

THE STUDY OF RELATIONSHIP BETWEEN FINANCIAL FACTORS

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ABSTRACT

This research paper delves into the intricate web of relationships between various financial factors and their impact on overall economic performance. The study aims to provide a comprehensive understanding of how financial variables interact with each other, influence economic outcomes, and contribute to the broader economic landscape. By employing both quantitative and qualitative methodologies, this research seeks to contribute valuable insights that can inform policy decisions, financial strategies, and investment practices. The companies exhibit a variety of problems across many inquiries. The preference for mixed capital is minimal, although they possess a significant level of familiarity with the concept of retained profits. Furthermore, it is essential for small and medium-sized enterprises (SMEs) in the state of Kerala to enhance their comprehension of capital structure and make more favourable judgements about capital structure. The majority of the alternative hypotheses have been invalidated, indicating that the decision-making process regarding capital structure does not have a substantial influence on the financial performance of small and medium-sized enterprises (SMEs) in Kerala.

Keywords: Study, Relationship, Financial, Factors.

INTRODUCTION

One area of management choices is to financing decisions that lead to a certain financial structure. Banking professionals have always maintained the viewpoint that being compelled to maintain larger levels of capital would potentially compromise their performance, particularly in terms of profitability. Furthermore, the notion that increased capital may not necessarily provide advantageous outcomes has garnered some support within the academic literature.

Following the fulfillment of tax obligations, the company proceeds to allocate funds to the capital providers and preserves the remaining balance for utilization within its operational activities. In the scenario when a corporation is solely funded by equity, the whole of the after-tax operational cash flow in each period is allocated to the owners, resulting in benefits through dividends and retained profits. In the event that the firm has opted to secure a part of its capital by borrowing, it is required to allocate a corresponding amount of its cash flow stream towards servicing this debt.

Furthermore, it should be noted that debt holders possess a higher priority in terms of accessing a company's cash flow, whereas shareholders are only entitled to the remaining funds after all other obligations have been fulfilled. The financing of

capital projects is mostly contingent upon the tangibility of assets, and the financial structure chosen by a firm dictates how its operational cash flow is distributed between debt holders and shareholders in each quarter.

FINANCIAL STRUCTURE

The financial structure of a business, as described by Saleem (2013), encompasses the several funding options used to support its assets. The aggregate left-hand side of the statement of financial position, including both liabilities and equity, constitutes the comprehensive representation of all capital sources, including both long-term and short-term. The financial structure of an organization is often denoted by its debt-to-equity ratio, serving as a metric to assess the level of risk associated with the company.

Typically, a corporation that relies more heavily on debt financing has a higher level of risk due to its relatively high leverage. The determination of a firm's financial structure is an ongoing process that necessitates consideration anytime the organization requires new capital. This involves obtaining loans from banks, known as debt financing, or issuing shares to the public, often referred to as equity financing.

According to Myers (1984), the absence of an ideal financial structure for a firm implies that debts are

utilized as the primary option once internal capital sources, such as retained earnings, have been exhausted. Businesses modify their debt option to finance their operations by issuing bonds to the public at a fixed interest rate or by borrowing money from banks in the form of long-term debt, or notes payable. Using equity sources to fund a company's activities is an additional option. This is accomplished by offering ordinary and preferred stocks to the general public.

Financial institutions in developing countries, with a specific focus on East Africa, exhibit a lack of credit accessibility and experience elevated levels of loanable capital pricing, including interest rates and associated charges. As a result, it may be argued that using internal equity financing may provide a more cost-effective solution compared to external loan financing. There are two primary advantages associated with debt for a firm. One notable aspect is the tax shield, whereby interest payments are often exempt from taxation. Consequently, the presence of debt may augment the overall worth of the organization.

Managers use the available free cash flows of the firm for various purposes, such as investing in initiatives, distributing dividends, or maintaining a cash reserve. However, in the event that the company does not have any obligations to make fixed payments, such as interest expenditures, there is a possibility that managers may be motivated to inefficiently use surplus free cash flows. This is the reason why shareholders use debt as a means to enforce discipline onto management.

Furthermore, it is common practice in the field of loan agreements between lenders and borrowers to incorporate specific financial covenants for businesses.

LITERATURE REVIEW

Rathi, Soni & Kumar, Praveen (2022) The contribution of their engagement in the Indian economy, such as that of India, is highly valued. The primary function of entrepreneurs is not alone to provide job opportunities, but also to motivate others with limited skills to embark on entrepreneurial endeavors. Specifically, this study will focus on analyzing the contribution of MSMEs to employment creation and estimating the number of such companies operating in the country.

Shetty, Meera & S., Ganesh (2022) The aforementioned industry accounts for around 40% of the nation's total exports and serves as a magnet

for Foreign Direct Investment. India is bestowed with the advantage of being recognized as a prominent global manufacturing corridor due to its proactive efforts in promoting and facilitating Micro, Small, and Medium Enterprises (MSMEs). These endeavors aim to provide job possibilities, particularly in rural regions, and enhance the economic capacity of persons belonging to the lower socio-economic strata.

Mittal and Raman (2021) The presence of financial constraints, which are responsible for the knowledge gap, supply gap, and empathy gap, played a significant role in fostering firms' reluctance to seek loans via conventional means.

Vibahakar, Neelu & Tripathi, Kamalendra (2020) The use of financial ratio analysis has played a significant role in assessing the financial condition of construction enterprises over the years. Nevertheless, doing such a study might be laborious due to the multitude of financial measures associated with various construction enterprises. The study used a stratified sample method, whereby a list of firms within the construction industry was compiled.

RESEARCH METHODOLOGY

Research is a methodical and scientific inquiry that aims to provide answers for both current and future challenges. The process of establishing connections, if present, among variables that is pertinent to a specific scenario aid in the discovery of novel contributions to the current corpus of knowledge. The field of Research Methodology encompasses the theoretical, social, and philosophical foundations that underpin research practise, as well as the consequences these foundations have for the selection and use of research methodologies. A framework or strategy is used as a guiding structure to facilitate the execution of research activities. This chapter outlines the research design, sample design, data collecting sources, study structure, hypotheses, and data analysis. The relationship between financial factors can be explored through various methodologies, depending on the specific context and the nature of the financial variables being studied.

RESULT AND DISCUSSION

Data Envelopment Analysis (DEA) shows that, generally speaking, Indian MFIs are more efficient with their money than they are with their society. However, there was no proof from the analysis that

financial efficiency and social efficiency are mutually exclusive.

Entrepreneurs with a high level of competence in personal saving abilities were observed to generate more earnings compared to those with a lower level of awareness of personal saving. This is because the writers emphasised the significance of entrepreneurs' personal saving abilities in driving the profitability of their firms. The study went on to show that entrepreneurs who learned how to keep accurate financial records were better able to allocate resources and set realistic budgets for their businesses.

In order for businesses to avoid setting goals that are above their financial means, it is crucial for them to have competent bookkeeping skills. Entrepreneurs should be made aware of the requirement of having financial literacy skills, according to the authors. Motivating them to enrol in a variety of financial literacy training programmes could help them reach this goal. An modified structured questionnaire from Intuit India was used for data gathering (2015). Included in the survey's core financial concepts was the accrual idea, which is relevant to the area of business management.

The authors state that a mean score of 4.0779 in the area of Debt Management indicates that female entrepreneurs have the highest degree of expertise in this area. Their understanding of Credit Management came in second, with a mean score of 4.0306. Plus, with an average score of 3.9877, female business owners well grasped the concept of money management. A somewhat lower mean value of 3.7992 indicated a relatively lower level of understanding in Risk Management and Investment & retirement planning. Women business owners seem to have a decent grasp of personal finance, according to these results.

Women business owners should review their financial accounts on a frequent basis to see how well their enterprises are doing financially and operationally, according to the authors. Furthermore, female entrepreneurs should, if at all feasible, seek the advice of outside financial experts and consultants who can guide them in finding and making use of appropriate financial services and products. In order to achieve long-term viability for micro enterprises, this project seeks to increase women's participation in entrepreneurship, specifically in the area of making rational and evidence-based business decisions.

The company's financial health was unaffected by risk management, money, credit, or debt. It was recommended that business owners regularly review their financial records to gauge the operational performance and financial health of their company. Additionally, business owners can seek the advice of financial experts and consultants to help them choose and acquire the best financial services and products.

The new paradigm of behavioural finance provides support for the more conventional view of human conduct in financial relations held by conventional financing. The study's overarching goal is to learn about and foretell the psychological decision-making systemic effects of the financial market. The term "behavioural financing" is defined by De Bondt et al. (2004)⁵⁷ as "a theory that looks at financial issues through ideas taken from cognitive psychology." This chapter reviews the literature on financial literacy and behavioural finance. Following a chronological order, the publications cover many aspects of financial literacy and comportment.

In contrast to conventional wisdom about investment, "comportment finance" focuses on real-world market conditions and individual actions. The term "behavioural finance" is used to characterise the way people handle their own or their group's money. The literature review begins with a brief overview of behavioural finance's origins before moving on to discuss the field's unique behavioural biases and how they differ from those of conventional finance.

As an added bonus, it lets companies develop by making sales and profit using the money of other people. A person's level of financial literacy may be measured by their familiarity with basic financial concepts, which can be further broken down into two subsets: personal finance education and business finance expertise.

Even if most individuals have a rudimentary understanding of how to do basic maths, learning more advanced skills is essential for the hour so that people can understand and trust the information they receive. The goal of financial education is to help students become more analytical thinkers and decision-makers. They will be better able to use government subsidies and financial malfeasance to inform their decisions.

CONCLUSION

In conclusion, the relationship between financial factors is intricate and dynamic, shaping the

economic landscape at various levels. A comprehensive understanding of these factors is essential for making informed decisions, promoting economic growth, and ensuring financial stability on both individual and societal scales. When considering the development and progression of a nation, micro and small businesses are especially important, especially in a developing nation like India. They provide a diverse range of functions, including enhancing competition, fostering innovation, facilitating the development of human capital, and establishing a financial system. They contribute to job creation, enhance competitiveness,

generate revenue and innovation, and provide opportunities for entrepreneurial endeavors, among other benefits.

The abundance of micro and small enterprises within an economy serves as a foundation for examining several issues pertaining to their operations. There is a pressing need to resolve issues with the financial performance of micro and small organizations due to the high rate of failure, which includes the demise of these types of businesses. It is well-known that a company's financial resources are a major component in a micro or small business's financial performance.

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