

“Financial Management In Selected MSMEs In Tumkur District: An Evaluative Study”

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Abstract:

This research, titled "Financial Management in Selected MSMEs in Tumkur District: An Evaluative Study," dives into the financial management practices and challenges faced by micro, small, and medium enterprises (MSMEs) in Tumkur, Karnataka. These MSMEs are crucial for boosting India's GDP and creating jobs, yet they often struggle with issues like poor financial planning, cash flow problems, and limited access to formal credit. The study highlights common financial management practices such as budgeting, cash flow management, working capital control, cost reduction, debt management, and investment appraisal, all of which are key to improving profitability and sustainability. However, many MSMEs grapple with low financial literacy and a lack of professional financial guidance, which can stifle their growth. The research also points out government support initiatives like PM Mudra Yojana, the Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE), and the PM Employment Generation Programme (PMEGP), which offer collateral-free loans, subsidies, and credit guarantees aimed at boosting the financial strength of MSMEs. The findings emphasize that effective financial management can significantly enhance the profitability, operational efficiency, and long-term sustainability of these enterprises. This evaluative study provides valuable insights for policymakers, financial institutions, and entrepreneurs looking to strengthen financial frameworks and promote MSME growth in Tumkur District and beyond.

Key Words: *Financial Planning, Cash flow problems, Credit sustainability, CGTMSE, PMEGP, Operational Efficiency, Financial Literacy.*

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I. Introduction:

The Union Budget 2025-26 introduces a series of measures aimed at strengthening the Micro, Small, and Medium Enterprises (MSME) sector, recognizing its role as one of the key engines in India's journey of development, alongside agriculture, investment, and exports. To help businesses expand and improve efficiency, the investment and turnover limits for MSME classification have been raised. Access to credit is set to improve with an increase in the credit guarantee cover for micro and small enterprises, startups, and export-focused MSMEs. A new scheme will provide financial support to first-time entrepreneurs from disadvantaged backgrounds, while sector-specific initiatives will enhance productivity in areas such as footwear, leather, and toy manufacturing. Financial management plays a crucial role in the success and sustainability of Micro, Small, and Medium Enterprises (MSMEs) in India, including areas like Tumkur District. These enterprises contribute nearly a third of India's GDP and provide jobs for millions, making them essential drivers of economic growth and social progress. However, the sector grapples with issues like poor financial planning, limited access to formal credit, and a lack of financial literacy among entrepreneurs. To boost profitability, make the most of resources, and ensure long-term stability in a competitive and ever-changing market, it's vital to adopt effective financial management practices such as budgeting, monitoring cash flow, controlling costs, and managing working capital. It's no secret that many MSMEs face significant hurdles, primarily due to inconsistent financial practices and a lack of professional financial advice. This situation can really hinder their operational efficiency and growth potential. By adopting structured financial management practices, MSMEs can maintain liquidity, handle debts more effectively, and plan their investments strategically to foster growth. Plus, the shift towards digital financial processes—thanks to accounting software and invoicing tools—has made record-keeping and operational accuracy much better. Still, MSMEs need to tackle issues like financial illiteracy and the underuse of technology to truly take advantage of these benefits. Recognizing these challenges, the Indian government has rolled out several schemes and initiatives to support the financial growth and sustainability of MSMEs. Programs like the Pradhan Mantri Mudra Yojana (PMMY), the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and the Prime Minister's Employment Generation Programme (PMEGP) provide MSMEs with access to collateral-free loans, capital subsidies, and credit guarantees. These initiatives aim to improve MSMEs' access to credit, encourage technology adoption, and stimulate entrepreneurship, creating a more supportive

environment for their growth. This study seeks to evaluate the financial management practices of selected MSMEs in Tumkur District, examining how these practices, along with government support, influence their financial performance and overall viability.

Several government schemes support MSME financial growth in India, including:

- The Pradhan Mantri Mudra Yojana (PMMY) is designed to help non-corporate, non-farm small businesses by offering loans of up to ₹10 lakh without requiring any collateral. These loans are categorized into three groups: Shishu, Kishore, and Tarun.
- Prime Minister’s Employment Generation Programme (PMEGP), which encourages self-employment by providing loans of up to ₹25 lakh for manufacturing and ₹10 lakh for services, along with some subsidies to ease the financial burden.
- The Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) steps in to offer collateral-free loans of up to ₹2 crore, making it easier for businesses to access credit with substantial loan guarantee coverage. If you're looking to upgrade your technology.
- The Credit Linked Capital Subsidy Scheme (CLCSS) can help with a 15% capital subsidy on loans up to ₹1 crore, aimed at boosting productivity. For stressed MSMEs, the Subordinate Debt Scheme provides much-needed support by offering subordinate debt to promoters, along with flexible repayment options.
- The SIDBI Make in India Loan for Enterprises (SMILE) is another great initiative that facilitates soft loans for the modernization and expansion of MSMEs, all under the 'Make in India' banner. If you're a startup or an existing MSME.
- The MSME Business Loan for Startups in 59 Minutes offers a quick online loan approval process for amounts ranging from ₹1 lakh to ₹5 crore.
- The PM Vishwakarma Scheme is there to support artisans and craftspeople by providing both financial and technical assistance.
- The Public Procurement Policy for Micro and Small Enterprises, which encourages MSMEs to participate in government procurement processes.

Revised Classification Criteria

To help MSMEs scale operations and access better resources, the investment and turnover limits for classification have been increased by **2.5 times and 2 times**, respectively. This is expected to improve efficiency, technological adoption, and employment generation.

Category	Investment Limit (in Rs.)	Turnover Limit (in Rs.)
Micro	2.5 Cr	10 Cr
Small	25 Cr	100 Cr
Medium	125 Cr	500 Cr

Source: 04 FEB 2025 5:27PM by PIB Delhi

Budgetary Outlay of Ministry of MSME

Rs in Crores

Financial Year	Budget Estimates	Revised Estimates
2019-20	7,011.29	7,011.29
2020-21	7,572.20	5,664.22
2021-22	15,699.65	15,699.65
2022-23	21,422.00	23,628.73
2023-24	22,137.95	22,138.01
2024-25	22,137.95	17,306.70
2025-26	23,168.15	-

Source: 04 FEB 2025 5:27PM by PIB Delhi

The Union Budget 2025-26 outlines a strategic approach to bolster the MSME sector in India, emphasizing increased credit access, entrepreneurial support, and sector-specific initiatives. The significant revisions in classification criteria, coupled with enhanced credit guarantees and customized financial products like credit cards for micro-enterprises, are poised to catalyze growth and innovation. The focus on sectors like footwear, leather, and toys not only aims to boost employment but also positions India as a competitive player in global markets. Furthermore, the government's ongoing initiatives like Udyam Registration, PM Vishwakarma, PMEGP, SFURTI, and the Public Procurement Policy continue to demonstrate a committed effort towards integrating and empowering MSMEs. These measures, combined with the establishment of new institutions and missions for manufacturing and clean technology, reflect a holistic strategy to not only sustain but significantly amplify the role of MSMEs in driving economic growth, employment, and inclusive development in India.

II. Review Of Literature:

Mr. Praveen Sharma, Dr. Rashmi Sharma, (2024), The body of work surrounding financial management practices in MSMEs highlights just how vital these small and medium-sized enterprises are for economic growth, while also pointing out the ongoing financial hurdles they face. Studies show that MSMEs often struggle with limited access to formal credit, a lack of financial literacy, and inadequate financial planning, all of which can stifle their growth and efficiency. Many of these businesses turn to informal financing or trade credit because they lack sufficient collateral, which underscores the urgent need for improved financial support systems and government action to help close these gaps. Gusnafitri, G., & Martha, D. (2024) Financial literacy stands out as a key player in how effectively MSMEs manage their finances. Research shows that MSME owners who have a solid grasp of financial concepts are much better at creating structured budgets, managing cash flow, and evaluating investments, which ultimately leads to greater profitability and long-term sustainability. Additionally, studies point out that financial literacy plays a significant role in helping these businesses access a variety of financial products and manage their debts wisely. The existing literature calls for specific policies and training initiatives aimed at enhancing financial literacy, empowering MSMEs to make smarter financial choices in an increasingly competitive market. Journals on Finance and Management. (2024). Raju, (2024). There's a growing body of literature highlighting the importance of strategic financial management practices like risk assessment, capital allocation, and transaction transparency in boosting the financial health of MSMEs. Unfortunately, many of these businesses struggle due to a shortage of skilled financial managers and inadequate record-keeping, which drives up operational costs and stifles growth. This often makes it tough for MSMEs to secure funding from institutions. Researchers emphasize the need for integrating digital financial tools and establishing clear regulatory frameworks to bolster the competitiveness and financial resilience of these enterprises. Additionally, government initiatives aimed at increasing liquidity and improving access to credit are seen as crucial steps to help overcome these challenges. Kurniawan, Maulana, A., & Iskandar, Y. (2023). By observing 1026 samples of Indonesian MSMEs, this study tries to explain the effect of technology adaptation, innovative financial practices, and financial policy-related factors on sustainable financial performance and the survival-recovery of MSMEs during the Covid-19 pandemic. Data were analyzed using the PLS-SEM technique through SMARTPLS software version 3. Samples were selected and collected through purposive sampling by setting criteria and deploying them online and offline. The results show that the agility to conduct technology adaptation and innovative financial practices by MSMEs significantly affected their sustainable financial performance during the COVID-19 pandemic. Innovative financial practices also positively moderate the relationship between technology adaptations on sustainable financial performance. On the other side, preferential policies of the bank have a significant impact on sustainable financial performance directly and indirectly through the mediating role of perceived policy effectiveness. The financial support by the government also significantly affected the sustainable financial performance of MSMEs through the mediating role of perceived policy effectiveness. Eventually, sustainable financial performance significantly affected the survival-recovery of MSMEs. GANI, W., & VIJAYARANI, K. (2022). Universally MSMEs have been acknowledged as a growth engine of the economy for any country. In India nowadays MSMEs have become an issue of incredible intrigue. There are numerous financial institutions that grant various types of services and facilities to MSMEs for their start-up, reconstruction and growth. MSMEs comprise a significant part of India's economic development and advancement. Despite this reality, MSMEs are also confronting serious issues concerning absence of adequate and convenient supply of the funds, absence of working capital, education, training awareness, and absence of appropriate innovation. The current paper attempts to contribute new information to the current writing of MSMEs, Financial Management, Banks, and Working Capital. The study will be valuable for Entrepreneurs, communities, and different undertakings. The study is based on the secondary data gathered from various literature reviews on the MSMEs. The literature revealed that the serious issues of MSMEs are how to raise funds from banks and other financial institutions especially timely availability of funds. Every one of these issues may vary from area to area and Business to Business. This paper examines various types of issues faced by these units in raising funds.

Objectives of the Study:

1. To understand Trends and progress of MSMEs in Tumkur District.
2. To Examine Financial Management practices in MSMEs.
3. To Analyze the Financial planning process in MSMEs.

Hypothesis of the Study:

H₀: There is no significant relationship between financial management practices and the performance of MSMEs.

H₀₁: There is a significant relationship between financial management practices and the performance of MSMEs.

III. Methodology Of The Study:

The approach taken in the study called “Financial Management in Selected MSMEs in Tumkur District: An Evaluative Study” generally follows a descriptive and evaluative research design. It relies on primary data gathered through structured questionnaires that are given to the owners and managers of chosen MSMEs in Tumkur District. The sampling method used is either purposive or stratified, aiming to create a representative sample of MSMEs from different sectors, including manufacturing, services, and trade. The data collection zeroes in on financial management practices such as budgeting, cash flow management, debt management, investment planning, and the utilization of government schemes. For analyzing the quantitative data, techniques like descriptive statistics (mean, percentage, frequency) are employed, and there may also be some inferential statistics like correlation or regression to assess the connection between financial practices and the performance of the enterprises. Secondary data, like government reports, policy documents, and previous studies, play a crucial role in enhancing our understanding of the financial dynamics of MSMEs in Tumkur. The goal of this study is to thoroughly evaluate the financial management practices within these enterprises and to examine how these practices influence their growth and sustainability.

IV. Results And Discussions:

Table No-01 showing Demographic profile of the Respondents

Demographic Factor	Attribute	F	Percent
gender	male	48	60
	female	32	40
Age	18-25	18	22.5
	26-35	35	43.75
	36-45	15	18.75
	Above 40	12	15
Education	SSLC	9	11.25
	PUC	10	12.5
	Under Graduation	17	21.25
	Post Graduation	34	42.5
	Professional Degrees	10	12.5

Source: Primary Data.

Table No- 02 shows Status of the unit

Particulars	Frequency	Percentage
Micro unit	25	31.25
Small scale unit	35	43.75
Medium scale unit	20	25

Source: Primary data

Table No-03 shows Nature of Business Activity

Particulars	Frequency	Percentage
Manufacturing	41	51.25
Trading	15	18.75
Service	15	18.75
Others	09	11.25

Source: Primary data

Table No-04 shows Nature of Ownership

Particulars	Frequency	Percentage
Sole trader	55	68.75
Partnership	16	20
Joint stock company	9	11.25
Cooperative society	0	0
Others	0	0

Source: Primary data

The data shows that the sole trader business model is the most common choice, with 55 respondents (68.75%) preferring individual ownership. This suggests a strong inclination towards self-sufficient, small-scale entrepreneurship. In comparison, partnership firms, represented by 16 respondents (20%), take a backseat, while joint stock companies are even less common, with only 9 respondents (11.25%). Interestingly, cooperative

societies and other ownership types are completely missing from the sample, pointing to a lack of interest in collective or alternative ownership structures. Overall, these results highlight a clear preference for simpler, individually managed business formats over collaborative or corporate ones.

Inferential Statistics

H0: There is no significant relationship between financial management practices and the performance of MSMEs.

H01: There is a significant relationship between financial management practices and the performance of MSMEs.

Result of Correlation between financial management practices and performance of MSMEs.

Independent Variables: Investment in fixed assets, Annual turnover, Mobilization of capital, Preparation of cash budget in advance.

Dependent variable: Product or services, Ownership, Previous business experience, Special training.

Correlation					
Dependent variable		Independent variable (Investment in fixed assets, Annual turnover, Mobilization of capital, Preparation of cash budget in advance.)			
Performance of MSMEs		Investment in fixed assets	Annual Turnover	Mobilization of Capital	Preparation of cash budget in advance
Product or Services	r	0.314	0.218	-0.183	0.233
	Sig.	0.135	0.306	0.391	0.274
Ownership	r	0.019	0.055	0.124	0.051
	Sig.	0.928	0.795	0.554	0.809
Previous Business Experience	r	-0.189	0.155	0.287	0.191
	Sig.	0.366	0.46	0.165	0.36
Special Training	r	-.484*	-0.062	-0.292	-0.314
	Sig.	0.014	0.77	0.157	0.127

*. Correlation is significant at the 0.05 level (2-tailed).

The Investment in fixed assets has related to absolutely with Product or Services influence the performance of MSMEs. The correlation obtained between Investment in fixed assets and Product or Services ($r = .314$; $p = .135$) were found positive significant. Ownership ($r = .019$; $p = .928$) were found positive significant.

Previous Business Experience ($r = -.189$; $p = .366$) were found positive significant, Special Training ($r = -.484$; $p = .014$) were found positive significant. The correlation obtained between Annual Turnover and Product or Services ($r = .218$; $p = .306$) were found positive significant, Ownership and Annual Turnover ($r = .055$; $p = .795$) were found positive significant. Previous Business Experience ($r = .155$; $p = .460$) were found positive significant, Special Training ($r = -.062$; $p = .770$) were found positive significant.

The correlation obtained between Mobilization of Capital and Product or Services ($r = -.183$; $p = .391$) were found positive significant, Ownership ($r = .124$; $p = .554$) were found positive significant, Previous Business Experience ($r = .287$; $p = .165$) were found positive significant, Special Training ($r = -.292$; $p = .157$) were found positive significant.

Finally, the correlation obtained between Preparation of cash budget in advance and Product or Services ($r = .233$; $p = .274$) were found positive significant, Ownership ($r = .051$; $p = .809$) were found positive significant, Previous Business Experience ($r = .191$; $p = .360$) were found positive significant, Special Training ($r = -.314$; $p = .127$) were found positive significant.

The relationship between financial management practices influencing performance of MSMEs is captured through correlation analysis. Ownership has the positive relationship with Investment in fixed assets, Annual Turnover, Mobilization of Capital, Preparation of cash budget in advance.

The strength of relationship between financial management practices and performance of MSMEs is moderate and the p value is less than 0.05, hence null hypothesis is rejected. It is concluded that there is a significant relationship between financial management practices and performance of MSMEs. Thus, it can be concluded that given null hypothesis is rejected on the strength of the correlation data gathered from performance of MSMEs. Therefore, the study coined the alternative hypothesis stating that there exists a strong correlation between financial management practices and performance of MSMEs under the study.

Regression				
Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	.659a	0.434	0.321	2.243
a. Predictors: (Constant), No of employees working at present, Nature of ownership, do you have any previous business experience, do you take any special training				

The result of multiple regression between financial management practices and performance of MSMEs, undertaking are as following result were observed with correlation coefficient of .510, squared R value of .659, and a variance of 4.3per cent.

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	77.176	4	19.294	3.836	.018b
	Residual	100.584	20	5.029		
	Total	177.76	24			
a. Dependent Variable: dependent2						
b. Predictors: (Constant), No of employees working at present, Nature of ownership, do you have any previous business experience, do you take any special training.						

The regression ANOVA revealed that the F values obtained for models are not significant. The F values ranged 3.836 with the significance levels at .018 for predicted models. It is clear that predicted models as a whole have statistically not significant predicted capabilities.

V. Conclusion:

The research highlights that effective financial management practices—like budgeting, keeping an eye on cash flow, managing debt, and assessing investments—are vital for boosting the profitability, efficiency, and long-term success of MSMEs in Tumkur District. The findings reveal a strong preference for sole proprietorship among business owners, with partnerships and corporate structures being used less frequently. It also points out persistent challenges such as low financial literacy and limited access to formal credit. On a positive note, government support programs have positively influenced the financial performance of MSMEs. Still, there’s a pressing need for improved financial knowledge and the adoption of modern financial tools to ensure growth and competitiveness in today’s evolving business landscape.

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