

Successful Financial Management Practices in Small and Medium-Sized Businesses



Prácticas de Gestión Financiera Exitosas en las pequeñas y medianas empresas

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Abstract

The purpose of this document is to show how financial management practices enable small and medium-sized companies to achieve business success. Generally, the current situation of medium and small companies worldwide, but especially in the Latin American region, has been a source of study on the problems they face during their operations, and these will be deepened in the analysis of the obstacles and challenges faced by these organizations in such a globalized world, without neglecting the financial management practices that are effective in achieving business success, with it will also develop some key diagnostic tools or techniques for the scope of continuous improvement of these.

Keywords: financial management, SMEs, successful practices.

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Resumen

El presente documento tiene la finalidad de dar a conocer como las prácticas de gestión financiera permiten que las medianas y pequeñas empresas logren el éxito empresarial. Generalmente la situación actual de las medianas y pequeñas empresas a nivel mundial, pero sobre todo en la región de América Latina, han incidido como una fuente de estudio en los problemas a los que se enfrentan durante sus operaciones, y es que estos se profundizará en el análisis de los obstáculos y retos que enfrentan estas organizaciones en un mundo tan globalizado, sin dejar de lado las prácticas de gestión financiera que resultan efectivas para alcanzar el éxito empresarial, con ello también se desarrollarán algunos instrumentos o técnicas de diagnóstico claves para el alcance de la mejora continua de estas.

Palabras clave: gestión financiera, pymes, prácticas exitosas.

Introduction

Studying small and medium-sized enterprises (SMEs) continues to be a factor of interest, since they are linked to the economic movements of Latin American countries, which is why it is necessary to focus on a success factor such as financial management and administration so that as a result of this, various studies are based on elements that determine the success of SMEs, and with this they can manage a harmonious organizational style, which is applicable so that these entities can generate a healthy economic-financial state, so that they can maintain operations and formulate strategies for survival. (González, López, Aceves, & Navarro, 2016).

Therefore, as mentioned by Cabrera, Fuentes & Cerezo (2017) assure that in order to meet the new market demand, a process of continuous change in financial matters is required, hence the relevance of financial management in organizations, because if the company sets a long-term horizon, it is undoubtedly that this is accompanied by a radical change in the financial model.

In this context, the use of good financial management practices has allowed medium, small and micro companies to achieve the desired economic-financial stability, thus generating sustainability and sustainability, however, to understand the essence of financial

management practices, it is necessary to define the term in terms of application models to achieve business success.

Therefore, it is necessary to take into consideration what Westreicher (2020) proposed, in which he states that "financial management is a business science that analyzes how to obtain and optimally use a company's resources". In this sense, it is important to mention that financial management is in charge of defining how the company will finance its operations, this involves both internal and external investment.

Therefore, it is necessary that when considering these as the main generators of employment, an approach that allows identifying those weak points that may compromise their continuity and efficient operation, and therefore a key piece, during the development of this article is to present practices, solutions or alternatives that lead to the organizational strengthening of SMEs.

Companies have chosen to increase within their processes some financial management practices that are considered important in organizational development. For this purpose, we will analyze common practices in small and medium-sized companies that allow them to achieve business success, thus making these organizations sustainable and sustainable in time and space.

Currently, organizations are considered successful to the extent that they can use information to perceive changes in the environment and thus have the certainty for proper decision making, as long as these are based on economic statements, financial ratios and the evaluation and control of the results obtained based on the practices applied to achieve business success. (Párraga, Pinargote, García & Zamora, 2021, p.4).

In this sense, it should be emphasized that business success depends entirely on timely financial practices in accordance with the economic business activity of the organizations. Many investigations related to the challenges that SMEs must face in order to be successful focus on the external impacts that these organizations must face, such as availability of credit mechanisms, investment, administrative procedures, strategic alliances, among others, however, this has also led

to the study of internal factors that describe the companies, in this case focusing on the weaknesses of business management that hinder successful performance.

Over time, medium and small companies have been affected by their different cultural diversities produced by the economic, social and political openness that in a certain way has maintained a radical change in the nature of organizations, increasing in an excessive way the technological tools developed in the market to obtain better information. For this reason there are some companies that have had to modify their mental schemes and ideologies learned for the improvement of these organizations.(Sánchez, Cervantes, & Peralta, 2016, p. 10)

According to García, Mapén & Berttolini (2019) , they consider that financial management can be analyzed from two approaches the first one from the financial movement of the business which refers to credit and investments and the second one from the development level of financial management referred to the organizational structure and information systems (p.5)

It is important to emphasize that financial indicators are a management support tool that allow to show the information obtained from the financial economic situation of companies, whose use generates an efficient decision making, so that these indicators, regardless of whether they have a quantitative or qualitative expression of business behavior, provide reliable information so that preventive and corrective actions can be implemented according to the complex scenarios of the environment.

Management indicators are a practice that guarantees the organizational success of small and medium-sized companies that are dedicated to generating corporate policies to become sustainable and sustainable, however, these indicators must be based on the strategic objectives and goals proposed by the company as a basic support instrument for the control and execution of efficient and effective strategies.

In this context, financial management practices are understood as those that allow continuous improvement of processes by applying

techniques, tools, programs and technologies focused on achieving customer satisfaction both internally and externally, therefore it is considered important to develop investment strategies. (Quintero, Rodríguez & Monroy, 2021) . Some of these are focused on monitoring the financial ratios in such a way that the state of health of the financial economic situation can be known, which implies the level of income, the flow of working capital, the volume of expenditure, among others, Thus, for them it is established as an alternative and a good practice of financial management to monitor the profit margins and gross profits of the organization through accounting and financial software that allows to reduce risks, avoid errors and control failures so that the organization generates adequate information for a correct decision making process according to the possible scenarios faced by small and medium enterprises.

As mentioned by Pinzón, Guzmán and Marín (2018), financial management is considered efficient at the moment that the value of the small and medium-sized company is maximized, which is reflected in the increase in the profitability of shareholders and investors. However, business valuation is the average that reflects the success or failure of the financial management. p (8)

The company's financial strategy depends on its attitude towards profitability and risk. as mentioned by Franco & Urbano (2016). A company with solidity and good positioning in the market will reject high-risk projects, even if they are profitable. The importance and complexity of the financial function depends on the size of the company and the stage of development it is going through. In small companies that develop this culture, previous studies have been carried out to corroborate the importance of formal institutions for the dynamism of the companies, which establish that the environment is a source of critical contingencies for organizational performance and that the environmental factors that affect the performance of the functions are related to the infrastructure and the efficiency of the markets.

According to what was explained in the previous paragraph it is defined that here the analysis of financial indicators is based on the application of analytical tools and techniques of the financial statements with the purpose of obtaining from them significant measures and relationships,

aimed at evaluating the financial economic situation of a company and establishing estimates on its situation and future results useful for decision making. Once the organizations have monitored the financial ratios that are key to corporate financial management, the process of external financing is generated as a possibility to assess the financial management path that the organization is developing, this does not mean that a relationship of dependence is generated, to make small and medium-sized companies sustainable and sustainable, This does not mean that a dependency relationship is generated, to make small and medium-sized companies sustainable and sustainable, but it opens the possibility of growing with guarantees, thus making use of technology as an ally of financial management, will allow companies to develop mechanisms, software or tools to monitor the information in this way the process is advantageous because to control and evaluate the results of the business activity to which companies are engaged in financial management will be responsible and effective.

Materials and methods

For the development of this research, a descriptive study has been used through observation, which allows the collection of primary information of greater impact and knowledge about financial management practices in small and medium-sized companies.

The results obtained will be used to decide whether it is necessary to deepen the research in the future; one of its main advantages is the study in the place of the phenomenon (such as interviews to the owners of small and medium enterprises), so that the data collected are more reliable, of the challenges to which they really have to adapt to achieve business success.

For this research, the descriptive method was applied based on the technique of qualitative and quantitative observation for the interpretation of statistical data from updated sources of information. The analysis of data provided by international economic impact magazines, scientific journals, postgraduate theses, among others, was used as a complement.

Results

The business fabric is characterized by its high percentage of SMEs and specifically microenterprises, according to INEC 2020 data, 82.8% of the companies arise out of necessity, for that reason the duration and continuity of the same is short term, most of the SMEs dedicate their total production at the time of operation and therefore it is complex for a few to survive.

In the following graph we will show the total production between a comparative of the year 2019 versus 2020 with respect to medium-sized companies.

According to the information in the graph in 2020 large companies generated 84.6% of production while medium-sized companies reduced their production by 17.8% in contrast to 2019.

On the other hand, in the following graph we will show how the companies that arise out of necessity, in this case those of meals, have been influenced by the absence of good financial management practices in the development of their activities and therefore reduce their added value so that incurring in the absence of the analysis of ratios or financial indicators, generates that these medium and small companies do not achieve success in time and space.

Discussion

Financial management practices are a trend that moves much of the world economy applied to medium and small businesses, this situation generates a great advantage for the sustainable and sustainable development of SMEs, since when encountering globalized scenarios full of competitiveness and speed, it has driven the development of financial management practices that contribute to business growth. (Gálvez, Hernández & Molina, 2016)

As mentioned by Rebato (2020), he states that the poor management of companies is influenced by the absence of understanding, monitoring and adequately controlling the organization's finances.

There this sense (Rebato, 2020; cited in Kenton, 2019) mentions that strategic financial management and in the purpose of generating profits

for the business and ensuring an acceptable return on investment (ROI) so that harmony is found between financial controls and business strategy.

In this sense, what was proposed by several authors during the development of this article is that for an efficient financial management practice it is necessary to make use of financial indicators as a strategic tool for the achievement of business objectives, thus ensuring the growth of medium and small companies over time, without neglecting all stakeholders that influence this process of growth and development, in addition, since everything is linked as a chain reaction, financing should be considered intelligently in order to improve the debt ratio and thus demonstrate the financial solvency of the company. On the other hand, it is necessary to mention that financial management finds a balance between profitability and risk, so that companies are already prepared for growth.(Cadena, Rivera, Pazmiño, & Sarrade, 2020, p. 870).

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