

## AN INVESTIGATION INTO THE FINANCIAL PERFORMANCE OF MICRO-UNITS

Savad H<sup>1</sup> and Dr. Mahesh Singh Rajput<sup>2</sup>

<sup>1</sup>Research Scholar, Department of Management, Shri Jagdish Prasad Jhabarmal Tibrewala university, Vidyanagari, Jhunjhunu, Rajasthan.

<sup>2</sup>Research Guide, Department of Management, Shri Jagdish Prasad Jhabarmal Tibrewala university, Vidyanagari, Jhunjhunu, Rajasthan.

### ABSTRACT

*Micro and small business companies play a crucial role and have significant significance in the progress and advancement of a nation, particularly in the context of a developing country such as India. They provide a diverse range of functions, including enhancing competition, fostering innovation, facilitating the development of human capital, and establishing a financial system. They contribute to job creation, enhance competitiveness, generate revenue and innovation, and provide opportunities for entrepreneurial endeavors, among other benefits. The abundance of micro and small enterprises within an economy serves as a foundation for examining several issues pertaining to their operations.*

*Research design refers to a methodical and coherent framework that outlines the approach used to carry out a research study. This section pertains to the delineation of methodologies used, data sources utilized, data collecting procedures implemented, and the projected timescale for executing the study. The current study has characteristics of both descriptive and exploratory research. Descriptive research encompasses the use of surveys and fact-finding inquiries to depict the current state of things, while exploratory research endeavours to uncover issues, produce hypotheses to address those difficulties, and acquire comprehensive understanding of the issue at hand.*

**Keywords:** Investigation, Financial, Performance, Micro-units.

### INTRODUCTION

The prevalence of micro and small firms suggests that established businesses have challenges in progressing to the subsequent phases of medium and large-scale industries. As a result, small and medium firms have challenges in realizing their maximum growth potential, resulting in a reduced contribution to the overall national economy. This may be attributed to the presence of significant business limitations within the sector.

The research highlights that the primary issues influencing the development and success of micro and small business businesses are limited access to financial resources, market opportunities, business services, and suitable working premises. Therefore, it is necessary to conduct a rigorous evaluation of the correlation between company development and the limitations they encounter in order to ascertain the extent to which their growth contributes to the overall national economy. This necessitates overcoming a multitude of restraints that impede their progress.

The process of making financing choices has a direct impact on the financial structure of a company. It is important to note that suboptimal financing decisions have the potential to contribute

to the collapse of a corporation. The question of whether an ideal financial structure exists poses a significant issue for both management and investors.

The primary goal of all financial choices is to maximize wealth, and one approach to assess the efficacy of a financing decision is to analyze its impact on the performance of the organization. Modigliani and Miller (1963) proposed a revision to a previously established theory on financial structure irrelevance, asserting that the composition of a firm's financial structure really plays a significant role in determining its value.

According to his theoretical framework, the author posits that companies need to prioritize the utilization of equity above debt when procuring funds for their operational endeavors. This phenomenon arises since although the utilization of loan capital might initially augment the worth of a corporation, there exists a threshold beyond which its continued use becomes disadvantageous.

The notion of microfinance has been well-established in India. Credit and savings organizations specifically designed for those with low incomes have existed for many years. These institutions provide financial services to consumers who have historically been overlooked by

commercial banks. They operate via cooperatives and development finance institutions, giving an avenue for these individuals to access necessary financial resources.

Internal sources of funds include retained profits, which are generated from the company's own operations and not derived from external parties. On the other hand, external sources of funds consist of loans obtained from financial institutions, trade credit extended by suppliers, the issuing of loan stock, and the sale of equity shares to external investors.

### FINANCIAL PERFORMANCE

However, there is still disagreement in a number of academic domains over what measures are best for assessing corporate performance and what factors influence an organization's ability to make money.

Maranga (2015) asserts that the evaluation of financial performance is predicated upon the improvement in shareholder wealth from the commencement to the conclusion of a certain time. The primary goal of shareholders when making investments in a corporation is to enhance their financial prosperity. Therefore, it is important to assess the business's success in a manner that reflects the increase in shareholder value resulting from the investment within a defined timeframe. According to Almajali, Alamro, and Al-Soub (2012), there exists a range of metrics used to assess financial success. For example, the metric known as return on sales (ROS) provides insight into the profitability of a business by indicating the proportion of earnings generated in relation to its sales revenue.

Similarly, return on assets (ROA) assesses a firm's efficiency in using its assets to generate profits. Lastly, return on equity (ROE) quantifies the return that investors get on their investments in the company. The evaluation of a company's performance may be conducted using three distinct aspects. The first dimension pertains to the productivity of a corporation, namely its ability to effectively convert inputs into outputs.

Financial decision makers often meet illogical factors while making judgments. Decision making in conditions of uncertainty is subject to bias. The proprietors engage in entrepreneurial activities with the objective of offering commodities or essential services. In the event that businesses are unable to sustain themselves, they will be unable of fulfilling the demands for products and services from

individuals. The primary responsibility of an entrepreneur is to generate profit, since it may be argued that a business's contribution to society is contingent upon its ability to generate profit.

Profit is a crucial factor in guaranteeing the financial stability of an organization, as it enables the timely compensation of workers, creditors, and suppliers. Additionally, it plays a pivotal role in sustaining a robust competitive position and facilitating the smooth functioning of corporate operations. The firm is anticipated to generate a substantial profit. In the context of routine company operations, several challenges may arise, including cash flow constraints, diminished profitability, declining sales, intensified market rivalry, labor force augmentation requirements, and excessive sales expenditures. These issues prioritize profit as the primary focus.

According to Sigmon (2010), there are several strategies that may be used to optimize corporate profitability. These strategies include various elements, namely: (1) modifying operational protocols, (2) maintaining a strong presence and fostering connections, (3) maximizing cash flow, (4) optimizing management expenses, (5) increasing marketing efforts, and (6) empowering all individuals within the organization to assume sales responsibilities.

### LITERATURE REVIEW

**Shashank & Mayya, Sureshramana (2022)** A significant portion of the non-corporate sector functions as unregistered firms. The organization fails to maintain adequate bookkeeping practices and lacks formal compliance with tax regulations. Consequently, financial institutions have challenges in extending loans to these individuals. A significant portion of this industry does not use external sources of funding. Given the anticipated duration of the legislation, it is suggested that the establishment of MUDRA as a subsidiary of SIDBI be undertaken in order to leverage the efforts and knowledge of SIDBI. After conducting a thorough assessment of the research and identifying a vacuum in the existing literature, it is deemed worthwhile to explore the role of MUDRA in fostering the growth of small-scale industries and small and medium companies.

**Mittal, Vibhuti & Raman, T.V. (2021)** The presence of financial limitations has been identified as a contributing factor to the limited borrowing activity of company owners via official channels in

the context of KG, SG, and EG. The major results have significant value for financial intermediaries and regulators, as they need a heightened level of awareness and proactive approach in their lending practices for small businesses.

**Bakhtiari et al. (2020)** The literature analysis revealed that small firms were subject to an interest rate almost twice as high as that imposed on bigger enterprises when seeking to get additional funding. The current economic downturn has exacerbated the strain on capital spending. The author identified two significant obstacles present within the banking system. First and foremost, there are structural issues that impede small firms' ability to access financial resources. Furthermore, small firms are disproportionately affected by cyclical issues, particularly those that are intertwined with financial crises.

**Singh, Prakash & Kaur, Charanjit (2019)** The analysis employs the instrument variable probit technique to investigate various factors that may influence the financial constraints experienced by these enterprises. The study's findings suggest that there are important policy implications for the government in India. This initiative is expected to foster the realization of small firms' authentic development potential, so contributing to the economy's attainment of its long-term social and economic objectives.

## RESEARCH METHODOLOGY

Research design refers to a methodical and coherent framework that outlines the approach used to carry out a research study. This section pertains to the delineation of methodologies used, data sources utilized, data collecting procedures implemented, and the projected timescale for executing the study. The current study has characteristics of both descriptive and exploratory research. Descriptive research encompasses the use of surveys and fact-finding inquiries to depict the current state of things, while exploratory research endeavours to uncover issues, produce hypotheses to address those difficulties, and acquire comprehensive understanding of the issue at hand.

## RESULT AND DISCUSSION

The SSI had started before Mughal epoch. After Mughal, due to British rule SSI especially handicraft and artisans declined. Subsequent to Independence important steps were taken to develop this sector in India. In 1972, Tiny, Small

and Ancillary Industries were commenced by government of India. Later on, it was decided to classify this sector based on investment amount in it. And finally, with all over support for this industry and taking its vital role in development MSMED Act passed in 2006.

MSME throw light by generating employment; increase the export, promoting stable and comprehensive growth and contributes in increase in GDP growth and sustainable economy. A sound MSME sector contributes significantly towards economic development by introducing innovation, increasing exports, creating more employment opportunities, encouraging entrepreneurship and achieving larger volumes of production. MSMEs are the nurseries of entrepreneurship and are the major contributors towards industrialization. MSMEs play a significant role in the developing nations by acting as engines of growth and fulfilling their growth objectives.

A thriving and expanding MSME sector is a key sign of a robust and expanding economy. The majority of companies with annual revenue of over one million dollars had humble beginnings but, with time and some help from the government, blossomed into behemoths that now power the economy. Despite the positive impact they have on the economy, small and medium-sized enterprises (SMEs) continue to encounter obstacles that hinder their expansion and survival, particularly in developing countries.

The industrial sector has experienced tremendous expansion since the turn of the millennium. Developing nations rely even more on the small-scale industrial (SSI) sector, which has been essential in industrialization overall. Their removal of economic backwardness in rural regions is attributed to the enormous employment they supply at a relatively cheaper capital cost.

This sector has traversed a long path and progressed in scale and in scope of business activities over the last few decades. In the present era, MSMEs are contributing significantly and have marked their presence across all the major sectors in India and abroad. They are a key player in the economic growth of any country. The MSMEs are of prime importance in the economy of India because they make use of the available domestic resources and are responsible for approximately 40 percent of the total exports from the country.

MSMEs play a pivotal role in developing nations by contributing towards their national objectives.

They help in increasing the production volumes of manufactured goods and also encourage capital formation in an economy. MSMEs contribute enormously in generating large scale employment and help in formation and development of the indigenous enterprises. The major socio-economic motive of the MSMEs is to foster overall regional development and minimize the regional imbalances within a country. They are the nurseries to entrepreneurship and motivate the budding entrepreneurs to be independent and start their own enterprises.

Micro, small, and medium-sized businesses (MSMBs) are vital to any country's economy, no matter how dispersed they may be. Accordingly, they contribute to the overall expansion of a country's regional economy. The main advantage of this sector is the large amount of employment it generates with relatively little investment. Compared to large organisations, small and medium-sized enterprises (MSME) have a far higher labour need.

India is experiencing a significant population issue due to its second-largest population. Inflation and high unemployment are the two worst economic outcomes that may befall a developing nation. Actually, they have surpassed agriculture as the second largest employer in India.

Micro, small, and medium-sized businesses (MSMEs) serve as the foundation for entrepreneurship since they encourage innovative manufacturing methods. All of the nation's major industries and regions are impacted by them. Their diverse product line allows them to satisfy customers on a local, national, and international scale.

The expansion of economies throughout the world has been greatly aided by MSMBs, or micro, small, and medium-sized enterprises. A nation's economic growth is positively correlated with the size and performance of its MSME sector. This industry has been instrumental in the discovery and backing of several entrepreneurs who have since made substantial contributions to the US economy.

Global reputation as development engines has been bestowed upon micro, small, and medium-sized firms (MSMEs) due to the significant improvement in the country's overall manufacturing output and the expansion of their export share during the last 20 years.

Ignoring the importance of micro, small, and medium enterprise sector would be foolish for the Indian economy. The sector's ability to back ambitious entrepreneurs is a major strength, since it encourages them to think beyond the box when it comes to production. A quick look at the flourishing MSME sector reveals rapid industrialization in both urban and rural areas. The micro, small, and medium enterprise (MSME) sector in India has been expanding at a quicker rate than the overall industrial sector in the past several years. Over the last decade, the MSME sector has risen at an annual pace of roughly 12%, which is somewhat higher than the national average of about 9% growth in the industrial sector. We might thus conclude that, throughout the past decade, MSMEs have fared better than large corporations.

### CONCLUSION

Many studies have demonstrated that micro and small businesses can be greatly improved by focusing on specific areas, such as making business information easily accessible, providing financial resources, having management expertise on hand, and improving infrastructure facilities. The research findings indicate that firms have the potential to enhance their production capacity and achieve favorable performance outcomes when government policies remain consistent.

This is due to the negative impact of factors such as frequent changes in tax policies, inflexible government regulations, inadequate inspection methods pertaining to the final product of small business enterprises, and other regulatory issues. These challenges have resulted in entrepreneurs expressing dissatisfaction with their respective industries, thereby adversely affecting the performance of their enterprises.

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