



AL-SHODHANA

A Multi-Disciplinary Double Blind Peer Reviewed Research Journal

<https://sadupublications.com/journals/index.php/al-shodhana>

ESTD : 1880

Open Access

ISSN(P): 2320-6221

WORKING CAPITAL MANAGEMENT STRATEGIES AND FINANCIAL PERFORMANCE OF MSMEs IN KERALA

Vismaya C*, Dr Sandhya P**

*Vismaya C, Post Graduate Student in Development Economics, Krishna Menon Memorial Government Women's College Kannur, Pallikunnu (P.O), 670004 (Pin), Kerala.

**Dr. Sandhya P, Associate Professor of Economics, Krishna Menon Memorial Government Women's College Kannur, Pallikunnu (P.O), 670004 (Pin), Kerala.

ARTICLE HISTORY	Abstract
<p>Received : 23-11-2024 Revised : 27-12-2024 Accepted : 06-01-2025 Published : 31-01-2025</p> <p>Author Affiliation: India</p> <p>Corresponding Author: Vismaya C</p> <p>Keywords: MSMEs, Financial Management Practices, Working Capital, Inventory Management, Sales Management</p>	<p><i>Micro, Small, and Medium Enterprises (MSMEs) are crucial drivers of economic development, contributing to employment generation, income distribution, and overall economic growth. However, their success and sustainability largely depend on effective financial management practices. This study explores the working capital management and financial practices of micro and small enterprises in Kannur district, utilizing both primary and secondary data sources. The research highlights the critical role of efficient financial planning, budgeting, and resource allocation in enhancing business stability and growth. It also highlights the importance of financial literacy and the adoption of modern financial tools to optimize financial performance. The findings reveal that many enterprises face challenges in maintaining proper financial records, accessing credit, and managing cash flows effectively. Addressing these gaps through targeted financial training and policy interventions can significantly improve the financial resilience of MSMEs. By strengthening financial management practices, these enterprises can achieve long-term sustainability, contributing to the broader economic development of Kerala.</i></p>

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Corresponding author Email: vismayaashok5@gmail.com

DOI: <https://doi.org/10.70644/as.v13.i1.7>

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) show a vibrant role in a country's economic development by generating employment, promoting regional growth, and ensuring a more equitable distribution of income and wealth. By utilizing locally available resources, MSMEs serve as key support units for larger industries while also contributing to poverty alleviation, export promotion, and overall socio-economic progress. Their significance in shaping GDP and fostering economic resilience highlights their critical role in the national economy. Recognizing the importance of MSMEs, the Indian government enacted the Micro, Small, and Medium Enterprises Development Act in 2006. This legislation categorizes enterprises based on their investment in plant, machinery, or equipment, aiming to promote and support their growth. By providing a structured framework for MSME development, the Act reinforces the government's commitment to fostering a thriving entrepreneurial ecosystem.

Kerala ranks 12th in India in terms of the number of MSME units, with approximately 23.79 lakh enterprises, according to the MSME Annual Report 2018-19. The sector is predominantly composed of micro enterprises and provides employment to around 44.64 lakh individuals. Kerala's strategic investments in infrastructure, communication networks, and skill development have strengthened its MSME sector, leading to the establishment of over 52,137 new MSMEs since 2016. The state's MSME sector encompasses a diverse range of industries, including handicrafts, handloom, khadi, food processing, garments, textiles, coir, wood, bamboo, plastic, rubber, leather, and clay products. With over 6,000 MSME products manufactured within the state, Kerala's small businesses play a crucial role in local economic development. The sector benefits from lower investment requirements, operational flexibility, and a high degree of innovation, making it a key driver of industrial growth.

Government initiatives focused on connectivity, infrastructure, and skill development have further strengthened Kerala's MSME sector. However, efficient financial management remains a crucial factor in ensuring long-term sustainability. By adopting sound financial practices - including proper accounting, financial planning, investment appraisal, and working capital management - MSMEs can enhance profitability, reduce financial risks, and contribute more effectively to the state's economic growth. With continued support and improved financial strategies, MSMEs in Kerala have the potential to drive sustained economic progress, create employment opportunities, and foster a dynamic entrepreneurial environment that benefits the entire region.

2. LITERATURE REVIEW

Nguyen (2001) conducted a study to explore the relationship between financial management practices, financial characteristics, and the profitability of small and medium enterprises (SMEs). The research aimed to determine how these financial aspects influence SME profitability. Key findings highlighted the significance of working capital management, asset turnover, planning practices, and the adoption of financial and accounting information systems in enhancing SME profitability. The study provided valuable insights that SMEs could leverage to improve their financial management strategies and overall financial performance.

McMohan (2001) investigated the link between financial reporting practices and the performance and growth of manufacturing SMEs in Australia. Using a sample of 1,050 SMEs, data were collected through a postal survey employing a simple random sampling method. The results emphasized the importance of sound financial reporting practices in driving the success of manufacturing SMEs. The study concluded that effective financial management strategies positively influence business performance and growth.

Asuquo et al. (2010) examined the impact of financial management practices on the profitability of SMEs in Nigeria. The study analyzed five key financial management practices: capital structure management, working capital management, financial reporting and analysis, fixed asset management, and accounting information systems. Based on survey responses from 170 SMEs, the empirical findings confirmed that sound financial management practices significantly enhance SME profitability. This research reinforced the necessity of robust financial management strategies for the sustainable success of SMEs in Nigeria.

Ramarao (2012) focused on the competitiveness of India's Micro, Small, and Medium Enterprises (MSMEs), particularly in relation to financial management competencies. The study found that inadequate financial management skills among MSMEs adversely affected daily operations and stakeholder confidence. A key challenge for Indian MSMEs was the difficulty in securing finance, attributed to weak financial competencies and instances of payment defaults. The research emphasized the crucial role of financial management skills in determining the overall success and competitiveness of MSMEs in India.

Waweru and Hgugi (2014) analyzed the impact of financial management practices on the performance of micro and small enterprises in Kenya. The study examined financial innovations, investing activities, risk management practices, and working

capital management as independent variables affecting financial management. Findings revealed that financial innovation significantly shaped financial management practices, underscoring the importance of adopting innovative financial solutions to enhance enterprise stability and competitiveness.

Okyere Bismark et al. (2018) assessed financial management practices and their impact on SME growth in Ghana, with a focus on bookkeeping, cash flow, credit management, and stock control. The study, conducted in the Birim Central Municipality, found that improved financial management competencies—especially comprehensive bookkeeping—positively influenced SME growth. Strengthening cash flow management, credit policies, and stock control were identified as key drivers of financial efficiency and business sustainability.

Despite extensive research on the relationship between financial management practices and SME performance, significant gaps remain. Limited studies explore the impact of digital financial tools, such as fintech solutions and AI-driven analytics, on SME financial performance in emerging economies. Moreover, research on the role of financial literacy and capacity-building programs for SME owners remains underdeveloped, leaving questions about their effectiveness in enhancing financial decision-making and long-term business growth.

3. STATEMENT OF RESEARCH PROBLEM

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in economic growth by fostering wealth creation, employment, and innovation through the efficient use of local resources. Despite government support, MSMEs face significant challenges, with inefficient financial management being a major concern. Effective financial management is critical, as poor financial decisions can impact profitability and even lead to business failure. This study examines the financial management practices of MSMEs in Kannur district, Kerala, where financial management often falls short of expectations. Many business owners lack formal financial expertise or fail to appoint qualified financial managers, leading to suboptimal decision-making. In an increasingly dynamic business environment, financial knowledge and strategic planning are essential for business sustainability.

The research focuses on key financial management aspects, including accounting practices, financial planning, investment appraisal, working capital management, profit management, and the adoption of digital financial tools. By analysing these factors, the study aims to identify gaps and suggest measures to enhance financial efficiency.

Strengthening financial management practices can improve the long-term viability of MSMEs, contributing to their sustained growth and development. This micro-level study provides insights into working capital and financial management practices among MSMEs in Kannur district, offering recommendations to improve financial decision-making and resilience in this crucial sector.

4. OBJECTIVES OF THE STUDY

1. To assess the existing financial management practices among micro and small enterprises in Kannur district, Kerala.
2. To analyze the different sources of funding accessible to micro and small enterprises in the study area.
3. To evaluate the working capital management practices employed by micro and small enterprises in the study area.

5. RESEARCH METHODOLOGY

The study on financial management practices of Micro, Small and Medium Enterprises (MSMEs) was conducted across both rural and urban areas of Kannur district, Kerala, to examine the financial decision-making processes and challenges faced by these enterprises. A structured sampling method was employed to ensure a representative selection of businesses, considering variations in economic conditions, market access, and operational constraints across different regions. The research focused on the geographical area of Kannur district, categorizing the study areas into rural and urban regions to capture diverse business environments. A total of 50 MSMEs were selected, with an equal representation of respondents from both urban and rural areas, ensuring balanced data collection. A random sampling technique was used to maintain objectivity and inclusivity in the selection process.

Primary data were gathered through a well-structured questionnaire tailored to assess key aspects of financial management, including accounting practices, financial planning, investment appraisal, working capital management, and the use of digital financial tools. The collected data were analysed using various mathematical and statistical tools to identify trends, patterns, and challenges in financial management. These analytical techniques provided meaningful insights into the financial efficiency and sustainability of MSMEs. By evaluating financial management practices, this study aims to highlight areas for improvement and offer valuable recommendations that could enhance financial decision-making, contributing to the long-term growth and sustainability of MSMEs in Kannur district.

6. DISCUSSION AND RESULTS

6.1 Basic Profile of the Enterprises

According to the location-wise analysis presented in Table 1, out of the 50 surveyed enterprises, 60 percent (30 units) are situated in rural areas, while the remaining 40 percent are located in urban areas. In terms of their years of existence, 50 percent of the enterprises have been operating for up to 2 years, 30 percent for 3-5 years, 12 percent for 6-10 years, and a mere 8 percent (4 out of 50) have been in operation for more than 10 years. The classification based on ownership reveals that the majority, 82 percent (41 units) of the surveyed enterprises, are sole proprietorships, while the remaining 18 percent (9 units) comprise various other forms of organizations, such as partnerships, joint-stock companies, cooperative societies, or self-help groups.

Table 1 Basic Profile of the Enterprises

Status of the Unit	No. of Respondent (%)
Micro unit	39 (78)
Small unit	11(22)
Medium unit	0(0)
Total	50(100)
Location	No. of Respondent (%)
Urban	20 (40)
Rural	30(60)
Total	50(100)
Period of Existence (Years)	No. of Respondent (%)
Up to 2 years	25(50)
3-5 years	15(30)
6-10 years	6(12)
Above 10 years	4(8)
Total	50(100)
Nature of Ownership	No. of Respondent
Sole ownership	41 (82)
Others	9(18)
Total	50(100)
Nature of Business Activity	No. of Respondent
Manufacturing	42(84)
Services	8(16)
Total	50(100)

Regarding the nature of their business activity, the surveyed firms are divided into two categories: manufacturing and service providers. Notably, a significant majority of 96 percent (48 units out of 50) are engaged in various manufacturing processes, while only a small proportion of 4 percent (2 units) are involved in service-related businesses. This analysis demonstrates that the majority of the sampled enterprises are primarily focused on manufacturing various products, and they are predominantly located in rural areas. Sole proprietorships also constitute a large portion of the ownership structure among the surveyed units.

6.2 Distribution of Micro Enterprise according to nature of the Business Activity

Table 2 displays the distribution of the sample of 50 units based on their location, categorized into manufacturing and service activities. The data indicates that significant proportions, 80.95 percent, of the units engaged in manufacturing activities are situated in rural areas, while only 19.04 percent are found in urban areas. Conversely, out of the 50 samples, 8 units are engaged in service activities, with a majority of 87.5 percent located in urban areas. To investigate if there is a meaningful association between the distribution of manufacturing and service sector units in rural and urban areas, a Chi-square test was conducted. The results of the test indicate a significant association ($\chi^2 = 8.9533$, P value = 0.05) in the distribution of manufacturing and service sector organizations between rural and urban areas. This analysis suggests that a higher percentage of micro enterprises engaged in manufacturing activities tend to be located in rural areas, while the majority of micro enterprises engaged in service activities are concentrated in urban areas. This underscores the differentiated geographical preferences for these two types of economic activities within the microenterprise sector.

Table 2 Distribution of Micro Enterprise According to Nature of the Business Activity

Nature of business	Location		Total (%)
	Rural (%)	Urban (%)	
Manufacturing	29 (69.04)	13 (30.95)	42 (100)
Service	1 (12.5)	7 (87.5)	8 (100)
Total	30 (60)	20 (40)	50 (100)

$$\chi^2 = 8.9533, P \text{ value} = 0.05$$

6.3 Distribution of Micro Enterprises According to the Type of Product/Services

Table 3 illustrates the distribution of micro and small enterprises (MSEs) among the surveyed 50 units, categorized by the type of products or services they produce or

provide, and their respective locations. For rubber, plastic, clay, and cement-based production, a total of 6 units were surveyed, with 5 units located in rural areas and 1 unit in an urban area. Regarding wood and steel-based products, out of 9 units, only 2 units were found in rural areas, while the remaining 7 units were situated in urban areas. In the garments sector, 6 units were surveyed, with 5 units located in rural areas and only 1 unit in an urban area. For the health care sector, only 2 units were studied, with 1 unit each in rural and urban areas.

Among the 17 food processing units examined, 15 units were situated in rural areas, while only 2 units were located in urban areas. Lastly, in the category of other products and services, 2 units were in rural areas, while 8 units were in urban areas. This data highlights the varying distribution of micro and small enterprises based on the type of products or services they offer and their geographical locations, indicating certain preferences for specific industries in either rural or urban areas.

Table 3 Distribution of Micro Enterprises According to the Type of Product/Services

Type of product and service	Location		Total (%)
	Rural (%)	Urban (%)	
Rubber, Plastic, Clay and Cement Based	5 (83.33)	1 (16.66)	6 (100)
Wood and Steel Based	2 (22.22)	7 (77.77)	9 (100)
Garments 5 (83.33)	1 (16.66)	6 (100)	
Health Care 1 (50)	1 (50)	2 (100)	
Food Products 15 (88.23)	2 (11.76)	17 (100)	
Others product and services	2 (20)	8 (80)	10 (100)
Total 30 (60)	20 (40)	50 (100)	

$\chi^2 = 20.47113$ P value = 0.05

A Chi-square test was conducted to analyze the distribution of different types of products or services between rural and urban areas. The test results revealed a statistically significant association ($\chi^2 = 20.471$, p-value = 0.05) in the distribution of units engaged in producing various types of products or services between these two regions. Based on the findings, it can be concluded that a majority of Micro and Small Enterprises (MSEs) involved in manufacturing rubber, plastic, clay, cement-based products, garments, and food products are predominantly located in rural areas. Conversely, units producing wood and steel-based products, along with various other products and services, are primarily concentrated in urban areas.

6.4 Financing of Working Capital Requirements

Table 4 provides insights into the financing aspects of working capital requirements for the sample of 50 units. The data shows that a significant portion, comprising 52 percent of the enterprises, prefer a combination of owned and borrowed funds to finance their working capital needs. This indicates that more than half of the units rely on a mix of their own capital and external borrowing to meet their working capital requirements. In contrast, 26 percent of the units solely depend on borrowed funds to finance their working capital needs and do not utilize their own funds for this purpose. On the other hand, the remaining 22 percent of the firms exclusively use their own funds to fulfill their working capital needs and do not resort to any external borrowing. This data highlights the diverse financing approaches adopted by the surveyed units to manage their working capital requirements, demonstrating the various strategies employed to ensure smooth and efficient operations in their respective businesses.

Table 4 Financing of Working Capital Requirements

Type of Financing Working Capital	No. of Respondents (%)
Only through owned funds	11 (22.0)
Only through borrowed funds	13 (26.0)
Both owned and borrowed funds	26 (52.0)
Total	50 (100.0)

6.5 Inventory Management

Inventory management stands as a vital process for a multitude of businesses, encompassing the proficient handling of finished products, semi-completed items, components, and raw materials utilized in the production of goods. All these items collectively form the inventory or stock, having been purchased and awaiting use or sale. The efficacy of inventory management plays a pivotal role in enabling businesses to streamline their operations, meet customer demands promptly, minimize costs, and ensure seamless production and delivery processes. By efficiently managing their inventory, businesses can achieve higher levels of productivity and customer satisfaction while optimizing their overall performance and financial health.

Table 5 Frequency of Raw materials Purchased

Frequency of raw materials purchased	No. of Respondents (%)
Once in a day	01 (2.0)
Once in a week	11 (22.0)
Once in a month	15 (30.0)
Only when needed	23 (46.0)
Total	50 (100.0)

Based on the data presented in Table 5, it is evident that the majority of the firms in the sample prefer a just-in-time approach when it comes to purchasing raw materials. Specifically, out of the 50 samples, 46 percent of the enterprises procure raw materials only when they are needed for production, following a demand-driven strategy. Moreover, 30 percent of the units opt for a monthly procurement of raw materials, while 22 percent prefer a weekly purchasing schedule. Interestingly, only a minimal 2 percent of the firms acquire raw materials on a daily basis, indicating that this approach is relatively uncommon among the surveyed units. The prevalence of the just-in-time approach and periodic procurement patterns highlights the effort of these businesses to maintain optimal inventory levels, thereby reducing holding costs and ensuring efficient resource utilization. Such strategic raw material management can be crucial for enhancing overall operational efficiency and cost-effectiveness in the surveyed enterprises.

6.6 Sales Management

Effective sales management shows a crucial role in the success of small-scale businesses. Sales are a primary driver of revenue, and a substantial portion of sales directly impacts the overall profitability of the business. Profit, in essence, is the difference between the production cost of goods or services and their market price. In Table 6, we gain insights into the credit sales practices of 50 surveyed units. The data reveals interesting patterns. 24 percent of the enterprises solely operate on a cash basis, without engaging in any credit sales and 36 percent of the enterprises use credit sales, which account for up to 30 percent of their total sales. Approximately 20 percent of the firms have credit sales contributing to 31 percent to 50 percent of their total sales and another 20 percent of the firms heavily rely on credit sales, which represent more than 50 percent of their total sales. This data underscores the diversity in credit sales practices among the surveyed units, demonstrating that a significant number of enterprises depend on credit sales to

facilitate transactions and drive their revenue generation. A well-managed credit sales strategy can be a critical factor in the financial success of small businesses.

Table 6 Proportion of Credit Sales

Percentage of Credit Sales	No. of Respondents (%)
Up to 30% Credit Sales	18 (36.0)
31 to 50% Credit Sales	10 (20.0)
Above 50% Credit Sales	10 (20.0)
No Credit Sales	12 (24.0)
Total	50 (100.0)

6.7 Financial Management Practices

Effective financial management is an essential aspect of operating any business, regardless of its size or stage of development, be it a burgeoning start-up or a well-established enterprise. The competence in financial management significantly influences the outcome of a business, determining its success or failure. As part of this study, an investigation was conducted to gather data on the qualifications of the promoters concerning accounting and financial management expertise.

In Table 7, the professional or academic qualifications of the promoters in accounting and financial management are displayed. The survey reveals that a small percentage, specifically 14 percent of the promoters, possesses formal qualifications in accounting or financial management. On the other hand, a significant majority, accounting for 86 percent of the respondents or promoters, do not have any academic or professional background in financial management. It is noteworthy that out of the 50 samples taken, 43 promoters have no formal educational background in the area of accounting or financial management.

Table 7 Financial Management Practices

Qualification	Number of Respondents (%)
B. Com, M. COM, Diploma etc.	7 (14.0)
Number of formal qualifications in accounting and financial management	43 (86.0)
Total	50 (100.0)

6.8 Special Training in Accounting or Financial Management

Based on the data presented in Table 8, the respondents were classified according to whether they had received specialized training in accounting or financial management.

The findings indicate that only 12% of the respondents had undergone such training, which was exclusively obtained from private training centers. This suggests a limited exposure to formal financial education among micro and small enterprise owners and managers in the region.

In contrast, an overwhelming majority - 88% of the respondents - had not received any specialized training in accounting or financial management. This lack of training highlights a critical gap in financial literacy and expertise within the sector. The absence of formal training may hinder effective financial decision-making, leading to challenges such as poor financial planning, inefficient working capital management, and difficulties in investment appraisal. Given the dynamic and competitive business environment, the findings underscore the need for targeted training programs and workshops to enhance financial management skills among MSME owners. Government agencies, financial institutions, and industry associations could play a crucial role in facilitating such training to improve financial efficiency, reduce business risks, and support the long-term sustainability of MSMEs in Kannur district.

Table 8 Special Training in Accounting or Financial Management

Status	Number of respondents (%)
Government Training Centers	0 (0.0)
Private Training Centers	6 (12.0)
Not Received any Special Training	44 (88.0)
Total	50 (100.0)

6.9 Profitability of Business

The primary objective of any business is to achieve profitability, which signifies the surplus generated by the revenue from selling products or services compared to the total incurred expenses. Based on the data presented in Table 9, the study examines the profitability of micro and small-scale enterprises included in the survey. Out of the 50 units surveyed, 86 percent of the enterprises are reporting profits, indicating that their revenue surpasses their total expenses. Additionally, 10 percent of the enterprises are operating at a break-even point, where their revenue equals their total expenses. Conversely, 4 percent of the enterprises are facing losses, with their expenses exceeding their revenue. This analysis underscores that the majority of the surveyed units are running profitably, with only a small fraction at the breakeven point or experiencing losses. Profitability holds a crucial role in ensuring business sustainability, growth, and financial stability.

Table 9 Profitability of Business

Status	No. of Respondents (%)
In profit	43 (86.0)
In loss	2 (4.0)
In Break even	5 (10.0)
Total	50 (100.0)

6.10 Using Software Support

Leveraging software support for accounting and financial management significantly enhances a firm's operational efficiency. In today's modern world, the integration of technology and advanced software is vital for business success. Accounting software serves as an indispensable tool for a wide range of financial tasks, encompassing basic invoicing and billing, tax calculations, and project management. According to the data presented in Table 10, among the 50 surveyed units, a considerable 76 percent have not yet implemented software support for accounting and financial management, while the remaining 24 percent have embraced such support. By adopting software support for accounting and financial management, businesses can experience enhanced productivity, improved accuracy, streamlined processes, and better decision-making capabilities.

Table 10 Using Software Support for Accounting and Financial Management

Using or not using Software	No. of Respondents (%)
Using Software	12 (24.0)
Not using Software	38 (76.0)
Total	50 (100.0)

7. POLICY IMPLICATIONS

The study on financial management practices of micro, small and medium enterprises (MSMEs) in Kerala presents valuable policy implications that can enhance the growth and sustainability of this sector. One of the key challenges identified is access to finance. Policymakers could address this issue by promoting microfinance institutions, alternative financing mechanisms, and government-backed credit schemes tailored to MSMEs. Ensuring easy and affordable access to capital will help businesses expand, invest in technology, and improve financial stability. Another critical area is financial literacy and capacity building. Many MSME owners lack formal training in accounting and financial management, which can hinder effective decision-making. To bridge this

gap, policymakers could introduce targeted training programs and workshops focusing on budgeting, record-keeping, and investment planning. These initiatives, conducted in collaboration with financial institutions and industry associations, would equip entrepreneurs with essential financial skills.

The study may also highlight the need for regulatory reforms. If existing regulations are found to be complex or burdensome, policymakers should consider simplifying compliance procedures, reducing bureaucratic hurdles, and ensuring a more business-friendly environment. Creating a streamlined regulatory framework would encourage entrepreneurship and ease the financial management process for MSMEs. Institutional support is another crucial aspect. The government could establish dedicated agencies or resource centers that provide financial advisory services, mentoring, and business guidance. Such institutions would help MSMEs navigate financial challenges, access relevant information, and adopt best practices. The adoption of technology in financial management is another area of focus. Encouraging the use of digital financial tools, such as accounting software and mobile banking, could enhance record-keeping, improve transaction efficiency, and support data-driven decision-making. Initiatives promoting digital literacy and awareness of fintech solutions would further strengthen financial management practices in the sector.

Collaboration and networking among MSEs could also be encouraged to facilitate knowledge sharing and the exchange of best practices. Establishing business forums, cooperative societies, and industry clusters would create opportunities for enterprises to learn from one another and collectively address financial challenges. Implementing effective monitoring and evaluation mechanisms is essential. Policymakers should establish systems to assess the impact of financial policies and support programs, allowing for data-driven decisions and continuous improvements. By addressing these key areas—finance, literacy, regulation, institutional support, technology, collaboration, and policy evaluation—policymakers can create a more supportive ecosystem for MSEs, fostering their growth and contributing to Kerala's overall economic development.

8. CONCLUSION

Financial management is a fundamental pillar of business success, directly influencing the stability, growth, and long-term sustainability of enterprises. For Micro, small and medium Enterprises (MSMEs), efficient financial management is particularly critical,

as these businesses often operate with limited financial resources and face significant challenges in accessing credit, managing cash flow, and ensuring profitability. This study focuses on examining the financial management practices of MSMEs in Kannur District, Kerala, to gain insights into their financial decision-making processes and identify areas for improvement. The research highlights the crucial role of sound financial management in enhancing business performance. Effective budgeting, accurate record-keeping, and strategic investment planning are essential components of financial stability. However, the study's findings indicate that a significant number of MSMEs in Kannur do not follow structured financial management practices. This lack of financial discipline can lead to inefficient resource allocation, liquidity issues, and difficulty in expanding operations. Without proper financial planning, many enterprises struggle to navigate economic fluctuations, repay loans, or make informed investment decisions, which can ultimately affect their long-term viability.

To address these challenges, the study emphasizes the need for improved financial management strategies. Business owners should adopt systematic budgeting techniques to monitor income and expenses effectively. Proper financial record-keeping ensures transparency and enables better financial planning. Investment planning is also crucial, as strategic allocation of funds can enhance profitability and business growth. Additionally, financial literacy plays a vital role in equipping entrepreneurs with the necessary skills to make informed financial decisions. Policymakers and financial institutions can contribute by offering targeted training programs and workshops to enhance financial management capabilities among MSMEs. Furthermore, strengthening financial management at the micro level has broader economic implications. MSMEs form the backbone of the local economy, contributing significantly to employment generation and regional economic development. When these enterprises operate with financial discipline and efficiency, they not only improve their own business prospects but also contribute to economic stability and growth. The adoption of digital financial tools, such as accounting software and mobile banking, can further enhance financial management practices, ensuring greater accuracy and accessibility.

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