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Effective Financial Management Strategies to Improve MSME Performance

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ABSTRACT

The purpose of this research is to find and analyse efficient financial management solutions for improving the performance of Micro, Small, and Medium Enterprises (MSMEs). A qualitative approach was adopted, utilising in-depth interview techniques and participant observation as a data gathering instrument. The research subjects were owners and managers of SMEs who have improved their financial performance in the previous three years. According to the findings of the study, there are three effective financial management strategies: (1) locating appropriate funding sources, (2) producing accurate budgetary reports, (3) managing capital structure, and (4) performance management. These techniques can assist MSMEs in improving their financial performance and dealing with the challenges of a complicated and changing business environment. This study is expected to contribute to the advancement of MSME financial management theory as well as provide practical recommendations to MSME owners and managers on how to enhance their financial performance.

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INTRODUCTION

Financial management is very important for a business to keep its finances and performance stable so that it can keep going even when the economy change (Hasanudin et al., 2022). Financial management is a tool for keeping track of money. It is especially important for tiny, small, and medium-sized businesses (Pusporini, 2020). One of the goals of a business is to make money in the way that was planned. This planning includes how the business handles its money (Layyinaturrobaniyah & Muizu, 2017). The business is a going concern.

To deal with changes in business, MSMEs should have the right plan and financial management. In fact, (Purba, 2019) skills in handling activities or finances for small and medium-sized microentities are often seen as unimportant and ignored. This is because people who run tiny or small businesses usually put production and marketing at the top of their list of priorities. In fact, before production starts, business people need to make plans and look at a lot of different things. At the very least, they need to plan for production and marketing. Planning can also be used to keep track of how production and marketing are being done (Gunawan, 2019).

In the business world, good financial management helps small and medium-sized businesses (MSMEs) handle and use their money in the best way possible. So, MSMEs can make more money, better handle financial risks, and grow their businesses with new ideas (Sri and Ahmad, 2017). But it is not easy to run the funds of an MSME. Because the economy is unstable and competition is getting tougher, MSMEs need to be able to come up with good ways to manage their money so they can face challenges and take advantage of business chances in the future. One of the best ways to handle money is to keep track of cash and keep costs under control. By managing cash well, small and medium-sized businesses can escape running out of money or even going bankrupt (Subagyo & Heri Purnomo, 2022). Also, good cost control helps small and medium-sized businesses (MSMEs) get the most out of the money they have so they don't lose money and make more money.

So, study on how to improve the performance of MSME through effective financial management is very important and relevant. The goal of this study is to help small and medium-sized enterprise (SME) owners and managers come up with effective and long-lasting financial management strategies that will help their businesses do better financially. So, it is hoped that this study will help the MSME sector in Indonesia and the economy of the country as a whole grow.

LITERATURE REVIEW

1. Financial management

Sudana (2011) says that company financial management is a part of company functional management that involves making decisions about long-term investments and handling the company's working capital, which includes investments and short-term funding. In other words, corporate financial management is an area of finance that uses financial principles within a company to make decisions and manage resources in a way that creates and keeps value.

Utari et al. (2014) say that financial management is planning, organizing, implementing, and controlling the search for funds at the lowest possible cost and using them effectively and efficiently for organization activities. Agus Sartono (2015) says that Financial Management can be seen as good fund management linked to allocating funds in different types of investments effectively and collecting efforts to finance investments or learning efficiently. The main job of financial management is to make decisions that help businesses get money and figure out how to spend it. From this point of view, Suad and Enny (2015) say that there is a financial management role that is as follows:

1. Use of funds (Infestation Decision)
2. Obtaining Funds (funding decision)
3. Profit sharing (dividend policy)

The purpose of financial management concerns planning, analysis and control activities carried out by financial managers (Hasanudin, 2022). To maintain the continuity of the company's operations, many financial decisions need to be made by financial managers. Financial decisions can be taken correctly if it is in accordance with the goals to be achieved by the company. In general, the goal of financial management in the short term is to generate optimal profits. So that the owners can receive a greater return from the investment made by the company during its operational activities. However, normatively the purpose of financial decision is to maximize the value of the company (Suad & Enny, 2015; Hermawan et al., 2022).

2. MSME performance

According to Wahyudiati and Isroah (2018), "MSME performance is a result of work achieved by a person or organization in carrying out the tasks assigned to it based on skills, experience, sincerity, and time." [Citation needed] "MSME performance is a result of work achieved by a person or organization in carrying out the tasks assigned to it." According to Aribawa (2016), "The performance of SMEs is the result of work achieved by an individual and can be completed with the individual's task within SMEs in a certain period, and will be related to the value or standard of the SMEs that the individual works." [Citation needed] "The performance of SMEs is the result of work achieved by an individual and can be completed with the individual's task within SMEs in a certain period of time."

Based on the information presented above, one can draw the conclusion that the performance of an MSE is the result of work completed as a whole and compared to work results, targets, goals, or criteria that have been predetermined and mutually agreed upon on a business identity with asset and turnover criteria that have been determined in the law.

The performance of small micro enterprises is one of the most important targets of financial

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management. One objective of financial management is to maximize the prosperity of the owner in addition to maximizing the value of the company (Husnan & Pudjiastuti, 2015; Achmad & Fadlurrohim, 2023). Business performance is very important in determining the success and failure of a business. Generally at the formation or founding stage, a business may very well be unprofitable because of the investment and costs of setting up or starting a business. But when the business begins to develop into adulthood, profits must be generated. Jati (2017) suggests that small companies need to concentrate on performance, respondents agree that the profit report is very important because it is needed for business continuity because it affects the performance of micro and small businesses. Financial performance using profit benchmarks is very important because it is understood that profit is an attraction for investors/financiers to invest in a company or business, profit is one measure of the success of managers or owners in managing limited resources to obtain certain results. Profit is also a determining factor for business survival, and can be a motivator for owners and managers to improve business performance in the future .

METHODS

This investigation employed qualitative descriptive methodology. Sugiyono (2011) and Yulianah (2022) explains that the qualitative descriptive method is a research method based on the philosophy of postpositivism that is used to research on natural object conditions (as opposed to experiments) where the researcher is the key instrument of data collection techniques carried out by trigulation (combined), data analysis is inductive/qualitative in nature, and the results of qualitative research emphasize meaning rather than generalization. Qualitative descriptive research seeks to describe, describe, explain, explain, and answer in greater detail the problems to be studied by studying an individual, a group, or an event as thoroughly as possible. The qualitative method was selected because it can provide a deeper comprehension of the observed phenomena and a more in-depth interpretation of the experiences and perspectives of MSME owners and managers in developing effective financial management strategies. The data obtained through in-depth interviews and direct observation will be descriptively analyzed to identify themes and patterns in MSME financial management.

RESULTS AND DISCUSSION

Financial management is one of the most important responsibilities of company owners and managers, including the MSME sector. They must consider the various consequences of their management decisions on profits, cash flow, and on the overall financial condition of the company as stated in the company's financial statements. This is because the activities of every aspect of the business have an impact on the company's financial performance. Financial management activities must be evaluated and controlled regularly by MSME actors so that the financial management objectives themselves can be achieved. Data from financial management displays summary statistics to owners for the purpose of assessing the effectiveness and efficiency of their companies. Here's how to build an effective financial management strategy to improve company performance

a) Find the Right Funding Source

Starting a new business or firm frequently necessitates the acquisition of funds to finance various business operational tasks. These funding sources can include own resources, loans from banks or financial institutions, investors, or collaborations with third parties. The correct funding source must be chosen carefully to ensure the continuity of business operations and maximize the prospects of business success.

Adequate and appropriate financial sources will allow businesses to buy goods, rent office space, pay staff wages, support marketing and promotional initiatives, and pay other business-related costs. Furthermore, enough and proper financial sources can reassure potential customers, business partners, and investors that the company is serious about business development and can be relied on in the long run.

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It is critical to note that getting financial sources is not always simple and frequently needs hard work and the appropriate plan. Prospective business owners or firms must conduct preliminary research on available funding sources, terms and conditions, and the risks and rewards connected with each source of capital. This will assist business owners or companies in making sound judgments and maximizing available funding sources.

The goal of financial management in business is not only to estimate the initial costs of starting a business, but also to assure long-term sound and successful financial management. Financial management in business must be able to effectively and efficiently plan, organize, and oversee financial resources.

Many business owners, particularly MSME players, employ a business plan to define all business expenses and predict prospective business income in order to reach this goal. The business plan is used to compile financial management reports in order to get first financing from banks or creditors. Initial cost calculations, revenue projections, expenditure projections, and long-term financial strategies are all included in the financial management report.

Furthermore, cash management, accounts payable control, inventory management, operational cost management, and long-term financial strategy development are all part of business financial management. Business owners or managers can maximize profits, avoid losses, and improve business performance through optimizing business finance management.

b) Create a Budget Report

A budget is an essential tool in corporate financial management since it allows business owners or managers to prepare for and control future business costs. A strong budget allows business managers to develop a "road map" that sets out future spending and forecasts earnings.

The process of creating a budget often begins with defining the financial goals that must be met within a specific time frame. Following that, the firm owner or manager can create a detailed financial plan that includes income and cost estimates as well as the distribution of financial resources. The financial strategy is then utilized to construct a business budget.

There are several sorts of business budgets, including operating budgets, capital budgets, and cash budgets. The operational budget is a corporate expenditure plan that includes personnel compensation expenditures, raw material costs, and business space rental charges. Meanwhile, a capital budget is a corporate expenditure plan for long-term investments such as the purchase of fixed assets or the development of new goods. Meanwhile, a cash budget is a strategy for receiving and disbursing firm cash over a specific time period.

In practice, the business budget must be completed on a regular basis and revised in response to changes in business conditions. Business owners or managers can better control business spending, eliminate financial risks, and increase corporate efficiency by adhering to a pre-planned budget. A business budget can also serve as the foundation for crucial business choices such as hiring new personnel or producing new products.

In business financial management, spending must be measured in relation to the value of the benefits acquired by the company. As a result, it is critical for SMEs to carefully analyze all budgets, including those for production, operations, marketing, and business development. Business finance management also allows MSME owners to choose the route and business plan they want to pursue. MSME entrepreneurs can learn how to manage their business finances efficiently by managing their business finances properly.

Companies and players already established in the MSME sector typically make use of financial management approaches in order to generate the appropriate capital structure. A comparison of a company's debt resources and equity resources is what's meant by the term "capital structure." When it comes to financial management, business owners or managers may frequently assess the optimal debt-equity ratio for their company, basing this decision on the level of risk they are willing to take and the desired rate of return.

When it comes time to make decisions on financial management, owners of businesses or managers of companies need to evaluate the benefits and drawbacks of various sources of

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funding, such as bank loans and stock offerings. In the context of this discussion, the primary objective of financial management is to guarantee that the firm can finance its operations and expand its business without taking on an unacceptable level of risk.

When it comes to financing the expansion of their operations, most businesses will look to sources of money located outside of the company. Nonetheless, individuals are responsible for ensuring that they do not exceed the authorized debt limitations set by the organization. A company's capacity to get further sources of funding in the future may be hindered if it carries an excessive amount of debt, which can boost the likelihood of the company going into default.

In conclusion, one of the main instruments that organizations need in order to construct the appropriate capital structure is sound financial management. When it comes to deciding how to finance their company's day-to-day operations and future endeavors, owners and managers of businesses need to give careful consideration to the optimal debt-equity ratio and select the appropriate sources of funding. As a result, businesses have a greater chance of successfully achieving their objectives and enhancing their standing in the market.

c) Performance Management

Financial analysis is an essential component of firm financial management. Business owners and managers can utilize quantitative approaches to objectively analyze firm performance while doing financial analysis. These quantitative strategies involve the use of business finance formulas and ratios to help measure many aspects of firm performance.

Financial formulas and ratios in business are used to calculate cash inflows, return on investment, and time required to return capital. Profitability ratios, for example, are used to calculate a company's profit over a given time period. The liquidity ratio, on the other hand, is used to assess a company's ability to pay short-term debt. Business owners and managers can easily and objectively determine the financial state of their organization by applying these formulae and financial ratios.

Furthermore, financial analysis enables business owners and managers to compare firm performance with similar organizations or industries. It is critical to understand the company's market position and if it is above or below the industry standard. Business owners and managers can improve company performance by understanding the organization's situation.

Overall, financial analysis is a key component of business financial management because it enables business owners and managers to objectively analyze company performance, understand the firm's market position, and take appropriate steps to improve company success.

CONCLUSION

Financial management helps business owners and managers manage finances, including MSME owners. Financial management helps business owners estimate startup costs and make investment and finance decisions. Budgets help MSMEs meet financial management goals and improve business performance. Business owners employ financial management decisions to fund expansion or new opportunities in capital structure management. MSMEs limit debt to prevent the dangers of not paying back principal and interest. Financial analysis allows owners and managers to quantify firm performance using corporate financial formulas and ratios. Effective financial management can help MSMEs function better. Effective financial management practices can boost MSME performance. MSMEs can reach their goals and become sustainable by knowing and adopting the correct financial management approach.

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