding the MRTP Act, major attention was paid on monitoring unfair trade practices. No mandate of the central government was necessary for setting up and expansion of business units and mergers."

18 Selvaraj and Balajikumar (2015)[37] "while studying 'Financial Institutional Assistance and Support to Small-Scale Industries in Tamil Nadu – A View' concluded that the

both Central and State Governments have established numerous institutions and centres to support small scale industries. Their functions include project appraisals, construction of infrastructure facilities, distribution of raw materials, provision for machinery on hire-purchase scheme, reservation of items for production by small scale industries."

Many financial institutions have introduced various schemes to reduce the financial load of the small-scale units.

19 Lama (2013)[38] conducted a research on 'Micro, Small and Medium Enterprises (MSMEs) In India-Problems and Prospects' and came to the conclusion that "MSMEs have turned out to be as an engine of growth in Indian economy by way of their substantial impact to GDP and industrial production. The MSMEs are required to increase its productivity; efficiency and quality reduce costs and innovate."

"Government policy should help MSMEs to increase their competence and attractiveness within a market driven economy. In order to avert the most important sickness in MSMEs, new approaches like the cluster approach or connecting the power of industry association should be encouraged. To keep this growth engine on the precise route and direction, it is necessary to put emphasis on the formulation of friendly policies, conducive operating environment, improvement of proper infrastructure, securing peace and security, arranging proper finance, efficient manager and arranging appropriate modem technology for MSMEs."

20 Venkataramanaiah and Parashar (2007)[39] in their paper titled 'Enhancing the competitiveness of SMEs through industrial clusters: "The Indian experience', stated that Indian industry is undergoing a major change due to the liberalisation, privatisation and globalisation (LPG) of the economy. Many investors and corporate organisations from developed economies are looking at India as one of the best locations for their global operations. The role of SMEs is becoming increasingly crucial for meeting the growing demand of both domestic and overseas firms operating in India. In transition economies like India and China, SMEs provide the best example of the alterations in proprietorship structures, business philosophy and values; and entrepreneurial behaviour. The SMEs that survived the downturn in 1990s have emerged as competitive global players."

“Many small and medium size organisations are on the way to becoming medium and larger ones. Many SMEs are trying to enter the stock market by going in for the initial public offer (IPO) channel to raise funds, but the money (stock) market is still not yet SME-friendly. The inherent strength of SMEs and their potential for growth have nonetheless started winning them the sympathy of many banks, financial institutions (FIs), state financial corporation’s (SFCs) and other support agencies. “

21 Raju (2008)[40] in his working paper titled ‘Small and Medium Enterprises (SMEs): “Past, Present and Future in India’ mentioned that Small and medium industry enjoys a status of tactical significance in the Indian economic structure due to its noteworthy impact and contribution in terms of output, exports and employment. Small industry has been one of the most important floor boards of India's economic expansion policy since Independence.”

“India bestowed high urgency status to small and medium enterprises (SMEs) from the very beginning and drafted support strategies to make these enterprises sustainable and pulsating and over time, these have become key providers to the GDP. Despite many protection and policy measures for the past many years, SMEs have remained commonly small, technologically regressive and deficient in competitiveness.”

22 Chandak (2016)[41] presented a paper on “Challenges faced by Micro and Small Enterprises in raising bank finance: A special reference to Micro and Small Enterprises in Nagpur’ and concluded that the lack of responsiveness about finance schemes shows that enterprises do not understand how they can benefit out of them.” In micro enterprises, Most of the borrowers are first generation entrepreneurs don’t have experience of doing business and contributing in project.

Feeble business plan results in the rejection of business proposal by banks. Unavailability of credit history acts as barrier in financing to micro enterprises. Banks consider MSEs as risky projects. Increasing NPA in public sector banks is also one of the chief causes for credit crunch. The majority of problems due to which banks do not finance are due to lack of collateral, poor financial statement, no past experience, risky project, lack of infrastructure etc., in Nagpur city. Dynamic changes are observed in the global business market. Bank policies do not prefer to finance the low performing sector in economy.

23 Anil Bhardwa[42], "The new MSME definition in India: good or bad? Why? Debates"

SMEs definition in India is always a question as it is suitable to define SME as per plant and machinery or Investment as there is other opinion of limiting the definition to turnover of companies or as per employees involved in the unit. There is always pros and cons, as per 2006 act definition owners have run behind charted accountant for certifying their investment and machinery. "The definition was framed in 2006. After 12 years, with regular devaluation of value of Rupee it reflects impractical limits. Readjusting for inflation rate can enhance the limit by 2-3 times."

24 Nilesh Shah,[43] Challenges that SMEs face today, Live mint news article ,First Published: Wed, Apr 25 2012. In this article, 'Challenges that SMEs face today' state that "The SME sector is facing continuous demand on productivity and efficiency gains from their large counterparts. These demands require investments in business on a regular basis.

Reward for making such investment is not proportionate to the capital and efforts that are put in. This, in turn, is affecting investments by SMEs. Upcoming entrepreneurs are constrained by the rising cost of establishing the business, availability of finance and increasing complexity of doing business. Technology start-ups are obviously an exception to this due to the low capital requirement. SME exchange is a good beginning to provide equity to this sector.

Encashment of SME business value has not yet picked up as the merger and acquisition opportunities are limited due to emotional attachment to the business (till it is too late to detach) and the difference in the perception of value."

25 Ghatak's (2010)[44] article on "Micro, Small and Medium Enterprises (MSMEs) in India": "An Appraisal", state that Banks show their reluctance to extend credit to small enterprises because of increased managerial costs of small-scale lending due to Asymmetric information as well as perceived high risk and want of security or collateral. Credit guarantee schemes diminishes the risk suffered by moneylenders and are mainly are action to small firms' lack of warranty".

"Such schemes do have the potential to minimize the costs of small-scale lending and to improve the data and evidence available on borrowers. They enable small firms to get formal credit and also better the conditions of a loan. Such schemes assist small enterprises to obtain finance for working capital, investment and/or leasing purposes at reasonable conditions."

This helps SMEs to improve in the market attractiveness and to extend their economic activity. "Weaknesses of credit guarantee schemes can be circumvented through appropriate design and involvement of private sector. More support is needed for MSMEs from the government in the form of priority sector lending, government procurement programme, credit and performance ratings and marketing help. Technology transfers (such as green technology) and networking can help MSMEs to recuperate and grow healthy."

Morakar (2012) in his study titled, 'Problems and prospects of small scale industries of Goa: a geographical study', state that, "the Small Scale Industries are not free from challenges as the policies of deregulation and de-reservation have resulted into increased competition for the MSME sector. Due to the globalization the labour force has changed tremendously and made a way for getting avenues according to their skills and has helped to improve the life style. A recurrent opinion in industry and policymaking bodies that there is lack of skilled labour to cater the need to meet out the demand for the product. Hence, there are many openings for skilled workers."

26 Mishra[45] in 'SME's: "A Booster of India's Economic Growth" mentioned that SME's are facing many challenges in India such as lack of sufficient and need base credit, and high charges for credit, contractual expectation, lack of knowledge about marketing, problems related to storage space, designing, packaging and product display, unawareness how to entrance to international marketplaces lack of adequate services, including power, water, roads, outdated know-how and deficiency of access to modern equipment, lack of skilful manpower for operation handling and other functions of business.

He further suggested that, for the improvement of SME's in India, various measures can be adopted by government of India such as proper availability and cost effective credit, assistance in marketing, increase Productivity, technology up gradation and modernization, promotion skill development, improvement of infrastructure facilities, fixing incentives/tax related issues, proper development of institutional framework etc.

27 Anju Singla and Parul GroverCredit (2012)[46] is “an important element for growth and sustainability of MSMEs. Therefore, there is an opportunity for banks to enhance loans to MSMEs because in financing large corporate, the risk is concentrated among few units, whereas in case of same amount of loans to the MSME sector, the risk would be spread over a large number of units. Proper infrastructure is required for the MSME sector to facilitate access, availability and use of funds which would give MSMEs an equal platform to compete, manage and sustain in the age of globalisation.”

28 D.Sudarsana Murthy[47]the entrepreneurs are facing a plethora of problems in the functional areas of operation and promotion and other related areas of management. Their contribution to industrial development is unique and noteworthy. It is high time to explore new strategies and programmes to promote entrepreneurship in the country. “In the current scenario for the SSI sector to achieve economic efficiency and international quality standards, there is an imminent need to upgrade its technology. While the setting up of the Technology Bank, as announced in the comprehensive policy package for MSMEs would facilitate technology transfer and match making, creation of a separate Small Industries Development Fund at the earliest would meet the much needed financial requirements of the sector for mass scale technology up gradation. The suggested fund would also provide access of resources for infrastructure, marketing development and other similar requirements of the sector. These measures are expected to help in accelerating the pace of growth of the sector.”

29 Papiya Manna , Dr. Tapas Mistri (2017)[48] Micro enterprises occupied the leading position naturally in all states but some developed states like Gujarat, Tamil Nadu, and Goa ,south; Himachal Pradesh, Punjab, Haryana in the north and the north eastern states like Arunachal, Mizoram, Manipur, Nagaland and Tripura are improving their small and medium scale enterprises also. States like West Bengal, Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh and Orissa where small and medium enterprises are lesser in number. There is seen a normal path that those states who are leading in working enterprises, creates more employment, generate more income and do registration whether filling EM-II or UAM. Though registration through UAM has

shown a rocket speed increase but people are far behind of registration may be due to lengthy process of filling forms or they are not aware at all particularly at the rural set up or they are unwilling to register their units to escape the tax. All states are not capable of utilizing the fruits of MSM

2.4 STUDIES RELATED TO FINANCIAL FACTORS AFFECTING INDUSTRY PERFORMANCE

30 Abdulaziz, Abdulsaleh & Andrew (2013)[49] reviewed the literature on the various financing resources of SMEs with reference to their effect of both on quality and those of the sole owner and manager based business. They have cited a number of papers authored by research scholars like Ou & Haynes, (2006); Cook, (2001) which concluded that finance is a major factor in the growth, development and success of SMEs.

31 Jindrichovska (2013)[50] while studying Financial Management in SMEs, noticed that "financial management is ignored by a small enterprise owner-manager; or as is often done, given to an accountant to take care of. Whether it is apparent or not to the casual spectator, in affluent small enterprises the owner-managers themselves have a strong understanding of the ideologies of financial management and are actively involved in applying them to their own situation. The issues related to SMEs would arouse further theoretical and empirical contributions on this seemingly neglected but important area of small business research."

32 Popa and Ciobanu (2014)[51] suggested that in order to enumerate the performance two parameters should be considered – "the return on equity and the return on invested capital."

For each of them they verified the influence of fixed assets, turnover, price earnings ratio, duration of current assets by turnover and leverage. The results were significant for most of them, and the regression models were valid with a coefficient of determination of more than 60%. If solvency ratio is higher, than the amount of debt is higher and this leads to higher costs for the company. These costs will adversely influence the net income and profitability which can be seen from our results. The coverage of the cost of debt (interest) shows the company's capability to pay remuneration external investors. If a SME succeeds to cover many times their cost it means that it has a profitable operating activity and the investment brings profitability for the SME and low risk for banks.

“Return on invested capital is positively influenced by turnover, interest coverage and current assets turnover and negatively by the leverage and surprising by the growth opportunities. Turnover, as in the case of ROE, has a positive influence, which was expected given that both rates consider the net income and capital invested by shareholders.”

“In the case of return ratios is normal for a company that has a high level of coverage of the cost of debt to generate greater confidence to shareholders. The leverage has a negative influence overall, because a high value of it can mean a high cost of debt and therefore higher interest rates and an increase of ROIC. The result recorded on growth opportunities it is surprising.”

“Given the economic situation in recent years this indicator reached high levels due to interest on loans which is added in the determination of the indicator. Thus, excessive debt it is unreliable for the shareholders.”

33 Prof. Ravindra B. Gawali1 , Dr. Ashutosh Gadekar[52] “Financial Management Practices in Micro, Small and Medium Enterprises-An Exploratory Analysis with the help of Literature Review, International Journal of Research in Finance & Marketing , Vol. 7 Issue 6, June – 2017 The literature findings sighted managerial inefficiency as a root cause and poor financial management as a predominant reason responsible for MSMEs failure. Hence study concludes that the financial skills and knowledge of MSMEs owner-manager needs to be improved so that with the use of modern scientific financial tools and techniques better financial management decisions can be taken which are essential for survival, growth and profitability businesses.”

34 Vohra and Dhillon (2014)[53] worked on “Best Financial Practices Lead Financial Performance of SMEs”. Their study provided several insights on the association between financial management practices and SMEs financial performance.

Authors argued that this relationship is facilitated by various financial planning capabilities. The research attempt has proposed several hypothesis concerning financial forecasting & budgetary Planning, working capital availability, financial reporting and analysis, inventory management capabilities, and all were empirically and statistically confirmed the same.

One reason why financial forecasting & budgetary planning capabilities contributed most to the financial performance because of pre-hand estimation of required funds, revenue and cost and it makes it one of the most vital aspects of financial performance. While working capital availability, financial reporting & analysis capabilities also contributed significantly as expected, but the slight contribution of inventory management capabilities is beyond belief.

35 Nyakang'o and Kalio (2013)[54] conducted research on the "Effect of Financial Risks on Performance of SMEs in the Hotel Industry in Nakuru Municipality, Kenya. On the basis of correlation analysis results, the study came to conclusion that cash-flow risks and credit risks were found to be negatively related to revenue from food and accommodation.

This implied that cash-flow risk and credit risks are responsible for the observed reduction in revenues from food and accommodation in the hotels. Nevertheless, regression analysis results confirm that the identified financial risks (cash-flow risks, credit risks and profit risks) did not significantly influence the performance of the businesses in the hospitality industry but in most cases they negatively influenced performance especially the revenues from food and accommodation."

36 Xu (2012)[55] examined "the impact of the Factors on the Financial Performance of Firms Listed on Shanghai Stock Exchange. He examined the impact of factors, including liquidity, asset utilization, leverage and firm size on financial performance of firms.

It is positive to have high consideration of utilizing the company assets efficiently. Because the assets utilization of the company is an important factor as it influences its market share. If assets utilization increases, unit cost will decrease. Lower unit costs, in turn, should allow firms to cut and sustain lower prices and gain market share without lowering profit margins."Increasing asset utilisation is the best option listed companies can work on. Great attention should be paid to leverage. Highly leveraged organizations run the risk of bankruptcy or insolvency if they are unable to pay back their debts or loans. Company's credit history gets tarnished and it may adversely affect their chances of getting lenders in future. Debt should be reduced by the listed forms for the better performance.

37 Gopinathan (2009)[56] has discussed about the Financial Ratio testing for Performance evaluation. To derive intelligence out of the enormous amount of numerical data given in the reports and documents submitted.

It helps in appraisal of the performance of a company, so that investors can choose to invest in that company. Different ratio categories on different aspects of performance such as profitability ratios, liquidity ratios, debt ratios, performance ratios, investment evaluation ratios are considered for deciding the financial health of the company.

38 Sambasivam and Ayele (2013),[57] revealed that "the growth, leverage, volume of capital, size and liquidity are the essential contributing factors of profitability. But the liquidity ratio and leverage ratio are negatively correlated with the profitability ratios. The age of companies' existence and solidity of assets are not significantly related with profitability."

39 Karamjit Singh (2002),[58] used "Z Score Analysis for Evaluation of Financial Health of Textile Mills." He found that the variation capital structure varies depending upon the size of the companies. The study supported the traditional viewpoint that up to a certain point, increase in financial leverage will depend upon the value of the firm. Beyond this limit increasing financial leverage will lead to increasing weighted average of the composite cost of capital. This will further affect the value of the firm which will eventually decline.

40 Verma (2005)[59] studied the influence of liquidity ratios on profitability. "The study showed both negative and positive association. Out of seven liquidity ratios, five ratios namely current ratio, acid test ratio, current assets to total assets ratio and inventory resource ratio showed negative association with profitability ratio. The remaining three ratios, namely working capital turnover ratio, receivable turnover ratio and the cash turnover ratio showed positive relationship with the profitability

ratio. The financial effectiveness of the TISCO Ltd is significantly and positively influenced by inventory ratio, receivable turnover ratio and cash turnover ratio."

2.5 RESEARCH GAP

The foregoing reviews of existing literature on the subject reveal that though many studies on the small-scale industries have been carried out in India as well as abroad, yet no comprehensive study is devoted to analyze the effect of financial factors on SMEs feat in Maharashtra.

Literature review indicates that SMEs work as an important push factor for the growth of the gross domestic product and overall economy, be it a developed or developing Nations. However, SMEs have been reporting higher rate of failures with many enterprises fading at an infant stage. Very few of the SMEs grow to become big enterprises.

"The reason to this failure is pegged on the various factors that continue to inflict stagnation of the industry in terms of performance. They include -- lack of access to credit, policy and regulatory framework, management concerns, market obstacles and education and training."[60] Therefore this study is aimed at scrutinizing the factors affecting the performance of SMEs enterprises within Maharashtra in India. Such research gaps have necessitated to study on the subject.

This research employed the descriptive research design where by data collected was presented without the researcher influencing or biasing the findings in anyway. The research has considered SMEs enterprises in Maharashtra and the unit of analysis were owners-managers of manufacturing businesses, training, supermarkets, agriculture, estate agents and hospitals.

2.6 CONCLUSION

This chapter has dealt with the review of literature related to financial performance analyses which form the basis for planning of the thesis. After studying the available literature, research gap has been identified. The next chapter provides an overview of Selected Small and Medium Enterprises from Maharashtra.