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Innovations in Strategic Management: Navigating Complexity and Driving Organizational Success

Surveying the crucial role of financial management in small and medium enterprises

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Abstract Financial management plays a vital role in the success and sustainability of Small and Medium Enterprises (SMEs). The unique challenges faced by SMEs demand a comprehensive understanding of financial strategies and practices to navigate the complexities of the business landscape. This paper discusses about SMEs and executes financial decisions and performs in larger organizations. The main objective to examine the literature on SME sources of financing, and implement the account of SMEs and characteristics of owner-manager. SME financial decisions must be explored to understand the intricate relationships and determine the industry's financial contributions. The study desires to provide significant knowledge through investigating the intricate relationship among the characteristics of SMEs and various traits exhibited by their managers and owners. This knowledge was utilized to influence the policy structures, financial organizations and stakeholders involved in supporting SMEs. The SMEs represent an integral part of generating national economic growth was essential to possess comprehensive knowledge of financial circumstances. This information was essential to create a context that supports business management, supports creativity and enables equitable economic growth.

Keywords: financial management, small and medium enterprises (SMES), strategic financial planning, financial strategies

1. Introduction

The function of financial management plays a major role in ensuring the sustained development and achievement of Small and Medium Enterprises (SMEs). Effective financial management was necessary for the achievement of any organization (Sedyastuti et al 2021). SMEs to adapt the unpredictable economic environment, use the advantage of possibilities, and establish a strong basis for sustainable growth. The constantly shifting market circumstances and Dynamic business environments, SME faces various challenges that require strong financial expertise to achieve success (Winarsih et al 2021). SME was traditionally recognized as the fundamental support of economic growth, containing a wide range of businesses that contribute important contributions to workforce development, creation and economic growth. The importance of financial management in this field is magnified by limited access to money, increased susceptibility to economic swings and a smaller margin for mistakes in decision making. SMEs maintain limited resources that were necessary for effective financial oversight to survive and develop (Bartolacci et al 2020). The financial management in SMEs revolves around the need for careful planning and distribution of resources. Cautious resource allocation is essential for SMEs to support their operations, leverage on potential for growth and sustain financial crises. Financial management involves maintaining an equitable balance between immediate financial sources and long-term investments, and ensuring the business's capacity to grow and overcome unexpected challenges (Eller et al 2020).

The primary issue of the financial management of SMEs is a restricted link and the accessibility of money. SMEs could face difficulties accessing conventional sources of financing, such as bank loans, due to the smaller size and expected level of security (Adam and Alarifi 2021). The SMEs explore alternate techniques for collecting funds, such as obtaining support from angel investors, venture capital firms, and crowd funding platforms (Gherghina et al 2020). To navigate the environment, someone must possess the financial ability to evaluate the costs, benefits and risks linked to every funding choice, along with an effective technique to obtain the necessary resources for growth and expansion (Maroufkhani et al 2020). The effective management of the flow of cash was essential to employ an anticipatory approach due to deviations in payment periods and the need for financing operational costs. Delays in receiving funds from clients, rapid shifts in the market, or unanticipated expenses has the ability to interrupt the flow of cash, that could endanger the financial viability of the organization (Horváth and Szabó 2019). Financial planning and cash flow management, minimizing risk was the greatest significance in the economic domain of SMEs (Fitriasari 2020). SMEs possess the capacity to identify potential hazards and take action to reduce their impacts. The continuous alteration of the business world by technological advances was essential for SMEs to utilize modern financial technologies and tools (AlBar and Hoque 2019). The integration of financial management applications, data analysis, and cloud-based solutions enhances the effectiveness, precision, and availability of financial data. By utilizing these technological innovations, SMEs are capable to arrive at informed decisions, reducing banking processes and rapidly responding to shifting market conditions.

The paper aims to examine the literature about the variety of funding possibilities offered to SMEs and evaluate both the features of SMEs and the qualities of owners and managers that impact the economic decisions of SMEs.

2. Characteristics of SMEs

The financial choices and actions of SMEs are influenced by unique characteristics, which return impact the achievement and development of the organization. Figure 1 depicts the Graphical representation of SME.

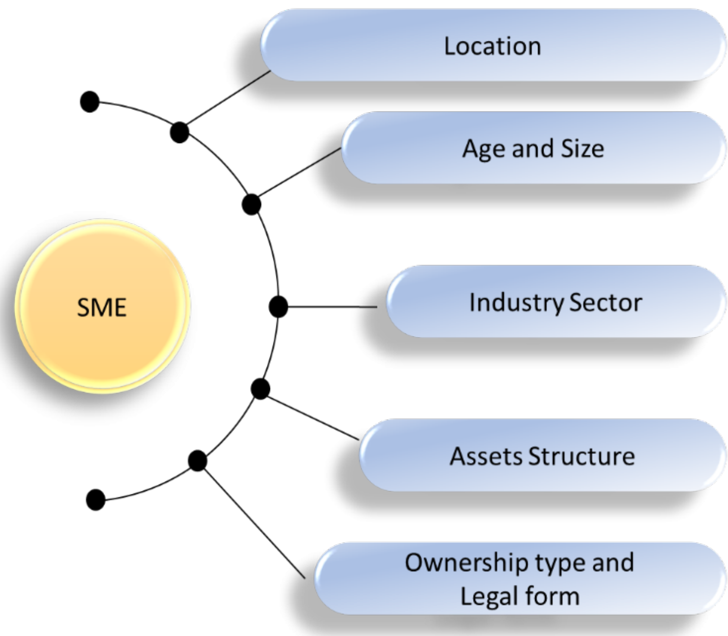

Figure 1 Graphical representation of SME.

2.1. Age and Size

The particular standards for measuring firm size and overall recognition of firm size influence the operations and potential age of SMEs. The size of an operation is associated with age; such a factor has effects on the firm's lifespan period.

Masdupi and Rasyid (2020) examined the impact of that company's approach to making choices regarding the selection and utilization of various types of finances. The SME individual resources of owner-manager are more important for funding options in the initial stages of development compared to other financing choices like loans from banks and excess funds. Fatima and Bashir (2021) examined the evaluation of the impact of the company size in the accessibility of financing towards the business was evaluated through an additional angle. Businesses asserted that firms expand, and companies obtain a greater capacity for growing the number of financial institutions through credits.

2.2. Assets Structure

The Assets Structure refers to the organization and dispersion of the business's resources, containing both physical and non-physical assets. Recognizing this framework was essential for strategic choices, evaluating risks and optimizing the equilibrium between flexibility and long-term growth for changing business settings.

SMEs possessing a bigger quantity of fixed investments typically employ a higher amount of financial leveraging (Al-Slehat et al (2020). The companies possess the capacity to obtain financing at lower rates of interest due to the reality that the loans are secured by properties that serve as security. Mehmood et al (2019) examined the financial advantage utilization among SMEs. The determined connection between the amount of debt and the structure of assets influences the accessibility of loan financing. Furthermore, it was revealed that SMEs consist of a smaller percentage of physical assets in the total resources are particularly susceptible to facing challenges and obtaining finance from outside due to the capacity to provide the required security.

2.3. Industry Sector

The industry Sector in financial management refers to the classification of organizations according to their principal financial operations. Recognizing various industries essential for analyzing investments, evaluating risks, and developing strategic financial plans.

Naseer et al (2021) examined the organizations in a service sector that could exhibit different financial needs and preferences compared to businesses in manufacturing or development. The survey findings emphasized variances in the financial decisions of Ghanaian SMEs among various sectors. Chen et al (2021) suggested the SMEs in the agricultural and healthcare sectors exhibit a higher reliance on both short- and long-term financing compared to larger companies in the production sector. The short-term finance is particularly common in the retail and wholesale fields in contrast to manufacturing SMEs. However, the development, restaurant and hospitality industry, and mining sectors appears to depend on longer-term financing and exhibit a smaller reliance on short-term financing.

2.4. Location

In the field of financial management, location refers to the systematic distribution of financial resources among various geographic regions. Aigbedo (2019) examined the geographical location of an organization in close proximity of financial institutions is anticipated to influence the business's ability to obtain financing from outside sources. The close proximity of SMEs to their respective banks offers a competitive advantage that enables to develop longer-term financial assistance with financial firms. SME individuals decide to move their companies to cities in order to prevent the negative impacts of rural locations accessing financing from outside. They consist lack for appropriate communication and transportation facilities leading to a return impairs the success and growth of the companies (Yeo et al 2020).

2.5. Ownership Type and Legal Form

The ownership type and legal form are essential factors to determine the organization and operation of companies. These factors explain the ownership, organization, and regulation of companies with legal framework. Saona et al (2020) discovered the type of business used to determine the financial architecture choices of Ghanaian SMEs remains unidentified. Furthermore, the utilization of bootstrapping financing appears affected the hierarchy of ownership and the type of organization. Qawqzeh et al (2021) examined the entrepreneurs for various types of companies must be prepared to develop a financial strategy that incorporates a broader spectrum of funding options compared to entrepreneurs of companies structured alternatively, such as non-construction/manufacturing companies belong to partnerships. The perspective of a financier was entirely understandable and justified that there is resistance provide financing to SMEs because of their fundamental distinctive having focused on management and ownership in a single owner-manager (Feng et al 2020).

3. Characteristics of Owner-Manager (COM)

The characteristics of owner-managers included the process for decisions, the degree of patience for accepting hazards and the capacity to plan intelligently. Figure 2 depicts the Flow diagram of COM. Chakabva and Tengeh (2023) examined owner-manager's personal characteristics influence the business's performance and the possibility of receiving financing from outside sources. The basic consideration of owner-manager in SMEs possesses a position of responsibility in the organization as the main individual responsible for determining choices. The financial choices made by SME managers and owners have an essential effect on the financial health and development of the organization.

Figure 2 Characteristics of Owner-Manager.

3.1. Owner-Manager Age

Owner-Manager Age in financial management refers to business owners also execute the function of management. Amegayibor (2021) examined the impact of owner-managers' age on the financial decisions of SMEs can be observed in the reality of seasoned business owners are prepared to allocate larger amounts for their companies, contrast to younger businesspeople. The instructor of SME managers and owners must be careful when integrating the external administrators.The findings show that young managers and owners face an increased tendency to use overdrafts from banks, credit cards, loans, savings accounts, and family sources compared with older owners, demonstrated an increased reliance on residual profit margins.

3.2. Owner-Manager's Experience and Education

SME owner manager experience and education are commonly utilized by bank finance for the measure of human resources. Dvorský et al (2021) suggested the higher degrees of comprehension offer businesses with improved confidence in managing relationships with banks and other investors through the financing application procedure. They hypothesized the entrepreneur's experiences are a significant element that illustrates the variation in the amount of additional financing available to SMEs. They emphasized the collective expertise of owner-managers is essential for solving problems that interfere with SME access to financing from outside sources, such as data imbalance and ethical risks.

3.3. Owner-Manager Gender

The gender of the owner-manager is an essential factor that impacts making decisions, tolerance for risk, and the overall strategy of the company. Laaraj and Ferhane (2020) examined the Male and Female business people exhibit different strategies for financing their businesses. The research presented evidence for gender-specific financial bias regarding female entrepreneurs, faced more frequent experiences in higher rates of interest and compelled to offer additional security as a requirement for approval of loans. The concept of gender consequence refers to the difference among male and female entrepreneurs regarding financial methods, regardless of possible similarity in the characteristics.

4. SMEs Finance Sources

SMEs employ several sources of financing to satisfy their funding and business needs. Figure 3 displays the SME finance sources.

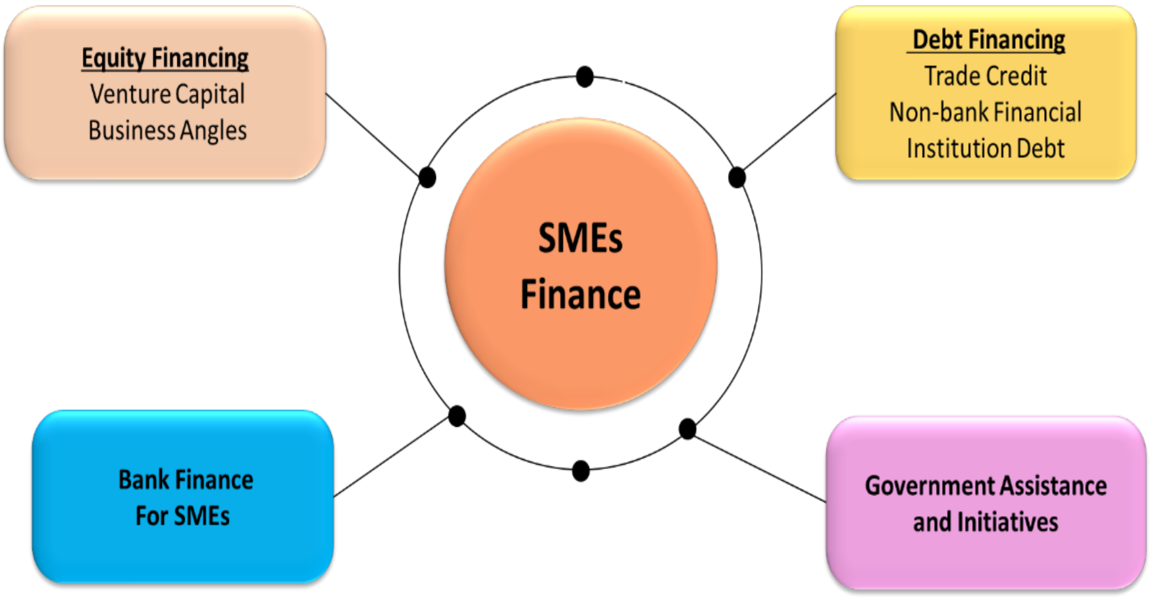

Figure 3 SME finance source.

4.1. Bank Finance for SMEs

The Bank Finance for SMEs was necessary for outside funding sources. (Erel and Inozemtsev 2022) examined that financial institutions offer several kinds of services and financing options along with funds for businesses to establish and grow SMEs. They examined the financial institution funding can assist SMEs to perform compared to other forms of financing. The financial organizations of SMEs represent the substantial financial capacity, and enabling them to be attractive and prospective.

4.2. Government Assistance and Initiatives

The SME sector's limited access to financing from outside sources could hinder an essential function in national growth, governments recognize. Banerjee et al (2020) suggested successful strategies that would decrease the loan cost and unfilled finance requirement discrimination against SMEs and the government's initiatives to assist SMEs to obtain finance succeed in certain circumstances. Government plans include government-led and donor-supported programs to improve SME financing.

4.3. Equity Financing

Equity financing describes the process of generating funds by distributing an organization's ownership shares in a company. Equity financing refers to funding for fresh and inexperienced SMEs due to their typical financial shortage and difficulty in obtaining financing with security during their initial period of organization. The SME managers and owners could choose to employ equity as a source of financing to avoid potential unfavorable modifications in their organization's management (Dowling et al 2019).

4.3.1. Business Angels

Business Angels are rich individuals play an important part in the management of finances by providing funding and guidance in the initial stage of organizations. Angels are wealthy individuals with significant business knowledge participate in expanding SMEs with any previous relationship. The angels appear as independent entities, and they cooperate to combine their funds in small financial organizations (Tenca et al 2019). Angel financing exceeds the amount of venture capital support in terms of the quantity of organizations utilizing the economic value of savings, especially indicated in statistical analysis. The survey participants indicated that angels offered intangible benefits in the manner of assistance with leadership responsibilities, accounting and financial tasks, planning assistance, economic counsel, administrative duties, communication, and advertisement (Granz et al 2020).

4.3.2. Venture Capital

Venture Capital refers to a kind of financing offers to potential organizations in early phases by the financier and receives equity in exchange. Venture funding is a type of finance where funds are collected through financiers and then deposited in potential hazardous, systematically transparent organizations, particularly companies used for fresh or newly established operations. Conversion investments, contrast to traditional financial instruments, has the ability to reduce the negative effects of the problem of agency by enabling the manager or owner to maintain a certain amount of authority during the fund's duration (Bonini and Capizzi 2019).

4.4. Debt Financing

Debt finance in financial management refers to obtaining funds through the process of financial commitments or loans. Financing system Choices in SMEs and large organizations focus around the decision to obtain loans and equity. The knowledge transparency appears high in SMEs, that was entirely inaccurate in the context of SMEs. The company's financial requirements and additional shares need to be released, and reduce the company's control and ownership. The structure of capital was necessary to consider the choice among long-term and short-term debt. The application of short-term financing is influenced by the benefits and constraints related to its execution. Therefore, to maintain full ownership and authority in the companies, managers and owners of SMEs could opt the financing through debt preference over equity from outside sources (Zhang et al 2019).

4.4.1. Nonbank Financial Institution Debt

SMEs are assisted in obtaining financing through external sources of financial management within the financial system owing to the security offered by tariffs. Yoshino and Taghizadeh-Hesary (2019) examined the nonbank financial organizations and banks as financial institutions. Such organizations control SME finance due to their financial institution authorization procedures are faster than traditional banks. They extended credit durations assist SMEs through financial sources. Nonbank financial companies can serve as bridges in bank-public credit. Tax exemptions enable SMEs to accept higher levels of debt and outside sources of finance.

4.4.2. Trade Credit

Trade credit is a key for outside financing resources of SMEs. Trade credit prevents payments for products and services before shipment or delivery because of supplier-firm relationships. Trade credit is utilized by SMEs for sources of financing that remain insufficient and excessively costly. Trade credit is particularly essential for SMEs in nations with inadequate financial and banking sectors and information distribution issues (Peter et al 2022).

5. Conclusions

The study examines the literature in financing choices of SMEs, with emphasis on the distinctions among large corporations for SMEs. We explore the accessibility of financing strategies in SMEs. The study investigates the impact of characteristics of SMEs, and respective managers and owners influence the financial choices adopted by SMEs. They intend to acquire a deeper knowledge of financing strategies employed by SMEs. The research was essential to possess an in-depth comprehension of financial decisions and operations of SMEs increasing significance in the financial contributions. It explored modern financial management techniques in SMEs that frequently lack adequate to financial resources. Funds for innovative financial technology and experienced financial employees can be inadequate. Future initiatives should concentrate on enhancing SMEs' financial management and expertise. The capacity for making financial choices stipulated to SME owners and managers by educational initiatives and resources for instruction.

Ethical Considerations

Not applicable.

Conflict of Interest

The authors declare no conflict of interest.

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