International Journal of Research (IJR)

e-ISSN: 2348-6848
p-ISSN: 2348-795X
Vol. 10 Issue 11
November 2023

Financial Management Challenges in Small and Medium-Sized Enterprises: A Strategic Management Approach

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Abstract:

The significance of SMEs in the global economy is multifaceted. They contribute not only to economic growth and employment but also to innovation, entrepreneurship, and the overall resilience of economies around the world. Recognizing and supporting the role of SMEs is vital for fostering a healthy and sustainable global economic landscape. SMEs embody the entrepreneurial spirit. They are often founded and led by individuals with a vision, drive, and willingness to take risks. This spirit is a driving force behind economic dynamism and growth. SMEs often specialize in niche markets and provide a diverse range of products and services. This diversity contributes to a well-rounded and competitive marketplace, offering consumers a broad array of choices.

Keywords: SME, Sustainable global Economy, Competitive market place

Introduction

Small and medium-sized enterprises (SMEs) play a vital role in the global economy, accounting for a significant share of employment, output, and innovation. However, SMEs also face a number of financial management challenges, which can hinder their growth and success.

Small and medium-sized enterprises (SMEs) play a vital role in the global economy. (Salamzadeh, & Dana,2022) They represent the vast majority of businesses worldwide, and they are major contributors to employment, output, and innovation.

According to the World Bank, SMEs account for over 90% of businesses and more than 50% of employment worldwide. They contribute up to 40% of national income (GDP) in emerging economies. (Dirir, 2022) These numbers are significantly higher when informal SMEs are included.

***Received**: 12 October 2023*
***Revised**: 23 October 2023*
***Final Accepted** 4 November 2023*

DOI: https://doi.org/10.5281/zenodo.10071582

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SMEs play an important role in the global economy in a number of ways:

Job creation: SMEs are major creators of jobs. In developed countries, SMEs account for around two-thirds of private sector employment. (Herce et al.,2023) In developing countries, SMEs create even more jobs, accounting for up to 90% of private sector employment.

Economic growth: SMEs are important drivers of economic growth. They are more flexible and innovative than larger businesses, and they are better able to adapt to changing market conditions. (Yikilmaz et al.,2023)

Innovation: SMEs are responsible for a significant share of innovation in the global economy. (Azam, et al.,2023) They are more likely to develop new products and services than larger businesses, and they are more likely to adopt new technologies.

Export growth: SMEs play an important role in export growth. They are more likely to export than larger businesses, and they are more likely to export to new markets.

Social cohesion: SMEs play an important role in social cohesion. They provide jobs and opportunities in local communities, and they help to create a sense of belonging.

Governments around the world are increasingly recognizing the importance of SMEs to the global economy. They are developing policies and programs to support SMEs, such as providing access to finance, training, and markets.

Here are some specific examples of the role that SMEs play in the global economy:

SMEs are the backbone of the manufacturing sector in many developing countries. For example, in China, SMEs account for over 80% of manufacturing employment. SMEs are major players in the services sector, particularly in tourism, hospitality, and retail. For example, in the United States, SMEs account for over 90% of all businesses in the tourism and hospitality sectors. SMEs are at the forefront of innovation in many industries. For example, Silicon Valley is home to a large number of SMEs that are developing innovative new technologies. SMEs are playing an increasingly important role in global trade. For example, in the European Union, SMEs account for over 60% of all exports.

Overall, SMEs play a vital role in the global economy. They are major creators of jobs, drivers of economic growth, and sources of innovation. Governments and businesses should support SMEs in order to help them grow and succeed.

Some of the most common financial management challenges faced by SMEs include:

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- Limited access to finance: SMEs often have difficulty obtaining loans and other forms of financing from traditional lenders. This is due to a number of factors, including their smaller size, shorter track record, and higher perceived risk.
- Cash flow management: SMEs often have limited financial resources, which makes it difficult to manage their cash flow effectively. This can be a particular challenge during periods of rapid growth or economic downturn.
- Working capital management: SMEs need to ensure that they have sufficient working capital to finance their day-to-day operations. This can be difficult, especially for SMEs with long payment cycles or high inventory levels.
- Financial planning and forecasting: SMEs often lack the resources and expertise to develop and implement effective financial plans and forecasts. This can make it difficult to make informed business decisions and manage risk effectively.

Strategic Management Approach to Financial Management

A strategic management approach to financial management can help SMEs to overcome the challenges they face and improve their financial performance. This approach involves:

- Developing a clear financial strategy: The first step is to develop a clear financial strategy that is aligned with the overall business strategy. This strategy should identify the SME's financial goals and objectives, as well as the steps that will be taken to achieve them.
- Implementing effective financial management practices: Once a financial strategy is in place, it is important to implement effective financial management practices. This includes developing and following budgets, managing cash flow, forecasting financial performance, and controlling costs.
- Monitoring and reviewing financial performance: It is important to monitor and review financial performance on a regular basis to ensure that the SME is on track to achieve its financial goals. This may involve tracking key financial metrics, such as profitability, liquidity, and solvency.

Benefits of a Strategic Management Approach to Financial Management

A strategic management approach to financial management can provide a number of benefits to SMEs, including:

- Improved financial performance: By effectively managing their finances, SMEs can improve their profitability, liquidity, and solvency. This can help them to grow and succeed in the long term.

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- Reduced risk: Financial management can help SMEs to identify and manage risks more effectively. This can reduce the likelihood of financial problems and business failure.
- Increased access to finance: SMEs with a good financial management track record are more likely to be able to obtain loans and other forms of financing from traditional lenders. This can help them to grow and invest in their business.
- Improved decision-making: Financial management can help SMEs to make more informed business decisions. This is because they have a better understanding of their financial situation and the impact of different business decisions on their finances.

Conclusion

A strategic management approach to financial management can help SMEs to overcome the challenges they face and improve their financial performance. By developing a clear financial strategy, implementing effective financial management practices, and monitoring and reviewing financial performance on a regular basis, SMEs can improve their profitability, liquidity, and solvency, reduce risk, increase access to finance, and make more informed business decisions.

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