



## **ROLE OF FINANCIAL MANAGEMENT METHODS IN SMALL BUSINESSES**

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### **Abstract**

*This article describes the methods of financial management in small businesses, provides various examples of research by scientists in this area, examines the financial relationships of a small enterprise with other counterparties, as well as the tasks of financial planning. The article proposes a mechanism for assessing the effectiveness of strategic financial management of small business organizations, based on taking into account both the internal capabilities of the organization and external influences, taking into account the specifics of small organizations. The analysis of approaches to the definition of small business entities is carried out. Key financial performance indicators of organizations act as indicators that help the organization to achieve strategic goals. As a result, the use of key indicators of the financial performance of organizations gives the organization the opportunity to assess the financial condition and track the assessment of the implementation of the strategy.*

*Keywords: Finance, financial planning, methods of financial management in entrepreneurship, financial planning*

### **INTRODUCTION**

In Uzbekistan, small business is a fairly widespread sector of the economy. The main difference between small business and large business is that its creation does not require large investments, the costs of running a business are much less than in a large business, there are few employees, but the revenue is much less than the revenue received by large firms. Small businesses are quite common in all sectors of the economy.



Small business is a very important area of the economy. The current stage of development of small enterprises implies a new approach to information and analytical support of the management system, in which the leading task is aimed at the formation of an assessment system of performance indicators, depending on the characteristics of the functioning of economic entities.

Maintaining the effective functioning and development of small business entities is relevant. Financial stability means the organization's ability to finance its activities. To obtain loans or participate in tenders, small businesses need comprehensive and objective information about their financial situation.

The main features of the analysis of the financial condition of small businesses, in our opinion, are:

- the initial variety of traditional methods and techniques of financial analysis, requiring the allocation and justification of specific blocks of analysis, taking into account the type of activity of the organization;
- the limited information base of the analysis, formed according to the simplified forms of financial statements;
- insufficient development of methods for assessing the financial condition of small businesses.

## LITERATURE REVIEW

Small business is an independent, systematic economic activity of small enterprises of any form of ownership and citizens-entrepreneurs (individuals), which is carried out at their own risk with the aim of making a profit. In practice, this is any activity (industrial, commercial, financial, insurance, etc.) of these business entities aimed at realizing their own economic interests [1]. Medium-sized ones are the most optimal for supporting manufacturing companies.

In the economic literature, foreign economists have studied the development of small businesses and their financial support on the basis of different approaches. In particular, E.Staley, R.Morse [2], A.Bruno, T.Tyebjee [3], K.Manning S.Birley, D.Norburn [4] studied the main financial and economic conditions of small business development, L.Dana [5], P.Davidsson [6], D.Swanson, L.Webster [7], etc., in their research focused on the factors influencing the activities of small business entities.

Commenting on the financial support of small businesses by a foreign economist M. Yunus, he noted that the main focus in lending to small businesses should be on the social impact of lending. The increase in demand for loans at market rates after the expansion of financial opportunities of small businesses was noted by this scientist.[8] F. Allen and D.

Galelar acknowledge the existence of two systems of financing the activities of small and medium-sized businesses - a system based on the activities of banks and a system based on financial markets, emphasizing the relative importance of the first system.[9] In our opinion, while such cases are of great practical importance for countries with economies in transition, commercial banks have a leading position in the system of small business lending in these countries, and it is almost impossible for small businesses to attract resources through the stock market.

Summarizing the views of the authors above, the following conclusions can be drawn- Private entrepreneurship, which is the main layer and core of small business, is an independent activity aimed at making a permanent profit from the use of this property, the sale of products (services, works) to meet social needs, production. The activities of small businesses are carried out by legal entities and individuals at their own risk, and these individuals are registered for this work in the manner prescribed by law and are associated with the proactive use of all forms of ownership, financial, material and labor resources for profit.

Small businesses are:

individual entrepreneurs; microfirms with an average annual number of employees employed in manufacturing sectors - no more than twenty people, in the service sector and other non-manufacturing sectors - no more than ten people, in wholesale, retail trade and public catering - no more than five people;

small enterprises with an average annual number of employees employed in industries:

light and food industry, metalworking and instrument making, woodworking, furniture industry and building materials industry - no more than one hundred people;

mechanical engineering, metallurgy, fuel and energy and chemical industries, production and processing of agricultural products, construction and other industrial and production areas - no more than fifty people;

science, scientific services, transport, communications, services (except for insurance companies), trade and public catering and other non-production areas - no more than 25 people.

The average annual number of employees of small businesses is determined in the manner prescribed by law. This also takes into account the number of employees in unitary (subsidiary) enterprises, branches and representative offices.

## ANALYSIS AND RESULTS

Small business financial management has a number of features:

- small business cannot exist in industries that require large financial costs;
  - lack of liquid assets, the share of fixed assets in the total structure of assets is insignificant;
  - There is a high share of borrowed capital in the capital structure of small businesses.
- Financial management in small businesses is a system of principles, forms, methods and techniques of management. Directly related to management are concepts such as management theory and practical templates for effective management of a small business [10].

Financial management methods in small business entities are the ways in which financial relations affect the business process; methods operate mainly in two directions - along the line of managing the movement of financial resources and along the line of market commercial relations, which are associated with the ratio of costs and benefits. It should be noted that the market content in this category is not inserted by chance. This is due to the fact that financial functions in the production sphere and the sphere of circulation are very strongly associated with commercial settlement [11].

Commercial settlement is the ratio in monetary form of costs and results of economic activity. Its main goal is to obtain the maximum possible income and profits with the minimum costs and capital costs in a competitive environment. The implementation of this goal requires the ratio of the volumes advanced in production and trade with the financial results of this activity. It is necessary to carry out a calculation and compare the various investment options according to the selection criterion already selected in advance. The effect of financial methods is usually manifested in the formation and use of funds. Most often, small businesses use forecasting and planning methods. Usually, the owner himself monitors their implementation and efficiency, since small businesses have fewer resources for their implementation [12]. From the point of view of the standard approach in the organizational structure of a small enterprise, in comparison with a large and medium-sized enterprise, the duties of the CFO are directly performed by the director himself, and the accountant implements his financial decisions.

The main criteria in financial management for small businesses are the following indicators:

- the ratio of incomes within a given limit;
- the ratio of the number of employees within the specified limit;
- the ratio of the share of participation of other enterprises in the authorized capital within the specified limit.

Financial activity in small businesses can be characterized as a system of actions aimed at the formation of initial capital with the subsequent implementation of such tasks as the formation and use of income and financial resources, fulfillment of obligations. The movement of incomes of small businesses is accompanied by the formation of their economic relations with other subjects of the economy. Financial relationships in small businesses are schematically presented in (Figure 1):

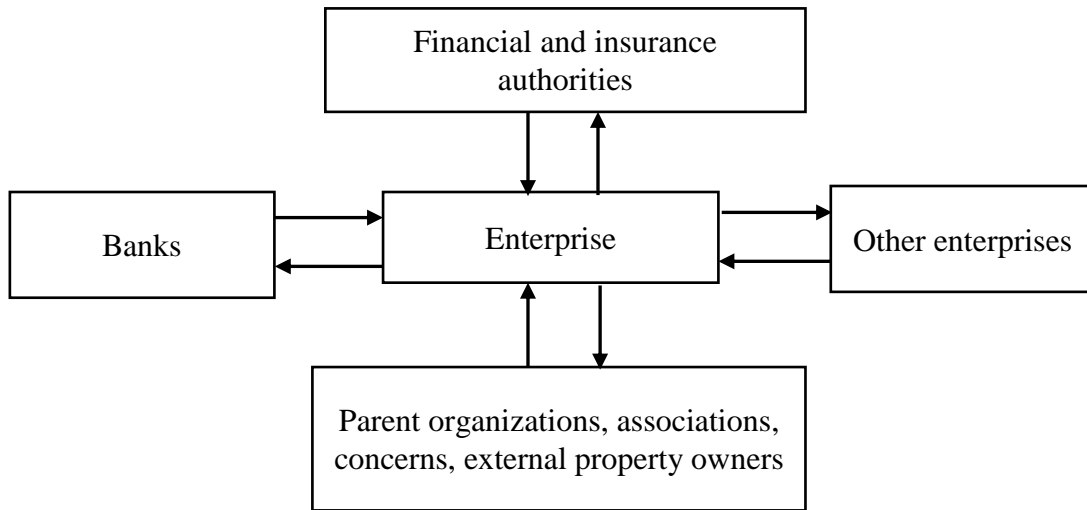


Figure 1. Financial relationships of a small business with other counterparties

Source: compiled by the author

All financial relations of a small enterprise can be considered by cash flows (Figure 2).

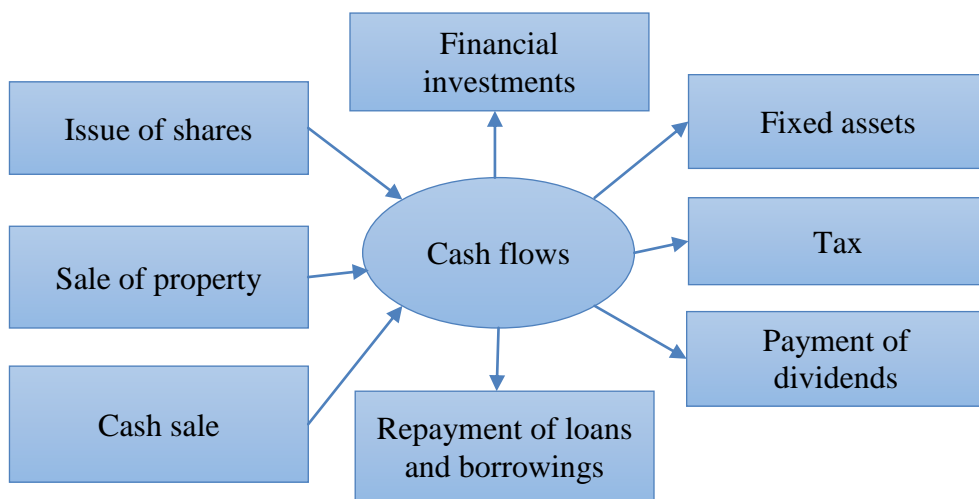


Figure 2 . Cash flows in a small business

Source: compiled by the author

An important indicator of the sustainability of a small business is the level of positive and negative flows, both in terms of volume and time. It is especially important for small businesses, since they do not have such reserves of financial resources and funds as large enterprises. Consider volume-synchronized balanced cash flows over time. Their essence lies in the simultaneous provision of a sufficient level of the company's solvency at each of the intervals of the future financial period. Maximizing net cash flow will ensure an increase in the rate of economic development of a small enterprise based on the principle of self-financing, reduce dependence on external sources of financing and increase its profitability in the market [13]. In a small business, where the correct approach to financial management is of paramount importance, financial activities are usually carried out by the owner himself. This allows the company to save money, bring additional income, and remain solvent. The main tasks of the methods of financial management of a small enterprise include:

- receipt of funds for goods or services sold;
- providing cash for all types of expenses related to the current activities of the enterprise (settlements with suppliers, employees, lessors, etc.);
- investing in business development; - cooperation with financial institutions on mutually beneficial terms (banks, insurance companies, etc.);
- fulfillment of financial obligations to state and municipal authorities (payment of taxes and fees);
- maintaining the financial stability and solvency of a small business. Actions for the implementation of these tasks will be planning, financial control and financial analysis.

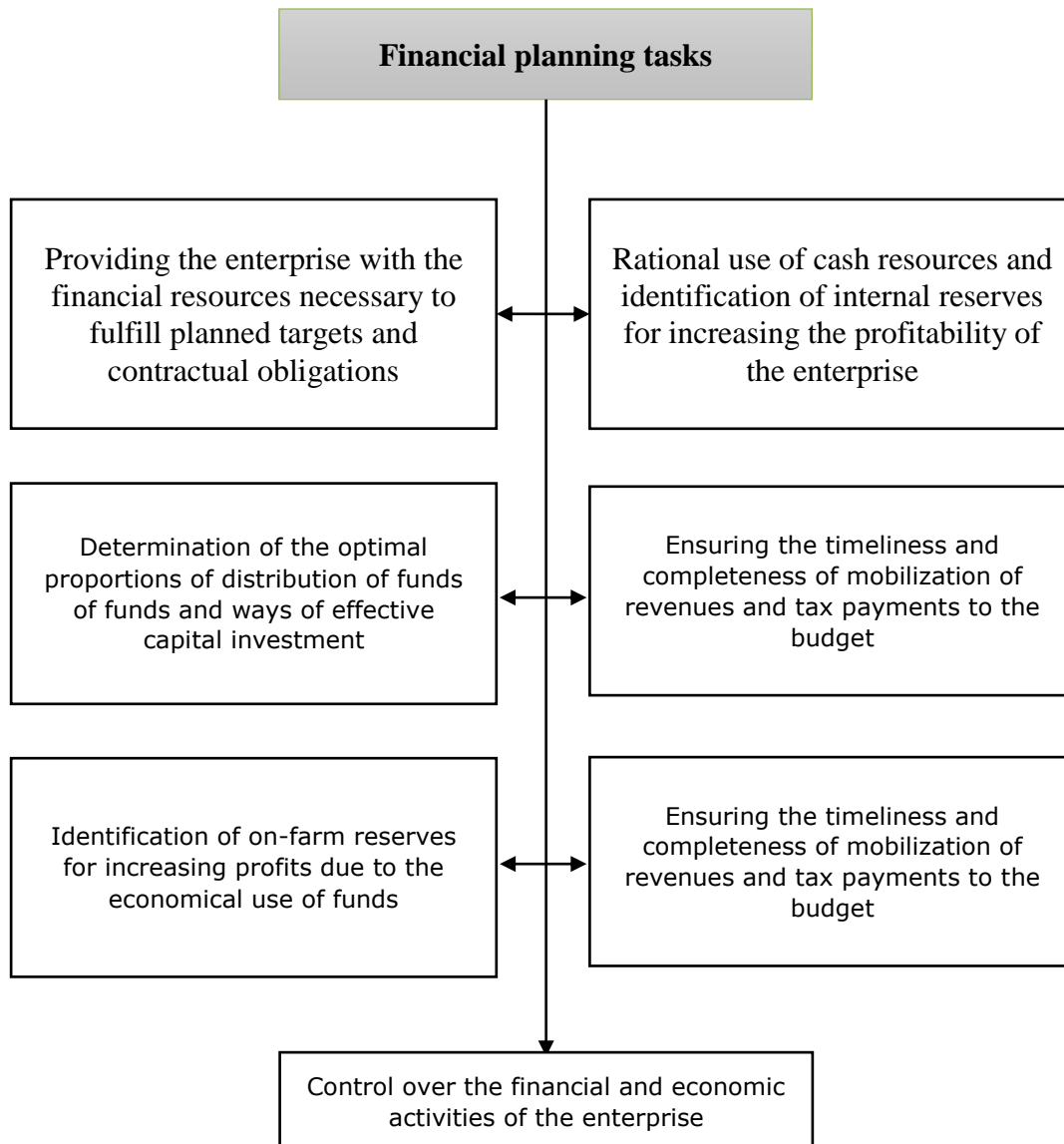


Figure 3. The main tasks of financial planning in a small business

Source: compiled by the author

The main aspect of financial planning is the most feasible and profitable financial plan to ensure financial stability. A financial plan is a plan based on a forecast of future performance from production, financial and investment activities. It reflects indicators that give an idea of inventories, financial flows in value terms from the results of a small enterprise.

The role and place of small business and private entrepreneurship is becoming stronger, as evidenced by the positive changes in indicators in this area. As a result of

reforms in the development of small business and private entrepreneurship, the share of small business and private entrepreneurship in GDP has grown from 31% in 2000 to 55.7% today, or almost doubled. This sector accounts for a third of total industrial output, 98.1% of agricultural output. More than 74% of the employed population work in this sector.

Table 1 The share of small business in the economy and its key sectors [14]

Indicators	2016 y.	2017 y.	2018 y.	2019 y.	2020 y.
GDP	66,8	65,3	62,4	56,0	55,7
Industry	45,3	41,2	37,4	25,8	27,9
Construction	66,9	64,8	73,2	75,8	72,5
Export	26,0	22,0	27,2	27,0	20,5
Import	46,8	53,6	56,2	61,6	51,7
Employment	78,2	78,0	76,3	76,2	74,5

In January-December 2020, the share of small business in industry in the economy was 27.5%, agriculture, forestry and fisheries - 97.0%, construction - 72.4%, investment - 49.7%, trade - 82, The share of 2%, exports - 20.5%, imports - 51.8% and services - 51.5%.

The largest number of small enterprises and micro-firms by type of economic activity was 35,213 in trade, 18,596 in industry, 14,969 in agriculture, forestry and fisheries, 6,009 in construction, 5,637 in living and catering, and 2,397 in transportation and storage.

It can be seen from these indicators that small businesses have played an important role in their development, occupying a key share in important sectors and industries of the national economy.

Sustainable development in this sector of the economy in 2020 was noted in our country due to the continuation of systemic reforms aimed at further strengthening the reliable protection of private property, business entities, removing obstacles to their rapid development.

Measures to create a favorable business environment, pursue an active investment policy, as well as encourage the expansion of export potential have ensured the positive dynamics of key macroeconomic indicators of small business in 2020.



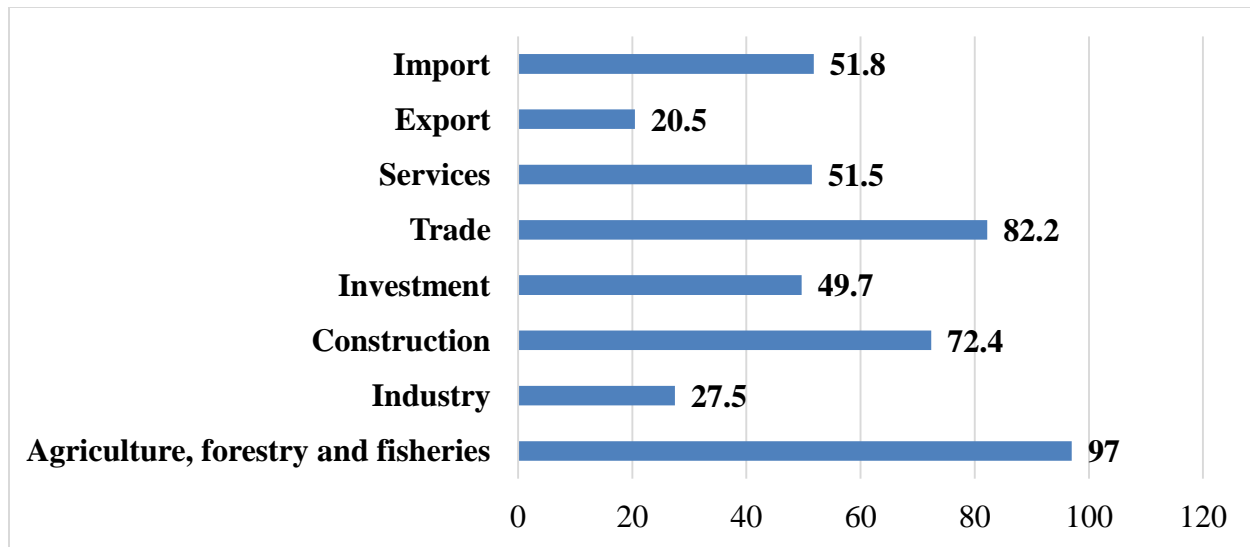


Figure 2 In January-December 2020, the share of small businesses by type of economic activity, in percent [14]

In 2020, the highest share of small entities in GRP by regions is in Jizzakh (82%), Surkhandarya (77.1%), Khorezm (75.3%), Bukhara (74.7%) and Samarkand (73.9%) regions. In Navoi region, this figure was the lowest - 25.5%. In 2020, the largest share of newly established small enterprises and micro-firms in the regions will be in Tashkent - 15.5%, Samarkand region - 9.3%, Tashkent region - 8.9%, Fergana region - 8.7%, Andijan region - 8.2%, Surkhandarya region - 8.1%, Namangan region - 6.6%, Bukhara region - 6.3%.

Studies show that there are some differences in the development of small business and private entrepreneurship in the regions of the country, ie in some regions the level of development is strong, in some regions the results are slower. Therefore, we cannot equate the convenience of the existing business environment for the development of small businesses in the regions. This is because the conditions created in one region are somewhat different from those in other regions. To do this, it is necessary to eliminate the factors that negatively affect the improvement of the business environment created for small businesses in these areas. Such factors include:

- Inactive participation of small businesses in export relations, in particular, the complexity and specific problems in the process of export of products grown on farms and dehqan farms;
- Problems related to the effective organization of production processes related to the activities of small businesses in the industrial sector;
- Faults in the supply of social infrastructure in the districts and regions, ie interruptions in the supply of electricity and gas, such problems can not ensure the continuity of small businesses;

- Restrictions on the provision of financial, material and technical resources of small business and entrepreneurship;
- Weak competition in the operation of market infrastructure in the provision of quality services for small businesses and entrepreneurs, etc.

## CONCLUSION

Methods of financial management in small businesses make it possible to generate funds from various sources in the required amount for conducting financial activities and achieving strategic goals, taking into account absolutely all cost costs for selling products, providing services and performing work. Small businesses, managing financial resources, create jobs for the population, increase the quality of the gross national product, and set the country's economic growth, because it is their activities that serve the bulk of consumers, producing products and services in accordance with rapidly changing market requirements. A high degree of responsibility for making managerial decisions is the main feature when running a small business. Small businesses in any country play a major role in economic development and employment growth.

But not only state support has an impact on the financial activities of small businesses. Managers and financial workers of these enterprises must take internal measures to organize financial activities. Taking into account the investigated features of the financial management of small businesses, the following measures to improve it can be proposed:

1. Creation in the structure of the enterprise of a system for managing working capital (stocks, accounts receivable, cash and short-term liabilities). An effective system for managing the circulating assets of small businesses will increase the solvency and liquidity of the enterprise.
2. Use financial planning in the practice of small businesses. In this case, financial planning must be carried out in the following sequence: - identification of existing problems at the enterprise; - research of those areas of the financial activity of the enterprise that limit the achievement of the set goals. In accordance with the above technology of the planning process, find out whether the sequence of all its stages is being followed. If there are deviations, then it is necessary to identify the reasons for the deviations. The next step is to take appropriate measures to implement the financial planning algorithm in a small business.
3. In small businesses, it is recommended to use a process approach to financial control in financial practice. The essence of the process approach lies in a targeted sequence of operations and events. For example, the process of forming a comprehensive financial plan. The end result of the process approach will be an increase in the competitiveness of the enterprise and the synchronization of the enterprise's activities with the needs of the consumer.

4. The use of a unified approach to the choice of methods and tools for all plans drawn up at the enterprise, since the system of financial planning and control should be considered as an integral element of the entire planning system at the enterprise.
5. Creation of an effective tax planning system. Tax planning as an integral part of tax management allows you to reduce the absolute rate of tax payments to the budget by using the difference in taxable bases and tax rates, statutory tax benefits and similar factors that are determined by the state. Managing the amount of tax payments is possible by changing the product range and more efficient use of internal reserves, i.e. influence on the amount of tax payments, managing exclusively the factors of the internal environment of the organization, the foundations of its activities. This tax planning method is called "tax costing".
6. In small businesses, it is recommended to use in-depth operational analysis. The essence of operational analysis is manifested in the fact that part of the total fixed costs are attributed directly to a given product (product, service). The principle of operational analysis is to combine direct variable costs with direct fixed costs. Then the intermediate margin is calculated.
7. Using the technology of operational rapid analysis at small businesses. The main innovation is the use of the force of the operating leverage on the analyzed factor. This technique simplifies the algorithm for conducting operational analysis and allows it to be widely used for practical purposes.
8. Introduction of new production technologies, purchase of modern and modernization of existing equipment.
9. To reduce costs in the financial activities of small businesses, it is necessary to use Internet technologies. Thus, the creation of an online store will allow: – to reduce the cost of renting a retail space; – to reduce the cost of wages; – expand the range.
10. Use modern technologies of personnel policy. It is possible to create a core group of professionals who will be involved in business development.
11. Distribution of responsibilities. For example, the transfer of responsibilities for the preparation and delivery of financial statements to another small business that specializes in the provision of outsourcing services. Thus, the correct choice of style and methods of financial management will allow a small business to achieve long-term positive results and take a stable position in the market.

## RECOMMENDATIONS

To improve the efficiency of small organizations need an integrated approach to financial management as the central link in the management system of the organization as a whole. It is

the high-quality management of financial resources that can ensure sustainable growth and development of small businesses.

The foregoing has determined the relevance and need for research in the development of financial management methods in small businesses, in particular in the context of adapting existing financial management methods to the specifics of the segment in question and developing a systematic approach to financial management in order to increase the financial stability of small businesses, and also increasing their contribution to the economic development of the country. The problems of organizing and managing a small business are the subject of study by many leading domestic and foreign economists. Most of the works are of a universal nature and are focused on the theoretical aspects of the management system of small business organizations in general.

However, in the context of the modern dynamic development of this sector of the economy, as well as the changing conditions of the external environment, in particular state and tax policy and the macroeconomic situation in general, there is a need for a more in-depth study of this issue.

Economic science provides a variety of methods of financial management, but they are mainly focused on large business and often cannot be used in small businesses. In this regard, there is a need to expand the existing theoretical and methodological base on financial management in small businesses, taking into account the specifics of this segment, as well as the current macroeconomic situation.

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