Strategic Financial Management practices of Small and Medium Enterprises in Kerala; A market orientation approach on business performance

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By

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Certificate

This is to certify that the thesis titled, "**Strategic Financial Management practices of Small and Medium Enterprises in Kerala; A market orientation approach on business performance**" submitted to Cochin University of Science and Technology, Kochi, for the award of the degree of Doctor of Philosophy under the Faculty of Social Sciences, is a record of bonafide research done by Mr. Krishnan. M under my supervision and guidance in School of Management Studies, Cochin University of Science and Technology. This work has not been part of any work submitted for the award of any degree, diploma or any other title or recognition by any institution. All the relevant corrections and modifications suggested by the audience during the pre-synopsis seminar and recommended by the Doctoral Committee have been incorporated in the thesis.

Kochi -22
Date: 10.06.2019

Prof. (Dr.) K.B Pavithran
Supervising Guide

Declaration

I, Krishnan M, hereby declare that the thesis titled "**Strategic Financial Management practices of Small and Medium Enterprises in Kerala; A market orientation approach on business performance**", submitted to Cochin University of Science and Technology under the Faculty of Social Sciences is the record of the original research done by me under the supervision and guidance of Dr. K.B Pavithran, former Professor & Director, School of Management Studies, Cochin University of Science and Technology. I further declare that no part of the thesis has been submitted elsewhere for the award of any degree, diploma or any other title or recognition.

Kochi-22 Krishnan M

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CHAPTER – 1
INTRODUCTION

1.1. Introduction

The economy of any nation strives to grow with more and more investment in the industrial sector. Indian economy is no exception to it. Globally, developing as well as developed economies are mainly driven by small and medium enterprises. The growth of large scale firms is indirectly supported by the small scale industries. Most of the large corporations depend on SMEs for outsourcing a large array of items for their manufacture. Thus small scale units provide economical options for large organisations by manufacturing specialized parts. The small scale sector in India has shown tremendous push for entrepreneurial skills of the public whereby leading to large amount of employment opportunities. Unlike large scale organisations, small scale sector leads to large amount of employment generation as they are more labour oriented units. MSME sector has created around 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.82 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country as per The National Sample Survey (NSS) 73rd round conducted during the period 2015-16.

The inability of the small scale units to heavily invest in plant and machinery enables the creation of employment opportunities across different sections of the society. Facts show that Micro, Small and Medium enterprises also lead to development reaching the rural areas of the country as well. In fact the Annual report of Ministry of Micro Small and Medium Enterprises for the year 2017-18 tells us that 51% of the MSMEs operate in rural areas and 49% in the urban area. Among the three categories of units, micro enterprises constitute 99.46% of the total number of enterprises registered as an MSME in India. In a study of 27 countries in Europe sponsored by World bank, it was found that the small scale units employing less than 250 people constitute 99% of the total units and they provide 67% of the total employment and 58% of the total gross value added to the economy. United Nations Industrial Development Organisation (UNIDO) in their report suggest that 90% of the private business are SMEs and they provide more than 50% of the employment generated and GDP of African nations.

SME sector contributed competitiveness in the domestic market competing with large players. They contributed heavily to the domestic production and the exports of the country thereby helping the foreign exchange reserves and the domestic currency. The creation of employment opportunities can be traced through the annual reports on the performance of the small and medium sectors over the years. The lesser impact on imports, high flexibility in terms of its operations, growth in the urban and rural areas etc were some other major positives brought forward by the small scale sector to the Indian economy.

In the World Trade Statistical Review 2018, published by World Trade Organisation (WTO), from a 0.5% share of the total world merchandise exports in 1973, India has increased its rate to 1.7% of the total global exports. On the contrary, the share of total world merchandise imports has increased to 2.5%. The share of growth of imports and exports of any nation has direct relationship with the performance of the small scale sector of the economy. Governments are trying to promote small scale sector so that imports can be reduced on one hand and also for improving the employment generation within the country. As a gradual process of this, the small scale sector will increase the production leading to exports of the excess units manufactured beyond the requirement of the domestic market. As per the report of WTO, India is ranked 20^{th} in terms of leading exporters in world merchandise trade of 2017. The same rank goes up when it comes to imports as we are the 11^{th} ranked nation in the world as far as the leading importers in world merchandise trade, 2017. The SME sectors contribution to total employment shows an increasing trend with the stage of development of the economy. In the case of low income countries the SMEs contribute to almost 18% of the employment created and in the case of high income countries the number goes to 57%. Similar is the case of contribution to Gross Domestic Product of a nation as well. SMEs contribution to GDP shoots to almost 52% in the case of high income countries and a minimum of almost 16% in the case of low income countries. (Ayyagiri et al 2003).

From the beginning of the planned economy system in 1951 to the subsequent industrial policies of the Central Governments, there was ample focus given in the small and medium scale sector. In the earlier phases there was due protection given to the small scale as well as large scale industries. With the 1991 liberalization policies, industry was opened up for foreign investors and small and medium enterprises faced some of the biggest challenging times in the history of independent India. SMEs developed in India achieving the objectives set forward by the central government from time to time.

Though the small scale sector made all the above mentioned positives it had its own limitation or disadvantages. The inability of the firms to raise capital and increase the base was a serious constraint for them. This restricted the growth of many of the enterprises. Most of the small scale enterprises even today is managed by a single person, an owner manager or two. This obviously led to lack of managerial/ professional skills required for the growth of the organisation. Liberalization policies of the Government in association with the WTO regulations made the existence of small and medium enterprises difficult. The lack of huge funds made them limited to the existing product lines. New product development through research and development was far away from the reach of the small enterprises. Even though the sector had so many limitations, with the support of the Central Governments from time to time, the small scale sector has been able to bring about drastic changes to the way they function and contribute in a big way to the growth story of the Indian economy.

1.2 Small and Medium Enterprises

Across the globe, definition of MSME varies from country to country. Majority of the nations define small scale sector on the basis of the number of workers employed. There are also nations which define SMEs based on the investment in Plant and Machinery, total net assets, sales and investment level etc. In India, small and medium enterprises are defined as per the MSME Development Act of 2006. The Act defines MSME on the basis of two categories, i.e., Manufacturing sector and Service sector. Manufacturing sector is defined on the basis of the investment in Plant and Machinery and Services sector is defined on the basis of the investment in equipment. The following is the definition of MSME as per the provisions of the MSMED Act 2006.

Table: 1.1 Definition of MSME

Manufacturing Sector	
Enterprises	**Investment in plant & machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	**Investment in equipments**
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Source: https://msme.gov.in/know-about-msme

The Annual report of MSMEs published in 2017-18 by the MSME, Government of India gives a detailed report of the units under manufacturing, trade, other services and electricity. 196.65 lakh enterprises are working in the manufacturing sector, 230.35 lakh units are trade related units and 206.85 lakh units are into other services. According to the same report, 4.96 lakh enterprises have been closed down as per census survey.

With the liberalization, privatization and globalization of the Indian economy, the small scale sector is facing acute competition from large multi-national corporations. Prior to 1991, the economy was a closed economy and most of the industries had a protected environment. This helped the industry to survive without worrying about efficiency and expertise. However with foreign players in the market, the local industry is struggling to compete with the foreign players who are having mechanized efficient systems and huge capital to explore new methods. Among the worst hit are the small scale industries that are not able to compete with the MNCs in terms of cost as well as promotion. This has forced the SMEs to think about efficiency and competition. Small scale units are now strategically thinking about how to run their business in terms of finance, marketing, human resources, production etc.

1.3.Strategic Financial Management

Gone are the days when finance function was evaluated in isolation. Now every functional aspect in management has an implication on finance. For example, a decision to do Research and Development on a new product design is part of product innovation. But the amount of money needed for the research and the cost benefit analysis of the same also has to be done. Thus R & D decision also has an influence on the financial aspect of the organisation. Similarly all functions of production, Human resources etc all have financial implications to it. Therefore it is essential to evaluate financial decisions on a strategic perspective. This is where the concept of strategic financial management has evolved.

The Chartered Institute of Management Accountants of UK (CIMA) defines Strategic Financial Management as "the identification of the possible strategies capable of maximizing an organization's net present value, the allocation of scarce capital resources between competing opportunities and the implementation and monitoring of the chosen strategy so as to achieve stated objectives".

Some of the other notable definitions of Strategic Financial Management are as follows;

SFM – "A management approach that looks at financial techniques in order to come up with a strategic decision making plan" – Business Dictionary .com

SFM-An approach to management that applies financial techniques to strategic decision making – Encyclopedia.com

SFM - "the identification of the strategies capable of maximizing an organization's net present value, the allocation of scarce capital resources, and the implementation and monitoring of a particular strategy" – *Q-Finance the Ultimate Resource, 2009* According to Mark E Freeman,

SFM- is "the application of financial techniques to strategic decisions in order to help achieve the decision-maker's objectives"

Strategy is a flexible approach for achieving the desired results with sustainable success. Strategic financial management demands that all stakeholders of an organisation should be a strategist in the real sense. Financial management of a strategist will be long term in perspective. He should be looking at sustainable success over a long period of time rather than thinking of tactics for short term gains. Strategic financial management is not a subject or an area of knowledge that contains all-time definite answers to business problems. Rather it is a subjective, mature, versatile, and flexible course of solutions to complex business predicaments. (G P Jhakotiya, 2012).

1.4. Market Orientation

Market orientation is a business policy which expects the business to implement the marketing concept. We can call an organisation as a market oriented organisation when the policies of the organisations are in tune with the marketing concepts. Felton (1959, p. 55) defines the marketing concept as "a corporate state of mind that insists on the integration and coordination of all the marketing functions which, in turn, are melded with all other corporate functions, for the basic purpose of producing maximum long-range corporate profits. A market-oriented organization is one in which the three pillars of the marketing concept (customer focus, coordinated marketing, profitability) are operationally manifest (Kohli & Jawarski, 1990).

Market orientation concept expects an inter-connected activity of various departments in understanding the current and future needs of the customer needs. The same need has to be communicated to all the departments concerned. Shapiro (1998) had suggested market orientation is not a responsibility of the marketing department alone, rather the collective effort of the various departments to know the customer needs, spreading the message to relevant departments and initiating necessary actions. There is sufficient literature supporting the impact of market orientation of firms on their business performance (Narver & Slater1990, 1993), (Kohli and Jaworski, 1990, 1993). However the same is done majorly in the context of large corporations.

The present study looks at whether the market orientation of the firm has an impact on the profitability of the firms. However the study restricts its scope to that of small and medium enterprises located in the state of Kerala. There is sufficient research done on the market orientation of firms across the globe. The impact of market orientation, customer orientation and competitor orientation on the performance of small and medium enterprises has been widely researched globally (Kirca et al. 2005, Kiessling et al 2015, Zhu et al 2007, Lee et al 2015, Boles et. al. 2001). However it is hard to find any literature on the same lines in the Kerala context. Therefore this is being covered in the present study for the impact measurement of the market orientation on the financial performance of the small scale units thereby assessing the strategic impact on the financial aspects of the MSMEs.

1.5. Statement of the Problem

Small and Medium Enterprises drives economic growth for any economy. In India, Uttar Pradesh and West Bengal lead the states with the largest number of micro, small and medium enterprises (Fourth All India MSME Census, 2006-07 and National Sample Survey, 2015-16). Kerala does not fall under the top ten states in terms of number of small and medium enterprises started. As an economy, Kerala is heavily dependent on remittances, tourism and exports. The state is high in terms of social welfare schemes and adoption of various measures for the same. However to fund the ambitious projects of the Government on the social front there has to be a steady growth on the industrial sector. Kerala leads the chart in terms of unemployment rate among the larger Indian states (Kerala State Profile, 2014-15, MSME Development Institute, Thrissur). Having said that MSME sector employs 45% of the total work force of the country and off late there has been a severe decline in the number of small and medium enterprises being closed down. Extend of failure to this level has to be controlled for better development of the economy.

State of Kerala does not feature in the top ten states of India in terms of the number of MSME units operational (Annual report 2017-18). In past, Kerala stood in the 7th position in terms of states having largest number of closed units of (Fourth All India Census)MSMEs as per the census. The state stands 2nd in terms of the number of Non traceable units with 9.8% second only to Gujarat at 12.12%. This percentage is more than the share of state's working enterprises (9.6%) compared to the whole nation.

There are ample studies on the reasons for the failure of small and medium enterprises across the globe. Lot of literature is available in the Indian context as well. Most of the studies have concentrated on the lack of managerial skills and talents (Man et al 2002) (Bekele et al 2008)(Maes et al 2005), lack of finance (Beck et al 2006, Levy 1993) (Bekele et al 2008), strategic issues (Prater et al 2005), lack of technology/technical skills (Bekele et al 2008), lack of quality manpower etc. With the liberalization policy of the Government of India, MSME sector is widely opened to severe competition expecting them to be efficient in all aspects for their survival.

Management of finance of small and medium enterprises has found to be a major cause for their failure. Most of the studies have tried to measure the reasons for failure in isolation. A strategic perspective of financial management of the small and medium enterprises has not been researched extensively. There is dearth of similar studies globally as well as specific to the State of Kerala. The present study is an attempt to understand the strategic financial management practices of small and medium enterprises and its impact on the performance of the business.

1.6. Scope of Research

Scope of research basically tells what all areas the researcher is going to cover in the present study. The current study tries to measure the strategic financial management practices of small and medium enterprises in the state of Kerala. The study will look into the concept of market orientation of small and medium scale enterprises and its impact on business performance. Small scale enterprises has been defined by the MSME Act, which includes the micro units as well, the current study does not cover them. This is due to the fact that most of the micro units are run by owner manager himself / herself without the help of any support staff. They normally don’t have much of a systematic way of running the business with formal practices and structure. They are mostly run based on the intuitions and gut feelings of the enterepreneur. At the pilot stage of the study it was found that micro size enterprises don’t have many practices to measure and they don’t have proper record keeping as well. Therefore it was purposefully avoided from the final study. The final study is limited to small and medium enterprises alone.

The study measure the extent of financial management practices adopted by small and medium enterprises and their impact on performance of the firms. The performance of firms has been measured in terms of their business performance.

1.7. Research Questions

Within the purview of the research, the researcher believes the following key research questions needs to be addressed

- Are Small and Medium Enterprises adopting Strategic Financial management practices?
- Is lack of knowledge a factor restricting the usage of Strategic financial management among SMEs?
- Are small and medium enterprises of Kerala market oriented?
- Does the market orientation of Kerala SMEs have an influence on their business performance?

1.8. Research Objectives

The study is focused in finding the strategic financial management practices of small and medium enterprises in Kerala with a special focus on the market orientation and its impact on the performance of the business. The present study envisages the following research objectives;

1. To measure the extent of Strategic financial Management practices employed by Small and Medium enterprises in Kerala.
2. To identify whether the adoption of strategic financial management practices leads to better financial performance of SMEs.
3. Explore the factors that drive the market orientation of Kerala based SMEs
4. Examine the impact of various factors that drive market orientation of SMEs in Kerala and understand its relative impact on market orientation.
5. To analyze the impact of Market orientation of Kerala based SMEs on their business performance
6. To analyze the conditional influence of strategic flexibility (reactive and proactive flexibility) of the Kerala based SMEs to the market orientation and business performance.

1.9. Chapterisation

Chapter- I- Introduction

The first chapter gives an overview to small and medium enterprises, strategic financial management concept and market orientation. The concepts have been defined and history of small and medium enterprises and their contribution to the Indian economy has been mentioned. The first chapter also talks about the objectives of the study, the scope of the study and the statement of the problem.

Chapter – II – Literature Review

The second chapter reviews the literature related to the strategic financial management practices of small and medium enterprises. The chapter also looks at the concept of market orientation and its impact on business performance among the existing literature. The reasons for the failure and success of SMEs and their impact on the profitability have been reviewed. The chapter identifies the research gap.

Chapter - III – Theoretical Review

Theoretically all the concepts have been reviewed and defined in this chapter. Theoretical framework suggested for Strategic Financial Management and market orientation has been explained. The various financial management and management accounting practices have been explained in this chapter. This chapter clearly explains the theoretical underpinnings of the present study.

Chapter - IV – Research Methodology

The chapter describes the methodology adopted for the study. Throws light on the research design, population, sampling method, sample size, tools for data collection and its development, pilot study and the finalization of the measurement tool. Tools used for data analysis are explained in this chapter.

Chapter – V – Data Analysis and Results

This chapter talks about the various stages of analysis of data starting from data cleaning to the model testing. The chapter explains the process of testing the hypotheses and preliminary analysis of the results. Basic demographic factors of the SME units studied also are brought under this chapter.

Chapter – VI – Discussion, Findings, Implications, Conclusions and Recommendations

The final chapter of the study makes interpretation from the previous chapter and reaches at the findings of the study. All research questions and objectives are answered in this chapter. Findings are related with previous studies and interpreted in terms of agreement with the existing studies or otherwise. Implications of the study from the theoretical and practical point of view are highlighted.

Chapter –II
Review of Literature

2.1. Introduction

The growth of Micro, Small and Medium enterprises (MSMEs) around the world is looked at by Governments as a basic requirement for the growth of the economy. MSMEs are majorly labour intensive and enable the distribution of income across all levels. A highly capital intensive economy generally leads to concentration of wealth whereas the SMEs enables more of a wide distribution of income and wealth. Another important feature of MSME is that it leads to spreading of growth from urban areas to rural areas. Therefore Governments across the world are giving various sops for the improvement of the SME sector and there by leading to the growth of the economy. MSME sector which contributes 28.77% of the Gross Domestic Product of the nation in terms of the manufacturing as well as the service sector providing jobs to more than 11 crore people (MSME Annual report 2017-18) in India is vital to the growth of the economy. Any large economy in the world requires MSME to grow as that indirectly supports the growth of large scale units as well.

Though many measures have been taken by Governments, the failure rate of SMEs is also a major concern for them. There are many studies which have been carried out to find out the reasons for the failures of SMEs, both in the Indian and global context. There is sufficient literature which shows that poor or careless financial management as the reason for the failures of small business (McMahon 1991, Berryman 1983, Peacock 1985, Potts 1975). There have been very little studies in the Indian context which talks about the strategic financial management practices adopted by small and medium enterprises. There are ample research work done abroad which talks about the financial management practices (individually) of SMEs but not taking it in a holistic manner about the strategic financial management practices of the SMEs. This chapter will talk about the various literature reviewed in relation to strategic financial management of small and medium enterprises in the global context. On the strategy aspect customer orientation, sales orientation angle is also brought in. Market orientation is another aspect covered in this review. An attempt is also made to cover the various literatures at the Indian context and also at the regional context of Kerala.

2.2. Financing of Small and Medium Enterprises

Satish and Shrivastava (2018) in their research paper Financing of small and medium enterprises in India: Issues and Challenges have tried to bring out the problems related with SME financing. The study is limited to India and they feel that even after lot of programmes from the Government SME sector is struggling to get finance at a lower rate. The study reveals that funding for SME are usually at a higher rate because most of the banks feel they are at a higher risk category than large firms. The paper suggests that the problems faced by SMEs are many and absence of cheaper sources of funding is a major concern. Other factors include the inability to have skilled labour, absence of proper accounting and administrative management and lack of long term vision for the organisation. Lack of proper accounting and maintenance of proper financial records makes the lenders perceive higher credit risk leading to higher cost of funding. Poor working capital management also adds on the worries of small scale units in India.

Irene (2014) in the study titled The effect of bank financing on the financial performance of small and medium enterprises in Nairobi county, surveyed 70 small and medium enterprises during a period of four years from 2009 to 2013. The study covered samples taken from KPMG top 100 SMEs survey in Kenya. The study found that over the years the financial performance of small and medium enterprises declined and there is a significant relationship between the bank financing and financial performance of the SMEs. The study found that bank financing, SMEs tangibility, and the size of the unit all had significant impact on the profitability of the small scale units in Nairobi county.

Harash et.al (2014) studied the influence of finance on the performance of small and medium enterprises. The study was restricted to Iraq. Iraq is having a very low ranking among the countries where access to finance for SMEs is ranked. Lack of knowledge about small and medium enterprises, lack of bank finance, lack of market access, low capacity of production facilities were the main reasons. Among them the lack of finance stood out as the most important. The performance can be measured in three angles i.e., financial performance, market performance and shareholder return.

Ikem et.al (2012) Financial challenges of small and medium enterprises in Nigeria: The relevance of accounting information is a descriptive study trying to find out the importance of accounting information in making good the financial challenges of the small and medium enterprises. Gorton (1999) as cited in this paper has suggested the high correlation of better financial management practices with the survival and betterment of small and medium enterprises. Potts (1977) has stated that good financial management practices are highly dependent on quality accounting information. The study even suggests that the main difference between the successful and failed small scale units is the ability to use the quality accounting information available with these units. The present study of Ikem et. al. found a significant relationship between the existence of quality accounting information and the ability of the units to access funding from banking institutions. However the accounting information generated by SMEs in Nigeria is way below required standards and that has lead to poor access of formal financing options for the organisations. Units with good accounting information are able to generate smooth funding options from financing organisations. The study suggests small firms to access the services of qualified accountants even on a cost basis and get access to cheaper sources of funding.

Timosenko (2012) in their study titled “The Impact of financial support on small and medium enterprises and its development towards export, the case study of Latvian’s small and medium enterprises have tried to understand whether the financial aids and support given by the Government are making any contribution to enable the SMEs develop their export potential. The study also tries to find out whether such financing helps the units prosper. The study found out that there is definitely a direct positive relationship between state financing for SMEs and their prosperity. The same has been proved using both primary and secondary data. Primary data was collected from 10 SMEs through in depth interviews. The researcher found out that in countries with better and effective legal system the impact of lack of financing is less. The Latvian SMEs face serious difficulties from the bureaucracy and better way of enabling growth and prosperity of SMEs is to establish better institutional support avoiding bureaucracy.

Thorsten Beck et al (2006), in the paper titled Small and medium-size enterprises: Access to finance as a growth constraint, studied on the access to financing for small and medium enterprises among many developed and developing countries across the globe. The study raises doubt on the causal link between small and medium enterprises and economic development. The study suggests the lack of availability of formal finance could be a major reason for the lesser contribution of SMEs towards the economic growth among different countries. A well developed banking and financial institution system is found to enable the access to formal financing options for the small and medium enterprises. In the absence of well developed institutions also the financing of SMEs can be made effective with financing tools like factoring and leasing. Primarily the study shows the absence of formal financing options for SMEs as a major hindrance to their growth and their contribution to the growth of the economy.

Dr. Olaitan M.A., (2006) has projected the need of financial assistance from Government for the upliftment of the agricultural sector and the small and medium enterprises. The study says that 70% of the population of Nigeria is dependent on agriculture and small and medium enterprises. To make these sectors compete and survive they require sufficient Government financing through subsidized rates and collateral free loans. The policies adopted by the Central bank of Nigeria include a stipulation for banks to set apart 10% of their profits for funding micro small and medium enterprises. This has found to be having a strong impact on the survival and success of small and medium enterprise. Cheaper source of funds are an inevitable part for business success especially the small scale sector.

Carey and Flinn (2005) did a study among Irish SMEs on their financing aspect. The study found out that the Irish firms don't have much of evaluation of the various financing options available to them. They are entirely depending on the formal banking finance without considering the effects of Basel II norms on the banking sector and its policies. Even when there is relative increase in the interest rates of funding for the SME sector there doesn't seem to be a change of source of funding or bank by the SMEs. It also shows that SMEs don't evaluate each alternative of funding based on the cost of capital. Researcher opines that this will push the SMEs to a non-viable state of operations with increasing cost of funding. It also recommends Government intervention on the training side enabling the SMEs to evaluate each and every alternative source of funding and increasing their efficiency in terms of financing decisions.

Carey and Flynn (2005) in the research paper studied the small scale sector and their dependence on formal banking credit. Irish economy which is heavily dependent on the contribution of small scale sector has reached a turning point as far as the banking finance norms for small scale sector under the Basel II is concerned. Prior studies have already pointed out the excellent infrastructure support of formal banking support for the Irish SMEs. They also raised eyebrows on the lack of informal financing for the SMEs through non-institutional forms of investment. The Basel II norms have brought in tougher conditions for banks to finance small and medium scale units which could be a really tough challenge for the Irish units considering the fact that they are heavily dependent on formal banks. The study recommends the Basel II norms would make formal banks finance to be costlier and make it more difficult for SMEs to get a competitive advantage and survive. The study found that Irish SMEs are ignorant about all these challenges posed by Basel II norms. Therefore need for an alternative source of funding is highlighted along with suggestions for training for SMEs on these fronts.

Brian Levy (1993), in the study titled Obstacles to developing indigenous small and medium enterprises: An empirical assessment was a study conducted in Srilanka and Australia looking at the various constraints faced by small and medium enterprises. The study focused on the various financial, regulatory, technical, marketing, and other input constraints, and to evaluating the results in relation to other empirical indicators. Though the study was restricted to two industries, it showed that the lack of finance was a major problem faced by SMEs in their quest for growth. Financing problem was prevalent even for the large firms in Australia. The SMEs also faced various challenges in dealing with government officials.

2.3. Critical Success Factors of Small and Medium Enterprises

Shafique et.al (2013) carried out a study on the determinant of success or failure of small and medium enterprises. The study was entirely based on secondary data. The performance of SME's can be measured using any of the following parameters, i.e., efficiency measured using ROA, ROE, gross revenue per employee or Growth**,** Profit, Size and liquidity, success or failure, Market share, leverage etc. The study suggests that the reasons for failure or success of small and medium enterprises can be brought under any of the functional areas of management. They are marketing management, human resource management, financial management or production or operations of management. The factors influencing from the financial management are found to be working capital management, financial reporting and management accounting, computer accounting software and accounting information.

Chuthamas Chittithaworn et. al. (2011) in their study "Factors Affecting Business Success of Small & Medium Enterprises (SMEs) in Thailand" tested eight factors that influenced the success of SMEs. Out of the eight factors only five factors were proven to have significant effect on the business success of SME in Thailand. The five factors having effect are characteristics of the small scale units, Customer and markets, the way of doing business & cooperation, Resources and finance and external environment. The study also evolved a model where in the eight independent variables was tested to see whether this could define the reasons for the success or failures of SMEs. Using regression an R square value of 53.3% which was represented by the eight variables mentioned above was found to be relevant. This means that the reasons for the success of small and medium enterprises in Thailand has been defined by the above eight variables to the extent of 53.3% of the total reasons.

Jasra et.al. (2011) in their study "Determinants of business success of small and medium enterprises" analysed the determinants success of small business units. The study covered 520 small and medium enterprises in Pakistan. Small and medium enterprises in this globalised markets are facing the biggest challenges as compared to the periods of closed economies. The study recommends a model which consists of seven critical factors necessary for success of a small and medium enterprise. The seven factors covered under the study are Financial resources , Marketing strategy, technological resources, Government support, Information access, Business plan and entrepreneurial skill. Among the seven independent variables it is found out from the study that financial resources are the most important factor affecting the success of the small and medium enterprises. The study also highlights the importance of Government support in arranging financial resources are also vital for the business success of SMEs. The SMEs of Pakistan covered under this study are relatively happy with the availability of technology for their business as that leads to efficiency and cost control. However they are not having sufficient sources of information to be aware of the latest technological changes happening in their sector. The study also found that the transparency among the banking institutions related to the sanctioning of loans and other funding options has to be ensured by the concerned authorities.

Aminul Islam et.al (2011) in their study "Effect of Entrepreneur and Firm Characteristics on the Business, Success of Small and Medium Enterprises (SMEs) in Bangladesh conducted a study among the owners and staff of small and medium enterprises in Bangladesh. The study had a sample size of 89 SME units was covered from Dhaka. The study was conducted to identify whether the characteristics of entrepreneur or firm influenced the success of the enterprises. There are many internal and external factors which influence the success of the business. The study says that the difficulty faced by SMEs in getting cheaper sources of funds have a significant impact on the success of the business. The lack of transparency in the operations of the SMEs is also cited as a major influencing factor as funding agency see that as a additional risk and charge higher rate of interest for the loans advanced to these units. The study also points out that the networking of SMEs, performance measurement of their operations is found to be a necessity for the success of SMEs. The study suggests Government should intervene and increase agency level support for SMEs to increase the possibility of survival and profitability. Entrepreneurship characteristics are significantly related to the success of small and medium enterprises while the characteristics of the units was not found to be having a significant influence on the success of the units. Some of the major findings of the study also showed that the SME units lacked professional management and workforce, too much of bureaucracy in Government agencies, lack of research and development and absence of a global perspective to the business also leads to the failure of small scale units.

Industries in South Africa worked in a closed economy giving protection from external competition to the domestic firms. However with opening up of economy, domestic firms of South Africa are having to face stiff challenges from products of developed nations. Any management requires quality information to better their decision making and thereby lead to efficiency and profitability when faced with severe competition (Libby and Waterhouse, 1996; Hoque et al., 2001;Cooper, 1995 as cited in Waveru et.al.) . Developed nations have more advanced technologies and this provides the management to take decisions based on accurate and timely data. Developing nations have cheaper manpower however the technologies required for advanced and accurate data is costly. The study is based on the contingency theory which states that the management accounting practices of all nations are not one and the same and are dependent on certain contingent factors.

The contingent factors covered under the study are economic constraints, deregulation or global competition, technological advancement and the size and type of organisation. Multiple Case study method has been adopted and four retail services have been included in the study for measuring the management accounting practices. The study found that the changes to the environmental factors will have an impact on the management accounting and systems for control used in organisations of these places. The study recommends the impact of such changing practices on the success of the organisation as a topic for future research. This has been taken into consideration by the researcher for considering the present study.

Padachi(2010) in his work has cited that the factors influencing the success or failure of small and medium enterprises can be categorized into internal and external. The researcher has pointed out that availability of external financing is a crucial factor leading to the success or failure of small business firms. Accounting system constitutes a major internal factor among others contributing to the success of small business units. Ismail and Zin (2009) and Nandan (2010) (as cited in Fatoki) has also found out that proper availability accounting information can help small business units in managing short-term problems related to costing, expenditure and cash flow by enabling better managerial control. Sarapaivanich (2003, as cited in Fatoki) has cited that lack of proper accounting records and systems has made availing of cheaper source of funding impossible as the funding agencies find it difficult to evaluate the financial strength and weakness of these small enterprises. Sarapaivanich (2003) and Frankly (2000) , (both as cited in Fatoki) has pointed out that the evaluation of investment alternatives using capital budgeting techniques like net present value method has significant impact on success of the small firms. Gill et.al. (2010) and Agyei- Mensah (2012) has pointed out that the success of a firm has a significant replationship with its ability properly manage its working capital. This is proved to have a significant ability to meet its short term obligations and provide liquidity to the firm. Julien and Ramangalahy (2003) and Shigang (2010) both cited in Fatoki have found that strategy adopted by the small firms on pricing have found to be a deciding factor in their success or failure.

Jarosloav Pavlicek , (2009), details the financial strategy as consisting of profit distribution strategy, investment strategy, financing strategy and legal relations strategy. The study says financial strategy runs from top to bottom so that the superior level determines the basic strategic objective for its subordinate levels. The paper develops a methodology of strategic model implementing into the category of micro, small and medium-sized enterprises.

Bekele et al. (2008) in their work titled “Factors that affect the long-term survival of Micro, Small and Medium Enterprises in Ethiopia” has tried to understand the reasons for high failure of MSMEs. Though MSMEs have led to the large scale employment opportunities to the people , the high rate of failures is causing a serious concern. In the study financial as well as non-financial variables are covered and the major factor causing the high rate of failure is the lack of adequate finance. The study was carried out among 500 SME units spread across a period of 6 years for assessing the factors influencing long-term survival and viability of small enterprises. Another financial factor influencing the failure of MSMEs is the inability to reinvest a share of profit (retained earnings) in the business. Non-financial factors influencing the failure were lack of education, Lack of managerial expertise and lack of technical knowhow. The study revealed that social capital of the entrepreneur and the enterprise influenced the success of the units along with the networking capabilities of the entrepreneur.

Eshetu Bekele et al (2008) in their study titled Women Entrepreneurship in Micro, Small and Medium Enterprises: The Case of Ethiopia, covered 500 small and medium enterprises randomly selected to identify the factors which influenced their long term survival and viability. The study tried to find out predictors for long term survival and viability of small enterprises in Ethiopia. The study also focused to find out whether gender of the entrepreneur had an influence on the success of the enterprise. Among the units studied, once which failed over a longitudinal period of 1996 to 2001, the major reasons for failure identified were lack of access to formal lending from commercial banks, inability for ploughing back of profits, managerial inefficiencies, lack of technical skills and lower education among entrepreneurs. The study also found that units operated by women were having more chance of failure than with once operated by men.

Ayyagari et. al. (2007).did a comprehensive study on the small and medium enterprises across the globe. The study focused on the contribution of SME sector to the growth of the economy and its contribution to employment generation. The study found a positive correlation between the contribution of manufacturing share to gross domestic product of a country. However the existence of a strong SME culture doesn't show a causal relationship to higher GDP. But the countries with higher GDP show the existence of a successful SME sector. The paper also found the relationship between SMEs and informal economy and whether the business environment prevailing has an influence on the existence of SMEs. The study concludes that there is high level of relationship between competitive environment and the large SME in a country. There seems to be a higher rate of small scale sector in the country if cost of establishing new enterprises is less. Similarly stricter property right and other laws will enable a higher rate of industrial growth through small scale sector. On the contrary if the laws and enforcement methods are weak, then the informal sector seems to be higher in proportion.

The study investigates the fundamental factors affecting the working capital management of organisations in Australia. The fundamental factors covered under the study are size of the organisation, credit rating of the firm, foreign sales, listed or not, firm performance, gender, age of the organisation, education, and industry factors. All the above cited is found to be having significant impact on the working capital management of the organisation. The study also found that working capital management practices of organisations having great success or otherwise. Among the various factors size of the organisation is the one factor contributing the most. Another major aspect of the study is the impact of the behavioural aspect of the treasurer in influencing the working capital management. The study found that treasurers of the Australian firms under study do have the behavioural bias of the treasurer.

Variyam and Kraybill (1994) and Craig et. al.(2007) (as cited in Bekele and Worku) has found that though there are many programmes for assisting Small and medium enterprises in sub-saharan African countries, they have failed to make an impact on the betterment of SMEs. This is mainly due to the inherent nature of vulnerability to bankruptcy problems arising due to inefficient management skills, lack of finance and various macro-economic policies adopted by the respective Governments.

Sousa and Aspinwall (2006) studied the knowledge about the performance measures among the small and medium enterprises in United Kingdom. Performance measurement techniques like Balanced Score Card and Total Quality Management concepts were covered under the study. The researchers found out that the usage of such practices is relatively low and the reason cited is mainly because of the lack of knowledge among the employees who have to implement. The study points out that there is significant difference between the theory and practice of performance measure and its implementation.

Edmund Prater et. al (2005) in their article Current Operational Practices of U.S. Small and Medium-Sized Enterprises in Europe, analysed the strategic tactical and operational elements of USA owned small and medium enterprises having infrastructure facilities in Europe. The paper talks about the various factors that affect the growth of the small and medium enterprises and the same has been compared with that of large scale organisations. It talks about the various entry strategies adopted by SMEs and the operational strategies adopted by them after their entry into the European market. The paper talks about the various barriers faced by the small and medium enterprises of such nature as well.

Wong (2005) studied the critical success factors for implementing knowledge management in small and medium enterprise. The study points out the lack of literature related to critical success factors for the implementation of knowledge management in small and medium enterprises and tries to bridge the gap. The CSF of large scale organisations need not be completely applicable to small scale units. The study suggests management support and leadership, culture, strategy and purpose, measurement, organizational infrastructure, processes and activities, motivational aids, resources, training and education and HRM.

Thomas W.Y Man et al. (2002), in the study titled “The competitiveness of small and medium enterprises: A conceptualization with focus on entrepreneurial competencies” developed a conceptual model linking the characteristics of Owner managers of small and medium enterprises with the performance of the SMEs. Competitive scope, organizational capabilities, entrepreneurial competencies and performance are taken as the constructs of the model. However the financial management of the SMEs are not covered to find the relation with the performance of the SMEs.

Shams-Ur Rahman (2001) in his study Total quality management practices and business outcome: Evidence from small and medium enterprises in Western Australia, Total Quality Management brought 6 variables under quality management practices and measured the impact of the same on organizational performance measured using three variables. The three variables used to measure organizational performance were revenue, profitability and number of customers. TQM was measured using 6 variables i.e., Leadership, Information and analysis, strategy and planning, Processes, products and services, People and Customer focus. The study found that information and analysis, and strategy and planning is not having a significant contribution to the organisational performance. However the remaining factors covered under the study is showing significant relationship to the organisational performance measured using revenue, profitability and number of customers. The study concludes that as far as small and medium enterprises are concerned the leadership of owner manager has a significant impact on the success of the firm.

Thomas W Y Man (2001), in his doctoral thesis titled Entrepreneurial competencies and the performance of small and medium enterprises in the Hong Kong services sector studied the entrepreneurial characteristics and the performance of small and medium enterprises (service based) in Hong Kong. The study proves statistically that the entrepreneurial characteristics has a significant relationship with the performance of the small and medium enterprises. Entrepreneurial competencies identified were opportunity, relationship, conceptual, organizing, strategic and commitment competencies.

Kayanula and Quartey (2000) studied the policy environment for promoting small and medium sized enterprises in Ghana and Malawi. In a series of working paper the study highlights the importance of small and medium sized enterprises in the growth of any economy. The study traces all schemes of the Government in the promotion of small scale sector. The study suggests that the policies of the Government should ensure a level playing field for the small scale units. It also urges the Government to take a facilitator rather than a regulator. There are many laws and regulations which are hindering the growth of the small scale units. These policies should be revisited and corrections be made so that the laws are development friendly to the small scale sector. The study found that there are many constraints faced by small scale units like non availability of factors of production, higher cost, lack of proper funding etc. These factors have to be addressed by the policy makers for the betterment of the sector.

Sha'Ri Mohd Yusof & Elaine Aspinwall (1999) studied the critical success factors for TQM implementation in small and medium enterprises. Management leadership, Organisation, education and training, quality in design, quality in suppliers, quality in process, fact based management, human resource management, customer focus and tools and techniques are the variables covered to measure the TQM practices. Among the 10 critical factors 58 elements were introduced to measure the factors. Among the 10 factors studied 4 of the critical success factors for small and medium enterprises have already been used in previous research. Management leadership, commitment and support, supplier quality management, employee relations, HRM and training and education are the common variables. The study hasn’t brought any financial variables to find out whether that is required for the success of small and medium enterprises.

Mead and Liedholm (1998) studied the dynamics of micro and small enterprises in the context of developing countries and tried to understand what makes small scale sector grow as it is and contribute to the employment generation of the country. The study points out that SME sector contributes to almost 27% of the total population of the working age's employment. These numbers are more than what the official numbers will portray as the official studies will consider only those SME units which are registered. The study points out that majority of the small scale units in these developing nations are from the rural areas representing more than 50%. The study found out that majority of the units covered was undertaking trading activity than manufacturing. The study found that irrespective of the situations in the economy there is always establishing of new firms, closure of existing one, expansion or contraction of existing ones etc. Therefore it is very hard to identify what is the real contribution in terms of the growth of new small scale units. The paper talks about the efficiency of the small scale units in comparison with the size of the firms. There seems to be a correlation with the size and the efficiency meaning higher the size higher the efficiency.

Smeral (1998) published his work on the impact of globalization on small and medium enterprises related to tourism sector in Europe. An economy which is highly dependent on tourism for majority of its income generation is severely affected by globalization. The study urges Governments to take actions enabling the spreading of income to the rural and mountainous areas. Policies should primarily be focused to address problems of those areas where failures seem to happen more. A combination of private and public sector in terms of flexible production technologies has to be reached at to reduce the impact of globalization in the tourism sector.

Fink (1998) put forward a guideline for the successful adoption of Information technology in small and medium enterprises. With information technology getting into all fields of operations it is essential for small units also to understand the relevance of IT in allowing excellence in their business operations. However the small units lack the expertise in implementation of IT in operations. Therefore the study is suggesting guidelines for the successful implementation of IT in small business units. First stage comprises of assessing the benefits of IT, understanding the culture of the organisation, and IT suitable for the organisation. Knowing the requirements should be followed by the verification of the resources required for the successful implementation and finally they should have a policy of continuous evaluation of the implementation and should be ready to make necessary changes as and when required.

S Blili et al (1993),Information technology: Threats and opportunities for small and medium-sized enterprises, shows the importance of information technology usage by small and medium enterprises and its importance for the competitive advantage. However the paper also talks about the possible risks/threats of adopting information technology. The paper also looks into the use of information technology on the planning aspects of the functioning of the organisation leading to competitive edge over other firms without the Information technology adoption.

Covin et al (1989) in their paper Strategic management of small firms in hostile and benign environments studied the effective strategic responses to environmental hostility among small manufacturing firms. Study was done to know the response of small units to hostile environment and benign environments. In hostile environments it was found that small firms performance was positively correlated to an organic structure, an entrepreneurial strategic posture, and a competitive profile characterized by a long-term orientation, high product prices, and a concern for predicting industry trends. On the other hand performance was positively related to a mechanistic structure, a conservative strategic posture, and a competitive profile characterized by conservative financial management and a short-term financial orientation, an emphasis on product refinement, and a willingness to rely heavily on single customers for small firms.

DeThomas and Fredenberger (1985) found out that just over 11% of the firms used the financial information for the planning of future. Although most of them knew that these financial informations will help the future planning of management, they didn’t adopted such tools. Only a negligible percentage of firms adopted ratio analysis and comparison of annual performance with past performance.

Review of the studies on working capital management practices of small firms in North America revealed that there is a wide gap between what is professed in text books and what is actually practiced by small firms. This to the author is very relevant as there are many schemes of Governments for training small firms on their financial management practices. Grablowsky (1978), Grablowsky and Rowell (1980), Cooley and Pullen (1979) and Anvari and Gopal (1983) have all conducted studies in the area of cash management practices of small firms. The results show dismal rate of adoption of formal cash level estimations. Grablowsky (1978), Grablowsky and Rowell (1980) have found that the accounts receivable management practices tend to be very low and most often small firms will sell to anyone for credit without any measurement of the credit worthiness of the buyers.

Similarly less than 15% of the firms in majority of the studies had proper inventory management practices. No evaluation of the investments made in inventory was done by the firms using any techniques as prescribed by the text books. Less than 10% of the firms in a study had adopted economic order quantity method of evaluating the inventory levels for better success of the units. Less than 50% of the firms covered under the study by Anvari and Gopal(1983) had proper accounts payable management. They used to make payments as and when a cash discount by the supplier without even looking into the benefits of delayed payments.

Another major financial management practice is the evaluation of capital outlays. The results of most of the studies covered under the review in this paper suggest that small firms tend to make investments based on the necessity rather than financial prudence. This means to say that large capital outlays are made without making analysis of the investment using any capital budgeting techniques like payback period, discounted cash flow techniques. The calculation of cost of capital as a hurdle rate was covered under the study by Soldofsky (1964) and Scott et.al. (1972). However, studies have brought inconclusive evidence as to whether the adoption of cost of capital or hurdle rates is used for evaluation of investment proposals. Scott et al (1972) found that more than 60% of the firms studied have some mechanism of comparing expected return and cost of capital or cost of funding for investment decisions. The involvement of small firm owner managers on short term strategies rather than having long term vision and planning is highlighted in many reviews. Tools like Cost Volume Profit analysis has been shared to small business owner managers as an effective tool, but rarely is it used by these firms. Less than half of the units only are using cost control mechanisms.

2.4. Management Accounting practices and Business Performance

Sreekumar K,(2015) in his PhD thesis titled "Management accounting practices and organisational performance: a study of environmental and organisational antecedents as perceived by finance and accounting managers in the manufacturing sector in India" has found out that the management accounting practices literature based on contingency theory proved beyond doubt that there exists a significant positive relationship between management accounting practices and organisational performance . This is in line with the prior studies as well (Chenhall & Langfield-Smith, 1998b; Perera et al., 1997; Ittner & Larcker, 1995). This contingency perspective suggests that organistional performance can be achieved if management accounting practices (MAP) are aligned with their environmental and organisational antecedents. (Tuan Mat, 2010; Baines & Langfield-Smith, 2003). This study also supports the finding based on the study conducted by Ojra (2014) among Palestinian manufacturing companies that there is a significant relationship exists between management accounting practices and performance.

Ahmad (2013) conducted a study among 160 small and medium enterprises in Malaysia regarding the adoption of management accounting practices in their units. The findings are separated for small and medium sized firms. Small as well as medium sized firms have a reasonable rate of adoption of management accounting practices with medium sized firms leading the share. The same is the scenario in the context of costing and budgeting systems adopted. However performance evaluation systems are almost similar with respect to small and medium enterprises. Strategic management accounting is something which is less practiced among the two groups of SMEs. There is not much change between small and medium sized units. In general the study concludes that both small and medium sized enterprises are having reasonable share of management accounting practices.

The second part of the study was to look into the periodicity or frequency of usage of management accounting practices. In terms of high extent of usage most of the units prepare many budgets like sales budget, cash budget, annual budget, production budget etc. Purchasing budget, target pricing, process costing, variance analysis, strategic pricing etc fall under the category of moderate adoption of techniques as the mean value is relatively less. Value chain, break even analysis, ROI, strategic costing, employee turnover etc are practices whose are having a low extent of use. Capital budgeting techniques like payback period, IRR, ARR, NPV activity based costing, batch costing etc are the tools used the least.

Pavlatos and Paggios (2009) conducted a detailed survey among 85 prominent hotels in Greece. The objective was to identify the extent of usage of management accounting practices among these hotels. The management accounting practices measured include both traditional and contemporary management accounting practices. The traditional methods like budgeting, costing, profitability analysis including product wise profitability measurements, etc. Contemporary practices measure include activity based costing, activity based budgeting, balance score card and benchmarking. The study found out that traditional management accounting techniques are widely used among the hotels in Greece. Though the extent of usage of modern management accounting techniques is not high as represented by the data collected, there seems to be a plan among the units covered under the study to go for those contemporary techniques for creating value addition in the operations through better practices. The need for accepting new techniques has got an impetus because of the severe competition which globalization has brought in. Majority of the respondents of the study wanted to implement modern management accounting practices like ABC, target costing etc as they thought that will add value to their existing system. Traditional budgets were most commonly used for planning annual operations, controlling cost and for better coordination between departments.

Bloom, Nicholas et al., (2007) conducted a study among 4 countries, namely, United States of America, France, Germany and United Kingdom covering 732 medium sized firms to measure the various management accounting practices adopted among the units. The study also had a purpose of doing a cross country analysis of the practices and its impact on productivity, profitability, Tobin's Q and survival rates. The study found that better management practices have a significant relationship with the above mentioned variables. The study also shows that all the countries covered under the study had good management practices with US firms having a higher average than the other countries. It is also found that markets where there are more competition has got better practices suggesting that open market economy leads to efficiency and productivity through better practices.

Magdy Abdel-Kader (2006) studied the management accounting practices in British food and drinks industry. The study was conducted using questionnaire and interview method among 122 food and drinks companies across the country. The study tried to understand the usage 38 management accounting practices. The study found that direct costing was still the most commonly used method ahead of activity based costing and absorption costing. Though majority of the modern tools of management accounting are considered to highly relevant by majority of the respondents, they rarely seem to be using it. Most of the respondents were not confident of the discounted cash flow techniques for evaluating the investment proposals. The study found out that the theories propagated by text books and those which are actually practiced by corporate are different. The classification of cost into fixed and variable was found to be important by majority of the respondents. The study revealed 90% of the respondents had budgeting as an important management accounting tool with them. Majority of the firms felt that financial measures of performance are highly relevant; however non-financial measures of performance in terms of customers were also represented as equally important by the respondents.

Roodhooft et al (2005) through "Modelling the link between management practices and financial performance; evidence from small construction companies" (2005, Belgium) studied both direct and indirect effects of owner-manager and company characteristics and selected management practices on financial performance of a sample of 218 Belgium construction companies. The results of the study indicate that the company characteristics and owner manager characteristics have no significant impact on the financial performance of the firms. However owner-manager and company characteristics and management practices seem to have significant relationship. The study suggests a model approach to be tried by inter twinning owner-manager and company characteristics and management practices and their impact on small business financial performance.

Islam (2005) studied the management accounting practices adopted in China in the work "The development of quality management accounting practices". With globalization China is having more association with international firms and the lack of knowledge on Western management accounting practices is hindering Chinese firms. Capital budgeting, cost of capital, just in time inventory technique, TQM, inventory control are all brought under the study of management accounting practices. The study finds that culture is playing a big role in the choosing of management accounting practices. Chinese firms are still following the traditional methods adopted during the pre-globalization era. The author finds that better management accounting practices enables management in taking well informed decisions leading to effectiveness. In a competitive market quality management accounting practices are considered to be a pre requisite for successful management of the organisation. The Chinese as they are open to foreign investments are getting more interested in adopting modern management accounting practices to become more competitive.

Robert et.al. (1998) in a study conducted among 140 manufacturing firms of Australia measured the adoption and benefits of management accounting practices among those firms. A total of 42 management accounting practices were measured in the study and most of the firms adopted traditional management accounting practices than modern practices recommended in management accounting. Though there is change in the adoption rate of modern techniques compared to prior studies, still traditional techniques are more followed than the modern. The study showed that traditional methods of management accounting have more impact on the performance of the units covered under the study than modern methods. Most of the large firms have adopted management accounting practices which are of non-financial information and adopt a strategic orientation in their operations. The study covered traditional practices which focuses on factors internal to the organisation and financially oriented whereas modern management accounting practices techniques use both financial and non- financial information and takes a strategic angle of the operations of the organisation. The study analysed the practices into three categories namely practices with “High adoption”, “Moderate adoption” and “Low adoption”.

Bromwich et al, 1994; Kaplan, 1983; Lucas, 1997 as cited in Sulaiman et.al., (2004) have said that traditional management accounting practices are no longer sufficient tools for the efficient management of business. The study focused on a literature review of the management accounting practices among four Asian countries, i.e., Singapore, Malaysia, China and India. The primary objective of the study was to identify the management accounting practices adopted in this country and to know whether there is a significant difference between the practices taught in formal education and the practice. The paper says that modern management accounting practices are essential for surviving in a competitive market. The traditional methods covered include standard costing, cost volume profit analysis, performance measurement, Budgets etc. The contemporary or modern methods included are target costing, Activity based costing, Balance Score card, etc are also made part of the study. The study revealed that majority of the organisations follows only the traditional methods as compared to modern methods. The reasons for the lesser implementation of modern techniques varied from Country to country. However some of the common factors influencing were the cost of implementation, lack of knowledge, etc. The respondents felt that the benefits accruing from traditional methods are more than that of modern methods. The response showed that ROI and variance analysis would still be favored in future also. Lack of technical knowhow, lack of expertise and lack of support from top management is also a major reason for the lesser implementation of such techniques.

Ghosh and Chan (1997) in their paper titled Management accounting in Singapore – well in place? conducted a longitudinal study to find out the management accounting practices adopted by local and multinational corporations working in Singapore. The study points out that the companies have to adopt modern management accounting tools so that they can achieve efficiency through better decision making facilitated by advanced information provided by these practices. The study found out that management accounting practices in general have improved compared to the previous studies. Another finding of the study was that MNCs had better adoption rate of management accounting practices compared to that of local firms as MNCs are basically starting their with the practices followed by its parent company. The gap between the implementation of management accounting practices of local and MNCs continues even after a decade of operations. The difference remained in a study conducted 10 years earlier also. This shows that management accounting practices have contributed to the ability of MNCs to achieve better profitability and efficiency.

Collier and Gregory (1995) in their paper Strategic Management accounting: a UK hotel sector case study, covered six major hotel groups in UK. The study showed that from a normal accounting system these highly competitive hotel groups are focusing more on strategic management accounting which will enable them to get a slight advantage over their competitors. These practices are used at almost all stages starting from planning to various exercises on competitors and even analyzing the pros and cons of competitors.

2.5. Financial Management and Business Performance

Garcia R (2017) conducted a study on the "profitability and evaluation of the financial management of a socio-economic intervention". The study was conducted among the small and medium enterprise in Philippines. A total of 127 units were covered for the study. The study covered on the financial management and on the profitability and efficiency of utilizing the financial grant. The study looked at the financial grant provided by the associations for the members and the financial management is measured in terms of the profitability and efficiency in utilizing the grant. The findings suggested that the small business units became profitable and efficient in utilizing the aid and also this had a positive influence on the socio-economic aspect. The study also suggests that there needs to be close supervision and monitoring on the finance of the small and medium enterprises for the success of the units and the financial aid programme.

The study primarily uses the goal setting theory by Edwin Locke in 1968 as cited by Salaman et.al (2005), expectancy theory by Victor Vroom in 1964, Baumol model of cash management used for inventory and cash management and the concept of OECD Directorate for Science, Technology and Innovation (2014) on impact assessment, Performance management from Aguinis (2009) etc.

Brown (2017, also cited in Garcia R, 2017) found out in his study that the major reason for failure of small and medium enterprises is the lack of proper financial management. The inability to control and manage cost was cited as a major reason for failures. Non-availability of sufficient capital and time to manage their accounting books was cited as other main factors leading to failure of firms. Ames (2017) in his book titled Small Business Management had emphasized the problem of lack of financing as a major problem faced by SMEs leading to their failure.

Muneer et.al. (2017) conducted a study among 200 small and medium enterprises in Pakistan to understand the impact of financial management practices on their profitability with moderating role of agency cost. The study covers only three aspects of financial management, i.e., accounting information systems, Financial information system and working capital management of the units under the study. The variables covered under each of the three head are as follows:- Accounting information systems include book keeping, financial activity transactions, cost accounting and the use of computers in accounting. All these variables have been measured using measurement questions pertinent to that.

Financial information systems include objective and frequency of the financial reports, analysis of these reports, interpretation of those analysis and auditing system followed by these units. Along with this training systems adopted by the enterprises, qualifications of the personnel and the expertise of the personnel in the financial management were also covered. The study also considers the impact of working capital which is well explained by previous studies in the present study as well. The study concluded that the out of the four hypotheses studies accounting information system, financial information system and working capital management has positive relationship with the profitability of the units. However the agency cost doesn't show any positive relationship the success or performance of the small and medium enterprises covered under the study.

Joseph Kimani Mwangi, et.al. (2014) in their study Effect of financial management practices on profitability of Matatu Transport Industry in Kenya focused on the effect of cost of capital and capital structure on the profitability of the industry. The study revealed that there is strong positive correlation between the cost of capital and capital structure on the profitability of the firm. This means organisations with lesser cost of capital and debt oriented capital structure has high profitability. The study also recommends the industry in searching for cheaper sources of funds for better profitability and more support from the side of Government for making available such sources to the industry.

Abanis et.al. (2013) published their research findings in a study conducted among the small and medium enterprises in western Uganda on the financial management practices adopted and its influence on the efficiency of the organisation. The study was primarily focusing on working capital management (inventory, receivables and cash), investment, financing, financial reporting and analysis, accounting information system usage practices of small and medium enterprises. 335 samples were used for the study. The study found out that most of the small and medium enterprises didn't had strong practices and that was hindering their efficiency. In cash management related practices the units under study had mostly responses below the mean values which suggests that majority of the units don't have strong cash management practices. Cash surplus and cash shortage are common phenomenon which shouldn't be the case when there are strong scientific cash management practices. Receivables management practices of SMEs under study also is relatively less compared to the mean values. The units don't have a systematic credit policy to decide to whom to be given credit. It is inevitable to sell on credit for SMEs to get market share. But lack of credit policies seriously affects the financial performance of the firms. Bad debts and related expenses are seriously affecting the efficiency of the small scale units.

As far as inventory management is concerned the small scaled don't have a scientific and computer based inventory management system. The reorder levels are also not scientifically done. This increases the inventory cost. Protection and safety of inventory is not properly done and verification of inventory levels are not regularly done. In general the inventory management practices are way below par and leads to inefficiencies for the organisation.

On investment decision of SMEs, units covered under the study do make investment in fixed assets, but the utilization rate of these fixed assets are way below capacity and this leads to idle capacity. Any investment without proper usage leads to inefficiency and reduction in profitability of the units. Most of the capital budgeting techniques like net present value and payback period are rarely used and most decisions are made based on the intuitions of the owner manager. This seriously affects the profitability of the firms. Though most of the units are found to have internal sources of funding inefficient investment decisions lead to unutilized capacities of fixed assets and idle investments. Regarding financing decisions a high mean value is found among the units with regard to availability of internal sources of funds. Small scale units are reluctant to take bank loans due to high interest rates of loans. Financial reporting and analysis and accounting information usage of small scale units needs a lot to be desired. The means values show that the preparation of financial statements and the usage of these statements for analysis and planning is dismal. These practices have to be ensured for efficient utilization of resources and profitability.

The study suggests that the Government and monitoring agencies of small scale units in Uganda needs to act more for ensuring that the number of closed downs of small units is controlled and reduced. The current statistics show that the number of units which are registering and the number of units which are closing down in relation to small scale units are very high in Uganda.

Naidu & Chand (2012) in their paper titled "A comparative study of the financial problems faced by micro, small and medium enterprises in the manufacturing sector of Fiji and Tonga" covered owner/ managers of 200 manufacturing SMEs in Fiji and Tonga. The study covered 20 financial problems faced by the SMEs and grouped them into three broad categories namely , a) Financing problems b) operational and administrative problems and sales and debtors problems. Major difficulties faced by the SMEs in the financial aspect is the lack of financing available to them along with the existence of tax and duty as compared to the large scale organisations in the nation. The study concludes that the major difficulty faced by the SME s is the lack of financing available externally and internally to the organisation. Insufficient capital, startup cost, expensive raw material etc. constitute some of the major challenges for the units studied. High operational cost and management of debtors also constitute a major threat for the success of the small scale units.

Dr. Okafor (2012) in the article titled Financial management practices of small firms in Nigeria: Tasks for the accountant carried out an exploratory research on the financial management practices of small firms of Nigeria. Accounting systems, Financial management information, working capital management, budgeting practices and managerial planning were taken as the independent variables. The results showed that all the five independent variables have significant impact on the profitability of small firms. The study also showed that these five independent variables had significant influence on the survival and growth which were also taken as a dependent variable in the study. The study was conducted among only six small firms in Nigeria. However the study collected data from manufacturing, service and marketing organisations equally. The study points out that there is a notion among the owner managers that accountants role is mere presentation of accounting data rather than developing strong financial management practices leading to efficient management of organisation and thereby leading to successful performance. Therefore the study recommends the employing of highly skilled accountants who can add value to the organisation with better financial management practices. The study also points out that the two independent variables accounting system and financial management information decide the risk perception of the bankers and other funding agencies. This further highlights the importance of having strong financial management practices for improving the efficiency.

Factoki (2012) in a study conducted among three towns of South Africa namely, Alice, Fort Beaufort and King Williams' town through a structure questionnaire has published the work titled "An investigation into the financial management practices of New Micro enterprises in South Africa. The paper talks of financial management practices in terms of the following heads, i.e., financial planning, analysis and control, accounting information, pricing strategy and objective, working capital management, investment decision. In the study it is found that most of the new micro enterprises in South Africa do not maintain accounting books other than sales books which provides information for better decision making. Even computerized accounting is not performed and manual system of maintaining accounting books is followed. Pricing techniques adopted by these micro enterprises and mainly cost plus pricing and competitive based pricing so as to enable them to increase profit and sales. The micro units don't calculate reorder levels for stock replenishment, but reorder as soon as the stock runs out. The units don't even make capital budgeting decisions before commencement of business. The study concludes by saying that the findings are agreeing with the literature existing till that point, i.e., micro units covered under the study don't have much financial management practices enabling better decision making and better financial performance.

Phenya (2011) and Mensah (2012) have found in their studies that lack of knowledge of the financial management practices and skills is a major hindrance to the adoption of such practices. Most often SMMEs are mainly run by owner managers alone and multiplicity of roles hinder the entrepreneurs to engage in high quality working capital or financial management practices. Lack of time and inability to employ high skilled employees also augments the problem for owner managers.

Inability to generate sufficient resources also avoids the possibility of providing quality training to owner managers themselves or their staff.

Agyei- Mensah (2011), in the study "Financial management practices of small firms in Ghana: An empirical study has tried to understand the importance of financial management practices and the contribution of SMEs towards the Government exchequer. It is widely accepted that SMEs lead to employment generation and growth of the economy. However the author comments that the growth in the economy due to SMEs is not getting reflected in the revenue of the Government from the SME sector. The author finds that the financial management practices of SMEs are very poor and that is a reason why the contribution of SMEs towards the revenue of the Government is less. The firms who are having strong financial management practices are following those practices because of pressure from bankers or financing institutions, pressure from external accountants and from the capital providers for these organisations. Most important reasons for the non-implementation of strong practices as cited by the study are high cost of having own accountants, lack of internal accounting staff and inability to understand the proper accounting records. Therefore the owner managers prefer not to go for strong financial management practices. The study focused on the accounting systems, financial reports, working capital management techniques and fixed asset management techniques adopted by the SMEs and whether they could help the SMEs in improving their performance. The small scale units studied were reluctant to maintain management accounting practices and financial management practices as that will lead to more tax payment for the organisation.

Zongsheng Liu, (2010), found that the major problems with the strategic financial management of Small and medium enterprises are lacking in scientific and standardized financial strategies, neglecting strategic environment analysis and having unreasonable strategic financial goals, lessening the role of budgeting in strategic financial information, keeping additional accounts in addition to the authorized one, difficult channels of financing (insufficient channels of financing), poor financial control etc. The study also specifies the causes for the problems listed above to rigid management pattern, non-transparent system, lack of feasibility researches, ineffective control etc.

Li He, (2010) conducted a study during the economic crisis of 2008 and found that the major reason for Small and Medium enterprises failing during the crisis was because of lack of proper financial management. The study states that the enterprises with standard financial management and perfect system are more flexible in crisis resistance and fine management. The paper details the pathetic financing conditions and measures to overcome it. The lack of modern financial management ideas and methods is also cited as a major reason. The problem of improper cash management, no perfect risk-control system adds on to the misery.

Papulova and Mokros (**2007)**, as cited in Bekele and Worku) has found out that small and medium enterprises should have owner / managers who have sufficient knowledge on management of finance, marketing, competition etc. The lack of the same shall ultimately lead to the bankruptcy of the unit and closing down.

Gloy and LaDue (2003) in their study "Financial management practices and farm profitability" measured the practices adopted by various small business units doing dairy business in New York. Business practices like business analysis and control, capital budgeting techniques and cost of capital practices are measured. The study revealed that not many firms adopt capital budgeting techniques like net present value. The study found out that there is significant relationship between capital budgeting decisions and profitability of these firms. Profitability, liquidity and solvency are the variables covered under the business analysis and control aspect. Though the practices adopted are significantly high they don't seem to affect the profitability of the farms covered under the study. However farms which used any of the capital budgeting techniques like payback period, discounted cash flow techniques showed significant relationship to profitability. That means farms following such techniques seems to perform better than the ones which are not following investment appraisal techniques. The study also found out that the farms which consider cost of capital of funding options showed better financial performance than the ones not doing it.

Gorton (1999) researched on the financial management techniques of UK based small and medium sized enterprises. The study was necessitated as it is evident that good decision making is driven by quality and timely information. This information on financial areas are mainly provided by quality financial management practices. Gorton cites that in the era of globalization and competition from across the globe it is inevitable for small firms to be efficient. Organisations have to be flexible with changing times. Gorton suggests that when small firms needs to think of further investment and growth they heavily depend on bank finance. To have access to formal banking channels for funding it is essential to have proper accounting and finance records within the firm. Gorton cites previous studies conducted in this regard to be showing negative reports as to the extent of usage of any form of budgeting, receivables records etc.

Ang (1991) in the work titled Small business uniqueness and the theory of financial management suggests that financial management of small organisations and large organsiations have significant difference between them. The study looks at agency problem from the angle of small business. Small firms which have the option of working as a proprietorship or partnership has agency problems which are entirely different from a large organisation registered as a company. Lack of information because of the high cost of collecting and maintaining it, lesser number of transactions repeated etc leads to information asymmetry compared to that of large organisations. Failure costs, taxed and transaction costs are also different from that of large organisations in the case of small firms.

In terms of capital budgeting the lack of various alternative sources of funding might push the small firms to reduce the number of projects being approved for investment. The cost of capital for small firms will be usually higher than that of large firms as large firms have the freedom of reaching more markets and promoting their products. Small firms with their inability to generate huge funds for investment might restrict their investments to limited markets. This will hinder their chances of raising large loans at lower rates. Regarding the capital structure of small firms most often the small firms start of with lower investment usually with contribution from owners, friends, relatives etc. This has an inherent problem that the firm doesn't know what is the cost of capital of such funds and this might hinder the small firms to be competitive. In terms of dividend of small firms mostly owner managers will interchangeably use their own funds and organizational funds. Its very difficult in such situations to declare return from the cash available in the firm. Usually small firms give too much importance to liquidity of the firm. They normally keep more quantity of inventory as there is always a risk element of running out of inventory or cash because of a single source of revenue for small units.

Mcmahon and Holmes (1991) studied the financial management practices of small business units in North America. The study was conducted as a review of the existing literature on the relevant area. They found that with the availability of computers at the beginning of the decade there was high percentage of existence of accounting information systems in place. More than 90% of the firms prepared traditional accounting statement like Balance Sheet, Income statement and fund statement etc. However the study found that cash flow statement was not that widely used as others. These finds have been collated from various studies by DeThomas and Fredenberger (1985) D'Amboise and Gasse (1980), Magnenat-Thalmann (1982), Cheney (1983), Raymond (1985), Malone (1985), Farhoomand and Hryck (1985) and Nickel and Seado (1986). The study points out that there is sufficient literature related to small firms that there exists high degree of accounting systems in place for small firms in North America. Majority of the firms had opined that they depended an outside accountant for the preparation and finalisation of the accounting reports.

The study also points out that there is sufficient literature to show that the availability of accounting information is not directly proportion to the usage of the statements by owners or managers of the firm. Luoma (1967) conducted a study among the manufacturing firms in America with a large sample. The study however found that 86% of the firms have the practice of analyzing financial statements and interpreting the results thereof. D'Amboise and Gasse (1980) conducted a study among the small firms in Quebec Canada found that small firms covered under the study regularly studied rate of return and situation analysis by interpreting the financial statements. Lindecamp and Rice (1983) in their study found that following financial management practices and using of those information for better decision making lied at two different levels. Product wise analysis of the company and the contribution of each product to the profitability or success of the unit is not studied at all by small units. Not even half of the units studied compared their performance with that of the industry. Crucial ratios helping the solvency of the firms were not even understood by majority of the units covered under the study.

2.6. Capital Budgeting and Small and Medium Enterprises

Blumentritt (2006) has brought forward the need of integrating strategic management and budgeting. For a long period of time budgeting and operational and business strategies are kept in isolation and not generating the required impetus for the organisation. In a n ideal world where both strategy and budgeting co exist the organizational performance should be positively influenced by these activities. Both these activities, i.e., budgeting and strategy formulation are oriented towards taking the organisation in the path of success and performance.

Ryan & Ryan (2002) have studied the application of capital budgeting techniques of Fortune 1000 companies where in they have quoted that earlier studies have found that traditional capital budgeting techniques like payback period have been mostly used by organisations. However in recent studies it is found that discounted cash flow techniques like Internal rate of return are more used compared to traditional techniques and Net present value. But in the present study Ryan and Ryan have found out that with the intervention of new sophisticated computer based programmes have enabled organisations to move towards Net present value which is considered superior to other methods in theory. They conclude that the theory and practice of evaluating investment proposals have become more similar with the advent of computer based evaluation methods. They also found out that there are many organisations which are following more than one method of evaluating capital investment proposals. One other major finding of the study is that organisations with smaller capital outlay use NPV more. As the theory suggests discounted cash flow techniques leads to value maximization for the shareholders, organisations are now following that path.

Marc Ross (1986) studied the capital budgeting practices of twelve large manufacturing units covering steel, paper, aluminium and petroleum refining industries. The purpose of the study was to identify the differences in the theory and practice of capital budgeting techniques adopted by large firms. The study covered 400 projects were capital budgeting techniques were used, 100 of which were completed projects and the remaining 300 projects were either prospective or in progress. The study found out that most of these large firms used discounted cash flow techniques for major projects. However there was visible dilution in DCF techniques and tend towards simple payback period methods when the projects were relatively smaller in size. The hurdle rate for evaluating projects were usually taken as average cost of capital for large projects and in case of small projects this was usually taken at a higher rate than the average cost of capital. Medium range projects had medium hurdle rate, i.e., cost of capital.

2.7. Working Capital Management and Small and Medium Enterprises

Bandara & Rathnasiri (2016) have tried to identify the working capital management practices adopted by small and medium enterprises in Srilanka and its impact on the small units. Sample sizes of 60 units have been covered for the study and covered receivables, cash and inventory under the purview of the present study. The study found out that small and medium enterprises do have unique ways of maintaining cash records and receivables and inventory, but those methods are not scientific. Lack of scientific methods in managing working capital has affected the small and medium enterprises to achieve the full potential of these methods. The study also throws light on the reasons for the lack of implementation of better practices. Lack of awareness and the worries about the cost benefit of adopting such practices restricts the owner managers from adopting such practices. This also shows the lack of long sightedness of the entrepreneurs in running the units.

The variables used for cash management practices in this particular study are cash forecasts, identification of cash balance, methods of investing surplus cash. Though there are many other parameters for measuring the cash management practices. Receivables management was measured using the duration of debtors credit period and bad and doubtful debts of small scale units under study. As far as inventory management, the study covered frequency and reasonableness of inventory levels and preparation of budgets for inventory. Though the mean and median values for preparation of cash budgets were high but the situations were such units faced shortage or surplus of cash also was high. This shows that though the small scale units prepare cash forecasting practices those methods seem to be unscientific. That could be the reason for surplus and shortage situations quite often. Based on the study it is found that there is scope for imparting training to small scale sector on working capital management as the practices adopted by these firms are not significantly contributing to the efficiency of the units.

Tabot (2015) in the thesis submitted "The Working capital management practices of small medium and micro enterprises in the cape metropole" studied the importance of working capital management practices for the success of SMEs. Koury, Smith and Mackay (1998), Sunday (2010), Yiadom & Agyei (2006) all have found out that poor working capital management practices has contributed heavily to the closing down of SMEs (as cited by Tabot, 2015). Inability to control the cash management which is part of working capital has affected the investment decisions and loan servicing capabilities of SMEs. This has ultimately led to the down fall of those units. Lack of preparation of cash budgets, bank reconciliation statements, improper management of payables and lack of knowledge of the importance of liquidity practices all has severely affected the existence of small and medium enterprises.

Receivables management of SMEs in the study has been found to be inappropriate and unscientific. Most of the SMEs don't have a proper tracking system of receivables. Even on delayed payments from customers, there is not system of penalizing the receivables account. This in a way encourages customers to delay the payment. Another problem found existing in receivables management is the lack of incentives for prompt payment by debtors. In terms of managing creditors SMEs seem to be more prompt than what they get from their debtors. However, most units don't even try to take benefit of cash discounts offered by creditors for early payments (Yiadom & Agyei (2006). Maintenance of records related to payables and receivables are very poorly managed and the practices are way below standard requirements.

Mensah (2012) through his study titled working capital management practices of small firms in the Ashanti Region of Ghana has tried to bring to limelight the importance of financial management practices and especially working capital management practices for SMEs. Mensah opines that the success of failure of a small scale unit is highly correlated to the existence or otherwise of an effective working capital management system and practices in place. The study shows that large section of samples covered don't even have a computerized operation system. However there seems to be a relatively higher proportion of computers for accounting, receivables management etc. Most of the heads of the small scale units had not much of an idea about accounting and finance. They try to reduce cost by employing cheaper labour even in areas of accounting and finance as they feel that those sections are not that relevant for the success of the small scale unit. Most often support of professional accounting personnel is sort after when there is a requirement for submitting documents for financial assistance from banks and other Governmental agencies. The study also found that the educational background of the entrepreneur has got no relationship with the accounting and financial practices adopted by the units.

Regarding cash management of small firms in Ghana, most of the firms covered under the study have one way or the other practices for managing cash. Most of the firms manage cash based on the expertise and experience of the owner managers and no scientific system of preparing cash management systems are in place. This could be the reason why they don't face too much shortage of cash but normally have surplus cash with them. This is equally bad for the organisation as idle funds are also having a cost to the unit. Most often the firms covered under the study use these surplus cash for investing in banks which give relatively nominal rates of return. Regarding accounts receivable management also the policies adopted and practices used are not scientific and most of the units have high rate of bad debts. Inventory management is also done on the basis of the experience of the entrepreneur and not based on any scientific methods of estimation of optimum level of inventory.

Maseko et al (2011) in their study titled accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement (A case study of Bindura) has put forward the importance of having strong accounting information system for providing valuable information to managers so that they can take quality decisions in the business leading to better performance.

Pavlatos and Paggios (2007) studied the cost accounting practices of 85 large hotels in Greece. Cost accounting systems adopted in hotels use both financial and non financial information related to the usage of resources. The study points out that majority of the hotels run on a very hogh share of fixed cost even to the extent of 75% of the total cost. Job order costing and process costing had been the widely used traditional methods of costing were overheads are distributed on the basis of departments or cost centres. However there is a high inclination towards activity based costing measured in the study among hotels. This adopts a different outlook to the sharing of overheads to production departments or products on the basis of the resources used by various resources of service departments.

Kesseven Padachi (2006) in the research paper Trends in Working Capital Management and its Impact on Firms' Performance: An Analysis of Mauritian Small Manufacturing Firms presents the findings of study conducted among 58 small manufacturing firms over a period of 5 years. The study shows significant relationship between efficient management of working capital and the performance of the firm. Firm performance is measured in terms of return on total assets. The variables used for measuring working capital management practices are days of inventory kept, duration of accounts receivables, duration of accounts payable and cash conversion cycle. The paper also quotes various studies wherein significant relationship has been found between the working capital management and the profitability of the firm. The study finds that organisations having high inventories and receivables are having low profitability. The paper industry in Mauritius covered under this study shows how well managed working capital practices leads to high profitability. Peel and Wilson (1996, as cited in Padachi) found out that an efficient working capital management is important for the profitability and liquidity of a small firm. The need for arranging formal channels of working capital is also stressed upon for the profitability of the small firms. Formal working capital policies and procedures shows a significant relationship with a variety of success measures used for Small and medium enterprises (Grablowsky 1976 as cited in Padachi). Walker and Petty (1978, as cited in Padachi) has found that cash management has significant influence on the profitability of the firm. The study primarily uses ratio analysis for measuring the efficiency of working capital management of the firms.

Dangayach et al (2005) studied the adoption of advanced manufacturing technologies and its implementation by small and medium enterprises. The main hindrance to growth of small and medium enterprises according to the authors are the existence of niche players in the market, market assessment, availability of managerial skills and long term strategy development. Advanced manufacturing technology adoption is a classical way to overcome the difficulties of transformational change needed by SMEs to survive. It enables cost reduction, competitive edge, better quality and higher rate of flexibility. The study found that small units in India give quality an importance higher than that of flexibility. However flexibility is operations gives the competitive edge over other firms. Therefore the study concludes that small and medium enterprises don't concentrate on Advance manufacturing technologies required for the successful growth of the firms.

Deloof (2003) conducted a study on the working capital management of 1059 business organisations and its impact on profitability. Gross Operating income was the variable used to measure profitability. The study found out that longer the cash conversion cycle, accounts receivable duration, inventories and payable duration has a negative correlation. This validates the existing theory that more the cash conversion cycle lesser will be the profitability as more working capital is getting blocked in the period. Therefore to increase profitability one has to reduce the time period to convert receivables into cash and inventories into cash. If more time inventory remains unsold it affects the profitability in a negative manner. Accounts payable on the other the more delayed it is, better it is for profitability of the firm as cash management theory itself says that the cash disbursements should be delayed as far as possible.

Gunasekharan et al (1999) brought in the reasoning for the implementation of Activity Based Costing and the way to implement ABC. Small scale enterprises always had problems of cash flows and capitalization. Activity based costing considers activities as the basic cost drivers and leads to efficiency in charging of overheads to various products and services. Any activity that reduces cash flows is bound to benefit the profitability of small and medium enterprises. As lesser cash flows helps in reducing the debt of the organisation and the cost of financing them. ABC is not a onetime phenomenon which can be implemented and left. It requires continuous revisiting the activities and the possible reduction of overheads. The paper presents a framework for the implementation of ABC in SMEs as well. This framework suggests Top management commitment, Organisation for the ABC programme, conducting seminars on ABC, incentivize participation of companies in ABC by Government, Provide amble training on ABC, analyse critical activities, Identify value adding and non-value adding activities and monitor the implementation.

Jim Everett et al (1998) in the article titled Small business failure and External risk factors have classified risk into economy based risk, industry based risk and firm based risk which affects the failure of a small business. The paper tries to identify the relationship between the failures of small business and the various risks mentioned above. The cited risks are merged into two categories, i.e., internal and external risks. The study has cited that lack of adequate capital and high interest rates as a major cause for failure of small business as cited by Peteresen et.al. and Hall and Young. The study concludes that 30% to 50% of the reasons for the failure of small business are systematic in nature and not unit specific risk or unsystematic risk. They also found that failure was positively correlated to interest rates of funding. Economic situations also influence the failure of small business.

Mundu (1997) in a study of small enterprises in Kenya found out that majority of the firms didn’t had any proper system of working capital management. Though the study was on financial management focus was more on working capital management. Majority of the firms studies didn’t had any cash budgeting mechanism. Even those which had were preparing it on a irregular basis. Even the surplus cash management also showed lot of unprofessionalism. With regard to receivables management units having credit sales had a negligible percentage of firms had a system of measuring the credit worthiness of the customers. Most often credit was given based on the familiarity with the customer by the owner manager. In terms of planning and control none of the firms were using planning and control tools for betterment of the performance. Most often they adopted for getting formal loans and any other benefits.

Burns and Walker (1991) studied the working capital policies of small manufacturing firms. 184 firms. The study found that most of the firms under study didn’t had scientific working capital policies in a written format. However the firms with written working capital policies showed a higher correlation with the profitability. This means that organisations with written working capital policies showed higher profitability. Profitability was measured in terms of ROI and relationship was tested using chi-square test. Cash management was mainly done using cash budgets on a weekly basis. However firms with aggressive working capital policies seem to verify the cash requirements on a daily basis. Collection period and ageing schedule were the tools used to monitor receivables were as computerized inventory management systems were used for monitoring and avoiding the excess or shortage of inventory.

Gitman, et al. (1979) in a study on the assessment of cash management practices talk about the existing theory of cash management. The ways of speeding up the collections of cash and delaying of payments has been explained as an effective tool of cash management. However the study was carried out among the top 150 and bottom 150 of the Fortune 1000 companies. The sample was so selected to identify whether there is significant difference between the cash management practices of firms based on their size. The study revealed that there are not much difference between the cash management policies of the large and small firms. However smaller firms showed more eagerness in speeding up the collection of receivables and inventory control. But they lacked on the delaying of payments strategy of cash management. It is also found that large firms used to have more scientific cash management practices compared to smaller ones as it requires more investment and skill on the technological side of implementing the cash management practices. Lock box system and concentration banking techniques used for cash management is highly adopted in larger firms. Smaller firms are found to be having longer cash cycles indicating the adoption of better cash management practices would enable an organisation to reduce the cash cycle which in turn will lead to lesser cost and higher profitability.

2.8. Managerial Skills and Small and Medium Enterprises

Pavlatos, Odysseas (2011) in their study tried to measure the impact of strategic management accounting and cost structure on Activity based costing systems in hotels. The study was conducted among 85 large hotels in Greece. Traditional cost accounting systems apportion the overheads or cost of service departments on the basis of actual departments or cost centres. Activity based costing on the other hand distributes the expenses of service departments on the basis of what quantum of service departments resources are offering and how much of those resources are required for various activities of the production departments. It is well accepted that the traditional methods of apportioning of overheads are relatively simpler and economical though the accuracy levels of apportioning might be less (Drury 2000 as cited in Pavlatos, Odysseas). ABC though initially started in manufacturing sector is equally if not more suitable for service sector as well (Kaplan and Cooper 1998 as cited in Pavlatos, Odysseas). Berts and Kock (1995) propose that ABC is also suitable for hospitality industry as they are more market oriented.

The study found that hotels adopting ABC had strong relationship with the cost structure. Majority of the hotels had high proportion of long term assets and they are found to be adopting activity based costing more. Majority of the manufacturing firms will be able to trace the cost directly to the products or cost centres without being apportioned. However service organisations seem to have high proportion of fixed cost making such organisations to be ideal candidate for activity based costing in apportioning indirect expenses. Strategic management accounting tools like benchmarking, life cycle costing, competitor cost analysis etc. are widely used among hotels. Hotels that follow strategic management accounting are found to be more likely to adopt activity based costing. Statistically significant relationship is found between hotels following strategic management accounting and adoption of ABC.

Yusof & Aspinwall (2000) As a continuation to a work on similar title mentioned earlier, from the same authors in 1999, a detailed study was conducted among the small and medium enterprises to know the critical success factors of such units. The survey was conducted among the quality managers/ directors or managing directors. Among the ten critical success factors measured in the final study, measurement and feedback and management leadership are the two factors with the highest means from the survey which means that they contribute to the success of small and medium enterprises than any other item. The two variables having the least mean values are supplier quality assurance and improvement tools and techniques. This suggests a probable area where these small scale units need to be equipped with better skills to improve the success of these units.

2.9. Market Orientation and Business Performance

Market orientation is a business policy which expects the business to implement the marketing concept. We can call an organisation as a market oriented organisation when the policies of the organisations are in tune with the marketing concepts. Felton (1959, p. 55) defines the marketing concept as "a corporate state of mind that insists on the integration and coordination of all the marketing functions which, in turn, are melded with all other corporate functions, for the basic purpose of producing maximum long-range corporate profits. A market-oriented organization is one in which the three pillars of the marketing concept (customer focus, coordinated marketing, profitability) are operationally manifest (Kohli & Jawarski, 1990). Market orientation concept expects a inter connected activity of various departments in understanding the current and future needs of the customer needs. The same need has to be communicated to all the departments concerned. Shapiro (1998) had suggested market orientation is not a responsibility of the marketing department alone, rather the collective effort of the various departments to know the customer needs, spreading the message to relevant departments and initiating necessary actions.

Selmi (2018) tried to measure the impact of revenue management orientation as a mediating factor in the relationship between market orientation and firm performance. The study was conducted in the French Hotel industry. The study found out that revenue management orientation does play a mediating role as hypothesized. The study also fiund out the mediating role of customer’s acceptance of revenue management. This research conceptualized revenue management as a specific strategic orientation—that is, the belief, and the processes that guide this belief, that revenue management leads to greater performance.

Yong J Wang et al (2017) studied the implementation of market-oriented organizational culture in manufacturing based small and medium enterprises. The traditional understanding is that a market-oriented organizational culture positively influences quality of customer relationship thereby leading to better business performance. This understanding is not completely apt for small and medium enterprises. The study quotes findings that different patterns have been identified for manufacturing and service organisations with regard to the impact of market orientation on firm performance. The data for the study was collected from Industrial SMEs whose primary customers were industrial buyers. In the context of industrial small and medium enterprises, both customer orientation and competitor orientation positively influence relationship and performance measures. The positive impact of customer orientation and competitor orientation is weakened by the behavioural frequency of inter functional coordination. If many functional units are involved in dealing with the customers the benefits of customer orientation might be lost due to the increased cost and lesser profitability.

Cheng et al (2017), explored how service innovation and market orientation together influenced business performance. Existing literature has found sufficient support for market orientation influencing the business performance. However the mediating effect of service innovation on market orientation and business performance is tested in the study. The study was conducted among 260 organisations in Greater China and using SEM the study found out that service innovation with market orientation has more influence than market orientation in isolation on business performance.

Kiessling et al (2015) studied the impact of Corporate Social Responsibility and market orientation on firm performance. The market orientation (MO) theory is a business philosophy or a policy statement which addresses how organizations adapt to their customer environment and focus on serving customers to develop competitive advantages. MO related competitive advantages can arise from closer customer ties or increased customer loyalty which is crucial in an ever- changing business environment. The study found that organisations with high corporate social responsibility activities had high positive correlation to performance of the firm. There is ample research supporting the role of market orientation on firm performance without confirming the mediating role of CSR. The study concludes that CSR could be a mediating variable which firms have to consider in their market orientation plans for better firm performance.

Lee et al (2015) points out that there is ample research to substantiate the positive correlation of customer orientation on business performance. However the studies don't throw light on how to convert the customer orientation into increased performance specifically in the case of new product development. The three activities included in the New Product Development stage are product launch, product development capability and product innovativeness. The study found that there is strong positive effect of customer orientation on New product development activities and NPD activities have a significant mediating role between customer orientation and new product performance.

Chang Lu et al. (2013) The present study investigated the relationship between market orientation, managerial issues and innovation simultaneously and interactively. The study was carried out in Asian perspective. The study found out that customer orientation and inter functional coordination have a positive influence on innovation. A managerial tie is found to play a moderating role in the market orientation and innovation linkage. The relation between customer orientation and inter functional coordination and innovation is improved by business ties. Inter functional coordination and innovation is negatively influenced by political ties.

Brik et al (2011) studied the market orientation, CSR and business performance of 2200 companies of Dubai. The study found out that Corporate Social responsibility has a moderating effect on customer orientation and business performance. The customer orientation is found tohave more impact when done along with the CSR activities. CSR activities need to be publicized among the stakeholdesrs so that the impact of CSR is positively influencing the customer orientation and performance. The study recommends that studies on customer orientation on business performance should not be done on isolation rather the same should be done on a holistic basis considering the moderating effect of other factors as well.

There has been ample research finding proving the relation of customer orientation on sales performance of firms over the years. However Franke and Park found evidence against this relation through a meta-analysis and challenged the existence of the relation. This study tries to predict the individual rates of change in sales performance over time. Using latent growth modeling is used to merge the survey response with the longitudinal sales performance of a direct selling organisation. The study found that the customer orientation showed a significant direct effect on the longitudinal sales performance trajectories.

The present study conducted a survey among 103 Chinese subsidiaries of foreign companies to measure the impact of customer orientation of performance of the units. The study looked at the mediating role of customer orientation of employee stake holder orientation and performance. The performance parameter was looked at both in terms of financial performance as well as innovation performance. A subsidiary's employee orientation was found to show a significant positive relationship with its product innovation performance, but no significant relationship with its financial results. Moreover, employee orientation showed a significant indirect relationship with both performance outcomes through customer orientation.

Connor (2007) has tried to clarify a point of view which is contradictory to the Hult, Ketchen and Slater (2005) point of view. The paper raises concerns over the variable used for measuring performance i.e., short term profit margin. The paper suggests that if this point of view is taken the Market orientation culture of Slater and Narver (1998) cannot be accepted. They conduct their inquiry within the resource-based view (RBV) perspective. This, in itself, is not without its problems given the questions about this approach to strategic management, in particular in relation to its apparent tautological nature.

Zhen Zhu et al (2007) studied the relationship between customer orientation and business performance with focus on measuring the moderating effect of information systems in place for the organisation. The current study used strategic business units than corporate organisations were taken as sample. The SBUs which were profit oriented only were taken for the study as the performance parameter was measured using profitability. A sample size of 1471 SBUs was used for the study. Five items were included to measure market performance where as two factors were considered for measuring financial performance. IT capability and Information service quality were the two items used for measuring the role of information systems. The study found out that IT capability only had a positive moderating effect on the profitability.

Kirca et. al.(2005) conducted a meta-analysis of the empirical findings from the literature on market orientation. The study covers the antecedents and the consequences of market orientation along with the mediating variables of market orientation and performance. The study found that market orientation and top management emphasis has got significant, positive reliability-corrected mean correlation. Similar positive correlations were found between market orientation and inter departmental connectedness, market based reward system and market oriented training. The study also found negative correlation between market orientation and inter departmental conflict, centralization and formalization. The meta analysis shows a positive relationship between market orientation and performance measured in terms of overall business performance, profits, sales and market share of the firm.

Verbees & Meulenberg, 2004, in their article titled Market Orientation, Innovativeness, Product Innovation, and Performance in Small Firms has tried to understand the impact of market orientation and innovation on performance of small firms. The study was carried out among 152 rose growers in Netherlands. The study found out that innovativeness positively affects customer market intelligence and supplier intelligence. It was also found that innovativeness positively affects domain specific innovativeness. The study concludes that customer market intelligence is positively related to small business performance.

Boles et. al. (2001) studied the in an in-store retailing context the relationship between a firms orientation, centralization and employee perceptions vis-à-vis the sales person’s selling orientation- customer orientation (SOCO). Customer orientation involves activities and behaviors implemented to reflect the degree to which the needs and desires of the customer are the basis of the firm's sales philosophy. The findings weren’t one sided as firm level customer orientation and perceptions of work environment were positively correlated to a salesperson’s degree of customer orientation and negatively related to selling orientation. Centralization was positively related to selling orientation but not to customer orientation. Customer orientation was related to performance, while selling orientation was not related.

Slater & Narver (2000), in their study The positive effect of a market orientation on business profitability: A Balanced Replication, applies the authors earlier finding of market orientation having a positive impact on profitability on a larger scale. The study covers a wider sample taken from varied industries and products and services.

The element of market orientation is assessed from the Chief marketing officers and the profitability aspect is measured from the General managers of the company. The study found almost similar result as the first study regarding the impact of market orientation on profitability of the business. However the introduction of entrepreneurial orientation on profitability which was also covered in the study was not established in the study.

Hurley and Hult (1998), in their article titled Innovation, market orientation and Organisational learning: An integration and Empirical Examination has tried to address the research gap which existed in the market orientation literature. According to them, most of the studies have avoided the innovation angle on market orientation in the previous studies. The study was conducted among 9648 employees of 56 organisations under the US federal agency. The study found that organisations with greater capacity for adaptation and innovation seem to have higher level of innovativeness. The study suggests the need to include innovation into the studies related to market orientation and organizational learning.

Han et.al., (1998) in their study titled Market Orientation and Organizational Performance: Is Innovation a Missing Link?, have tried to assess the impact of Innovation on the existing model of market orientation – performance linkage. The study takes the components of market orientation and measure the impact on the components of innovation. The three factors considered in market orientation are customer orientation, competitor orientation and inter functional coordination. The two factors studies under the innovation are technical innovation and administrative innovation. The study also covers the moderating effect of environmental conditions measured using market turbulence and technological turbulence. The findings of the study suggest that innovation does give a moderating effect on the market orientation and thereby financial performance at the composite and individual variable level.

Slater and Narver (1994), in their paper titled Does Competitive Environment Moderate the Market Orientation – Performance Relationship?, have tried to understand the moderating effect of Competitive Environment on Market – orientation –Performance relationship. There is sufficient work which shows that there is significant relationship between market orientation and performance. The researchers couldn't find sufficient support for the impact of competitive environment on market orientation- business performance relationship. This could be because of the fact that the market orientation phenomenon looks in a long term perspective whereas the environmental factors could vary from time to time.

Kohli et al (1993), in their research work titled MARKOR: A Measure of Market orientation, has tried to develop a measurement tool for market orientation. They define market orientation "*as the organization wide generation of market intelligence pertaining to current and future needs of customers, dissemination of intelligence horizontally and vertically within the organization, and organization- wide action or responsiveness to market intelligence"*. MARKOR is a 20 item market orientation scale covering general market orientation, intelligence generation, factor for dissemination and responsiveness, marketing informant and one non marketing informant factor.

Jaworski and Kohli (1993) in their study titled Market Orientation: Antecedents and Consequences tried to test the various antecedents and consequences mentioned in many literature regarding market orientation. The study clearly found out that market orientation leads to financial performance even when there are market turbulence, technological turbulence and competitive intensity. Therefore managers need to ensure that the workers understand the importance of market orientation and encourage their staff to think on market orientation in each aspect of their work so that it leads to better performance of the organisation. However the study couldn't find any significant contribution of market orientation towards market share. Antecedents to market orientation are also mentioned in the study. The importance given by the top management for market orientation, risk taking capabilities of the top management and their ability to accept failures at times also adds to market orientation capabilities. Interdepartmental connectedness helps market orientation. However organisations have to try conflict between departments as that will negatively lead to market orientation and business performance. A good market based reward system for staff will ensure that they will concentrate on market orientation as a priority. The study found out a negative relationship between centralization and market orientation. Therefore it is advisable to have a decentralized decision making process which enables employees to think more of market orientation.

Kohli and Jaworski (1990) in their article titled Market Orientation: The Construct, Research propositions and Managerial Implications have tried to operationally define market orientation. They extensively reviewed the literature and was ably supported by a field survey of practicing managers. According to the authors market oriented organisations are one which are consistent with the marketing concept. They identified three elementary aspects for market orientation which are customer focus, coordinated marketing and profitability. Customer focus according to them involves taking decisions and actions based on market intelligence which encompasses exogenous market factors like competition, regulation etc which influences customer wants and needs of the present as well as the future. Second aspect of market orientation construct says that this is not a responsibility of the marketing department alone and needs the active involvement of various other departments as well. However the third element of market orientation which is profitability didn't get support from the field study as all of the practicing managers opined that profitability is an output of the market orientation and not an element of it.

Narver and Slater (1990) in their study titled The Effect of a market orientation on business profitability, inferred from the literature that three crucial aspects of market orientation are customer orientation, competitor orientation and inter functional coordination. Customer orientation essentially means to understand ones customers properly so that the organisation can create value on a continuous and long term basis. Therefore the seller has to be aware about the cost and revenue aspect of the product he is trying to sell so that he satisfies the expectations of the customers on a long term basis. Competitor orientation basically involves understanding the strengths and weaknesses of the current and future potential competitors and getting hold of the technologies to overcome the challenges posted by those competitors.

The third element is the inter functional coordination or connectedness. This means the value creation for the customer need not be from the marketing personnel alone. It can come from any member of the organisation. In order to achieve the same the inter departmental connectedness is essential. The study points out that the ultimate objective of market orientation of a firm is profitability. In the case of non-profit organisations the ultimate objective will be survival and reaching the break even rather than the profitability.

CHAPTER -3

THEORETICAL BACK GROUND

3.1 Strategic Financial Management

Finance is a vital function for any business organisation. Financial management as a subset of the Economics has evolved over the years. However still there are grey areas which have not reached full development as a theory. Because of this financial management is a subject of great interest for academicians. On the other side financial management affects almost all the decisions which a real organisation manager has to take. Starting from a decision to start a business to the question of winding up a business, all decisions are circulating around financial management. Therefore the subject of financial management is of great importance to the practicing managers as well. A quick look into the activities of a company includes production marketing and finance. In production and marketing also the influence of financial aspect is very heavy. For example an advertising campaign decision which is part of marketing function cannot be taken in isolation. It has to be taken based on the financial implications of the same. Similarly a change in the manufacturing technology or methods will have to be taken by comparing the financial implications of the same. That's why academicians keep saying Finance is the life blood of the business.

3.2 Functions of Financial Management

There are multiple functions coming under the financial management of an organisation. Different authors have suggested different ways of classifying the functions of financial management. According to IM Pandey (2010), the function of financial management of any organisation can be broadly classified into two categories; namely Long term financial decisions and short term financial decisions. Long term financial decisions are those whose impact on the firm extends beyond a year. On the contrary the short term financial decisions are those whose impact on the business does not exceed one year.

3.2.1. Long term financial decisions

a. Investment decision (Capital Budgeting decision)
b. Financing decision (Capital structure decision)
c. Profit allocation decision (Dividend decision)

3.2.2. Short Term financial decision

a. Working capital decision (Liquidity decision)

Long Term financial decision

3.2.1.a. Investment Decision

Any decision to invest in a capital asset is referred to as a long term financial decision. An investment in a real asset for a long period of time involves an element of irrevocability. Once the decision to invest in a long term asset is taken, there is no looking back. Therefore all the possibilities of future outcomes have to be evaluated and finalized. There could be multiple investment options in front of an organisation as well. The capital available with an organisation is limited and the decision as to where to invest and how much to invest has to be carefully taken. The process of evaluating alternatives for investment and taking a decision based on financial logic is called as Investment decision or capital budgeting decision. There are various methods adopted for evaluating a capital investment proposal, they are, discounted cash flow techniques and non discounted cash flow techniques. The cash flows of today are compared with the cash flows of future. Therefore the value of money across time periods has to be considered while taking an investment decision. Methods which evaluate considering the time value of money are called as discounted cash flow techniques and the ones which does not consider the time value are called as non-discounted cash flow techniques or traditional techniques. These are explained later in the chapter.

3.2.1.b. Financing Decisions

Once a decision to invest has been taken in a well evaluated project proposal, the next function of a financial manager is to find the source of funding for the project. The source of funding an investment is referred to as the financing decision. The source of funding can be either in the form of equity or debt. Equity represents the funding by the owners of the business and debt represents an obligation of the business to an outsider. The cost of equity is generally higher than that of debt. However there is higher risk element in the case of debt as the interest part of the debt finance has to be serviced even in the case of tough business conditions. If there is a loss making scenario in the company, the business can very well use the equity funding without offering any return to the shareholder. This is not possible in the case of debt as there is an obligation on the part of the borrower to make periodic interest and principal repayments whether or not the firm is running at a profit or not.

Using a mix of debt and equity for the financing of capital projects is referred to as the capital structure decision. With the advent of large variety of hybrid securities and innovative ways of raising funds, it is an essential function of a financial manager to design the capital structure.

3.2.1.c. Profit allocation decision

Having raised funds from investors and invested in carefully chosen long term assets, the business needs to return the favour to its investors. The return given to an investor can be in the form of dividend for shareholders and interest for the debt holders. Though paying interest to debt holders is an obligation and not part of dividend decision, payment to shareholders only falls under the purview of the dividend decision. A financial manager is always worried about how much of profit should be distributed and how much should be retained, will the dividend amount affect the share price in the market etc. A financial manager also has to worry about the liquidity position because of the payment of the dividend in cash, or should he issue bonus shares and capitalize the reserves etc. All these decisions are not having a short term impact. A financial manager has to reach at an optimal dividend decision which allows him to have sufficient retained profit as well as allow the shareholders to be interested by giving dividend.

Short term financial decision

3.2.2.a. Working Capital decision (Liquidity Decision)

Working capital decision is otherwise known as the liquidity decision. Major part of a financial managers' time is spend on working capital management. This represents the combination of current assets and current liabilities in an organisation. There should be sufficient liquidity as far as an organisation is concerned. It enables the firm to meet its short term obligations. Excess investment in current assets may also lead to idle funds. Therefore a balanced approach on investment in current assets is required for any organisation. This is an ongoing decision and not a one-time decision as in the case of capital budgeting. A financial manager has to achieve a trade-off between profitability and liquidity for the betterment of the financial position of the organisation.

Financial managers' role can take the form of Controller or Treasurer. Controller function includes management and control of assets which involves formulating accounting and costing policies, preparation of financial reports, directing internal auditing, budgeting, inventory control, taxes etc. On the other hand, the role of treasurer is to forecast the financial needs of the firm, managing the cash flow, credit management, maintaining a cordial relationship with the financial intermediaries, and protection of funds and securities. For these the financial managers who are in charge of controller or treasurer functions maintain various accounting and costing records which help in the assessment of the financial situation of the organisation.

Primary objective of any business unit is wealth maximization of an investor. In the process of wealth maximization they have to satisfy large sections of stakeholders like suppliers, lenders, employees, contractors, dealers, customers and also the government. All of these stakeholders have to be satisfied keeping in mind the long term growth objectives of the organisation. All strategies in one way or the other are related to finance. That has made financial management of an organisation highly complex. We no longer take a decision of wage increase by simply looking at the current increase in wage cost. We look at wage policy on a long term perspective wherein the workers have to get the benefit of wage increase and contribute to the long term profitability of the organisation to sustain the benefits of wages. Therefore it is essential to evaluate financial decisions on a strategic perspective. This is where the concept of strategic financial management has evolved. The Chartered Institute of Management Accountants of UK (CIMA) defines Strategic Financial Management as "the identification of the possible strategies capable of maximizing an organization's net present value, the allocation of scarce capital resources between competing opportunities and the implementation and monitoring of the chosen strategy so as to achieve stated objectives".

3.3. Nine "S" Model

G P Jhakotiya (2012) has recommended "The Horoscope for Success" as a Nine reference points of strategic financial management. The Nine "S" Model brings together the quantitative and qualitative skills of a strategist. The nine factors are as follows;

1. Selectivity
2. Systems
3. Sensitivity
4. Structural flexibility
5. Soul searching for continued benchmarking
6. Strategic cost management
7. Sustainability
8. Sanctity
9. Superiority: First, Fast, Cheap and Good

3.3.1. Selectivity

Every organisation has got a core competence. Selectivity refers to the choices made by an organisation based on its core competence. Normally organisations hesitate to deviate and expand from its core competence. By selectivity it doesn't mean that the organisation shouldn't go beyond its normal core competence. Successful organisations have gone ahead and made attempts beyond their core competencies enabling them to grow and survive in a highly changing business environment.

3.3.2. Systems

Systems refers to the technological, accounting, information and operational systems of an enterprise which provides a supportive mechanism for strategic financial management. This enables SFM to be a process both internal as well as external to the organisation.

3.3.3. Strategic Cost Management

At the micro level of an organisation cost structure and implications of all transactions are to be evaluated. SFM focuses on highlighting the cost aspects which are of strategic importance. Activity based costing, Objective based costing etc are vital in this context.

3.3.4. Sensitivity

The term sensitivity means the ability to management strategic information. The strategist should be able to understand the use of each and every piece of information available in his organisation. An organisation is said to be highly sensitive when it is able to make the maximum use of strategically important information. Sensitivity also means the ability of the organisation to transform data into information at the earliest. Technical data should be made to business/commercial data.

3.3.5. Sustainability

Sustainability of results is a strategic planning decision. Return on Investment of a firm will vary between boom market and depression. In times of economic boom the firm might have high rate of ROI whereas in the case of depression or recession the ROI will be less. Therefore the firm must try to reach a break even ROI even at times of recession. This can be done by accessing cheaper source of funding at recession time and thereby reducing the effect of leverage. Even in times of severe competition from new entrants sustenance should be achieved at extra cost. However the benefit should exceed the cost at all the scenarios.

3.3.6. Superiority

Superiority refers to the leadership position that a firm wants to enjoy. Be a leader and a follower both has got cost. Whether to be a leader or a follower needs to have strategic financial decisions. Normally being the follower might give you economy of scale, however in a competitive market you have to heavily invest on being top by innovating and orienting yourself to customers, products and competitors.

3.3.7. Structural flexibility

Jhakotiya suggests that one of the nine reference points of SFM is structural flexibility. This means that the organisation should have malleability and adjustability. The structural flexibility will be reduced by the presence of high fixed cost, committed cost , sunk cost etc. Those costs are the least flexible and doesn't allow the firm to shed in times of tough economic situations. Flexibility is required in the operational side, work force, financing activity, technological capacities etc.

3.3.8. Soul Searching

Another important element of SFM is soul searching which means the ability to evolve and raise the standards for themselves. Great organisations will keep raising their standards or benchmarks even without external pressure from competition or market situation. Audit of strategies, policies and management enables the firm to improve the benchmarking.

3.3.9. Sanctity

Sanctity refers to the cost of being ethical in business. The economics of being ethical might be initially high but as customers start believing or trusting your products, the cost of ethical business starts being small as your revenue exceeds far above your expenses. So if business units have long term plans or strategies of leading the market, they should strategically think of the finance which they spend on the initial times of business.

All the above nine reference points basically aim for "Wealth maximization through the acceleration effect".

3.4. Strategic Financial Management Tools – Tony Grundy

The key element of strategic financial management is that the combination of strategy and financial management can bring in more value than any of these disciplines in isolation. Broadly speaking strategic financial management is the application of various financial management and accounting tools in achieving the strategies of the organizations. Before understanding whether strategic financial management is useful for SMEs lets first have a better understanding of the various tools in SFM. Tony Grundy (Prentice Hall, 1998) explains the checklists for strategic financial management as follows:

1. Managing for value
2. Strategic management accounting

3. Strategic financial accounting
4. Strategic investment decisions
5. Acquisitions
6. Strategic Cost management

3.4.1. Managing for Value

All strategy should be driven towards value analysis. When we talk of value analysis we are talking about increasing shareholder value. How does the share holder value increase? A business value system is a system of internal and external value and cost drivers which determines, either directly or indirectly, the stream of cash flows within a business. For example, the value creation even starts at a material processing stage itself, as the organizations capability to get a good deal from the material provider decides the external value driver. Efficient management of the internal production process could be an internal value driver. The diverse set of techniques mentioned above generally focuses value creation, but in specific, talk about various functions of accounting and financial management. Deciding whether to make or buy, deciding whether to take a bank loan or issue new equity, acquiring new organizations or how to reduce cost all are related to the basic logic of value creation. That is why strategic financial management is said to be the strategic application of financial management. In case of SMEs, not publicly traded companies, this actually means increasing the owners value, be it a sole proprietorship, partnership or any other form. Value analysis doesn’t give too much importance to profit maximizing in the short run, on the other hand all its activities will be focused on increasing the wealth on the long run. The classic example of Asbestos industry in America going for profit maximization during the early 1900s even after knowing that the product is hazardous is a classic example of value destruction. On the long run businesses have to look for strategies which add value to the organisation and not profit alone.

3.4.2. Strategic Management Accounting

Tony Grundy et al define Strategic Management Accounting as an "Integrated framework for strategic and financial decision making and for interpreting business performance which brings together competitive, operational and financial analysis". Whenever we hear of Management accounting we normally think of standard costing, overheads, break even etc. Though these tools have relevance there are many other new tools which add value to an organisation (PHE 1998) through its applications. The traditional tools tend to assume that decision making process becomes easy, precise and accurate, where as in reality there are no direct proportionate relationships between various variables in the value proposition. In this stage it is essential to understand which is our core business?, what are our value and cost drivers?, What are the life cycle effects?, what are our competitive advantages? etc are some of the major parts of the strategic management accounting framework (Grundy et al, 1998, PHE[31]).

It also involves understanding the various SBUs and its individual performances. It is essential to assess the performance of each of the departments or units and find out its profitability separately rather than in totality. Identification of break even points of each unit also helps us in the strategic financial management. As far as SMEs are concerned, internal accounting reports are much more relevant than external as they are not publicly traded companies. External parties who are interested in the functioning of SMEs like banks and Government departments will be more interested in understanding the reports which explain their efficiency than a mere document stating the past performance. So management accounting has more relevance in Small and Medium Enterprises.

3.4.2.a. Traditional Management Accounting Techniques

3.4.2.a.i. Cost Volume Profit Analysis (CVP Analysis)

CVP Analysis studies the relationship between expenses, revenue and net income. The aim is to establish what will happen to financial results if a specified level of activity or volume fluctuates. Benefit of CVP analysis is that it highlights the key factors that affect profits and enables the company to understand the implications of changes in sales volume, cost or prices. Boer, Ferrara and Jeter (2001) have come up with the limitations of CVP analysis. It does not take into consideration the inflation, efficiency and economic and political factors. All costs cannot be easily and accurately separated into fixed and variable elements. They have further brought out that total costs do not remain constant beyond a certain range of activity levels.

3.4.2.a.ii. Budget

Budgeting is a management tool used for short term planning and control. Kishore (2005) observed that though traditionally budgets have been employed as a device to limit expenditure, the more useful and constructive view is to treat the budgeting process as a means for obtaining the most effective and profitable uses of the companies resources via planning and control.

3.4.2.a.iii. Standard Costing and Variance Analysis

Standard costing as mentioned by Kishore (2005) is a technique which uses standards for costs and revenue for the purpose of control through various analyses. The standards set before the activity is compared with the actual and if any deviations are found, corrective actions will be initiated.

3.4.2.b. Contemporary Management Accounting Techniques

3.4.2.b.i. Activity Based Costing

Activity Based Costing has gained a greater relevance among the practicing managers as it allocates overheads with more accuracy (Sulaiman, Ahmad and Alwi, 2004). “Activity Based Costing assigns the cost of activities to individual products based on their relative consumption of the individual activities” (Hansen et al). An ideal costing system needs to understand the relationships among resources, activities and products or services. Resources are spent on activities and products or services as a result of activities. The resources which can be directly traced to a product or service are direct materials or direct labour. Nevertheless, overhead costs are resources spent on a firm's activities to manufacture products, provide services, or facilitate manufacturing. A good costing system needs to identify costs with activities that consume resources and assign resource costs to cost objects such as products, services, or intermediate cost pools based on activities performed for the cost objects (Blocher et al, 2006). Theoretical premise of Activity Based Costing is that it assigns cost according to the resource consumption pattern of products. Considering that, Activity Based Costing should produce more accurate product costs if there is product diversity simply because unit based drivers cannot capture the full consumption pattern of products (Hansen et al).

3.4.2.b.ii. Target Costing

Target costing is a cost management technique used during new product development (NPD): a cost target is set for a new product and the NPD team is motivated to achieve that target before the launch of the product. Cooper (1995) (as cited in Everaert, 2006) reports on the "feed forward" benefit, because target costing allows companies to prevent costs during the design rather than reducing costs after the development. Products that shows low-margin or unprofitable during NPD can be quickly dropped and there by ensuring the short and long run profitability of the business. The entire design work is based on the expectations and willingness of the customers to pay and the price is fixed based on this target cost (Omar 1997)

3.4.2.b.iii. Balanced Score Card

The concept of Balanced Score Card was first introduced by Robert S Kaplan and David P. Norton in the January – February, 1992 issue of Harvard Business Review as cited in their article in HBR September – October 1993 issue. It provides executives with a comprehensive framework that translates a company's strategic objectives into a coherent set of performance measures. The score card, in addition to financial indicators gives measures of performance for customers, internal processes, and innovation and improvement activities. Some companies use the score card as a device to plan long term performance rather than as a device to drive operating changes. The score card equip managers to see the totality of the company's operations (Kaplan, 1993).

3.4.2.b.iv. Just In Time

During 1980s there was a revolutionary change in the way business was carried out. The changes aroused in the technological front as well as in the managerial aspects. Just-in-time was the major breakthrough in the manufacturing front. This was developed by Japanese as an integrated set of activities designed to achieve high-volume production using minimum inventories of parts that will be purchased exactly when they are needed (Chase et al 2006).

3.4.3. Strategic Financial Accounting

One of the basic sources of information for any strategy development is the accounting data. Any accounting data, be it management, cost or any other has to depend on the mandatory financial accounting reports. Financial accounting is considered to be a post mortem analysis of the financials of a company. But as far as the strategic financial management is concerned it is essential to understand the pattern of financial performance over the years. It helps in understanding whether the organisation have added the shareholders wealth or destroyed it. Strict adherence to the accounting standards and norms actually helps the managers to get accurate data without any window dressing. The various software packages and other tools help in preparing the financial reports with ease. In layman's language profit is the ultimate measurement of any business function. Strategically managing the financial accounting will enable SMEs to avail of the various tax avoidance schemes permitted by the Government and statutory bodies.

3.4.4. Strategic Investment Decisions and Acquisitions

Any investment, be it in large multinational organisation or be it in a Small scale industry uses large amounts of resources for its operations. Before directing the resources for investment, it is vital to understand whether the resources employed will be properly utilized and that will generate value to its shareholders/

entrepreneurs. With this in mind it is necessary to evaluate each and every investment opportunity, be it organic or inorganic, before dedicating resources. This is known as the Capital Budgeting. In such evaluations we will have to evaluate the value drivers as well as the cost drivers of the proposed project. The cash flows generated should be able to meet the cost of capital and give sufficient returns to its investors. While doing so, the project should be verified for its interdependence on other branches or functions of the same organisation and the opportunity cost of that also has to be accounted for. All possible ways of increasing the Net Present value or decreasing the Payback period as the case may be should be tried out. Capital budgeting should not be seen in isolation as that will become only a numerical exercise. It should also consider the flexibility of making changes to estimations.

With a detailed capital budgeting no one should think that the various nuances of a strategy's cost and benefit has been covered. There has to be a high degree of association with the strategists and the financial experts so that the gap between the two is minimized and the finance expert's reports have relevance (Calandro & Flynn). That's where a well established Strategic financial management process adds value to the organisation.

3.4.4.a. Capital Budgeting

Capital Budgeting may be defined as the firm's decision to invest its current funds most efficiently in the long term assets in anticipation of an expected flow of benefits over a series of years (I M Pandey, 2010). The capital budgeting decisions are generally made for assets whose benefits accrue for the more than a year. These decisions could be made in the case of establishing a new plant, expansion, diversification, etc. The difficult of evaluating an investment decision is that the investment is made in the current period and the benefits are expected to accrue in future. There is always an uncertainty about future and this has to be accounted for while evaluating the investment proposal. The investment decision is not usually made out a single option, it is usually a choice made between options and therefore comparing the projects proposed and evaluating them is a crucial aspect of financial management.

Following are the evaluation criteria's used in capital budgeting;

3.4.4.b.Techniques of Capital Budgeting

1. **Discounted Cash Flow Techniques**
2. **Traditional Techniques/Non-discounted cash flow techniques**

Discounted Cash Flow Techniques

3.4.4. b.i. Net Present value method

Net present value considers the time value of money for different cash flows. NPV compares the present value of future cash flows with the present value of cash inflows. If the present value of future cash inflows exceeds the present value of cash outflows, the project leads to wealth creation for the equity shareholders. However, if the NPV is negative, the projects shouldn't be accepted. In the case of multiple projects for appraisal, the project with the highest Net present value should be accepted. However NPV should not be used in the case of mutually exclusive projects with different life span and different cash outflows as the comparison might mislead to wrong suggestions.

3.4.4. b.ii. Internal rate of return

Internal rate of return method is yet another method using the discounting cash flow technique. In IRR, the decision as to whether to invest ot not in a particular project is based on whether the IRR calculated is more than the required rate of return (RRR). If IRR is more than the RRR, then the project is creating shareholder wealth and therefore can be accepted. However, if the IRR is less than the RRR, by investing in that project shareholder wealth will be lost.

3.4.4. b.iii. Profitability Index

Profitability index is a method of capital budgeting which tries to overcome the disadvantages of net present value method. In the case of mutually exclusive projects, PI helps to identify the best alternative among them. Profitability index is calculated by dividing the present value of cash inflows by present value of cash outflows. There the change in the amount of investment and the life span of the project etc are taken into consideration in PI. This was the major disadvantage of NPV method when it comes to mutually exclusive projects.

Non-Discounted Cash Flow Techniques

3.4.4. b.iv. Pay Back Period Method.

Payback period method is most widely and commonly used method for evaluation of a project. As the name suggests, PBP tries to calculate the number of years or months or the time taken to recover the investment made in the project. Payback period calculation will vary according to the nature of the cash flows. Cash flows can be in constant or in uneven. Based on this evaluation procedure also will vary.

Discounted payback period method is a variant of the payback period method itself as the method tries to discount the cash flows while evaluating using the pay back principle. This overcomes the disadvantage of payback period method which doesn’t consider the time value of money.

3.4.4. b.v. Accounting Rate of Return Method

Accounting rate of return method is the only capital budgeting technique which uses the accounting profit instead of cash flows for evaluating the proposals. Therefore the method is called accounting rate of return method or average rate of return method. The evaluation of the proposal is made by comparing the ARR with RRR. If the ARR is higher than the RRR or cost of capital, the investment is worth investing otherwise not.

3.4.5. Strategic Cost Management

Strategic Cost Management is the application of the cost management techniques to simultaneously improve the strategic position of a firm and reduce costs(Cooper and Slagmulder, **1998a** as cited by Lochamy III). In a competitive environment, it is imperative to understand the implications of cost on the various operations of the business. Gone are the days when company's used to manufacture products and go ahead with cost plus profit pricing without worrying about cost control or cost reduction, competitors' price etc. The management should be focusing on a target cost and achieving the same with greater efficiency. The target cost could be developed based on the competitors cost or based on a zero base model. The management should think of various opportunities of reducing the cost by increasing the efficiency of operations. Identifying the cost drivers and efficient management of the same is the best option. These are essential irrespective of the size of the organisation. Small and Medium enterprises have to adopt various cost control exercises so that they are not washed out by the heavy cost based competitions from large scale players. Various relatively new tools like Activity based costing, Just in Time inventory control system, Target costing, TQM, Balance Score Card etc have brought a new world of cost efficiency. It's imperative for SMEs to develop much more efficient material supply systems so that they can compete with large organisations on the inventory cost. Thus having a sound Strategic Cost Management system will ensure that the general strategies of the organisations are achieved.

3.4.6. Market Orientation

Marketing concept has evolved over the years. In the past, industrial revolution had led manufacturing of products in large quantities and forcing the products on the customers through varied promotional and marketing techniques. The products were most often not developed based on the requirements of the customers. Business units develop new products based on two broad angles. One is to manufacture goods and services based on the expertise of the unit to manufacture whereas on the other hand some units might manufacture goods and services based on the needs of the customers. If the firm follows a policy similar to the latter, the firm is said to marketing oriented. Here the needs of the customer drive the business. Market oriented is a concept which considers understanding the customers and their needs and designing products and services based on that. Market orientation tries to understand the needs, wants and desires of the customers and tries to address it through their product mix.

3.4.7. Operational Definitions

Any research needs to operationally define all the variables brought under the study. Following are the operational definitions of the variables used for the study.

- **SME**- Any business unit which has got the registration as a Small and Medium Enterprise (manufacturing only) from the Ministry of MSME and which has done the EM-II filing is defined as a SME unit.
- **Strategic financial management practices** refers to all the tools and techniques used for strategically managing the finance of an SME.
- The **market orientation** of the SME can be viewed as a business culture of the SME that aims to develop and create superior value for its customers through two important aspects, such as (a) customer orientation, and (b) competitor orientation.
- **Customer orientation** of the SME explains the focus of the firm that places primary focus on the customer by finding new ways to provide better customer value.
- **Competitor orientation** of an SME denote the understanding of the firms' strength and weaknesses and long term capabilities viz-a viz with its current and key potential competitors that exists in the market
- **Formalization** explains whether the emphasis of the SME is on following specific rules and procedures for performing the activities and the job involved in the organization
- **Centralization** explains the extent of responsibility and authority delegated among the people involved with the SME.

- **Departmentalization** denote the number of departments into which organizational activities of the SME are segregated and compartmentalized.
- **Reward system** explains the key to developing a market-driven, customer-oriented business lies in how managers of the SME's are evaluated and rewarded based on their performance in the organizations to make efficient working of the organization.
- **Proactive Flexibility** denote the ability of the SME to build ex ante a variety of mechanisms and processes to pre-empt its competitors based on inflicting surprise on its competitors, seizing the initiative, being agile and versatile.
- **Reactive Flexibility** denotes the ability of the SME to respond to any drastic changes in the environment when it happens.
- **Performance** means the business performance in terms of the sales, sales growth and profitability (return on sales)

CHAPTER 4

RESEARCH METHODOLOGY

Chapter Overview

The research methodology followed in the current study has been organized into four major parts. In the first part of this methodology Chapter, the study detailed the procedures followed for the development of the survey instrument. The measurement tool, i.e, the questionnaire developed has been used for the final data collection from the small and medium enterprises across the state of Kerala. As a continuation to that the next part of the Chapter elaborates the sampling procedures followed to collect the final study data. In the third part, we talk about the actual data collection procedure adopted. Finally, in the fourth part the study details the data analysis techniques followed to analyse the model and test the proposed set of study hypotheses. The analysis used in the study covers various tools and techniques to understand the sample characteristics, analysing the relationship between variables, as well as testing of the relationships as mentioned in the hypothesis.

The research design adopted provided a framework for the collection and analysis of data. Research design explains the structure that guides the execution of a research method and analysis of data. The nature of the current study is empirical in nature and test the hypotheses set by the researcher. The first stage of research design was primarily exploratory in nature with the researcher undertaking review of literature, formalizing the objectives and identification of variables and operationally defining them. Clarity on the final objectives was achieved through extensive literature review and interactions with academicians and industry experts. Also a pilot study was conducted among 15 small and medium enterprises to test the tool for data collection and sufficient modifications were made based on the pilot study. The second stage of the research was descriptive in nature wherein the developed tool was used for data collection and a sample of 397 units were covered in the final study.

4.1 Development of the Questionnaire

In this stage of the study, the researcher aimed to develop the survey questionnaire for the collection of data during the final sample survey. As part of this process of questionnaire development, the researcher took up a detailed assessment of the existing literature and theory to explore the items or concepts covering the dimensionalities proposed in the hypotheses. Based on the literature review, 205 various characteristics reflecting the factors related to small scale enterprises, financial management and strategy were developed. The researcher used the expertise of academicians and industry experts for identification of the relevant factors to be covered in the study. For the same, Kerala Small Scale Industrial Association, District Industries Centre, Kerala Board for Industrial Promotion representatives was interviewed and their opinions on the various factors included were evaluated. In addition to that the researcher also contacted academic experts who had research interest in the small scale sector as well as subject experts in the field. In this stage, the researcher sought their suggestions to generate relevant questions representing the various dimensions of strategic financial management. In total, from both literature review and the expert interaction, the study was able to generate a total of 205 concepts covering various dimensions of SFM and market orientation. Afterwards, the researcher again approached five entrepreneurs and submitted the 205 questions and instructed them to check the content validity of the mentioned items to capture the dimensions of SFM. In addition, this process of expert interaction aimed to streamline and generate a sub-set consisting of lesser set of items. This is because, given the large number of aspects which determine the extent of strategic financial management practices of organisations, they must be further consolidated before incorporating them into a precise and comprehensive instrument appropriate for use of final data collection.

During the expert interaction, the researcher received a lot of valuable insights in terms of purification of the generated set of items. The experts had opined that certain measurement questions were relevant only in the context of large organisations. Moreover, this stage of expert interaction helped the study to confirm the content validity of the questions incorporated to measure the SFM practices. Finally, at the end of this expert interaction, the study was able to generate a final set of 79 questions covering 11 dimensions. Thus a preliminary draft questionnaire was developed and the same was taken for a pilot study among 15 small and medium enterprises. At this stage, sampling was done only from one zone, i.e., Southern zone. One major industrial estate in Kottayam District was taken for the study considering the variety nature of the organisations.

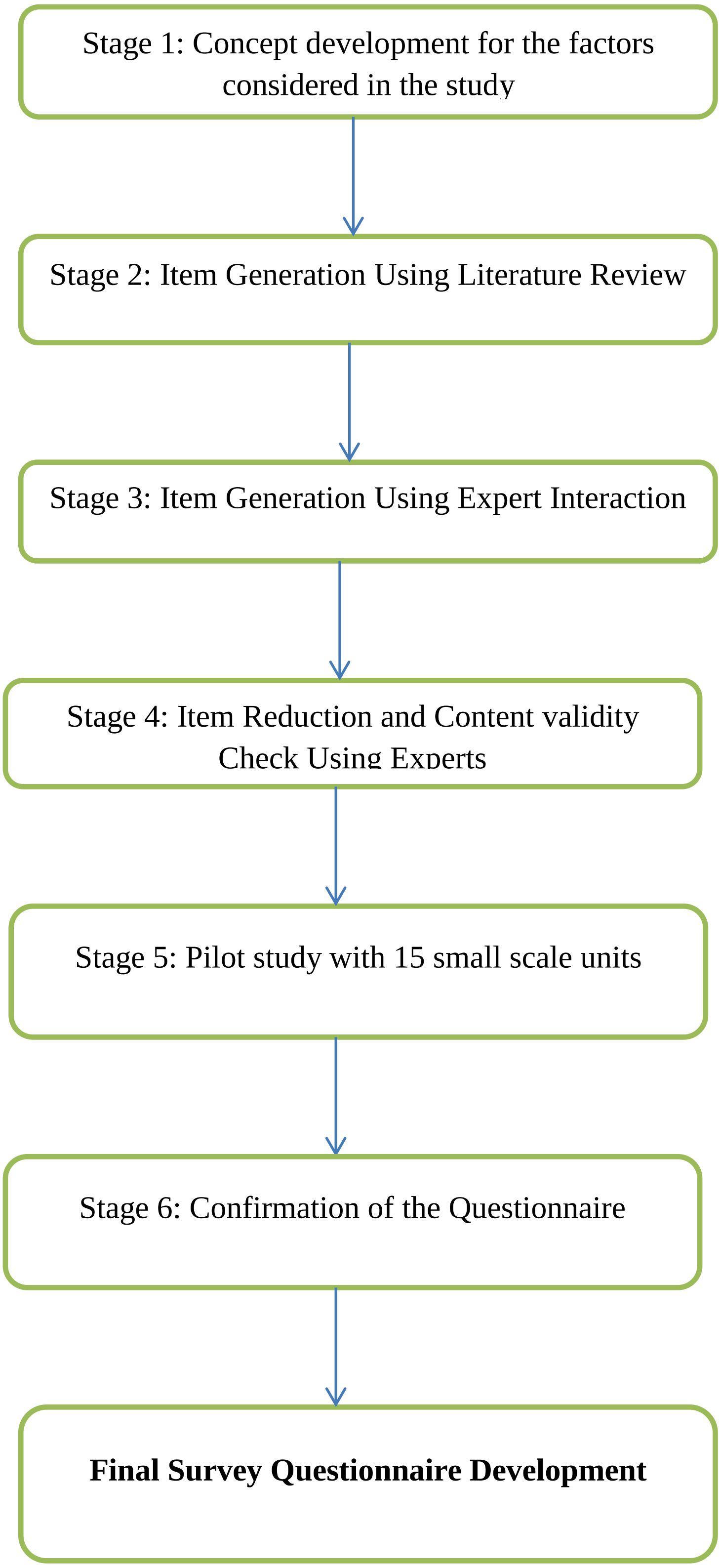
Pre-testing of the questionnaire helped the study to come up with a much specific form of survey instrument and also helped the researcher to understand the problems associated with the wording, sequence, content, style and form associated with the incorporated questions. The pilot study gave the researcher lot of inputs on the diversity between micro and small and medium enterprises. Therefore, after the pilot study the researcher decided to restrict the study to small and medium enterprises alone for generalization of the study findings.

Based on the pilot study results the academic and industry experts were further asked to revisit and consolidate the measurement tool. Thus the measurement tool was further streamlined and questionnaire with 76 questions were finalised. Figure 3.1 shown below detailed the overall procedure followed in the study to prepare the survey questionnaire. The questionnaire also had eight questions related to the demographic factors of the small and medium enterprises. Overall there was 84 measurement questions related to the financial management practices of the SMEs.

The study also adopted tried and tested standard scale for measuring the market orientation of the small and medium enterprises. As part of construct identification, the study reviewed the past literature (e.g., Kotler 1994; Narver and Slate 1990, 1994; Kohli and Jaworski, 1990, Pleshko, 1993, Anderson, 1987; Little, 1988) and adopted the conceptualization of the constructs from the same.

The customer orientation construct have 4 statements, competitor orientation 4 statements, Formalisation 7 statements, Centralisation 5 statements, Inter departmental connectedness 7 statements, Reward system 6 statements, Business performance 3 statements, Reactive flexibility 6 statements and proactive flexibility 5 statements. Figure 3.1 shown below gives a easier understanding of the procedure adopted in the development of the questionnaire

Figure 4.1: Instrument Development



4.2. Survey Questionnaire

In the current study, the survey questionnaire has been divided into three major parts. In the first part, the researcher sought some basic information regarding the basic demographic and background characteristics of the small and medium enterprises covered under the study. In the second section, the study asked questions concerning the measurement of strategic financial management practices of small and medium enterprises. The measurement questions were grouped under the following heads;

1. Strategic Financial Accounting
2. Strategic Cost management
3. Strategic Management Accounting
4. Strategic Investment decisions
5. Strategic Financing decisions
6. Working capital management practices
7. Financial Performance Analysis

Finally, in the third part, the researcher asked other questions covering the market orientation of small and medium enterprises measuring the different dimensions such as customer orientation, competitor orientation, formalization, centralization, inter departmental connectedness, rewards systems, business performance, proactive and reactive flexibility. All the above said factors were measured on a 5 point Likert type scale (where 1 = strongly disagree, 5 = strongly agree). The details about the measurement of these constructs are provided in the following sections. Appendix A provides information about the Questionnaire used the study.

Customer orientation (4)

Competitor Orientation (4)

Formalization (7)

Centralization (5)

Interdepartmental connectedness (7)

Reward System (6)

Business Performance (3)

Proactive Flexibility (5)

Reactive flexibility (6)

4.2.1. Items used to measure Model constructs

Table 4.1: Items used to measure Market Orientation

Factor	Items
Factor 1	**Customer orientation**
	1. We constantly monitor our level of commitment and orientation to serving customer needs.
	2. The creation of value for our customers is important.
	3. We respond quickly and courteously to our customer complaints.
	4. Our business objectives are primarily driven by customer satisfaction.
Factor 2	**Competitor orientation**
	1. We regularly share information within our business concerning competitors.
	2. We rapidly respond to competitors' actions.
	3. We target customers where we have an opportunity for competitive advantage.
	4. Competitive activities are taken seriously.
Factor 3	**Formalization**
	1. I feel that I am my boss in most matters.
	2. A person can make his own decisions without checking with anybody else.
	3. How things are done around here is left up to the person doing the work.
	4. People here are allowed to do almost as they please.
	5. Most people here make their own rules on the job.
	6. The employees are constantly being checked on for rule violations.
	7. People here feel as though they are constantly being watched to see that they obey all the rules.
Factor 4	**Centralization**
	1. There can be little action taken here until a supervisor approves a decision.
	2. A person who wants to make his own decision would be quickly discouraged here.
	3. Even small matters have to be referred to someone higher up for a final answer.

	4. I have to ask my boss before I do almost anything.
	5. Any decision I make has to have my boss' approval.
Factor 5	**Inter-departmental connectedness**
	1. In this business unit, it is easy to talk with virtually anyone you need to, regardless of rank or position.
	2. There is ample opportunity for informal "hall talk" among individuals from different departments in this business unit.
	3. In this business unit, employees from different departments feel comfortable calling each other when the need arises.
	4. Managers here discourage employees from discussing work related matters with those who are not their immediate superiors or subordinates.
	5. People around here are quite accessible to those in other departments.
	6. Communications from one department to another are expected to be routed through "proper channels".
	7. Junior managers in my department can easily schedule meetings with junior managers in other departments.
Factor 6	**Rewards systems**
	1. No matter which department they are in, people in this business unit get recognized for being sensitive to competitive moves.
	2. Customer satisfaction assessments influence senior managers' pay in this business unit.
	3. Formal rewards (i.e., pay raise, promotion) are forthcoming to anyone who consistently provides good market intelligence.
	4. Salespeople's performance in this business unit is measured by the strength of relationships they build with customers. .77
	5. Salespeople's monetary compensation is almost entirely based on their sales volume.
	6. We use customer polls for evaluating our salespeople.
Factor7	**Business performance**
	1. Return on sales
	2. We have a consistent market share growth
	3. There is a steady increase in product sales
Factor 8	**Reactive flexibility**
	1. We consider an array of contingencies.
	2. We anticipate and protect from potentially negative developments.
	3. We deliberately install buffers to manage external shocks

	4. We take advantage of opportunities arising from environmental change.
	5. We have the ability to recover from downturns in the industry.
	6. We put strategic emphasis on building in slack to manage unforeseen circumstances.
Factor 9	**Pro-active flexibility**
	1. Agility is a characteristic of our firm.
	2. Our company creates major change agents in the industry.
	3. Our firm strategies cannot be predicted based on past actions
	4. We constantly work to create options for growth in multiple technological areas.
	5. We move to the market with new offerings much faster than competitors do.

4.3. Sampling Methodology

Sample Size Determination and Justification

There are multiple ways of collecting data in an empirical research. Whichever method is followed the ultimate factor which influences the quality of the data is the manner in which the representative sample is selected. It is impossible in terms of the time and money required to execute a census study for majority of the research. Therefore we extract the data required from a smaller section of the population which is expected to represent the features of the majority population. That is why a sample should be representative of the population. Another important element in sampling is the determination of the sample size. This is the most crucial step in a sample design procedure. Sample size is considered as the experimental units of the study and it is the first step in the designing process of a research study (Noordzij, 2010). Since the size of the sample will sensitively respond to small dissimilarities and errors, the formulas applied in selection of the samples from the population should be handled with prudence. The critical analysis of the formulas for the sample selection in the past studies reported the following.

There are distinct statistical techniques recommended by text books for the calculation of sample size. Researchers have to decide on the most efficient method from among them particularly suited for different situations. Optimum sample size should be drawn in from the universe by keeping in mind the nature of the universe, number of classes, nature of study, type of sampling, standard of accuracy and confidence level, financial availability, nature of units, size of population, size of questionnaire, availability of trained investigators, condition for sample collection and time availability.

4.3.1. Determination of Sample Size

Generally two methods are used for determining the sample size from the population under study. In the first method, precision of the estimated value is specified first and then the sample size is determined. The second method weighs the cost of additional information against the expected value of the additional information by using Bayesian statistics. Among these two the former method is commonly used to determine "n" and also it is capable for providing mathematical solution for the study. Though the later method is optimal theoretically, it is difficult to measure the value of the data which makes the researchers to use it rarely (Kothari, 2012, page-175, paragraph 2).

The sample size can be calculated using the following formulae which was mentioned in Kothari, (2012, page-178, paragraph 1). In this n =

$$\frac{z^2 \sigma^2_p}{e^2}$$

Where n = size of sample

e = acceptable error

σ_p = standard deviation of the population

z = standard variate at a given confidence level

By using the above formula sample size for infinite population can be determined.

In addition to that, recommendations from Hair, Black, Babin and Anderson, (2010) for the determination of sample size was found to be more appropriates for the final infinite population of the present study. They are of the view that sample size determination should be based on a set of factors. Based on the complexity of the model used and the basic characteristics of the measurement model, the following proposition for minimum sample sizes are given by Hair et al. (2010). Models with five or fewer constructs, minimum sample size is to be 100, Models with seven or fewer constructs with modest communalities and no under identified constructs 150 should be the minimum sample size, Models with seven or fewer constructs with lower communalities and multiple under identified constructs 300 should be the sample size and finally Models with large number of constructs some with lower communalities and having fewer than three measured items 500 can be the minimum sample size. Based on these assumptions, the sample size of the study was framed as 300 to 400.

The study is conducted among the small and medium enterprises in Kerala, registered under the MSME Act, 2006. The whole state of Kerala has been grouped into three regions, Northern Kerala, Central Kerala and Southern Kerala. Kasaragod, Kannur, Wayanad, Kozhikode and Malappuram are the five districts which come under the Northern Kerala region. Palakkad, Thrissur and Ernakulam are the three districts included in the Central region of Kerala. Finally the Southern grouping includes Thiruvananthapuram, Kollam, Alappuzha, Ernakulam, Kottayam and Idukki districts. This grouping is done on the basis of erstwhile classification of Malabar, Central and Travancore regions (seena et al 2018).

The study purposefully excludes micro enterprises. In a pilot study conducted it was found that most of the times micro enterprises don't have a formal structure of running the business. Normally run by single person management, they lack proper systems and procedures and run based on intuitions. The difference between micro and small and medium enterprises made the researcher to concentrate only on the small and medium enterprises which have much better similarity in the nature of operations compared to micro enterprises. Micro sector with 14.85 lakh working enterprises, accounted for 94.94% of working enterprises of MSME sector. The micro segment, thus dominated MSME sector in terms of number of working enterprises. Small sector with 0.76 lakh and medium sector with 0.03 lakh working enterprises accounted for 4.89% and 0.17 % of working enterprises in MSME sector respectively (Fourth All India Census 2006). For the present study the researcher has considered only the manufacturing enterprises as there is wider difference in the nature of operations of manufacturing and service/trading companies.

The total number of small and medium enterprises registered in the state of Kerala is **5904** (as per the EM – II filing, www.keralaindustry.org) as on 31st March 2013-2014. The number of SME units actually existing could be different as many units are in the process of submitting the Entrepreneurs Memorandum (Part-II). The EM-II submitted from the year 2007 to 2014 has been incorporated. This number was considered as the population of the study. The data base of small and medium enterprises registered as per that list and still operating was considered as the sample frame. Fourth All India Census of MSME has mentioned the existence of large number of unregistered units in the economy. However the unregistered units are not considered as the population is an unknown quantity and the location of these units are not well documented. Therefore only those units which are registered and still operating as per the data base of Development Commissioner, MSME, Thiruvananthapuram is used in the present study. The sample size of 450 units was selected from the three regions in an equitable manner using the random number function in Microsoft Excel. From each zone 150 units were selected. After careful scrutiny of the data, few outliers were omitted for better quality of the data and the final sample size after excluding all incomplete and outlier data sets was 397.

4.4. Data Analysis Tools

In the study, the researcher conducted the data analysis following six sequential steps. In the first step, the researcher performed a preliminary examination of the demographic and other background variables using descriptive statistics and various visualization techniques. This is mainly conducted to analyze the pattern and tendencies of various demographic and background characteristics of the study respondents. This descriptive data analysis was conducted by assessing item wise means, standard deviations, tables, figures, etc.

In the second step, data analyses were performed to assess the assumptions of the data collected for performing multivariate statistical analyses. These assumptions include, normality, linearity, homogeneity of variance, absence of outliers, etc. In addition, in this section, the study also assessed the internal consistency of the scale dimensions using Cronbach's alpha, which examines the scale reliability. Moreover, in this section the researcher also assessed the correlations between the study dimensions and other applicable subscales.

In the third step, the researcher examined the dimensionality of the scale dimensions using series of Exploratory Factor Analyses (EFAs) with principal component analysis (PCA) as the estimation technique. This stage of analysis was conducted to assess the unidimensionality of scale dimensions using IBM SPSS 22 software.

In the fourth step, the researcher examined the validity and reliability of the scale dimensions using series of Confirmatory Factor Analyses (CFAs). In this CFA, the main objective was to assess the two types of validity and reliability of the scale dimensions (e.g., convergent and discriminant validity and reliability).

In the fifth stage, the study analyzed empirical validity of the proposed conceptual model and tested the proposed set of hypotheses using Structural Equation Modelling (SEM) technique. In the study, the CFA and SEM analyses were performed using the AMOS (Analysis of Moment Structures) software.

In the final stage the researcher has done a regression model for the dependent and independent variables of Strategic financial management testing the relationship. In the last stage, as part of exploring some additional insights, the study performed a series of univariate and multivariate tests using IBM SPSS (e.g., ANOVA [Analysis of Variance], using the selected set of demographic and background variables as independent variables and the study constructs as dependent variables. This, stage of data analyses were performed to understand the mean difference of the selected set of study constructs in terms of the given set of demographic and other background variables. In addition to this, the study also analysed the association between the selected set of demographic and other background variables using the non-parametric test, such as Chi-square.

4.5. Limitations of the study

The study titled Strategic Financial management practices of small and medium enterprises in Kerala; A market orientation approach on Business performance has been conducted to understand the impact of SFM and market orientation on business performance. Any research study conducted need not be perfect and are bound to have its own limitations. Following are the major limitations faced by the researcher in the present study

1. The study has verified only the effect of SFM practices and market orientation on business performance. There could be many other variables which could influence business performance of SMEs.
2. The study has collected the perceptions of Owner/Managers with regard to the SFM practices and market orientation. The personal bias of the respondents might have influenced the study.

CHAPTER V

DATA ANALYSIS & RESULTS

SECTION ONE - Basic Data Analysis

5.1. Demographic Factors

Small and Medium enterprises are a vital part of any economy. The present study was conducted among 397 SME units which are working in the state of Kerala. The purpose of the study was to understand the strategic financial management practices adopted by small and medium enterprise. The study also had the objective to know the market orientation of small and medium enterprises and its impact on the business performance. As a preliminary stage of the analysis the researcher is presenting the demographic factors related to the sample studied. The study excluded the micro enterprises and concentrated on the small and medium enterprises alone. During the pilot study the researcher found that the practices of micro enterprises varied widely from that of the small and medium enterprises and therefore generalisation of the study was not appropriate.

Table No. 5.1: Nature of registration of SMEs				
	Frequency	Percent	Valid Percent	Cumulative Percent
PRIVATE LIMITED	76	19.1	19.1	19.1
PUBLIC LIMITED	3	.8	.8	19.9
PARTNERSHIP	163	41.1	41.1	61.0
SOLE PROPRIETOR	152	38.3	38.3	99.2
FAMILY OWNED BUSINESS	3	.8	.8	100.0
Total	397	100.0	100.0	

The above table shows the nature of the enterprises covered under the study. The SMEs can be registered as a private limited company, public limited company, partnership, sole proprietorship or it can be a family owned business. Among the units covered in the present study 41.1% of the units were partnership firms and next to that was sole proprietorship business with 38.3 % and 19.1% of the units covered were private limited companies. Family owned business and public limited business were nominal in number for this study. Majority of the randomly selected units are partnership firms or sole proprietorship firms.

Table No. 5.2: Nature of Manufacturing Business				
	Frequency	Percent	Valid Percent	Cumulative Percent
RUBBER	38	9.6	9.6	9.6
PLASTIC	55	13.9	13.9	23.4
COIR	6	1.5	1.5	24.9
OIL	3	.8	.8	25.7
ELECTRICAL AND ELECTRONICS	11	2.8	2.8	28.5
AGRI BASED PRODUCTS	41	10.3	10.3	38.8
IRON, STEEL AND OTHER METALS	84	21.2	21.2	59.9
OTHERS	159	40.1	40.1	100.0
Total	397	100.0	100.0	

Small and Medium enterprises registered under the MSME Act 2006, can be focussing either on manufacturing or service organisations. However in the present study the researcher has considered only the manufacturing units for the study as the financial management practices of manufacturing and service organisations could be extremely different. The same was proved in the pilot study. For better analysis of the data only manufacturing units was considered. The study was spread across the state of Kerala and therefore the units covered also have the same variety. The units have been broadly grouped on the basis of the nature of the product. They are rubber based, plastic, coir, oil, electrical and electronics, agri based, iron, steel and other metals. The remaining products were falling into categories which didn't have too much frequency in the sample collected. Table 4.2 shows that the study has captured iron, steel and other metal products manufacturing companies the most. Plastic products, Agri based products and rubber based products were in line for the succeeding positions.

Table No. 5.3 : NO OF YEARS OF OPERATION OF UNIT

	Frequency	Percent	Valid Percent	Cumulative Percent
LESS THAN 5 YEARS	42	10.6	10.6	10.6
BETWEEN 5-10 YEARS	53	13.4	13.4	23.9
BETWEEN 10-15 YEARS	61	15.4	15.4	39.3
BETWEEN 15-20 YEARS	65	16.4	16.4	55.7
OVER 20 YEARS	176	44.3	44.3	100.0
Total	397	100.0	100.0	

Out of the total 397 units covered under the study, 44.3% of them had been running the business for more than 20 years. This doesn't mean that these organisations have been registered as an SME for these many years. Many of the units studies had initially started without any registration and later on have registered due to the benefits available from them. Most of the Government schemes available for SMEs can be tapped only if they are registered under the MSME Act. Only 10.6% of the units studied had a time period of less than five years of registration. 16.4% of them have been for 15-20 years' time period and 15.4% of the organisations are having a registration period of 10-15 years. 13.4% of the units studied had been registered for a period of more than 5 years but less than 10 years. Overall we can say that the majority of the units studied have been in the business as an SME for a reasonable length of time. This is relatively good for the study as the data collected need not be cooked up as organisations having a fairly long life will be having better practices.

Table No.5.4: HIGHEST DECISION MAKER IN THE ORGANISATION				
	Frequency	Percent	Valid Percent	Cumulative Percent
EXECUTIVE CHAIRMAN	3	.8	.8	.8
MD/CEO	87	21.9	21.9	22.7
GM	3	.8	.8	23.4
OWNER/MANAGER	154	38.8	38.8	62.2
OTHER	150	37.8	37.8	100.0
Total	397	100.0	100.0	

One major feature of small scale enterprises found is that they heavily depend on the entrepreneur or owner for almost everything. 38.8% of the firms studied had Owner/Manager as the highest decision maker and they didn't had any professional personnel appointed at the senior posts. Among the next highest percentage category most of the units had mentioned proprietor as their response. This also means that majority of them had depended on Owner/Managers as their highest authority. In the review we have seen that there are many studies which have found out that lack of professional management team and lack of managerial skills of the owner manager as a major reason for the failure of many small and medium enterprises (Man et al 2002, Bekele et al 2008, Maes et al 2005, . Zongsheng Liu 2010, Eshetu Bekele et al 2008, Naidu & Chand 2012). 21.9 % of the organisations had a Managing Director or CEO for taking care of the operations of the business. 3 units had Executive Chairman as the highest decision maker in the organisation.

Table No. 5.5:TOTAL NUMBER OF EMPLOYEES				
	Frequency	Percent	Valid Percent	Cumulative Percent
LESS THAN 10	93	23.4	23.4	23.4
10-20	107	27.0	27.0	50.4
20-30	58	14.6	14.6	65.0
30-40	45	11.3	11.3	76.3
40 AND ABOVE	94	23.7	23.7	100.0
Total	397	100.0	100.0	

Small scale enterprises across the world are defined based on the number of personnel employed. In India, small scale enterprises are defined as per MSME Act based on the amount of investment in Plant and Machinery (Manufacturing). Here we can see the number of people employed by the units covered under the study. Here also the sample has got a representation of different sizes of enterprises in terms of the number of people employed. The number expressed above has all categories of personnel including workers. Majority of the organisations have employed more than 10 personnel (76.6%). Only 23.4% firms have less than 10 staff. This workforce strength includes temporary as well as permanent staff. 23.7 % of the organisations are having more than 40 people in their work force.

Table 5.6 Background and other Characteristics of SMEs

Variable	Categories	Value Label	N
ZONE	1	Travancore	125
	2	Central	140
	3	Malabar	132
NO OF WORKERS EMPLOYED	1	LESS THAN 10	146
	2	10-20	110
	3	20-30	72
	4	30-40	18
	5	40 AND ABOVE	51
NO OF SUPERVISORS EMPLOYED	1	LESS THAN 10	242
	2	10-20	22
	3	20-30	3
	6	NIL	130
NO OF ADMINISTRATIVE STAFF EMPLOYED	1	LESS THAN 10	310
	2	10-20	25
	6	NIL	62
NO OF MANAGERIAL STAFF EMPLOYED	1	LESS THAN 10	380
	2	10-20	5
	3	20-30	3
	6	NIL	9

As reported in Table 5.6, the selection of sample from the region wise classification indicated that there is almost an equal proportion of sample selected from three different religions of Kerala, such as North, Central, and South. In the selected sample of organizations, the majority of them reported that they have an employee size of 10 to 20. In this, number of workers employed is 10 in most of the companies. It was also found that in majority of these companies they have a supervisor list of less than 10. Majority of these companies use the services of less than 10 administrative staffs, and less than 10 management staffs in their organizations.

Table 5.7 Financial accounting practices

Variable	Categories	Value Label	N
MAINTAIN OWN ACCOUNTING	1	Strongly disagree	110
	4	Agree	17
	5	Strongly agree	270
MAINTAIN COMPUTERISED ACCOUNTING	1	Strongly disagree	110
	4	Agree	17
	5	Strongly agree	270
ACOUNTING SOFTWARE USED	0	Not applicable	110
	1	Tally	235
	2	Busy	15
	3	Others	37
NO OF ACCOUNTING STAFF EMPLOYED	1	Less than 3	258
	2	3-7	55
	4	No accounts staff	84
QUALIFICATION OF ACCOUNTING STAFF	1	+2	22
	2	UG	226
	3	PG	65
	5	NA	84
NO OF YEARS OF EXPERIENCE FOR ACCOUNTING STAFF	0	Na	84
	1	Less than 3 years	61
	2	3-10 years	157
	3	10-20 years	70
	4	Above 20 years	25
SEND ACCOUNT STAFF FOR TRAINING	1	Strongly disagree	288
	3	Neutral	75
	5	Strongly agree	34
PREPARE CASH FLOW STATEMENT	1	Strongly disagree	268
	2	Disagree	5
	3	Neutral	24
	4	Agree	5
	5	Strongly agree	95
PREPARECOST SHEET	1	Strongly disagree	299
	3	Neutral	27
	4	Agree	8
	5	Strongly agree	63

PREPARE PRODUCTION STATEMENT	1	Strongly disagree	248
	3	Neutral	37
	4	Agree	5
	5	Strongly agree	107
PREPARE BANK RECONCILIATION STATEMENT	1	Strongly disagree	161
	3	Neutral	22
	4	Agree	19
	5	Strongly agree	195
PREPARE BALANCE SHEET	1	Strongly disagree	43
	3	Neutral	27
	4	Agree	9
	5	Strongly agree	318
PREPARE PROFIT AND LOSS ACCOUNT	1	Strongly disagree	41
	3	Neutral	27
	4	Agree	9
	5	Strongly agree	320

As depicted in Table 5.7, the examination of the financial accounting characteristics/practices of these selected SMEs indicated that the majority of them have formal accounting practices, and maintain computerized systems. As part of computerized accounting system, the majority of them reported that they use Tally as the software to perform the accounting system. The qualification of the accounting staff indicated that the majority of them are qualified and possess UG qualifications and have 3-10 years work experience in the accounting or related field. It was also reported that the majority of these SMEs send their employees in the accounting field to training and other knowledge driven activities. In addition, it was also found that the majority of these companies do not have the practice of preparing cash flow statement, cost sheet and production statement. However bank reconciliation statement, balance sheet, and profit and loss account are prepared by majority of the SMEs brought under the study.

Table 5.8: Management accounting practices

Variable	Categories	Value Label	N
USE FINANCIAL STATEMENTS FOR PLANNING	1	Strongly disagree	166
	2	Disagree	3
	3	Neutral	38
	4	Agree	11
	5	Strongly agree	179

USE FINANCIAL STATEMENTS FOR DECISION MAKING	1	Strongly disagree	167
	3	Neutral	33
	4	Agree	6
	5	Strongly agree	191
USE FINANCIAL STATEMENTS FOR HISTORICAL COMPARISON	1	Strongly disagree	172
	3	Neutral	33
	4	Agree	11
	5	Strongly agree	181
USE RATIO ANALYSIS OF FINANCIAL STATEMENTS	1	Strongly disagree	235
	2	Disagree	14
	3	Neutral	47
	4	Agree	26
	5	Strongly agree	75
COMPARE FINANCIAL STATEMENTS WITH INDUSTRY STANDARDS	1	Strongly disagree	325
	2	Disagree	20
	3	Neutral	5
	5	Strongly agree	47
HAVE EXTERNAL AUDIT	0	No	30
	1	Yes	367
CONDUCT INTERNAL AUDIT	1	Strongly disagree	312
	2	Disagree	34
	3	Neutral	36
	5	Strongly agree	15

As reported in Table 5.8, the study also analysed the application of management accounting practices in these selected SMEs. The analysis revealed that the majority of these respondents agreed with the fact that in their companies they follow financial statement for planning, Financial statement for decision making and Financial statement for historical comparison. But majority of them do not use financial statements for ratio analysis or to compare financial statement with industry standards. Almost all of the units covered do have an external audit mechanism whereas very few have the practice of internal audit system.

Table 5.9: Inventory management practices

Variable	Categories	Value Label	N
COMPANY DEALS IN	1	Raw material	344
	2	Semi-finished good	49
	3	Finished good	4
SOURCE OF MATERIALS	1	Local	372
	2	Imported	25

HAVE A SCIENTIFIC INVENTORY CONTROL SYSTEM	1	Strongly disagree	74
	2	Disagree	4
	3	Neutral	28
	4	Agree	124
	5	Strongly agree	167
VALUATION OF STOCK	0	NA	4
	1	Cost price	363
	2	Net realizable value	30
EOQ IS CALCULATED	1	Strongly disagree	271
	2	Disagree	47
	3	Neutral	25
	4	Agree	50
	5	Strongly agree	4
NO OF DAYS OF STOCK KEPT	1	Less than 3 days	21
	2	3-7 days	37
	3	8-21	116
	4	Above 21days	223
NO OF SUPPLIERS	1	Less than 5	10
	2	5-10	59
	3	Above 10	328
FACED DIFFICULTY IN GETTING MATERIALS ON TIME	1	Strongly disagree	149
	2	Disagree	79
	4	Agree	4
	5	Strongly agree	165
PRODUCTION STOPPED DUE TO NON AVAILABILITY OF MATERIALS	1	Strongly disagree	109
	2	Disagree	75
	5	Strongly agree	213
MATERIAL SEASONAL IN NATURE	1	Strongly Disagree	149
	2	Disagree	118
	5	Strongly agree	130
JUST IN TIME USED	1	Strongly disagree	356
	3	Neutral	9
	4	Agree	20
	5	Strongly agree	12
WHY JUST IN TIME IS NOT ADOPTED	1	Seasonality and no regular supply	106
	2	Additional cost of transportation	132
	3	Ignorance about JIT	29
	4	Import	16
	5	Interstate and outstation supply	47
	6	Others	67

GET CREDIT FOR PURCHASE	5	Strongly agree	397
DURATION OF CREDIT FOR PURCHASE	1	Less than 1 week	12
	2	1-4 weeks	279
	3	Above 4 weeks	106

As reported in Table 5.9, the analysis of inventory management practices reported that the majority of the selected companies dealt with raw materials, and they source materials locally. In this, the majority of them fully agree with the fact that they have a very scientific inventory control system but does not seem to have the practice of calculating Economic Order quantity. However it is found that majority of the organisations keep inventory for a longer period of time. Very few organisations have adopted Just in Time concept. Majority of the SMEs feel that JIT is not applicable in their case due to seasonality and the additional cost of transportation with regard to their material. All the units covered under the study make use of the credit facilities offered by the supplier. Majority of the enterprises face difficulty in getting materials on time and their production has stopped due to the non-availability of materials. In addition, the study also analysed many different inventory management practices adopted by these SMEs and the details about the same are provided in detail in Table 5.9.

Table 5.10: Receivables management

Variable	Categories	Value Label	N
ANNUAL SALES	1	Less than 3 cores	239
	2	3-5 cores	60
	3	Above 5 cores	98
PERCENTAGE OF BAD DEBTS	1	0	194
	2	0%-1%	46
	3	1%-3%	90
	4	3.01%-5%	20
	5	Above 5.01%	47
MECHANISM TO MONITOR BAD DEBT AND RECEIVABLE	1	Strongly disagree	96
	2	Disagree	101
	4	Agree	93
	5	Strongly agree	107

Table 5.10 reported the management of receivables by the selected SMEs. The table reported various aspects of receivables such as (a) annual sales, (b) percentage of bad debts, and (c) mechanism to monitor bad debts and receivables.

From the above table it is evident that majority of the enterprises have the problem of bad debts and also a proper mechanism to monitor the same. At the same time there are almost half of the sample units don't have the problem of bad debts at all.

Table 5.11: investment decisions/Capital budgeting decisions

Variable	Categories	Value Label	N
MACHINES ARE DOMESTIC	1	Yes	358
	2	No	39
MACHINES IN COMPANY ARE IMPORTED	1	Yes	119
	2	No	278
SPARES AND PARTS ARE AVAILABLE DOMESTICALLY	1	Yes	375
	2	No	22
COMPANY USES CAPITAL BUDGETING TECHNIQUE	1	Strongly disagree	120
	2	Disagree	60
	4	Agree	37
	5	Strongly agree	180
TRADITIONAL METHOD	1	Strongly disagree	120
	2	Disagree	60
	4	Agree	37
	5	Strongly agree	180
DISCOUNTED CASH FLOW METHOD	1	Strongly disagree	397
TRADITIONAL METHOD-PAYBACK	1	Strongly disagree	99
	2	Disagree	200
	4	Agree	98
AVERAGE RATE OF RETURN METHOD	1	Strongly disagree	180
	2	Disagree	92
	4	Agree	65
	5	Strongly agree	60

Table 5.11 depicted above elaborates the strategic investment decisions of the SMEs selected in the current study. This table provides several findings. Some of the important findings are: (1) in majority of these companies machines used are manufactured domestically, (2) the spare parts of these machines are available domestically (3) none of these companies are using discounted cash flow method, (4) Most of the companies depend on traditional investment evaluation techniques like payback period and average rate of return method. Some of the enterprises covered under the study adopt both payback period method and ARR for evaluating proposals. The researcher noticed that many of the firms don't strictly follow the cash flows prescribed as per the methods though the idea behind evaluation is the

same. The data collected on the basis of evaluation of proposals shows that there are large numbers of firms who don't evaluate any projects before investing and the gut feeling of the entrepreneur/managing director/decision maker often leads to the decision. Many of the adopted methods are chosen for the simplicity and relevance which it offers and also due to the ignorance of the relevance of time value of money and associated methods.

Table 5.12. Financing Decisions

Variable	Categories	Value Label	N
TERM LOAN FINANCING	0	No	132
	1	Yes	265
OWN RESREVES AND SURPLUS	0	No	197
	1	Yes	200
OWNERS FUND	0	No	284
	1	Yes	113
BEST SOURCE OF FINANCING-EQUITY	0	No	232
	1	Yes	165
BEST SOURCE OF FINANCING IS TERM LOAN	0	No	235
	1	Yes	162
BEST SOURCE OF FINANCING IS RESERVES	0	No	159
	1	Yes	238
CALCULATE COST OF CAPITAL	1	Strongly agree	190
	2	Agree	82
	4	Disagree	56
	5	Strongly disagree	69
SATISFIED WITH FINANCING OPTIONS AVAILABLE	1	Highly dissatisfied	12
	2	Dissatisfied	17
	3	Neutral	71
	4	Satisfied	52
	5	Highly satisfied	245

The Table 5.12 presented above shows the important financing decisions followed by the selected SMEs. The findings indicated that majority of these companies use term loan financing and own reserves and surplus as the major source of financing. The units believe that best source of financing is reserves. Most of these enterprises usually calculate cost of capital in their financial decisions. Though many of them don't calculate cost of capital in the way prescribed in theory, they normally compare the cost of raising fund with the return expected from the investment. Cost of capital is sometimes taken as rate of interest or return to be given to the capital provider. Though there have been studies in the past which says that funding options for SMEs are very poor, the present study shows that they are satisfied with financing options available to them.

Table 5.13: Working Capital Management practices

Variable	Categories	Value Label	N
SOURCE OF WORKING CAPITAL FINANCING-OVERDRAFT	0	No	116
	1	Yes	281
SOURCE OF WORKING CAPITAL FINANCING-SHORT TERM LOANS	0	No	381
	1	Yes	16
SOURCE OF WORKING CAPITAL FINANCING-OWN RESERVES	0	No	300
	1	Yes	97
SOURCE OF WORKING CAPITAL FINANCING-OWN CAPITAL	0	No	394
	1	Yes	3
DIFFICULTY IN WORKING CAPITAL ON TIME	1	Strongly disagree	349
	2	Disagree	36
	3	Agree	6
	5	Strongly agree	6
PREPARE WORKING CAPITAL ESTIMATE	1	Never	293
	2	Rarely	8
	3	Regularly	37
	4	Frequently	12
	5	Very frequently	47
MAINTAIN FIXED WORKING CAPITAL WITH BANK	1	Strongly disagree	127
	2	Disagree	23
	4	Agree	57
	5	Strongly agree	190
MAINTAIN VARIABLE WORKING CAPITAL WITH BANK	1	Strongly disagree	180
	2	Disagree	42
	4	Agree	45
	5	Strongly agree	130
SATISFIED WITH WORKING CAPITAL FINANCING OPTIONS	1	Fully dissatisfied	22
	3	Neutral	88
	4	Satisfied	55
	5	Fully satisfied	232

Table 5.13 above shows the working capital financing options of the SMEs. We can see that majority of the enterprises adopt overdraft as the major source of financing working capital needs followed by own reserves and profits. The enterprises are highly satisfied with the financing options available for working capital and they don't face any difficulty in getting working capital financing. Majority of the units under study don't prepare any working capital estimate. However they make unwritten calculations based on the past experience of the entrepreneur/manager. SMEs maintain fixed as well as variable working capital arrangements with the banks and are in general satisfied with the bank financing options available for working capital.

Table 5.14: Budgeting practices

Variable	Categories	Value Label	N
PREPARE ANNUAL BUDGETS	1	Strongly disagree	16
	2	Disagree	35
	4	Agree	236
	5	Strongly agree	110
PREPARE CASH BUDGET	4	Agree	330
	5	Strongly agree	67
PERIOD OF CASH BUDGET	1	WEEKLY	10
	2	MONTHLY	261
	3	QUARTERLY	19
	5	ANNUALLY	107
HOW DETERMINE THE LEVEL OF CASH BALANCE	BASED ON PAST EXPERIENCE		76
	BASED ON BUDGET REQUIREMENTS		10
	BASED ON DUE PAYMENTS		38
	BASED ON EXPENSES		25
	BASED ON OVERALL BUDEGT		9
	BASED ON PRODUCTION PLAN		9
	BASED ON PRODUCTION SCHEDULE		10
	BASED ON SALES		9
	CASH PAYMENT BASIS		9

	CASH PAYMENTS DUE		10
	LAST YEAR+20%		16
	MATERIAL COST BASED		57
	ONLY PETTY CASH 5000-10000		10
	PAYMENT BASED		20
	PAYMENT TO CRS, RECEIPT FROM DRS,PAYMENT TO LOAN		9
	PAYMENTS ARE MADE THORUGH ONLINE ACCOUNTS,NO CASH MAINTAINED		16
	PER DAY BANK AND CASH BALANCE REQUIRED BASIS		9
	SALES		9
	SALES BASED		10
	SALES ORDER		9
	SALES ORDER BASED		9
	TOTAL CASH PAYMENTS		9
	WHAT IS REQUIRED FOR MONTHLY OBLIGATIONS		9
ORGANISATION AWARE OF THE BENEFITS OF CASH BUDGET	1	Strongly DISAGREE	38
	3	NEUTRAL	324
	5	Strongly AGREE	35
PREPARE SALES BUDGET	0	NO	397
PREPARE PRODUCTION BUDGET	0	NO	208
	1	YES	189
PREPARE ADVERTISEMENT BUDGET	0	NO	208
	1	YES	189
PREPARE MASTER BUDGET	0	NO	397

Table 5.14 shows the budgeting practices adopted by SMEs. It's evident from the above table that majority of the enterprises prepare budgets on a regular basis.

Annual budgets, cash budgets are the most commonly budgets. However the period for preparing cash budgets there is wide range of difference among the enterprises. Past experience, payments due, and cost of materials to be purchased are the major factors influencing the cash balance maintained by the enterprises. Production budget and advertisement budget are the other main budgets prepared by the enterprises. However none of the enterprises prepare a sales budget or a master budget.

Table 5.15: Cost management practices

Variable	Categories	Value Label	N
USE STANDARD COSTING FOR BETTER EFFICIENCY	1	Strongly disagree	140
	2	Disagree	81
	4	Agree	30
	5	Strongly agree	146
SET STANDARDS FOR LABOUR	1	Strongly disagree	140
	2	Disagree	85
	4	Agree	32
	5	Strongly agree	140
ACHIEVE STANDARDS SET	1	Strongly disagree	190
	2	Disagree	47
	4	Agree	30
	5	Strongly agree	130
HOW OFTEN REVISE STANDARDS	1	Daily	24
	2	Weekly	23
	3	Monthly	45
	4	Quarterly	11
	5	Annually	80
	6	Never	214
BASED ON OWN EXPERIENCE	0	No	225
	1	Yes	172
BASED ON INDUSTRY STANDARDS	0	No	385
	1	Yes	12
BASED ON ANY OTHER PARAMETER	0	No	395
	1	Yes	2
USE TARGET COSTING BEFORE PRODUCTION	0	No	240
	1	Yes	157
PRICING BASED ON MARGINAL COST	0	No	397
PRICING BASED ON TOTAL COST	1	Yes	397
PRICING IS BASED ON COMPETITION	1	Yes	397

Table 5.15 shows the cost management practices of SMEs. Even though not a majority, but many enterprises set standards for better efficiency. As we can see from the table there are many enterprises who set standards for labour and achieve the same, they seldom revise the standards for improving their performance. Major basis for setting standard is their own experience. The pricing is done mainly on the basis of total cost and competition.

5.2. DETAILED DATA ANALYSIS & RESULTS

This chapter presents the data analysis and its results in detail. As part of providing a logical sequence, the study presented the required information in logical manner.

In the first section of this chapter, the researcher provides an overview about the objectives to be analysed in this chapter. As part of this, in this section, the researcher provides an overview of the constructs referred in the research objectives. In this, the study also gives a brief summary about the conceptualization of these constructs. Followed by this, this section presents the model framework to be validated and tested in Kerala based SME setting.

In the second section of the chapter, the study detailed the preliminary data analysis, and also the test of assumptions required to perform the analysis of the study data.

In the third section of this chapter, the study elaborated the Exploratory Factor Analyses (EFAs), which was conducted to perform the dimensionality of the scale dimensions. In this section, the study presented three different EFAs followed by the presentation of its results.

In the fourth section, the study discussed the measurement model testing using series of Confirmatory Factor Analyses (CFAs). This was mainly conducted to examine the reliability and validity of the scale measures. In the validity checks, the study presented discriminant and convergent validity checks.

In the fifth section, after the confirmation of the measurement model, the study performed Structural Equation Modeling (SEM) to test the proposed study hypotheses. In addition to this, in this section, the study also conducted test of alternative models to confirm the robustness of the proposed hypothesized model.

5.2.1. Strategic financial management and Profitability

Based on the review of literature, the researcher has formulated the following independent and dependent variable for measuring the impact of SFM on the profitability of the SMEs. The variables taken for the study are as follows

Dependent variable – Business Performance

Independent variable – Strategic Financial accounting, Strategic financing decisions, Strategic Management accounting, working capital management, strategic cost management and strategic investment management.

5.2.1.a. Hypotheses

1. H1 –Strategic financial accounting practices have a positive effect on the business performance of SMEs
2. H2- Strategic financing decisions have a positive effect on the business performance of SMEs
3. H3- Strategic management accounting practices have a positive effect on the business performance of SMEs
4. H4- Strategic Cost management practices have a positive effect on the business performance of SMEs
5. H5- Strategic investment management practices have a positive effect on the business performance of SMEs
6. H6- Working capital management practices have a positive effect on the business performance of SMEs
7. H7- Strategic financial management practices of SMEs have a positive effect on the business performance of SMEs.

Table 5.16 Regression Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.790[a]	.624	.615	1.146

a. Predictors: (Constant), INV_MGT, MGT_ACT, REC_MGT, WK_CAPT, ST_FACC, FIN_DEC

Table 5.17 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	529.954	6	88.326	67.294	.000[b]
	Residual	318.946	243	1.313		
	Total	848.900	249			

a. Dependent Variable: PERFORMANCE

b. Predictors: (Constant), INV_MGT, MGT_ACT, REC_MGT, WK_CAPT, ST_FACC, FIN_DEC

From the above table we can say that R Square value of .624 shows that 62.4% of the business performance is explained by the independent variables. That is strategic financial management practices have a significant impact on the profitability of the business. The significance of the relationship is further cemented with the ANOVA table as the p value is less than 0.05.

Table 5.18 Regression result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.170	.328		3.563	.000
	MGT_ACT	.117	.125	.091	.935	.351
	ST_FACC	.080	.135	.062	.592	.554
	INV_MGT	.585	.092	.559	6.354	.000
	REC_MGT	.255	.089	.260	2.869	.004
	WK_CAPT	.204	.082	.189	2.479	.014
	FIN_DEC	.229	.101	.208	-2.270	.024

a. Dependent Variable: PERFORMANCE

5.2.1.b. Findings based on Regression Analysis

1. H1 – Strategic financial accounting practices have a positive effect on the business performance of SMEs. The regression results does not support that the

impact of strategic financial accounting practices on the business performance of the SMEs is significant. There we reject the null hypothesis.

2. H2- Strategic financing decisions have a positive effect on the business performance of SMEs. The study shows that financing decisions are found to have a significant impact on the profitability of the business. This means that organisations which are properly managing the financing activities of the business are found to have a significant betterment of the performance. The financial accounting is not seen as a tool for improvement and planning by the SMEs. This could be the reason for the negative results of strategic financial accountings effect on business performance of SMEs.
3. H3- Strategic management accounting practices have a positive effect on the business performance of SMEs. In the case of SMEs the study does not support the effect of Strategic management accounting practices on the business performance of SMEs in Kerala. Most of the SMEs are not even aware about the various management accounting practices and their potential benefit. This could be one reason for the rejection.
4. H4- Inventory management practices have a positive effect on the business performance of SMEs. The study results of regression show that the hypothesis is proved significant. SME units who have better inventory management practices will have a significant effect on the performance of the business. This finding is in line with the literature that inventory management is essential for the success of a small and medium enterprise.
5. H5- Receivables management practices have a positive effect on the business performance of SMEs. The receivables management practices of SMEs is found to have a significant effect on the business performance based on the regression analysis. Delay in collection of receivables and poor credit worthiness verification of customers will have to negative effect on the performance of the SMEs.
6. H6- Working capital management practices have a positive effect on the business performance of SMEs. Working capital management practices other than inventory and receivables are measured under this. The study supports the

significant impact of working capital management practices of SMEs on their business performance.

Thus the regression results show that strategic financial management practices are having significant impact on the business performance of small and medium enterprises.

5.3. SECTION TWO: OBJECTIVES, MODEL & HYPOTHESES

1. Explore the factors that drive the market orientation of Kerala based SMEs
2. Examine the impact of various factors that drive market orientation of SMEs in Kerala and understand its relative impact on market orientation.
3. To analyze the impact of Market orientation of Kerala based SMEs on their business performance.
4. To analyze the conditional influence of strategic flexibility (reactive and proactive flexibility) of the Kerala based SMEs to the market orientation and business performance.

5.3.1. Model Framework

In the current study, the researcher used various terms and terminologies related to the conceptual model (See Figure 5.1). In the following sections, the study defines these concepts first, and then explains the study objectives related to the conceptual framework. Followed by this, the researcher presents the study hypotheses related to the conceptual model. As part of construct identification, the study reviewed the past literature (e.g., Kotler 1994; Narver and Slate 1990, 1994; Kohli and Jaworski, 1990, Pleshko, 1993, Anderson, 1987; Little, 1988) and adopted the conceptualization of the constructs from the same.

Market Orientation of the SME explains when SMEs actions are consistent with the marketing concept. The market orientation of the SME can be viewed as a business culture of the SME that aims to develop and create superior value for its customers through two important aspects, such as (a) customer orientation, and (b) competitor orientation.

Customer orientation of the SME explains the focus of the firm that places primary focus on the customer by finding new ways to provide better customer value. This focus provides a firm with proactive arrangement towards customer needs and desires.

Competitor orientation of an SME denote the understanding of the firms' strength and weaknesses and long term capabilities viz-a viz with its current and key potential competitors that exists in the market. This understanding is necessary for development of competitive advantage of the SME in the market.

Inter-functional coordination of the SME explains the coordinated utilization of all the SME resources aimed at creating and sustaining superior value for target customers.

In addition, the company also has the aspects of formalization, it explains whether the emphasis of the SME is on following specific rules and procedures for performing the activities and the job involved in the organization.

Another important key concept used is centralization, which explains the extent of responsibility and authority delegated among the people involved with the SME (Fippo 1966). A formal definition for the same has been given by Zaltman, Duncan, and Holbek (1973, p. 142) that, it is "the locus of the authority and decision making in the organization".

Next important concept used in the study is departmentalization, this denote the number of departments into which organizational activities of the SME are segregated and compartmentalized (Jaworski and Kohli,1993) to make efficient working of the organization.

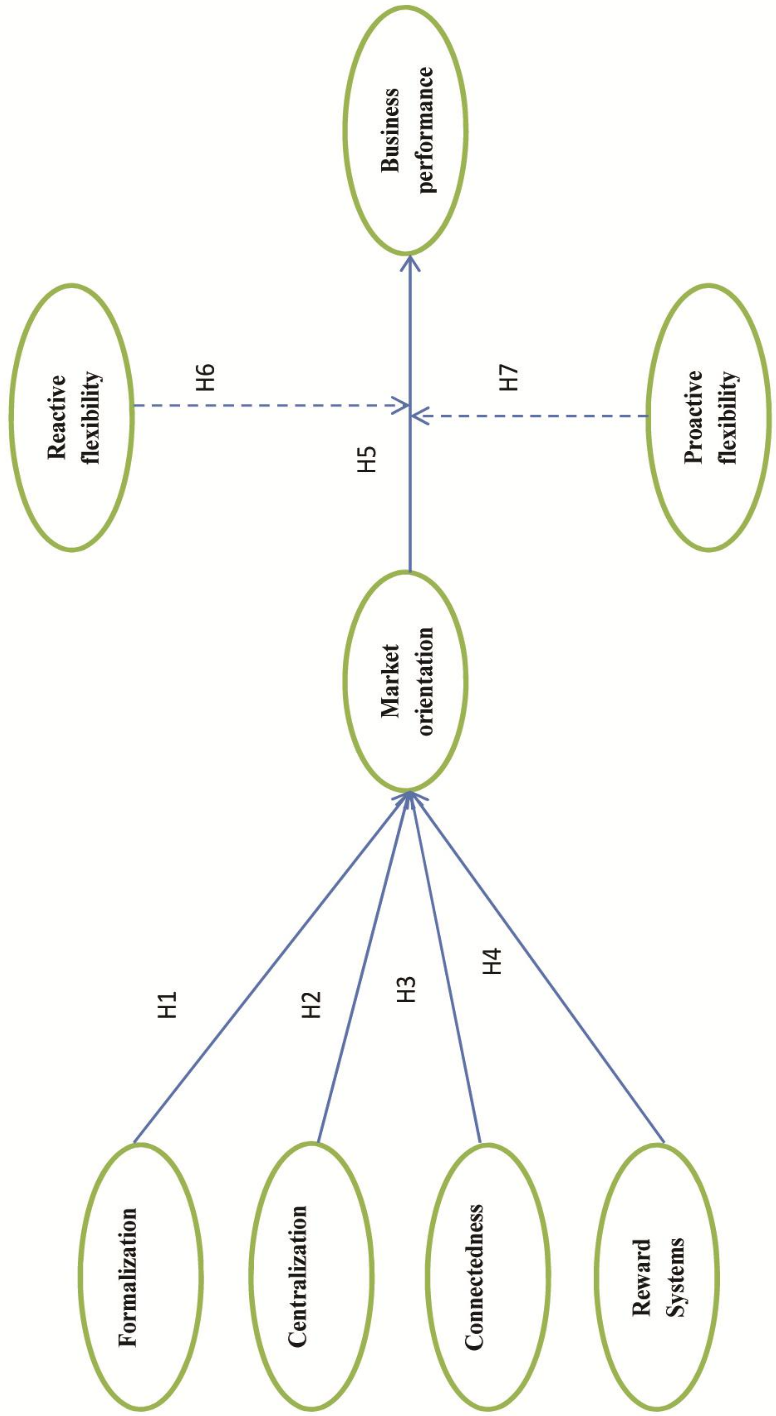
In addition, another key concept used is Reward system, which explains the key to developing a market-driven, customer-oriented business lies in how managers of the SME's are evaluated and rewarded based on their performance in the organizations (Webster, 1988, p.38).

Another key concept used is Proactive Flexibility , and this denote the ability of the SME to build ex ante a variety of mechanisms and processes to pre-empt its competitors based on inflicting surprise on its competitors, seizing the initiative, being agile and versatile.

In addition to the above stated proactive flexibility, the study also considered the Reactive Flexibility, which denotes the ability of the SME to respond to any drastic changes in the environment when it happens.

The final concept used is business performance, it indicate the use of perceptual measures developed by Narver and Slater (1990 and 1994), Kohli and Jaworski (1990), and Jones (1995). In the current study the concept of performance is measured using the sales, sales growth and profitability (return on sales) similar to Hendreckson and Psarouthakis (1992).

Figure 5.1: Conceptual model showing the hypothesized relationships



5.3.2. Hypotheses

In the current chapter, the study discusses the data analysis results of the following seven hypotheses. These hypotheses are:

H1: Formalization in Kerala based SMEs has a positive impact on their market orientation

H2: Centralization in Kerala based SMEs has a negative impact on their market orientation

H3: Inter-departmental connectedness in Kerala based SMEs has a positive impact on their market orientation

H4: Favourable Reward system in Kerala based SMEs has a positive impact on their market orientation

H5: Market orientation of the Kerala based SMEs has a positive impact on their business performance

H6: Reactive flexibility positively moderates the relationship between Kerala based SME’s market orientation and business performance.

H7: Proactive flexibility positively moderates the relationship between Kerala based SME’s market orientation and business performance.

To examine the aforementioned objectives and test the proposed study hypotheses, the study used various data analysis techniques and tools. Basically these analyses of the data have been performed in five sequential stages.

5.3.3. SECTION THREE: PRELIMINARY DATA SCREENING

This stage of data screening explains the modalities and procedures followed just before the final data analysis to screen the data collected to check the missing values, data inconsistencies, and incompleteness. The following paragraphs details the overall data screening procedures followed in the current research.

It has been recommended that the raw data obtained using the survey questionnaires must undergo preliminary data preparation before they can be used to analyse the data using any kind of statistical techniques (Kumar, Aaker, & Day, 2002). Hence, in accordance with the recommendation, preliminary data cleaning and screening were performed to check for incompleteness and inconsistencies, specifically to guarantee accuracy and precision of the data. This stage of preliminary investigation concerning the data includes consistency checks and treatment of missing responses contained in the overall collected data. Missing responses contained in the data represent values of a variable that are unknown, which may be due to the fact that the study respondents provided ambiguous answers to the measures asked or the response to the measures were not properly recorded. In this stage, the preliminary screening of the data collected was performed through the verification of basic descriptive statistics or through the analysis of the frequency distributions of the collected data. To check the same, several methods are suggested to treat or manage missing responses. The most popular among them are substitute a neutral value in the missing cell, substitute an imputed response in place of missing information, pair wise deletion, and case wise deletion. Among the suggested methods, the most recommended method for dealing with incomplete or missing data is that of list wise deletion approach (Byrne, 2001), i.e., those cases having a missing information for any of the variables in the data are eliminated from all the subsequent computations. However, it was warned that this approach of list wise deletion can also results in a substantial reduction in the overall sample size available for the subsequent statistical analysis. In this line, Ferber (1980) recommended that this approach of list wise deletion has been considered to be probably the first options to consider when the researcher tries to treat missing information if the sample size available is large enough and the proportion of missing data contained in the collected data set are relatively small. Further, it was also suggested that that the questionnaire used in the study to collect data should be discarded if 25 per cent of the items in the questionnaire have been left unanswered by the sample respondents (Sekaran 2000). In contrast to this list wise deletion approach, during the application of this pair wise deletion, only those cases or sample respondents with complete responses are included for statistical analysis. However, it was also indicated that this pair wise deletion or elimination of the data will necessarily result in the variety of sample size across the study variables in the data set, which subsequently results in varying calculations in an analysis due to the differences in sample sizes. Another popular method generally used by researchers to deal with incomplete data is to replace the unobserved score contained in the data with some estimated value, and the most commonly used method in this approach is that the arithmetic mean replacement, where arithmetic mean of the variable can be used to substitute the missing value. However, this method can also be considered to be problematic. For example, while using this method the standard errors of the variable will be biased due to the shrink of the variance of that respective variable. In this research, during the data collection the study collected a large set of sample, the resulting sample size with any variable having missing responses excluded from all analysis is still adequate for the requirement of data analysis used (e.g., Structural Equation Modelling) for hypothesis test. Thus, the list-wise deletion method was preferred as mode of treating missing values contained in the data. Consequently, 43 cases were list wise deleted from the total sample size of 450 because they were found to have missing response. In addition, in the current study, the researcher also performed data screening for checking for logically consistent responses. Further, the case (or the sample respondent) was reported to have the similar response number selected excessively (e.g., all the questions or the majority of the items are answered with number "3") were also eliminated because it indicated the fact that the respondent did not considered the questions seriously. As a result, 10 cases with the problem of inconsistencies or non-seriousness were deleted from the overall data. In addition, the study also analysed the presence of outliers. Tabachnick and Fidell (1989) summarized four major reasons for the occurrence of an outlier in the data. First, is incorrect data entry happened from the researcher's side. Second, it may be due to the fact that the missing value indicators are read as real data when missing value codes are not specified in computer control language; third is that the outlier is not a member of the intended population. Fourth, the data may also show the presence of outlines because of the fact that the case is from the intended population but that the distribution for the variable in the population has more extreme values than a normal distribution. In this research, the raw data were transferred directly coded from the survey questionnaire into the software platform, SPSS. Hence, the study presumes that the kind of outliers or the values that may occur in data entry and coding would not happen. Altogether after adjusting and treating all the problematic sample data, the study was able to confine to a sample size of 397.

5.4. SECTION FOUR: TEST OF ASSUMPTIONS AND RELIABILITY

5.4.1.Test of normality

It is recommended that the multivariate normality of the data can be detected by inspecting and confirming univariate normality and linearity of the study variables (Gnanedesikan, 1977). Hence, in this study, as part of assumption checks, the researcher analysed the statistical test for normality using Kolmogorov-Smirnov test and later analysed the empirical measures that reflected the shape of the sampling distribution by analysing the skewness and kurtosis values of the study variables. As part of this, the study followed the rule of thumb, that if either estimated *Z* value of the study variables exceeds the specified critical value (±4 at 0.05 level of significance), the distribution is considered to be non-normal in terms of that characteristic or that variable (See: Hair et al., 2005). Among all the incorporated metric variables, the check of normality reported that some of the items deviate from normality in the overall normality test (p-value <0.001). However, some of the incorporated study variables had shape characteristics significantly comparable to the normal curve (Z-skewness = 3.69 and 3.63 and Z-kurtosis = -0.45 and -1.92, respectively). The overall tests provided no insights into which transformations might be most appropriate, hence, in the study, the Box-Cox transformation was applied to the data to improve or achieve the normality of the sample data. The analysis supported that the tests of normality were significant in some cases it is non-significant, and in some other cases reported or markedly improved to acceptable levels. Although, from the check the researcher found that some variables still have severely non- normal distributions, SEM techniques can be applied to generate generally accurate MLE parameter estimates (Kline, 2004). Next, the study checked whether there exists sufficient correlation between the study items. From the analysis, it was reported that the variables were sufficiently inter-correlated to produce representative factors with substantial linear associations. The correlation matrix revealed that in all cases the correlations are significant at the 0.05 level.

5.4.2. Check of Reliability

Since in this study the researcher used questionnaire based surveys to collect data with regard to the latent variables considered in the study, it is decided to confirm the reliability and validity of the survey instrument or scales used before the test of hypotheses proposed in the study. This stage of confirmation is required, because in order to adequately measure these variables, associated survey instruments must have sufficient reliability and validity (Hair et al., 2010). This was assured through the selection of instruments demonstrating a solid track record of acceptable reliability and construct level validity. Hence, in the first stage of reliability and validity confirmation, reliability checks using the construct wise Cronbach's alphas and construct wise validity checks using confirmatory factor analysis were computed for this study. This stage of analysis helped the researcher to assure data were repeatable or free from random error and gave a confirmation to the fact that the scales used to measure the latent variables measures the construct that the researcher intended to measure. According to Trochim (2006), reliability of the scale explains or refers the fact that the measuring instrument is free from random error or shows the consistency of measurement if repeated. Trochim (2006) noted that reliability was not measured but estimated. Two ways the researchers can perform reliability of the scale measures, such as test/retest reliability and internal consistency reliability. Test/retest reliability denote that giving the test a second time to the same group under the same conditions should yield the same or consistent measurement scores. In most of the cases, test/retest for the population was not feasible, because the survey was given only one time and also testing and retesting is considered to be more time consuming. The second type, internal consistency reliability can be estimated by Cronbach's alpha (also called as coefficient alpha: Cronbach, 1954). It is recommended that the Cronbach's alpha was a type of reliability coefficient that represents the measurement of internal consistency reliability of the scale measure (Kline, 2011). In support with this, Kline (2010) stated that Cronbach's alpha measures internal consistency of the construct items within a group of items. It is also reported that the low level of internal consistency of the scale measures may mean that the total score was not the best unit of measurement for measuring the dimension or the latent construct. In studies, when the number of items increases with related to the construct measure, internal consistency reliability associated with the same may increase (Kline, 2011). In addition, it is also reported that higher level of average (mean) inter-item correlation scores of the items within the scale also shows better internal consistency reliability (Kline, 2011). In the similar lines, Green and Salkind (2008) reported that the coefficient alpha of the construct or the scale measures required and it should be compulsorily reported to show the internal consistency of the items, because this shows that there exists consistency among the items and hence, these items together measure the same dimensions. A higher level of reported coefficient alpha indicates a greater level of consistency of the scale. If all items are perfectly equivalent or inter-related, the only measurement error was the unreliable error of responding (Green & Salkind, 2008). In this study, the reliability of the study coefficients were estimated for the scales, such as customer orientation, competitor orientation, formalization, centralization, inter-departmental connectedness, rewards and systems, business performance, reactive flexibility, and proactive flexibility. In all cases, the internal consistency reliability using Crobach's coefficient alpha values were above the suggested cut-off of 0.50, supported that the scales used to measure these dimensions are free from random error or internally consistent (See Table 5.19).

Table 5.19: Reliability coefficients

Dimensions	Cronbach's Alpha
Customer orientation	0.81
Competitor orientation	0.78
Formalization	0.76
Centralization	0.80
Inter-departmental connectedness	0.88
Rewards & systems	0.72
Business performance	0.75
Reactive flexibility	0.80
Pro-active flexibility	0.79

5.5. SECTION FIVE: EXPLORATORY FACTOR ANALYSIS

The descriptive statistics presented in the previous section of the present study provided a profile and basic description of the items considered in the study, and a brief description of the data set, which paved the pathway or guidance for conducting the multivariate analyses (Malhotra, 2007). In this section, the researcher details the Exploratory Factor Analyses (EFAs) conducted using the measurement items. Exploratory factor analysis was performed to identify the underlying dimensional structure of the measurement items, and also to test whether the a priori dimensional structure for the selected scales or sub-scales is consistent with the structure obtained with the particular set of measures (Stewart, 1981).

EFA is a useful analytic tool used by the researchers or data analysts to empirically understand the number of constructs that underlie a set of items considered in the study, or to condense information or the study items so that a representative number of variables accounts for the variation in the data, and to define the substantive content or meaning of a set of factors that accounts for the maximum variation in a larger set of items incorporated in the proposed study (DeVellis, 1991). The several methods for performing an exploratory factor analysis was proposed, which include principal components analysis, principal axis factoring, alpha factor analysis, maximum likelihood method, etc. (Stewart, 1981). In this, PCA with orthogonal rotation is the most popular and frequently used factoring method. Hence, in the current study, the researcher used series of EFA using PCA.

As part of this EFA, to select the number of factors or to extract the factors the eigenvalue criterion and the scree test are often used as the popular criteria (DeVellis, 1991; Hinkin, 1995). In this, the eigenvalue rule used is that the researcher retains only those fac tors that explain more variance than the average amount explained by an original item (DeVellis, 1991). The use of the scree plot involves plotting the eigenvalues of the factors in descending order of magnitude of the factor eigenvalues against their factor numbers and identifying where the eigenvalues level off. For identifying the number of factors, this method direct the investigator for the visual inspection of the inflection point between a steep slope and the levelling of the eigenvalues, which in turn indicates the number of meaningful factors. Generally, while analysing the number of factors, both eigenvalues and the scree test are based on the magnitude of factors' eigenvalues, which indicates how much variance the extracted factors can explain; however, DeVellis (1991) recommended that the use of these two methods to identify the number of factors during the investigation is far from perfect, and experience of the investigator is an invaluable guide to determine the number of factors. Hence, in the current study, the researcher used the prior literature and the domain understanding to extract and retain the number of factors.

While doing the process of factor extraction, the concept of factor rotation has to be applied to aid interpretation of extracted components by identifying the conceptual relationships among the incorporated items in the analysis. This rotation of factors can also help the investigator to simplify and improve the interpretation of the factor structure generated in the analysis by eliminating ambiguities in the factor loading structure that often accompany initial, confusing, and non-rotated factor solutions (Mitchell, 1994). Among the approaches used in rotating the measurement items, varimax rotation is the most commonly used orthogonal rotation approach (DeVellis, 1991; Mitchell, 1994). This method of varimax rotation helps the data analyst or the researcher to understand effects occurs in the original data and also facilitates better factor interpretation by minimizing the number of items with higher loadings on any one of the extracted factors. After performing varimax rotation in the EFA process, each original variable used in the analysis tends to be associated with one or a minimum number of factors, and also direct the researcher to get a structure where each factor indicates only a small number of items. Hence, considering the importance of varimax rotation, here in the current study the researcher applied a PCA with varimax rotation method. From the factor structure matrix the magnitude of factor loadings of individual items confirms whether an item should be retained in that factor or removed from it. In general practice, a factor loading of 0.40 or greater is often recommended as the suggested criterion for retaining an item in a component (Hinkin, 1995). Following this, in the present research, the researcher also followed the stated recommendation, where those measurement items with factor loadings lower than the cut-off point of 0.40 were eliminated from the factor structure.

DeVellis (1991) recommend that this stage of EFA helps the investigator to explore latent variables and its underlying representative measurements with a set of items, but not necessarily the concept assumed to operationalize in the study; hence, the results of EFA sometimes merely confirms empirical relationships or interdependence among measurements with a specific set of measures. This mode of EFA indicates the operationalization of the latent construct but not necessarily in all cases the construct itself (DeVellis, 1991, p. 107). For doing this, Confirmatory factor analysis is another technique or factor analytic strategy used by the investigator, and it followed to confirm an expected factor structure of the measurement items rather than to determine or identify the latent structure (DeVellis, 1991). Hence, in a departure from exploratory factor analysis, the desired factor structure undertaken as part of the study needs to be clarified or confirmed in confirmatory factor analysis.

In the current study, an EFA was performed using all the items measuring the dimensions, such as customer orientation, competitor orientation, formalization, centralization, inter-departmental connectedness, rewards & systems, business performance, reactive flexibility, and proactive flexibility As reported in Table 4.10, the factor analysis results supported a KMO value of 0.881, and Bartlett's test of Sphericity = 7234.11, p < 0.01. This supported that factor analysis was suitable for these two factors. Further, the analysis and factor loadings (λ) (See Table 5.12) revealed that all the items covering the constructs were loaded into respective factors, and these loadings were above the suggested cut-off of 0.50. In addition, the total variance explained by these seven factors revealed a total variance of 64.48 % (See Table 5.11). Thus, the study confirmed the seven dimensional structure.

Table 5.20: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.881
Bartlett's Test of Sphericity	Approx. Chi-Square	7234.11
	Df	378
	Sig.	.000

Table 5.21: Total Variance Explained

Table 5.21: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.616	16.486	16.486	4.616	16.486	16.486	3.240	11.572	11.572
2	3.927	14.027	30.513	3.927	14.027	30.513	3.200	11.429	23.001
3	2.669	9.534	40.047	2.669	9.534	40.047	3.083	11.011	34.012
4	1.993	7.117	47.164	1.993	7.117	47.164	2.638	9.423	43.435
5	1.790	6.394	53.558	1.790	6.394	53.558	2.312	8.256	51.692
6	1.667	5.953	59.511	1.667	5.953	59.511	1.792	6.398	58.090
7	1.392	4.971	64.482	1.392	4.971	64.482	1.790	6.392	**64.482**

Extraction Method: Principal Component Analysis.

Figure 5.2: Scree plot showing the number of factors

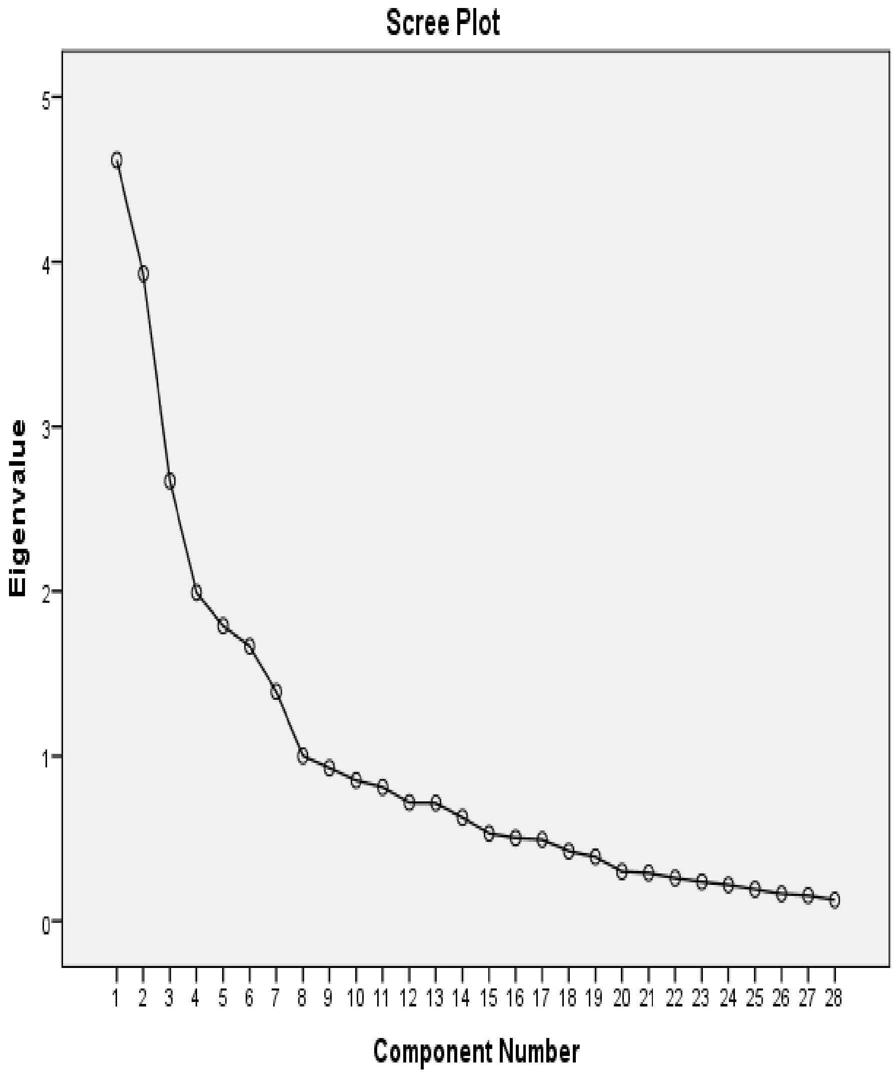


Table 5.22: EFA Factor loading matrix

Factor	Items	Factor loadings
Factor 1	**Customer orientation**	
	1. We constantly monitor our level of commitment and orientation to serving customer needs.	.77
	2. The creation of value for our customers is important.	.81
	3. We respond quickly and courteously to our customer complaints.	.88
	4. Our business objectives are primarily driven by customer satisfaction.	.68
Factor 2	**Competitor orientation**	
	1. We regularly share information within our business concerning competitors.	.78
	2. We rapidly respond to competitors' actions.	.72
	3. We target customers where we have an opportunity for competitive advantage.	.77
	4. Competitive activities are taken seriously.	.80
Factor 3	**Formalization**	
	1. I feel that I am my boss in most matters.	.81
	2. A person can make his own decisions without checking with anybody else.	.88
	3. How things are done around here is left up to the person doing the work.	.82
	4. People here are allowed to do almost as they please.	.85
	5. Most people here make their own rules on the job.	.87
	6. The employees are constantly being checked on for rule violations.	.87
	7. People here feel as though they are constantly being watched to see that they obey all the rules.	.88
Factor 4	**Centralization**	
	1. There can be little action taken here until a supervisor approves a decision.	.91
	2. A person who wants to make his own decision would be quickly discouraged here.	.90
	3. Even small matters have to be referred to someone higher up for a final answer.	.91
	4. I have to ask my boss before I do almost anything.	.82
	5. Any decision I make has to have my boss' approval.	.77

Factor 5	**Inter-departmental connectedness**	
	1. In this business unit, it is easy to talk with virtually anyone you need to, regardless of rank or position.	.76
	2. There is ample opportunity for informal "hall talk" among individuals from different departments in this business unit.	.77
	3. In this business unit, employees from different departments feel comfortable calling each other when the need arises.	.78
	4. Managers here discourage employees from discussing work related matters with those who are not their immediate superiors or subordinates.	.71
	5. People around here are quite accessible to those in other departments.	.76
	6. Communications from one department to another are expected to be routed through "proper channels".	.75
	7. Junior managers in my department can easily schedule meetings with junior managers in other departments.	.77
Factor 6	**Rewards systems**	
	1. No matter which department they are in, people in this business unit get recognized for being sensitive to competitive moves.	.77
	2. Customer satisfaction assessments influence senior managers' pay in this business unit.	.80
	3. Formal rewards (i.e., pay raise, promotion) are forthcoming to anyone who consistently provides good market intelligence.	.78
	4. Salespeople's performance in this business unit is measured by the strength of relationships they build with customers.	.77
	5. Salespeople's monetary compensation is almost entirely based on their sales volume.	.80
	6. We use customer polls for evaluating our salespeople.	.81
Factor7	**Business performance**	
	1. Return on sales	.76
	2. We have a consistent market share growth	.67
	3. There is a steady increase in product sales	.68
Factor 8	**Reactive flexibility**	
	1. We consider an array of contingencies.	.59
	2. We anticipate and protect from potentially negative developments.	.52
	3. We deliberately install buffers to manage external shocks	.61
	4. We take advantage of opportunities arising from environmental change.	.67

	5. We have the ability to recover from downturns in the industry.	.66
	6. We put strategic emphasis on building in slack to manage unforeseen circumstances.	.67
Factor 9	**Pro-active flexibility**	
	7. Agility is a characteristic of our firm.	.65
	8. Our company creates major change agents in the industry.	.67
	9. Our firm strategies cannot be predicted based on past actions	.68
	10. We constantly work to create options for growth in multiple technological areas.	.71
	11. We move to the market with new offerings much faster than competitors do.	.72

5.6.SECTION SIX: CONFIRMATORY FACTOR ANALYSIS

This section of this chapter explains the measurement model testing results performed to confirm the validity and reliability of the scale measure. This measurement model is necessary before the test of hypotheses. In this study, this measurement model testing was conducted through Confirmatory Factor Analysis (CFA). Validity explains the ability of an instrument (here the scales) to measure what the researcher intended to measure. Similarly, reliability of an instrument examines the extent of random error in the scale measures. In this stage, study decided to perform two types of validity. First type validity called as convergent validity. This type of validity explains the extent of convergence among the items covering the respective dimension. Similarly, the discriminant validity explains the extent of divergence between the items covering the different dimensions. In this stage, the study analysed the reliability of the study measurements using a coefficient, called as Composite Reliability (CR). In the following pages, the study provided the measurement model testing Tables derived from CFA analysis and also provides its interpretations.

5.6.1. Convergent validity

In this study, the researcher tested the convergent validity of the scale measures using three different measures. The first measure used is CFA factor loadings. It was recommended that if the CFA factor loadings are above 0.50 and loaded high, then it indicate the evidence of convergent validity. Further, another measure generally used by researchers to confirm the convergent validity is called as: Average Variance Extracted (AVE). If the AVE values are above 0.50 it also indicate the convergent validity of the scale measures. Finally, it is also suggested that if the CR (Composite Reliability) values are above 0.50 it also informs the evidence of convergent validity. In the current study, the researcher used all these three measures for the purpose of checking the same

As reported in Table 5.13, the examination factor loading reported that all the items measuring its respective dimensions were loaded highly into that factor. In all the cases, the factor loadings were above the suggested cut-off of 0.50. In addition, the examination of estimated CR values supported that for all dimensions the values were above the suggested cut-off of 0.50. Finally, the examination of AVE values (See Table 5.14) also supported that for all dimensions, the calculated AVE values were above the suggested threshold of 0.50. All these confirmed that the scale measures used to capture different dimensions carrying sufficient convergent validity.

5.6.2. Discriminant Validity

To examine the discriminant validity the study followed an important discriminant validity check procedure recommended by Hair et al (2010). In this procedure, it is recommended that if the AVE values of the dimensions are greater that the correlation square between the construct pairs it indicate the discriminant validity. As reported in Table 5.15, the examination of AVE values with the correlation square between the constructs revealed that in all the cases the calculated AVE values were greater than the pair wise correlations. Thus, the study confirmed the fact that the scale measures used to measure different dimensions are divergent or it carries adequate level of discriminant validity.

In addition to the aforementioned measures, a variety of goodness-of-fit indices are also available for use in confirmatory factor analysis to indicate the adequacy of measured constructs to a model, but there seems to be little consensus on what are the appropriate indices (Hinkin, 1995). Hinkin (1995) noted that significance of Chi-square was reported most frequently, and the smaller the chi-square value, the better the data fit to the model. However, chi-square is very sensitive to sample size, diverse indices have thus been developed for assessing overall goodness of fit. A ratio of the chi-square value to the degrees of freedom of 5 to 1 was a practical rule of thumb (Hinkin, 1995). Although evaluation of fit indices is somewhat subjective, the higher values, the better the model fit to the empirical data. In addition, Hinkin (1995) reported that fit indices above 0.85 were considered acceptable. The details about the model fit indices used in the present study will be discussed in next section of structural model testing. Considering the recommendations, the study also analysed the goodness of fit of the overall measurement model from the correlated CFA model. From the analysis, it was observed that the overall correlated CFA model indicated a good fit ($\chi 2$ = 1324.12, CFI = 0.91, GFI = 0.90, SRMR = 0.042, RMSEA = 0.050, TLI = 0.92). It also confirms the goodness of fit of the measurement model. All these directed the study that the scale used to measure different dimensions are valid and reliable, therefore, proceed for hypotheses testing.

Table 5.23: CFA Factor loading matrix

Factor	Items	Factor loadings
Factor 1	**Customer orientation**	
	1. We constantly monitor our level of commitment and orientation to serving customer needs.	.70
	2. The creation of value for our customers is important.	.71
	3. We respond quickly and courteously to our customer complaints.	.73
	4. Our business objectives are primarily driven by customer satisfaction.	.75
Factor 2	**Competitor orientation**	
	1. We regularly share information within our business concerning competitors.	.80
	2. We rapidly respond to competitors' actions.	.81
	3. We target customers where we have an opportunity for competitive advantage.	.82
	4. Competitive activities are taken seriously.	.69
Factor 3	**Formalization**	
	1. I feel that I am my boss in most matters.	.61
	2. A person can make his own decisions without checking with anybody else.	.63
	3. How things are done around here is left up to the person doing the work.	.65
	4. People here are allowed to do almost as they please.	.68
	5. Most people here make their own rules on the job.	.68
	6. The employees are constantly being checked on for rule violations.	.69
	7. People here feel as though they are constantly being watched to see that they obey all the rules.	.70
Factor 4	**Centralization**	
	1. There can be little action taken here until a supervisor approves a decision.	.71
	2. A person who wants to make his own decision would be quickly discouraged here.	.72
	3. Even small matters have to be referred to someone higher up for a final answer.	.73
	4. I have to ask my boss before I do almost anything.	.75

	5. Any decision I make has to have my boss' approval.	.77
Factor 5	**Inter-departmental connectedness**	
	1. In this business unit, it is easy to talk with virtually anyone you need to, regardless of rank or position.	.80
	2. There is ample opportunity for informal "hall talk" among individuals from different departments in this business unit.	.81
	3. In this business unit, employees from different departments feel comfortable calling each other when the need arises.	.77
	4. Managers here discourage employees from discussing work related matters with those who are not their immediate superiors or subordinates.	.81
	5. People around here are quite accessible to those in other departments.	.87
	6. Communications from one department to another are expected to be routed through "proper channels".	.82
	7. Junior managers in my department can easily schedule meetings with junior managers in other departments.	.80
Factor 6	**Rewards systems**	
	1. No matter which department they are in, people in this business unit get recognized for being sensitive to competitive moves.	.77
	2. Customer satisfaction assessments influence senior managers' pay in this business unit.	.71
	3. Formal rewards (i.e., pay raise, promotion) are forthcoming to anyone who consistently provides good market intelligence.	.72
	4. Salespeople's performance in this business unit is measured by the strength of relationships they build with customers.	.77
	5. Salespeople's monetary compensation is almost entirely based on their sales volume.	.80
	6. We use customer polls for evaluating our salespeople.	.88
Factor7	**Business performance**	
	1. Return on sales	.69
	2. We have a consistent market share growth	.76
	3. There is a steady increase in product sales	.77
Factor 8	**Reactive flexibility**	
	1. We consider an array of contingencies.	.81

	2. We anticipate and protect from potentially negative developments.	.88
	3. We deliberately install buffers to manage external shocks	.76
	4. We take advantage of opportunities arising from environmental change.	.68
	5. We have the ability to recover from downturns in the industry.	.69
	6. We put strategic emphasis on building in slack to manage unforeseen circumstances.	.70
Factor 9	**Pro-active flexibility**	
	7. Agility is a characteristic of our firm.	.66
	8. Our company creates major change agents in the industry.	.65
	9. Our firm strategies cannot be predicted based on past actions	.60
	10. We constantly work to create options for growth in multiple technological areas.	.67
	11. We move to the market with new offerings much faster than competitors do.	.68

Model fit indices: $\chi 2$ = 1324.12, CFI = 0.91, GFI = 0.90, SRMR = 0.042, RMSEA = 0.050, TLI = 0.92

Table 5.24: Discriminant validity

	AVE	MSV	MaxR(H)	CSO	CMO	FM	CN	IN	RS	BP	RF	PF
CSO	0.658	0.320	0.921									
CMO	0.430	0.373	0.950	0.326								
FM	0.452	0.367	0.965	0.032	0.606							
CN	0.353	0.291	0.969	0.221	0.441	-0.297						
IN	0.509	0.108	0.977	0.037	0.006	0.112	-0.311					
RS	0.571	0.533	0.980	0.425	0.611	0.239	-0.539	0.099				
BP	0.490	0.181	0.981	0.148	0.426	0.300	-0.326	0.060	0.380			
RF	0.480	0.166	0.983	0.052	0.223	0.374	-0.247	0.131	0.123	0.407		
PF	0.509	0.164	0.984	0.130	0.353	0.162	-0.405	0.328	0.293	0.243	0.092	

5.7. SECTION SEVEN: STRUCTURAL MODEL TESTING

5.7.1. Structural Equation Modeling

Structural equation modeling (SEM) technique using Maximum Likelihood Estimation procedure was employed in the current research to test the proposed hypotheses. SEM is a statistical methodology that follow a confirmatory (i.e., hypothesis-testing) approach to the analysis of a structural theory proposed by the researcher bearing on some phenomenon (Byrne, 2001). While performing SEM, it tests simultaneously all proposed relationships in the hypothesized model which confirms the extent to which the model proposed in the study is consistent with the data. In this line, Byrne (2001) summarized a number of advantages of performing SEM over other related multivariate techniques. First, while performing SEM the researcher takes a confirmatory approach to the model testing and analyses data basically for inferential purposes by demanding that the pattern of relationship between the variables within the model framework is specified *a priori.* In contrast to this, many other methods takes the route of descriptive nature, hence SEM is preferred over other related multivariate techniques. Second, the other related traditional multivariate methods are incapable of either assessing or correcting the overall measurement error. In case of SEM analysis, the researcher can avoid inaccuracies caused by ignoring error when it exists in the explanatory variables. The structural model also helps the researcher also see the specification of error term covariances (Golob, 2003). Third, data analysis using SEM technique, in comparison with other related multivariate techniques also allows measurement of the relationship among unobserved and observed variables comprehensively through the examination of covariance among the observable variables proposed in the study. Another important advantage of SEM is that it can handle a large number of endogenous variables (dependent variables) and exogenous variables (independent variables), as well as unobserved variables simultaneously specified as linear combinations of the observed variables (Golob, 2003). Last and more important, no such widely and equally competitive applied methods currently available in the data analysis paradigm alternative to SEM for modelling multivariate relations among the proposed variables or for estimating point and/or interval indirect effects.

In the current research, considering the advantages of SEM over other multivariate techniques, the two-stage SEM analytic estimation technique was adopted in to test the simultaneous inter-relationship between the constructs of interest proposed in the current research. In this two stage estimate procedure, the researcher can avoids the interaction of the measurement model and the structural model (Hair, Anderson, Tatham, & Black, 1995). The general SEM model framework and its estimation, one can decompose it into two sub-models: the first model called as measurement model (See the previous section presented in this chapter) and the second model called as the structural model. The first stage of measurement model indicates the relationship between the unobserved latent variables and observable variables (indicator variables). It was performed in this study using CFA. The estimation and confirmation of the measurement model provides the link between the observed indicator variables and the underlying constructs they are designed to measure (Byrne, 2001; Golob, 2003; Nachtigall, Kroehne, Funke, & Steyer, 2003), or the major objective of this stage is to confirm the validity and reliability of the scales used. The second stage of structural model represents the relationship among the latent variables (constructs) of interest. The structural model specifies the manner by which particular latent variables cause changes in the values of certain other latent variables in the model. In general parlance, estimation of SEM is performed using the covariance analysis method (called as covariance based SEM), in which the researcher estimates the parameters such that the variances and covariances implied by the model are as close as possible to the observed variances and covariances of the sample (Golob, 2003). Among other popular estimation methods, such as unweighted least squares (ULS), maximum likelihood (ML) and generalized least squares (GLS), the most commonly used method for estimating SEM is maximum likelihood (ML) estimation technique. "Nearly all of the major software programs use ML as the default estimator" (Schermelleh-Engel, Moosbrugger, & Miiller, 2003, p. 25). The ML method of estimation maximizes the probability that the observed covariances are generated from a population under consideration that has its variance and covariances generated by the process implied by the model (Golob, 2003). It is also stated that the

ML estimation procedure is rather more robust against deviations of the normality assumption for the sample. It is also pointed that the estimation of SEM with ML estimation can be applied in many data analytic situations such as when interval scales (e.g., Likert scales) are used to collect data on feelings and perceptions (Golob, 2003; Schermelleh-Engel et al., 2003). Hence, in support with this, in the present study, ML estimation procedure was used in the SEM technique. In this method of estimation, the goodness-of-fit indices are used to examine if a proposed model of the study is consistent with the pattern of variances and covariances dominant in the data. In this line, many other useful criteria have been developed proposed for confirming the overall goodness-of-fit in an SEM methodology and for confirming how well one model does have a fit over another model. According to Schermelleh-Engel et al. (2003), covariance based SEM capable of producing multiple goodness-of-fit indices, such as: (a) descriptive measures of overall model fit or goodness of fit, such as chi-square *($\chi 2$),* root mean square error of approximation (RMSEA), root mean square residual (RMR), and standardized root mean square residual (SRMR); (b) descriptive measures based on model comparison. The measures in the second category based on model comparisons are the normed fit index (NFI), the non-normed fit index (NNFI), the comparative fit index (CFI), the goodness-of-fit index (GFI), and the adjusted goodness-of-fit index (AGFI); and (c) descriptive measures of model parsimony, such as the parsimony goodness-of-fit index (PGFI), and the parsimony normed fit index (PNFI), etc. The concept of parsimony serves as a criterion for choosing between several alternative models proposed in the study.

Although in a SEM framework, most of these evaluation criteria or indices are based on the Chi-square statistic. The chi-square value is preferred in a model confirmation perspective over a test statistic as a measure of fit due to its sensitivity to sample size and deviations from multinormality (Golob, 2003). Given the limitations of Chi-square, different researchers have proposed a plethora of newly goodness-of-fit indices in the SEM framework to examine the goodness of fit of the model, and these indices take a more pragmatic approach to the evaluation process (Byrne, 2001). In this, one of the first fit statistics generally used to address this problem was the normed Chi-square, i.e., the ratio of x2/df (Wheaton, Muthen, Alwin, & Summers, 1977). Alternative goodness-of-fit measures of overall model fit have also been developed proposed in the current SEM literature, such as the root mean square error of approximation (RMSEA), root mean square residual (RMR), and standardized root mean square residual (SRMR). In the SEM framework, the root mean square residual (RMR) shows the average residual value derived from the fitting of the variance-covariance matrix for the proposed model to the variance covariance matrix of the sample data collected (Byrne, 2001). However, it has been stated that these residuals are difficult to interpret due to its relation to the sizes of the observed variances and covariances. Considering this limitation, the standardized root mean square residual (SRMR) were proposed, which represent the average value across all standardized residuals. In addition, it is very recently RMSEA been recognized as one of the most useful informative criteria in covariance structure modelling framework (Byrne, 2001). In addition, the other most frequently used goodness-of-fit measures grounded on direct assessment of the variance covariance matrices for the sample and model are the normed fit index (NFI), the non-normed fit index (NNFI), the comparative fit index (CFI), the goodness-of-fit index (GFI), the adjusted goodness-of-fit index (AGFI), the parsimony-adjusted goodnessof- fit index (PGFI) etc. Among the stated direct assessment measures, the normed fit index (NFI) is considered as a practical criterion for evaluation of proposed model fit, however, there exists some limitation of the same, because it has a tendency to underestimate fit in small samples (Byrne, 2001). Bentler and Bonnett (1980) developed the Non-normed Fit Index (NNFI), also known as the Tucker-Lewis Index (TLI) which generally show the disadvantage of the NFI which is affected by sample size. In addition, CFI was also formulated by Bentler (1990) from NFI to take sample size into account. The another measure, goodness-of-fit index (GFI) is a measure of the relative amount of variance and covariance matrix of the sample data that is jointly explained by the variance and covariance matrix for the hypothesized model (Byrne, 2001). The AGFI has the benefit of adjusting for the number of degrees of freedom contained in the model, which makes the AGFI unique from the GFI. Both GFI and AGFI indices range from zero to 1.00, where the values close to 1.00 being indicative of good fit of the model. The measure, parsimony-adjusted goodness-of-fit index (PGFI) takes into account the complexity of the hypothesized model proposed for the assessment of overall model fit (Byrne, 2001), which was modified later based on GFI and NFI. It is hard to decide which global indices to use for reporting results of model fitting; thus it is necessary to consider multiple criteria in evaluating a model (Bagozzi & Yi, 1998; Schermelleh-Engel et al., 2003). Based on the prior literature, here in this study we designed SEM as the appropriate technique, because it takes care of multiple dependence relationships such as those investigated in the present research. In addition, the technique of SEM was used and preferred in this research to determine if the estimated population covariance matrix of the proposed model was consistent with the observed covariance matrix. To examine the same, we used AMOS software package due to its user friendliness. In addition, AMOS can also link data directly to SPSS platform and provides a very user friendly graphical user interface that allows the researcher to configure path diagrams, calculate the necessary model fit, and estimate required parameters.

5.7.2. Test of hypothesis

To test the proposed hypotheses, the study applied Structural Equation Modelling (SEM) technique using maximum likelihood (ML) estimation. Specifically, the study conducted a covariance based SEM technique. This covariance based SEM is preferable when the researcher tries to test and confirm the proposed model under consideration. The SEM technique has applied to test the study hypotheses because of several reasons. First, the constructs proposed in this study is measured using multiple questions, and therefore the constructs are latent in nature. In this case, SEM technique is more preferable over other techniques, if the objective is to capture the inter-relationship between the proposed constructs under consideration. Second, in the hypotheses formulation section, the researcher proposed several relationships, which involved the interrelationship between several variables, in a simultaneous fashion. Finally, it also recommended that SEM is more useful in case of latent variables with multiple items, where the researcher like to capture item-wise error rate. The SEM modelling involves different phases. In the first phase, the researcher made a diagrammatic representation of the relationship between the study variables. In this, it is conceptualized that the higher order dimension of market orientation reflected in Customer Orientation (CSO), Competitor Orientation (CMO), was modelled as an outcome of the antecedents, such as Formalization (FM), Centralization (CN), Inter-departmental connectedness (IN), Rewards and Systems (RS). Followed by this, the market orientation further modelled as an antecedent to the final outcome, that is Business Performance (BP). In addition to this, the study also modelled the conditional influence of Reactive flexibility (RF), and Proactive flexibility (PF) between market orientation and business performance. Figure 5.1 shows the diagrammatic representation of the relationship between the proposed study constructs.

In the second phase, we estimated the goodness of fit coefficients of the conceptual model and examined the goodness of fit of the model with the observed data. In this goodness of fit indices, the researcher examined various fit indices. In case of fit indices there exists confusion among researchers as to which fit indexes to report. Jaccard and Wan (1996) recommend the use of at least three fit tests, one from each of the first three categories like absolute fit, relative fit and parsimony measures as reported in Table 5.15.

Table 5.25: Fit Measures used in assessing goodness of fit of SEM Model

Category	**Fit Indices**
Absolute Fit Measure	CMIN, CMIN/df, RMR, SRMR, GFL, PGFI
Relative fit measures	NFI, RFI, IFI, TLI
Parsimony Measures	PRATIO, PNFI, PCFI
Chi-square distribution	NCP, FMIN, RMSEA
Theoretic Fit measures	AIC, BIC, BCC,ECVI
Fit measures on sample size	HOERLTER

Reference: Hair et al. (2010)

Following the suggestion given by Kline (2005), in this study the researcher followed the fit measures, such as χ^2, the ratio of chi-square to df, IFI, GFI, NFI, SRMR, RMSEA, TLI and CFI. In these fit measures, we expect an insignificant χ^2. However, in a study with high sample size one cannot expect insignificant χ^2. In case of other fit indices such as GFI, NFI, TLI and CFI, the fit indices above the suggested cut-off of 0.90 show good model. In case of RMSEA and SRMR, if the fit measures are below the value of 0.08 it indicates a good model.

As shown Table 5.16 the study found a satisfactory fit of the structural model [Chi-square: χ^2 = 6960.50 (df = 3631), p = .001; the ratio of Chi-square to degrees of freedom: χ^2/df = 1.91; Comparative Fit Index: CFI = .836; Incremental Fit Index: IFI = .838; Standardized Root Mean Square Residual: SRMR = .058; Root Mean Square Error of Approximation: RMSEA = .049]. In this assessment of important model fit indices as reported Table 4.16., such as the ratio of Chi-Square to degrees of freedom (CMIN/df) or normed chi-square which minimizes the impact of sample size on the Model Chi Square (Wheaton, Muthen, Alwin, & Summers, 1977), and was deemed an acceptable ratio at 1.91, because it was less than the suggested limit of 2.0 (Tabachnick & Fidell, 2007). Another important index of assessment is RMSEA, which tests how well the model fits the population's covariance matrix (Byrne, 1998). The measure is considered "one of the most informative fit indices to consult due to its sensitivity to the number of estimated parameters in the model" (Diamantopoulos & Siguaw, 2000, p. 85). An estimated RMSEA well below .08 supports a good fit (MacCallum, Browne, and Sugaware, 1996; Steiger, 2007), which was the case with this study results. Another, crucial index is SRMR, which confirms the "square root of the difference between the residuals of the sample covariance matrix and the hypothesized covariance model" (Hooper, Coghlan, & Mullen, 2008, p. 54). An SRMR value .08 or lower deemed to be acceptable (Hu and Bentler, 1999). In support with this suggestion, we found that in the current measurement model we found an SRMR of 0.058. All these fit indices indicated that the collected data fit to the model well, and therefore the current model can be used to test the proposed hypotheses of the study.

Table 5. 26: Goodness of fit-measures of the structural model

Fit indices	Estimated values
χ^2	6960.50(df = 3631, *p* = .001)
χ^2/df	1.91
CFI	.836
IFI	.838
GFI	.700
TLI	.827
RMR	.055
SRMR	.058
RMSEA	.049

Note: The model fit indices reported here generated from the SEM model.

Further, the study examined the path coefficients to test the proposed set of study hypotheses. While checking the path coefficients, it was found that all the estimated path coefficients followed the researchers' expectation with regard to direction and magnitude. Table 5.17 given below provides the estimated path coefficients derived from the model. In this table, the first and second columns show the relationship between the exogenous and endogenous constructs. The third column reported the unstandardized path coefficients. In the fourth column, the standardized path coefficients are provided. Next, to standardized path estimates, in the fifth column, standard errors are provided. In the final column, the table reported the status of hypotheses testing results (i.e. accepted or rejected).

Table 5.27: Test of Hypotheses

Endogenous variable		Exogenous Variables	Un std. Estimate	Std Estimate	S.E.	Hypothesis Status
FM	→	**MO**	0.155	0.029	0.03	H1 supported
CN	→	**MO**	-0.167	-0.151	0.031	H2 Supported
IN	→	**MO**	0.251	0.268	0.062	H3 Supported
RS	→	**MO**	0.124	0.383	0.058	H4 Supported
MO	→	**BP**	0.816	0.585	0.107	H5 Supported
MO*RF	→	**BP**	0.611	0.221	0.117	H6 Supported
MO*PF	→	**BP**	0.354	0.374	0.032	H7 Supported

Note: Market Orientation (MO), Formalization (FM), Centralization (CN), Inter-departmental connectedness (IN), Rewards and Systems (RS), Business Performance (BP), Reactive flexibility (RF), and Proactive flexibility (PF).

In this chapter, while proposing H1, the study made a proposition that formalization has a positive impact on market orientation. This explains that when the company give more emphasis on the specific rules and procedures for performing the activities and the job involved in the organization it direct the company to focus on market orientation. In support with this, the path estimates showed significant results. Hence, the study supported Hypothesis 1.

In H2, the study made another presumption that the extent centralization sued by the SME adversely impacts their market orientation. This explains that the extent of responsibility and authority delegated among the people involved with the SME is more centralized, it adversely affect the company's market orientation. In support with this presumption, the path estimates supported negative coefficients. Hence, the study supported Hypothesis 2.

Next important Hypothesis proposed by the study is in terms of departmentalization. That is, when the number of departments into which organizational activities of the SME are segregated and compartmentalized, then it direct the SME to have better market orientation. In support with this presumption, the path estimates supported positive coefficient. Hence, the study is able to support Hypothesis 3.

In addition, another important hypothesis proposed in the study is in terms of Reward systems used by the SME. In this, the study postulated that when the SME develop a formal system of rewards and systems to evaluate and reward their managers, then it positively impacts their market orientation. In support with this, the estimates supported significant effect. Hence, the study supported Hypothesis 4.

Hypothesis 5- The major hypothesis of the study was that Market orientation of the Kerala based SMEs has a positive impact on their business performance. In support of the hypothesis, the estimates showed positive impact on business performance.. This means that small scale units who are market oriented is found to have a significant effect on the profitability of the units.

In hypothesis 6, the study proposed the moderating effect of reactive flexibility. It indicated that, when the ability of the SME to respond to any drastic changes in the environment when it happens, it increases the efficiency of market orientation and in turn develop better business performance when the reactive flexibility of the SME is high. In support with this, the study results generated positive interaction coefficients. Hence, the study supported the significance of hypothesis 6.

Finally, the key hypothesis proposed by the study is moderating effect Proactive Flexibility. It indicated that when the ability of the SME to build ex ante a variety of mechanisms and processes to pre-empt its competitors based on inflicting surprise on its competitors, seizing the initiative, being agile and versatile, it increase the effect of market orientation and in turn create business performance when the proactive flexibility is high for the firm. In support with this, the study found a positive moderation. Hence, the study supported Hypothesis 7.

CHAPTER -VI

FINDINGS, DISCUSSIONS, IMPLICATIONS & CONCLUSION

6.1. Findings of the study

In this chapter, the researcher presented the content into three sections. First, a detailed summary of this study from small and medium enterprises is presented. Next, a discussion of the findings and implications are reviewed. Finally, limitations and future research directions appear in the final section.

The main objective of the study was to understand and measure the strategic financial management practices of small and medium enterprises in the state of Kerala. The study used the six independent variables, they are strategic financial accounting, strategic management accounting, strategic financing decisions, working capital management, Strategic investment decision, and strategic cost management. Business performance was taken as the dependent variable. Another main objective of the study was to identify the market orientation of the small and medium enterprise and whether that has an influence on the profitability of the units under study.

6.1.a. Major Findings of the study

- ❖ The study found out that there is a significant relationship between the financial management practices adopted by small and medium enterprise and their business performance. The business performance is measured using the net profit margin.

- ❖ The study showed that strategic financing decisions, working capital decisions, strategic cost management, strategic financial accounting practices of small and medium enterprises positively influences the performance of the business in terms of financial parameter.
- ❖ The study found that strategic investment and strategic management accounting practices don’t have a significant impact on the financial performance of the business.
- ❖ Majority of SME’s do not have the practice of preparing cash flow statement, cost sheet and production statement. However, bank reconciliation statement, balance sheet, and profit and loss account are prepared by majority of the SMEs brought under the study.
- ❖ Majority of the SME’s use financial statements for planning, decision making and historical comparisons. Ratio analysis and industry wise comparison are not practiced. Almost all of the units covered do have an external audit mechanism whereas very few have the practice of internal audit system.
- ❖ Though majority of the SME units have opined that they have scientific inventory system, the practices adopted by them doesn’t show the same. All the units are making use of the credit facilities offered by the suppliers.
- ❖ SME units do face the problem of bad debts. However, they do have a mechanism of measuring the creditworthiness of the customers and managing the receivables.
- ❖ Majority of the SME s don’t practice any scientific investment evaluation methods. Firms which adopt capital budgeting are following traditional methods only.
- ❖ SMEs are satisfied with the financing options available for them and they do use varied options of funding looking at the cost of the funds.
- ❖ High proportion of the SMEs are satisfied with the working capital funding available to them. Very few organisations have the practice of preparing working capital estimates.

- Small and medium enterprises are adopting strategic financial management practices in parts and not entirely. Very few organisations have strong investment evaluation mechanisms and strategic management accounting practices. The units don't give much importance to budgeting other than cash budget and annual budget.
- Market orientation of the SME does influence the business performance of the enterprises. This means that small scale units who are market oriented is found to have a significant effect on the profitability of the units.
- The study found out that when the company gives more emphasis on the specific rules and procedures for performing the activities and the job involved in the organization it direct the company to focus on market orientation. Formalization enables the market orientation of the business.
- Centralization of authority in the small and medium enterprise has a negative impact on the market orientation. Decentralization encourages market orientation and thereby the business performance of the unit.
- The research finding shows that the departmentalization of the various activities of the SMEs and their interconnectedness encourages market orientation of the business.
- SMEs with formal reward management systems for the managers positively influence the market orientation of the firms. Reward systems has a positive impact on business performance.
- The study found that reactive flexibility of SMEs are having a moderating effect on improving the market orientation of the firms thereby leading to better performance.
- When the proactive flexibility of the firm is high, it increases the effect of market orientation and in turn creates business performance. Thus it is found that proactive flexibility has a moderating effect on market orientation.

6.1.b. Discussion of the findings

This section of the report discusses the major findings of the study and interprets the findings in the context of the existing literature evidences and tries to explain new insights or patterns observed.

Strategic financial management practices are essential for any business to survive and grow. An inefficient system of managing financial management practices will lead to the closing down of the units. (McMahon 1991, Berryman 1983, Peacock 1985, Potts 1975). The cash management practices which are essentially a part of working capital management is found to be of significant impact on the profitability of the business. This is in line with existing literature (Peel and Wilson 1996, Kesseven Padachi 2006, Walker and Petty 1978**).** Gitman et al (1979) have also found that small firms have longer cash cycles which in turn reduces the profitability of the firms compared to shorter cash cycles of large firms.

Another essential element of working capital management is receivables management. The present study has found significant influence of proper receivables management on the profitability of the firm. Organisations with sound credit policies and tracking of credit worthiness of the customers seem to have significant effect on the profitability. This is found to be in line with the existing literature. Kesseven Padachi (2006) has found that longer credit period given to customers has a negative impact on the profitability.

The present study has found a significant impact of proper inventory management on the profitability of SMEs. Inventory holding period, inventory turnover etc are essential elements of inventory management. The study found that organisations having optimum inventory policy having a positive impact on the profitability of the business. Literature also reveals that organisations having high inventory will have lesser profitability. Gitman et al (1979) found in a comparative study between large and small firms that smaller firms showed more eagerness in inventory control than large firms as lesser inventory improved profitability. DeThomas and Fredenberger (1985) study also shows that poor inventory management techniques has led to the miserable performance of the small scale sector.

Receivables management is an essential element of strategic financial management. The present study found that there is a significant effect of receivables management on the profitability of the business. Organisations with proper customer credit worthiness assessment systems and follow up actions for delay in receivables payment etc seem to have significant effect on the profitability. Literature also supports this finding. Kesseven Padachi (2006), Gitman et al (1979), DeThomas and Fredenberger (1985).

Strategic management accounting practices are considered to be an essential parameter in improving the performance of large as well as small enterprises. However this variable is found to be having insignificant in terms of the impact on profitability of the firms in the current study. The literature also has mixed outputs in terms of the relevance of management accounting. There are literature supporting role of management accounting on the success of small enterprises (Shafique et.al 2013, Ahmad 2013, Pavlatos and Paggios (2009**).** As part of the data collection, the researcher had interactions with the accounts and finance managers of the firm and researcher found that the absence of management accounting skills and orientation of owner managers towards the same is a reason for the lesser implementation of the same.

Strategic Financial accounting is another variable which the study showed insignificant impact on the profitability of the firms. Most of the small and medium enterprises covered under the study had their own accounting system. However some of the units had outsourced the accounting work to tax practitioners. They don’t have a system of maintaining various records which enables planning and decision making for future. Even computerizes accounting and accounting information system usage is found to be very less. The study found out that most of SMEs looked at accounting as merely a statutory obligation rather than efficiency improving method. There is again mixed literature support for the same. Similar has been found in studies in different countries across the world suggesting the cost of having own accounting system to be costly, lack of qualified accounting staff etc. There is literature suggesting lack of accounting makes availing of cheaper sources of funding also difficult. (Dr. Okafor, 2012, Fatoki 2003, *Agyei- Mensah 2011*).

Strategic Financing decisions in the present study are found to be having significant impact on the profitability of the small and medium enterprises. The financing decisions include the assessment of the various sources of funding in terms of the cost of capital and making plans for finance requirements well in advance etc. All this if done in a professional manner is found to be reducing the cost of capital and thereby leading to the profitability of the business. Literature has shown sufficient support for firms with strong financial management practices and financing policies having better financial performance (Padachi 2010, Carey and Flinn, 2005)

In global competitiveness, marketing concept is an important interacts to business financial results. The applied marketing concept through market orientation is popular in multinational corporations. The contribution of market orientation superiority as a business culture has been strongly supported in earlier empirical studies (Narver and Slater 1990; Ruekert 1992; Deshpande, Farley and Webster, 1993). In small and medium scale industries, marketing orientation is also a key element in an organization's culture and organizational business results (Pelham and Wilson, 1996). The relationship between market orientation and consequences has been extensively studied in both profit and nonprofit organizations.

The primary purpose of this research investigates: (1) the antecedents of market orientation of the owner/manager of SMEs, (2) the strategy variables which moderate the relationship between market orientation and business performance, (3) the consequences of a market orientation including sales, return on sales and sales growth. Market orientation was tested to show whether it predicted business performance. Further, a strategy variable defined as "strategic flexibility" was posited to influence the market orientation-business performance relationship. Antecedent variables tested in earlier studies including formalization, centralization, interdepartmental connectedness and reward systems, were posited to influence the practice market orientation. The major path relationships in the conceptual model proposed were tested using a correlation matrix and regression analysis, and structural equation modelling. In addition, the study also tested the moderating influence of strategic flexibility using hierarchical structural equation modelling.

The results of the data analysis produced some interesting findings. A key contribution of this study was the introduction of strategy variables, which were posited to moderate the relationship between, market orientation and business performance. The null hypotheses were tested and findings were reported.

A correlation matrix was applied to test Hypotheses 1 concerning the relationship between the market orientation and business performance on return on sales, market share growth and new product sales. Using the analysis, return on sales, market share growth and new product sales of business performance were significantly related to market orientation. Thus, the first null hypothesis stating "There is a negative or no relationship between market orientation and return on sales, market share growth and new product sales of business performance" was rejected.

For Hypothesis 2, the relationship between the organizational factors and market orientation was analyzed using a correlation matrix and SEM analysis. Based on the correlation matrix, formalization and centralization were negatively related to market orientation. A SEM analysis was then conducted revealing results similar to the correlation matrix. Therefore, the second hypothesis stating "There is positive or no relationship between market orientation and formalization and centralization" was rejected.

Similarly, interdepartmental connectedness and reward system both showed a positive influence on market orientation. The SEM analysis was then conducted revealing results similar to the correlation matrix. Therefore, interdepartmental connectedness and reward systems were positively related to market orientation

Therefore, the second hypothesis stating "There is negative or no relationship between market orientation and interdepartmental connectedness." was rejected.

Also the hypothesis stating "There is negative or no relationship between market orientation and reward system" was rejected too. For Hypothesis 3, strategic flexibility was tested using hierarchical regression for its moderator influence on the relationship between market orientation and business performance. Strategic flexibility was divided into reactive and proactive dimensions. For reactive strategic flexibility, the coefficient (R2) decreased for each business performance indicator: return on sales, market share growth and new products sales. This means that the reactive strategic flexibility weakens the relationship between market orientation and business performance. By the same token, proactive strategic flexibility showed an increased coefficient (R2) for each indicator of business performance in the market orientation and performance relationship. This means that the proactive strategic flexibility strengthens the relationship between market orientation and business performance. Therefore, null hypothesis stating "Reactive strategic flexibility and proactive strategic flexibility do not interact with market orientation to influence business performance on return on sales, market share growth, and new product sales" was rejected.

The findings from the first hypothesis showed that market orientation is related significantly to business performance; results on sales, market share growth, and new products sales. The positive relationship between market orientation and return on sales, is similar to previous research on this important determinant of business performance (Kohli and Jaworsk, 1990, 1993; Narver and Slater, 1990, 1991, 1992, 1994). This study also supported the positive influence of market orientation in sales growth, return on assets and new product success (Slater and Narver, 1994). Earlier writers have suggested that, market orientation intelligence activities lead organizations to increase market share growth (Porter, 1980). The result of a positive influence of market orientations on new product sales confirmed earlier empirical work (Calantone and Cooper, 1981, Parry and Soug, 1993; Souder, 1987). For a small firm business, perhaps owners/managers of the SMEs are involved with target market penetration and concentrate on sales as a means of improving financial performance. The findings are consistent to Jones's study (1995) and Narver et al.'s study (1993).

The findings from the second hypothesis showed that formalization and centralization were negatively related to market orientation. This negative relationship is is line with previous research which Jaworski and Kohli (1993) argue that formalization may negatively affect market orientation if emphasis on rules results in an organization that is less adaptive to the environment, but may positively affect market orientation if rules enhance customer satisfaction. They also suggest that formalization, centralization, and departmentalization may inhibit market-oriented behavior. Deshpande's and Zaltman's (1982) study had suggested the importance of interdepartmental connectedness in facilitating the market orientation in terms of dissemination and responsiveness to market intelligence. Interdepartmental connectedness positively influenced the practice of market orientation in this study. Several related streams of research suggests that connectedness facilitates interaction and exchange of information, as well as utilization of the information (Cronbach and Associates, 1981; Deshpande and Zaltman, 1982; Patton, 1978). The greater the extent to which individuals across departments are directly connected (or networked), the more they are likely to exchange market information and respond to it in a concerted fashion. This information is used to create and enhance customer satisfaction through continuous needs assessment. Therefore, connectedness seems to positively affect market orientation. This relationship was confirmed by Verayangkura (2000).

Concerning the reward systems, this study found that reward systems positively influence market orientation. That is, the stronger the reward system, the greater the market orientation. This supports previous findings suggesting that the reward systems within company are substantial in forming the behaviour of employees (Jaworski, 1988; Jaworski and Kohli, 1993). Organizations that use market-oriented behaviour as the basis for administering and rewarding managers will result in greater drive from them to be more customer focused. Strategic flexibility was shown to exhibit a moderating influence on the relationship between market orientation and business performance. That is, proactive strategic flexibility ***strengthens*** the link between market orientation and business performance. On the other hand, use of reactive strategic flexibility ***weakens*** the market orientation—business performance relationship. The results thus show that strategic flexibility has a significant moderator influence on the market orientation and business linkage. These results are similar to Evan's (1991) study, which found that strategic flexibility significantly moderated the market orientation and business performance relationship.

The present study has found that market orientation has got significant impact on the business performance. The model tested was basically tried out in the context of large scale organisations. However the current study has found significant impact in the case of small and medium enterprises as well. The four antecedents of market orientation, i.e., formalization, centralization, departmentalization and reward system are all having significant influence on the organisation for achieving market orientation. Business organisations where we can see centralization of authority the extent of market orientation is found to be less. It is found that organisations were there is formalized system of working the market orientation is found to be better. Similarly inter departmental connectedness is what is represented by departmentalization wherein organisations with better coordination of departments and allocation of work among departments there is found to be higher market orientation. If the managers are rewarded properly there interest to focus on customer is higher and therefore the market orientation is higher. Reactive and proactive flexibility prescribed in the model is also found to have a moderating effect on the business performance. These findings are in tune with the research work undertaken by various authors earlier. (Narver and Slate 1990, 1994; Kohli and Jaworski, 1990, Pleshko, 1993, Anderson, 1987; Little, 1988)

6.2. Implications for Managers and Researchers

For managers/ owners of SMEs, first, the definition of market orientation is likely to be unknown to many owners/managers of SMEs in Kerala who have never attended a formal marketing course or seminar. The above findings, however, do provide a starting point for research into how Kerala based SMEs use marketing management as a tool to achieve higher performance. Following on the results of Narver and Slater (1990), which indicated that large businesses may be the least able to adopt a market orientation, presidents or owners of small firms have a unique opportunity to seek a competitive advantage through their efforts to promote a market orientation. Due to the small number of employees, SME presidents or owners are able to personally reinforce firm-wide market-oriented norms. They also have the opportunity to exploit a simple and adaptable form of organization with that market orientation. Pelham and Wilson (1996) noted, small firms possess more cohesive cultures and simpler organizational structures, thus diminishing the coordinating benefits of a strong market orientation culture. Small firms are also noted for fewer number of product lines and customers, reducing the need for formal activities designed to gather and process market information for marketing decision making. Finally, these characteristics of small businesses may enhance the firm's ability to fully exploit a market-oriented culture.

Moreover, small-firm owner/managers should also try to minimize formalization in decision making and implementation. The implication for managers is that too many formalized rules and policies tend to cause managers to sit back into the same "let's play safe" group and will prevent them from doing something new or different in response to market conditions. This situation lessens market orientation in that firm, resulting in lower business performance.

Owners/managers of SMEs should also recognize the implications of significant sales growth in terms of better interdepartmental connectedness for win-win solution and additional investments in reward systems that recognize employee contributions. In Kerala, empirical research on small and medium-scale enterprises marketing has been very limited, where instead the respondents typically identify new problems such as the quality of product and lack of international market standards. It has been found that small and medium sized industries lack a comprehensive marketing approach and tend to be established on the basis of a proven technical proficiency with marketing relegated to a simple selling function (Kinsey, 1987).

Managers of SME firms should also take a proactive strategic stance, thereby strengthening the link of product success directly with market orientation. Proactive flexibility provides the advantage of introducing surprise over competitors. Proactive flexibility allows the small firm not only to choose from a set of options but also create options that can be exercised in the future to shape the environment, instead of simply reacting to the dynamic environment and changing technology. For example, the launch of new product features from small firm can be easily imitated by bigger competitors who possess scale economics. Consequently, smaller firms need to become more proactive and alert toward innovative products or processes in order to stay ahead of the competition. It is not sufficient for small firm managers to merely possess reactive flexibility in order to recover from downturns and react to a competitors' move. Today, it is even more important for managers to devote more attention to take preemptive actions.

The findings showed that proactive strategic flexibility strengthens the relationship and reactive strategic flexibility weakens the relationship between market orientation and business performance. This implies that flexibility, when it is proactive in nature, is better and more effective for small-firm managers than reactive flexibility when pursuing strategic goals such as leadership in market share, market position and success of new product and the position of the small firm in the industry. According to Morgan (1986:35): "flexibility and capacities for creative action become even more important than narrow efficiency. It becomes more important to do the right thing in a way that is timely and "good enough" than to do the wrong thing well, or the right thing too late." The explanation is that the ability of managers of market-oriented firms to achieve more differentiated new products/services through greater proactive strategic flexibility and greater understanding of customers and competitors will lead to greater new product success and greater customer satisfaction, subsequently better market share growth and profitability (ROI).

Another important implication for SME owner/managers is the critical nature of strategic flexibility. Priorities need to be established to understand that the effects of market orientation are manifest in the form of strategic orientation adopted by the small firm. Firms that do not recognize the value of pursuing activities and behaviors commensurate with a market orientation, may also be suffering from a poor outlook in competitive strategy in terms of lacking a proactive spirit, adopting a decision-making approach that may be misguided and being preoccupied with immediate and short term issues. In this respect, initial intended strategy needs to exhibit the ingredients of proactiveness to suitably accommodate the market oriented activities and behaviors that are associated with this form of strategic flexibility. Clearly, efforts must be made to encourage managers to think beyond a focus on specific strategy type implementation per se and acknowledge that it is the form of competitive strategic flexibility that is more important and market orientation will have a key role to play in determining this. Given this scenario, commitment to one of the generic strategies (either cost leadership or differentiation), instead of being "stuck in the middle" to gain sustainable competitive advantage as suggested by Porter (1980), may not be valid any more. On the contrary, firms may have to be more committed to more than one course of action with proactive stance.

For researchers, based on the literature review, relatively few prior research models of market orientation and performance included strategic variables, which may influence market orientation's impact on business performance. This study attempted to fill this gap by investigating the impact of market orientation on business performance that is moderated by strategic flexibility. This study conceptualized strategic flexibility as both proactive and reactive and supported the theoretical claim that strategic flexibility significantly moderates the relationship between market orientation and firm performance, thereby providing a competitive advantage that is critical for organization.

Second, the findings that proactive strategic flexibility strengthens the relationship between market orientation and business performance implies that the performance of prospector's marketing competencies, which possess proactiveness as the key ingredient, are superior to those of other firm strategy types. This is consistent with findings from Conant, Mokwa, and Varadajan's (1990).

Third, the data were collected from a large number of small firms in a varied set of industries, which allows for the discovery of principles governing firms that generalize across certain SME markets. Nevertheless, the highly diverse and unique type of industries represented in the sample could create too much noise to confirm the broad range of theoretical contingencies. Although heterogeneity in a sample is a condition for external validity, sector-or industry-level studies would be useful in order to validate these results. Fourth, under similar conceptualization of strategic flexibility, the findings in this study that proactive strategic flexibility has a positive moderating influence; while reactive strategic flexibility has a negative moderating influence. This differs from Evan's (1990) finding that reactive strategic flexibility has a positive moderating influence, but to a lesser extent, than that of proactive flexibility. One of the explanation may be that Evan's (1990) study focused on U.S. firms that sells hi-tech products, while this study focus on Kerala based SME firms selling four different types of ordinary products. Future studies may wish to control for the same type of industry to validate the results of earlier empirical evidence.

In summary, the current study provides several unique contributions to both theory and practice. First, the study findings do provide a starting point for research into how Kerala based SMEs use strategic marketing and financial management practices as a tool to achieve performance. In theoretical and practical perspective this contextual understanding in the state of Kerala is much needed one. Second, for researchers, based on the literature review, relatively few prior research models of market orientation and performance included strategic variables. This study attempted to fill this gap by investigating the impact of strategic market orientation and financial management practices on business performance. Third, the data were collected from a large number of small firms in a varied set of industries, which allows for the discovery of principles governing firms that generalize across certain SME markets. Fourth, it is suggested that strategic financial and marketing orientation can be properly designed and executed in an organization within a specified time. Thus, the theoretical model and the empirical results of the study can be used as an insight for further implications, basically for the development and execution of the policies and practices in a way that it help the firms to achieve better business performance.

6.3. Conclusion

Small and medium enterprises are a major contributor of economic activity in India. There is a huge increase in the number of entrepreneurs starting their own business ventures. However the number of units closing down is a cause of concern for the Government and the decision makers. The present study was an attempt to know what contributes to business performance of small and medium enterprises. The study could identify two important aspects, ie., the SFM practices of SMEs and the market orientation of the SMEs. We conclude that both these elements if concentrated by the entrepreneurs and other stakeholder will lead to stoppage of huge wastage of the limited resource called capital through closing down of SME units.

There is a wide gap between what is been practiced and what is being taught in the case of management accounting and capital budgeting. Small and medium scale enterprises are not having sufficient knowledge about the importance of management accounting and capital budgeting. The major reason is found to be the ignorance of the owner managers and the finance/accounts managers. There has to be a concerted effort from the Government, MSME associations and other stakeholders in generating interest among the owner managers with regard to better strategic financial management practices and the need to be market oriented. This will enable the MSMEs to flourish in the market with severe competition and thereby enabling an equitable growth in the society. With the limited knowledge based on the pilot study including the micro enterprises, the researcher urges the Government to make the entrepreneurs understand the essentials of having sound financial management of the business. Micro enterprises were found to be lacking in formal practices of managing the funds and this was severely affecting their effectiveness. As majority of the MSMEs are dependent on the innovativeness and ideas of the entrepreneur, workshops conducted for the owner managers will do a world of good in pushing the business units to efficiency.

The researcher concludes that market orientation of MSMEs is vital for the survival of the units. Formalisation as an antecedent to market orientation focuses on procedures and practices to be structured for an effective market orientation. The MSMEs primarily circling around the entrepreneurs should understand that the decentralization of authority and responsibility is the way forward. Development of second line of managers will enrich the performance of the MSMEs.

6.4. Recommendations for Further Study

Research efforts in the future may wish to consider certain issues that emerged from this study. First, to improve current knowledge of strategic flexibility, future research may also consider to create different conceptualizations of strategic flexibility that contrast with those adopted here in this study. Also this study treated strategic flexibility as moderator variable. Future research may wish to treat strategic flexibility as mediating variable and compare the results.

Second, in this study, no grouping by specific characteristics of each firm was conducted. For example, the number of employees in the organization, the revenue size of the firm, etc. should be studied as control variables as they may affect how firms practice a market orientation. Also the position and the tenure that the respondents held with their firm may account for some of the variation in the practice of market orientation. Future studies should consider controlling for their effects. Selection of key informants is particularly important when using self-reported performance measures. Some questions were not appropriate to ask financial managers about marketing or innovation; nor is it appropriate to ask sales managers about financial data, revenue growth and profitability. Hence, future studies should take into account the informants' background when assessing firm performance. Third, some questions may be culture or industry specific and may not be applied to Kerala culture in general and Kerala SMEs in particular, especially the scale items dealing with interdepartmental connectedness and strategic flexibility which may not be generalized or may not be congruent with certain Kerala industry practices.

Fourth, research discovering the relationship between market orientation, marketing strategy and marketing tactics would be timely. Related topics of interest include the nature of flexibility in segmentation and targeting employed by market oriented firms, and the relationship building flexibility activities that are practiced by customers and suppliers.

Fifth, researchers should also study further how the role of business environment uncertainties affects the nature of association between market orientation and strategic flexibility. There might be an environmental contingency factors that play a significant role in how SME market orientation influences firm performance, especially in a developing market like India. Finally, the current study used cross-sectional data. The effects of market orientation presumably occur over the long run, thus longitudinal investigations of both antecedents and consequences could be conducted to determine whether the influence of market orientation changes over time.

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Appendix A

Strategic Financial Management practices of Small and Medium Enterprises in Kerala; A market orientation approach on business performance

Dear Respondent,

This is a survey questionnaire which is aimed at identifying the strategic financial management practices adopted by Small and Medium Scale Enterprises (SMEs) in Kerala. The data which you provide will be kept strictly confidential and it will be used only for academic purpose.

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1. Name & Address of organization: ....
2. Date of incorporation/Registration: ....
3. Nature of Organization. Please tick as appropriate

   Private Limited Company ☐ Public Limited Company ☐ Partnership ☐

   Sole Proprietor☐ Family Owned Business☐Others (please specify)……………
4. Nature/Kind of organization (please tick as appropriate)

   Rubber based products ☐ Plastic☐ Coir ☐ Edible Oil ☐

   Electrical and Electronics☐ Agri Based products ☐ Iron, Steel, and other metals ☐ Any Other☐
5. Major product/service lines: ....
6. For how long has your company been in operations (please tick as appropriate)

   Less than five (5) years ☐ Between 5 and 10 years ☐ Between 10 and 15 years☐

   Between 15 and 20 years ☐ Over 20 years☐
7. How often does your company hold management meetings?

   None at all☐ Occasionally ☐ Weekly☐ Monthly☐ As situation demands☐
8. Who is the highest decision maker in your company?

   Executive Chairman ☐MD/CEO ☐ Chairman☐ GM☐ Owner/Manager ☐

   Others(Specify) ……………….
9. How many people are employed by your company?

   Total☐ Less than 10☐ 10-20 ☐ 20-30 ☐30-40☐40 and above☐
10. How many of them are

    Workers: <10☐ 10-20 ☐ 20-30☐ 30-40☐ 40 and above☐ NIL☐

    Supervisors: <10☐ 10-20 ☐ 20-30☐ 30-40☐ 40 and above☐ NIL☐

Administrative: <10☐ 10-20 ☐ 20-30☐ 30-40☐ 40 and above☐ NIL☐

Managerial Staff: <10☐ 10-20 ☐ 20-30☐ 30-40☐ 40 and above☐ NIL☐

11. How frequently do you employ temporary workers?

Not at all ☐ Rarely ☐ Regularly☐ Frequently☐ Very Frequently☐

12. What is the proportion of temporary to permanent workers?

Nil ☐ <25% ☐ 25-50% ☐ 50-75% ☐ 75-100% ☐

13. Which method of wage payment do you follow?

Piece rate system☐ Time rate system☐

14. Maintain your own accounting system?

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree☐

15. Accounting in your organization is computerized?

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree☐

16. If yes, please specify the software used?

Tally☐ Busy☐ Others☐ NA☐

17. How may staff do you have in your accounts department?

Less than 3☐ 3-7 ☐ Above 7☐ No Accounts staff☐

18. What is the qualification of the accounts/finance staff?

+2/PDC☐ UG ☐ PG ☐ Professional degrees(like CA/ICWA etc) ☐NA ☐

19. Please specify the average experience of your finance/accounting staff

Less than 3 years☐ 3-10 years☐ 10-20 years☐ Above 20 years☐ NA☐

20. Send your accounting staff for training to update their knowledge?

Strongly disagree ☐Disagree ☐ Neutral☐ Agree☐ Strongly agree☐

21. Do you prepare the following financial statements?

Cash Flow Statement: Strongly disagree ☐Disagree ☐ Neutral☐ Agree☐ Strongly agree☐

Cost Sheet:Strongly disagree ☐Disagree ☐ Neutral☐ Agree☐ Strongly agree☐

Production statement: Strongly disagree ☐Disagree ☐ Neutral☐ Agree☐ Strongly agree☐

Bank Reconciliation statement: Strongly disagree ☐Disagree ☐ Neutral☐ Agree☐ Strongly agree☐

Balance Sheet:☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

P & L Account:Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

22. Use financial statements for planning?

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

23. Use financial statements for managerial decision making?

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

24. Use financial statements for historical comparisons?

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

25. Use ratio analysis as a tool for analysis of financial statements?

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

26. Use financial statements for comparison with industry standards?

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

27. Prepare contribution margin analysis for better decision making?

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

28. Classify cost into fixed and variable for better decision making?

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

29. Company have external audit

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

30. Organisation conducts internal audit

    Never ☐ Rarely☐ Regularly ☐ Frequently ☐ Very Frequently☐

31. Your company deals in:

    Raw materials ☐ Semi processed goods ☐ Finished Goods☐

32. Sources of your products or raw materials : Local ☐ Imported ☐
33. Your organization has a scientific inventory control system

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

34. How do you value your stock?

    Cost Price ☐ Net Realizable value ☐ Cost Price or Net Realizable Value whichever is less ☐ NA☐

35. How many days stock do you carry?

<3 days☐ 3-7 days☐ 1-3 weeks☐ Above 3 weeks ☐ NA ☐

36. Economic order quantity is calculated for identifying most economical purchase?
    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐
37. How many suppliers do you have for raw materials? <5☐ 5-10 ☐ >10☐
38. Your organization has faced difficulty in getting materials on time?
    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐
39. Have your production been stopped due to non-availability of raw materials?
    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐
40. Raw material required for production is seasonal in nature.
    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐
41. Just In Time concept of inventory procurement is followed in your organization.
    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐
42. If no, Why? ....
43. Organisation gets credit for purchases.
    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐
44. What is the duration of credit provided by suppliers?
    < 1 week☐ 1 -4 weeks☐ Above 1 month ☐ NA☐
45. Your company's annual sales are:
    Less than 3 crore☐ Above 3-Less than 5 crore☐ Above 5 crore ☐
46. Organisation provides credit for your sales.
    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐
47. If yes, what is the duration of credit allowed to your customers?
    Less than a week☐ 1-4 weeks☐ More than 1 month ☐ NA ☐
48. Do you have a mechanism of verifying the creditworthiness of customers?
    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐
49. If no, why?..
50. What is the average percentage of bad debts in your organization (% of credit sales)?
    Zero☐ 1-3 ☐ 4-5☐ Above 5%☐ NA☐

51. Do you have any mechanism/system by which you monitor the bad debts and delay in receivables? Yes☐ No☐

52. The Machines and Plants in your company are made

    Domestically: Yes☐ No☐

    Imported: Yes☐ No☐

53. The Spares and Parts you use in servicing your machines are:

    Domestically: Yes☐ No☐

    Imported: Yes☐ No☐

54. Does your company use capital budgeting techniques for evaluating investment proposals?

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

55. We use the following capital budgeting techniques

    Traditional : Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

    Discounted cash flow: Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

56. If traditional, we use the following methods

    Pay Back Period Method :Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

    Average Rate of Return: Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

57. We use the following discounted cash flow techniques

    Net Present Value : Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

    Internal Rate of Return Method: Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

    Profitability Index :Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

Discounted Pay Back Period Method: Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

58. If you are using any of the above methods, please specify the reason for choosing the same.

Simplicity: Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

More relevance: Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

Difficulties with other methods Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

Difficulty in identification of discount rate

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

Considers the time value of money

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

Ignorance about other methods

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

Any Other: ....

59. How do you finance your project? (If yes ☑ , if no ☒)

Term loans ☐ Own reserves and surplus ☐ Owners fund ☐ Other Sources☐

60. Which of the following is the best source of financing long term projects in your opinion?

Equity ☐ Term Loan☐ Own reserves and surplus☐ Any Other☐

61. We calculate the cost of capital of each of the financing options available.

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

62. We are satisfied with the various financing options which your organization is having.

Highly dissatisfied☐ Dissatisfied☐ Neutral ☐ Satisfied☐ Highly satisfied☐

63. How do you meet working capital needs? (If yes ☑ , if no ☒)

Overdraft ☐ Short term loans ☐ Reserves and surplus ☐ Own capital ☐

64. We find difficulties in arranging working capital on time

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

65. We prepare working capital estimates for your business

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

66. Maintain fixed working capital funding with a bank.

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

67. Maintain variable working capital funding with a bank.

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

68. Are you satisfied with the working capital financing options available for your organization from banks?

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

69. Prepare Annual Budgets.

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

70. Prepare cash budget.

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

71. If yes, Specify the period for which you prepare the cash budget

    Weekly☐ Monthly ☐ Quarterly☐ Half Yearly☐ Annually☐ NA☐

72. How do you determine the level of cash balance(please specify the method)?

    ....

73. Organisation is aware of the benefits of preparing cash budget

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

74. Prepare the following budget for your business ? (If yes ☑ , if no ☒)

    Sales ☐ Production ☐ Advertisement ☐ Master ☐

75. Use standard costing tool for better efficiency.

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

76. Production department sets standards for your labour

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

77. Organisation achieve the standards set.

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

78. How often do you revise the standards?

    Daily ☐ Weekly☐ Monthly☐ Quarterly☐ Yearly☐ Never ☐ NA☐

79. What is the basis of setting the standard?

    Own experience ☐ Industry standards☐ Any other☐

80. We use target costing before starting production

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree☐ Strongly agree☐

81. Pricing of a product is based on

    Marginal Cost☐ Total Cost☐ Competitive Pricing☐

82. What is the yardstick for your organizations financial performance

    Profit ☐ Reserves☐ ROA☐ Net worth ☐ Sales Volume☐ Number of new Orders☐ Capacity expansion☐ Expansion of markets☐Any other☐

83. What is your rate of (net) profit for the last financial year?

    Below 5 % ☐ 5% -10%☐ 10% -15% ☐ 15%-20% ☐ Above 20%☐

84. Please specify any financial management tool which you use in addition to the above

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Q.No.	Rate your opinion on the following statements in a five point scale. (1-Strongly disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly agree)	Score
85	**We constantly monitor our level of commitment and orientation to serving customer needs.**	
86	**The creation of value for our customers is important.**	
87	**We respond quickly and courteously to our customer complaints.**	
88	**Our business objectives are primarily driven by customer satisfaction.**	
COMPETITOR ORIENTATION		
89	We regularly share information within our business concerning competitors.	
90	We rapidly respond to competitors' actions.	
91	We target customers where we have an opportunity for competitive advantage.	
92	Competitive activities are taken seriously.	
FORMALIZATION		
93	I feel that I am my boss in most matters.	
94	A person can make his own decisions without checking with anybody else	
95	How things are done around here is left up to the person doing the work	
96	People here are allowed to do almost as they please.	
97	Most people here make their own rules on the job.	
98	The employees are constantly being checked on for rule violations.	
99	People here feel as though they are constantly being watched to	

	see that they obey all the rules.	
CENTRALIZATION		
100	There can be little action taken here until a supervisor approves a decision.	
101	A person who wants to make his own decision would be quickly discouraged here	
102	Even small matters have to be referred to someone higher up for a final answer.	
103	I have to ask my boss before I do almost anything.	
104	Any decision I make has to have my boss' approval.	

INTER-DEPARTMENTAL CONNECTEDNESS		
105	In this business unit, it is easy to talk with virtually anyone you need to, regardless of rank or position	
106	There is ample opportunity for informal "hall talk" among individuals from different departments in this business unit	
107	In this business unit, employees from different departments feel comfortable calling each other when the need arises.	
108	Managers here discourage employees from discussing work related matters with those who are not their immediate superiors or subordinates	
109	People around here are quite accessible to those in other departments.	
110	Communications from one department to another are expected to be routed through "proper channels".	
111	Junior managers in my department can easily schedule meetings with junior managers in other departments.	
REWARD SYSTEMS		
112	No matter which department they are in, people in this business unit get recognized for being sensitive to competitive moves.	
113	Customer satisfaction assessments influence senior managers' pay in this business unit	
114	Formal rewards (i.e., pay raise, promotion) are forthcoming to anyone who consistently provides good market intelligence.	
115	Salespeople's performance in this business unit is measured by the strength of relationships they build with customers	
116	Salespeople's monetary compensation is almost entirely based on their sales volume.	
117	We use customer polls for evaluating our salespeople	
BUSINESS PERFORMANCE		
118	Return on sales	
119	We have a consistent market share growth	
120	There is a steady increase in product sales	

REACTIVE FLEXIBILITY		
121	We consider an array of contingencies	
122	We anticipate and protect from potentially negative developments	
123	We deliberately install buffers to manage external shocks	
124	We take advantage of opportunities arising from environmental change	
125	We have the ability to recover from downturns in the industry.	
126	We put strategic emphasis on building in slack to manage unforeseen circumstances.	

PROACTIVE FLEXIBILITY		
127	Agility is a characteristic of our firm.	
128	Our company creates major change agents in the industry	
129	Our firm strategies cannot be predicted based on past actions	
130	We constantly work to create options for growth in multiple technological areas	
131	We move to the market with new offerings much faster than competitors do	