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Financial Planning as a Competitive Tool for SMES

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Abstract

Objective: Evaluate the use of financial analysis tools in SMEs as a mechanism to achieve higher levels of competitiveness. **Methodology:** For the analysis, a quantitative research was applied, which a Lickert type survey applied to 40 busines spersons from the city of Barranquilla, selected intentionally, supported and who voluntarily and covered by the law of habeas data participated in the research. **Recommendation:** The concluding observations indicate that SMEs have not been using financial planning mechanisms, which largely corresponds to the levels of training of business leaders. The reflections also suggest that it is important to bring SMEs closer to the promotion and training organizationsin order to achieve results that are more favorable. **Conclusion:** In the final part, it can be said that SMEs grow largely thanks to the intuition of their leaders, but not because of organized financial planning, which can lead to scenarios of uncertainty or loss of resources.

Keywords: Competitiveness, Entrepreneurship, Financial Planning, SMEs

1. Introduction

Competitiveness and globalization have become fundamental terms in the strategic planning of any company that wants to be sustainable over time, which is why they are topics of interest to researchers, governments and business organizations due to their close association with the success of an entity[1]. Recent studies have established that government guarantees and equity have a direct effect on the competitive advantages of new businesses, and indirectly on family finance, bank financing, private capital, industry, the size and characteristics of entrepreneurs; therefore, it is important to understand the impact of government financial support measures on the overall competitive advantage of businesses[2].

Authors in area[3] point out that the main constraints faced by small entrepreneurs are lack of funding, limited human resource capacity, poor management skills, lack of labour skills, poor marketing strategies, low research and development efforts and lack of innovative technology. Competitiveness and sustainability are the focus of interest of most companies, in search of competitive advantages, organizations are looking for strategies such as the re-engineering of their processes, products and business models; therefore, by monitoring the performance of these elements, promotes the strategic dimension of traditional accounting and financial construction[4].

According to other research, a strategic plan is the company's game plan, designed from the selection of the best alternatives, in terms of profitability, considering commitments to markets, policies, procedures and specific operations. Similarly, companies' competitive strategy is the result of the interaction between their financial decisions and their market environment[5]. While cost reduction programs are popular strategies during times of crisis, companies are still seeking to develop competitive advantages over competitors by maximizing revenues through differentiation, minimizing costs through efficiencies, or specializing in a niche market; to do so, decision makers must know and understand the nature and factors that individually or collectively affect their competitive position[6].

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Financial management is crucial for the creation and maintenance of economic value or wealth, since its development involves making decisions in several areas such as the determination of sources of financing and dividend policies, investment decisions and management of working capital; therefore, this management is considered the integration of six components, such as financial planning and control, accounting, financial analysis, accounting, budget and working capital management[7].

The evaluation of financial performance is very important in a highly competitive environment, while financial performance indicators reflect the competitiveness of any organization, making it necessary to apply the analysis in a timely and critical manner; traditionally, performance measurements based on accounting information have been used, although recently measures related to value generation have been included[8]. Several studies have shown that competitive strategies have a positive and significant impact on the organization's performance, insofar as performance measurements are made, especially financial indicators, allow us to determine how effective and efficient the strategies developed are proving to be, based on timely monitoring[9].

Financial analysis skills are important to all actors in the business environment, including investors, creditors and regulators; additionally, and regardless of the nature of the business, managers with the analysis skills are able to establish the financial health of their organization[10]. According[11], financial statements are defined as the result of combining accounting facts, accounting conventions and personal judgments, prepared in order to provide interested parties with information relevant to the financial development of the business; they are classified between the balance sheet and the profit and loss statement. On the other hand, they define financial analysis as the application of analytical techniques and tools in financial statements in order to estimate and evaluate the organization's characteristic behaviors, measure the results obtained by the organization, and determine its efficiency.

Financial ratios are the most commonly used tools for analyzing and interpreting financial statements. They arise from the result of dividing monetary amounts from the accounts and the items that make up those reports, and are generally interpreted by comparing them to[11]:

- Historical reasons specific to the same organization.
- Typical reasons for the competitive context.
- Characteristic reasons of referring companies in the same sector.

A study conducted by[12] in a population of 4.168 SMEs in Colombia, established that most of these companies are financed mainly with their own resources, and to a lesser extent with short-term liabilities and, to a much lesser extent, with long-term liabilities; likewise, important limitations were found in the activities of income generation and the attraction of sources of financing that strengthen their performance; this was backed up by the analysis of liquidity, efficiency and profitability indicators based on the financial statements reported in the Superintendence of Companies for the years between 2004 and 2009.

Financial risk is understood to be that resulting from not having the necessary conditions to cover the company's financial costs. Various authors[13] highlight three types of financial risks characteristic of SMEs, consisting of market risk, credit risk, liquidity risk, operational risk, legal risk and transaction risk; depending on those that generate the greatest impact on the organization, the best indicators should be established to develop an adequate financial analysis. Taking into account the above, other studies propose the following classification of reasons, derived from the set of indicators in Table 1[14].

Table 1. Reasons for the analysis of the financial situation

Type	Definition
Reasons for solvency and liquidity	Current assets / Total assets
	Current assets / Current liabilities
	(Current assets – Current liabilities) / Total assets
	(Current assets – Inventories) / Current liabilities
	Current assets – Current liabilities
	(Current assets – Inventories) / Total assets
	(Current assets – Inventories) / Current assets
	Available / Current liabilities
	Available / Current assets
	Total assets / Total liabilities

Type	Definition
Structural variables	Total assets
	Operating income
	Net profit
	Current liabilities
	Equity
Mixed reasons	Non-operating expenses / Total assets
	Profit before tax / Assets
	Net profit / Total assets
	Net profit / Total liabilities
	Net profit / Equity
	Profit before interest and taxes / Current liabilities
	Operating profit / Total assets
	Net profit / Current liabilities
	Non-operating expenses / Total liabilities
Cash flow reasons	Available / Total assets
	Available for investment / Total liabilities
	Cash flow from operating activities / Total assets
	Cash flow from operating activities / Total assets
Reasons for rotation	Operating income / Total liabilities
	Operating income / Total liabilities
	Accumulated earnings / Total assets
	Operating income / Current liabilities
Reasons for hedging or leverage	Total liabilities / Total assets
	Financial obligations / Total assets
	Current liabilities / Total liabilities
	Total Liabilities / Equity
	Equity / Total assets
	(Current assets - Current liabilities) / Total liabilities
	Current liabilities / Total assets
	Equity / Total liabilities
	Non-current liabilities / Equity
	Financial obligations / Equity
	Share capital / Equity

The reasons cited can be described as follows[14]:

- Reasons of solvency and liquidity: they seek to establish the capacity of an organization to meet its short-term obligations.
- Structural variables: correspond to absolute figures of the balance sheet accounts and the income statement, from which the organization's situation can be measured.
- Mixed reasons: these are those indicators of profitability and indebtedness, from which the return on investment is determined.
- Cash flow ratios: represent the generation of money compared to assets and liabilities, while reflecting the availability of money in the short and long term.
- Hedging or advantage ratios: they establish the degree of indebtedness or financing in relation to the liabilities and the level of risk of the organization.
- Reasons for rotation: they represent efficiency in the management of assets to generate income.

As an additional analysis, it is important to specify the importance of evaluating three variables that affect the commercial value of a company, namely cash flow, discount rate and projected cash flow growth[15]. Cash flow consists of the liquidity used to cover the company's creditor requirements, in order to meet the financial objective of generating value; in this sense, the analysis of economic value added is recommended as a complement, in order to evaluate residual income; considering capital as a scarce resource that should be used in an optimal way, in order to give growth and development to the company in general[16].

2. Methodology

For the analysis a quantitative research was applied, which was supported by a Lickert type survey applied to a total of 40 businessmen from the city of Barranquilla, selected intentionally and who voluntarily and covered by the law of habeas data participated in the research. The SMEs selected belong to three main sectors: commerce, services and industry. The inclusion criteria were as follows: companies with more than 15 employees, with more than 5 years of operation and with current registration with the Chamber of Commerce. The design was considered descriptive in nature, taking into account that the objective is not to manipulate variables[17], but to observe how entrepreneurs handle issues related to financial planning and analysis. The designed instrument consisted of 4 questions and was previously validated by[18] alpha giving a result of .88 which makes it reliable for the process that was defined.

3. Results

When presenting the information collected, the first step is to characterize the sample that participated in the study[19], taking into account the data presented in Figure 1.

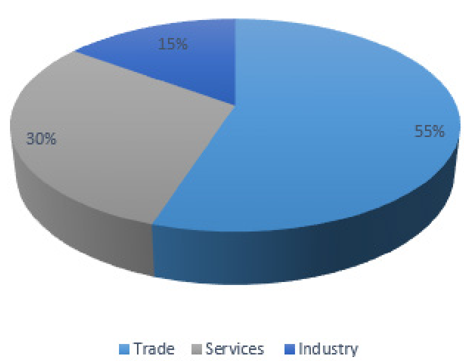

Figure 1. SMES activity.

Of the SMEs surveyed, 55% (n = 22) belong to the commercial sector, 30% (n = 12) to the service sector and only 15% (n = 6) to the industrial or manufacturing sector. Of the 55% of the commercial sector, the vast majority of SMEs are engaged in the purchase and sale of footwear, medicines, clothing and technology items. In the second instance, the results obtained by consulting whether there is currently a professional in charge of financial management are shown, with the corresponding summary in Figure 2.

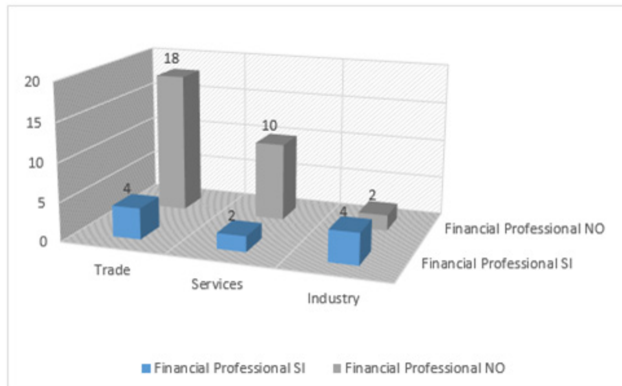

Figure 2. Financial professional.

The sector with the best result is undoubtedly the industrial sector, where of the 6 SMEs that participated in the research, there are currently 4 professionals in finance (66%), while a very different reality is found in the commercial sector with only 4 (18%) and in the services sector with only 2 (16%). SMEs that do not have a person in charge of finance indicate that the same owner who also deals with commercial, banking and human resource aspects implicitly carries out this activity. The training of the person in charge of financial management, the compilation of the findings, was then explored and expressed in Figure 3. The level of training is distributed as follows: three persons with specialization, three persons with technological studies, two persons with professional studies and an equal number of persons with secondary studies. It is striking that the best levels of training are found in the industrial sector, where there are two specialists and one professional, while the sector with the greatest participation, which is commercial, does not have professionals or specialists, as shown in Figure 4. As can be seen, companies that apply some kind of financial analysis tool are guided by the management of financial indicators or ratios, with 19 SMEs carrying some kind of indicator. With regard to cash flow, only 12 companies apply them and lastly, investment and decision-making risks are located, where six companies are located respectively. It can be seen that in the industrial sector the tools consulted are applied, which shows a greater commitment on the part of the organization to the financial and management issue.

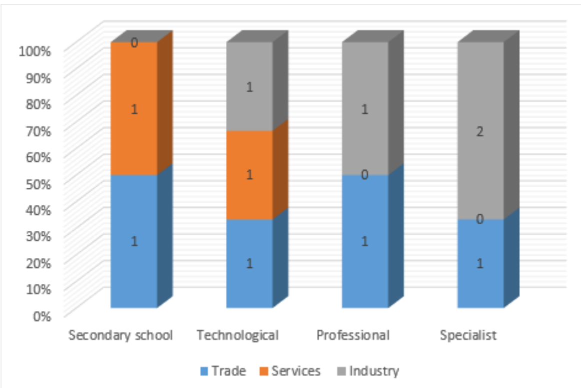

Figure 3. Level of training of the person responsible for finance.

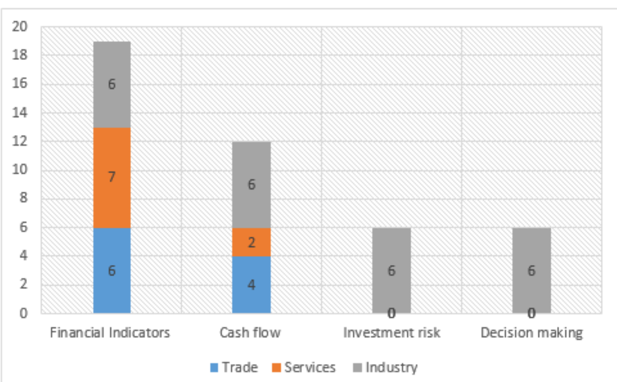

Figure 4. Knowledge of financial analysis tools.

4. Conclusion

Financial planning is a fundamental tool for SMEs, regardless of their economic activity. The studies reviewed in that document show that as long as small businesses have mechanisms for financial analysis and decision-making, the long-term sustainability of these entities could be guaranteed.

The compiled results of the exercise applied to 40 SMEs in the city of Barranquilla, identified that the SMEs that give the greatest importance to the financial issue are the industrial ones, where they not only hire qualified personnel but also apply various tools, this is consistent with the latest data published by the Large Survey of Microentrepreneursconducted by the National Association of Financial Institutions, which showed that the industrial sector is the most committed to the part of finance at the organizational level.

On the other hand, the commercial and service sectors, although they continue to be the sectors with the greatest participation in terms of the volume of SMEs, are seen as the most incipient in financial matters, since they do not have qualified professionals and the financial tasks are being carried out by the owner himself, a person who in many cases does not have the training required for this purpose. These types of phenomena have been tackled by various authors, who have explained in their previous studies the need to give a new turn to the training of entrepreneurship to achieve the consolidation of a more structured culture based on processes and constant training.

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