

## **Finances in the micro and small companies of Mexico**

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Received June 15, 2017; Accepted November 15, 2017

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### **Abstract**

Regardless of the sector, turnover, or activities carried out by the companies, as well as their particular objectives, all companies carry out the process of managing human and economic resources, being indispensable to have specialized staff and administrative structure. One of the aims in companies is to generate income, increase profits, reduce risks and achieve permanence in the market, being indispensable to manage money, requiring special attention its administration when it is generated, assigned and flowing, always generating records and producing reports, this is the function of finances that is conformed by two areas that are treasury and comptroller. Most entrepreneurs who manage pymes concentrate on the operation and do not recognize the importance of finances within their companies. Finance provides elements that are integrated into accounting, budgets, cost determination, tax payment, providing information for making decisions about operations, investment and financing. The aim of this research is to analyze the degree of interest of the entrepreneurs of the MSES in Mexico in the finances of their company. In turn know if they have an idea of the value of their assets, how much they charge, how much they pay and the value of their entire company if they decide to sell it. The MSES in Mexico represent 99% and contribute to the Gross Domestic Product 19.30 and generate 54.90% of the total of jobs.

### **Finance, Administration, Decision Making**

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**Citation:** QUEZADA-FLORES, Ma. de la Luz, MÁRQUEZ-DE ANDA, Camilo, SERRANO-TORRES, Ma. Guadalupe and GONZÁLEZ-GALLARDO, Sofía del Carmen. Finances in the micro and small companies of Mexico. RINOE-Journal of General Economics. 2017, 1-1: 1-8.

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## 1. Introduction

Small and medium-sized companies in Mexico account for more than four million, generating approximately 72% of employment and contributing 52% of the gross domestic product. Only 25% of SMEs in Mexico survive the first two years of creation and the National Institute of Geography and Statistics (Inegi) adds that newly created companies in Mexico only live an average of 7.7 years.

In these companies, the management capacity of the directors in different processes is important, in the management of the economic resources, as well as the decision making to achieve their permanence and continuity. The management of economic resources, as well as the allocation, distribution and application of resources available to organizations in a certain time and space, is defined as finance.

### 1.1 Justification

With the results of this research, the entrepreneurs of the MSES of Mexico can consider aspects of the area of finance that need to be improved in order to obtain a higher level of implementation and look for the techniques to better manage their finances.

In Mexico, the representation of PYMES-sized companies is over 90% according to data from Inegi, 2014, for this reason it is very important to study and analyze the issue of finance in this type of companies because most of the Companies moves for money.

One of the main problems that closes and does not achieve the continuity of the MSES companies is the mismanagement of the administration and finances.

## 1.2 Problem

Most entrepreneurs who own SMEs do not adequately handle the language of finance, therefore they do not continuously review their company's finances and when asked about their financial statements they usually say: "my accountant gives them to me" . When they are, they should tell the accountant how they want to prepare their financial statements; what level of breakdown and detail and formats are your financial statements and your company, are not your accountant, nobody else knows the company as themselves. (Money in image, 2014).

### Investigation questions

- Do SME entrepreneurs know how much they owe to their suppliers and how much do their clients owe them?
- Are the owners of the companies aware of how much they sell and the value of their company if they decided to sell it?

## 1.3 Hypotesis

Entrepreneurs of MSEs-sized companies in Mexico know little or nothing about managing finances and managing money in their organizations.

## 1.4 Objectives

### 1.4.1 General objectives

Know the degree of implementation of management strategies and techniques in the area of finance in micro and small companies in Mexico.

**1.4.2 Specific objectives**

1. Analyze the degree of knowledge and management of the finances of the entrepreneurs, about what they have, what they owe, how much their clients owe them and the value of their company if they decide to sell it.
2. Design an information gathering instrument to know the management and implementation of the finances of the entrepreneurs of the MSES in Mexico.
3. Validate and apply the designed instrument. Analyze the information obtained.
4. Results, recommendations and conclusions.

**1.5 Delimitations**

The present study only contemplates the entrepreneurs of mypes of Mexico, so that neither medium-sized companies nor large ones are included. A random sample was selected and information was collected to later analyze it and make the diagnosis.

**2. Theoretical framework**

The function of the finances is integrated by the treasury and comptroller area. Manage the flow of money and the administration of the capital of the company, corresponds to the treasury area. This area focuses mainly on the decisions that have to do with financing and investments. Manage the system of financial information that provides what is necessary for the administration of the company, corresponds to the comptroller, which operates according to the needs and size of the organization. Among its functions are: establish accounting policies, define methods and internal control procedures, generate and interpret financial reporting, comply with tax obligations and carry out planning and carry out the control, through the accounting departments, taxes, budgets and costs among others.

To achieve the success of a company, owners and managers must know their operation in all aspects, to achieve this it is important to know their operation cycle or financial cycle. The cycles of a company can be operational, accounting and / or financial. The operating cycle "is the time that elapses from the beginning of the production process to the collection of the money for the sale of the finished product" Gitman (2003, page 496).

NAFIN (2004b) establishes that the financial cycle of a company includes the acquisition of raw materials, its transformation into finished products, the realization of a sale, the documentation in an account receivable, and the obtaining of cash to restart the cycle again, that is, the time it takes to perform its normal operation (purchase, production, sale and recovery).

The stages of the operation cycle include: Purchases, having to determine the amount to buy, with prior authorization, with a purchase order. For the realization of the sales, it is necessary to work the forecast and sales budget, respecting the price of and the conditions of sale through advertising and promotion. In order to make the collection, the credit policies must have been complied with, r number of clients generating an increase in the sales and a credit is granted to attract a more

**3. Methodology**

In January 2016, the Latin American Administration and Business Network (RELAYN) was created. Coordinators designed an information gathering instrument to know the degree of implementation of management strategies and techniques in micro and small businesses and how they affect the director in his Health & Wellness. This was made up of 18 questions of the study variables and 23 that included sociodemographic characteristics of the director and characteristics of the company.

In February of the same year, the coordinators generated a pilot test, so that 130 students were trained to collect and capture the data according to the protocol, and 132 valid questionnaires were collected from MSEs. Later the professors-researchers members of Relayn, carried out the survey of 26,533 valid questionnaires in a face-to-face way in two establishments of the MSEs located in 145 municipalities of the country and grouped into 53 zones. Each zone was analyzed by a research group and consisted of one or several municipalities that had common characteristics. (Ahumada, 2016)

An analysis of the data obtained from system processes in the finance section will be carried out, such as: Cash available, accounts receivable, inventories, suppliers and accounts payable among others.

#### 4. Results

The questions corresponding to finance were chosen from the different sections that make up the applied instrument.

To evaluate the answers, the Likert scale was used, where 5 is Very agree; 4 Agree; 3 Disagree; 2 Strongly disagree and 1 Do not know / Not Applicable.

Below is the information on the number of SMEs analyzed in Mexico, 2016.

		Number	%
Cases	Valid	25,750	97%
	Excluded	783	3%
	Total	26,533	100%

**Table 1** Summary of processing of cases. (Own preparation)  
Source: Aguilar, Posada and Peña (2016)

La Table 1, muestra el número de casos válidos, excluidos, así como, el total de encuestas aplicadas.

Scale	Number	Percentage
Strongly agree	10,310	40%
Agree	10,267	40%
Disagree	2,562	10%
Strongly disagree	832	3%
I do not know / Does not apply	1,779	7%

**Table 2** I have very clear how much money I have either in cash or in the bank.

*Own preparation*

With respect to the question "I am very clear about how much money either in cash or at the bank," 80% of Mexico's MIP directors agree. This line is the most important in the management of working capital, since it represents the most liquid asset available to MSEs and reduces the risks of a liquidity crisis.

Scale	Number	Percentage
Strongly agree	8,618	33%
Agree	9,062	35%
Disagree	2,441	9%
Strongly disagree	932	4%
I do not know / Does not apply	4,697	18%

**Table 3** I have very clear how much my clients owe me

*Own preparation*

"I have very clear how much my clients owe me", corresponds to the moment in which the MSE is able to recover its investment for credit sales, 68% of the directors of the MSEs agree, considering that it is a percentage under, one must have certainty to whom credit is granted, by establishing credit policies.

Scale	Number	Percentage
Strongly agree	8,615	33%
Agree	10,041	39%
Disagree	3,389	13%
Strongly disagree	995	4%
I do not know / Does not apply	2,710	11%

**Table 4** I am very clear about how much my inventory is worth.

*Own preparation*

Knowing the value of the goods in existence that have been acquired, means control of raw materials to be used in the manufacture of various items, production in process or finished product. To the question "I am very clear about how much my inventory is worth", only 72% of the directors say they agree.

Scale	Number	Percentage
Strongly agree	9,205	36%
Agree	9,852	38%
Disagree	3,152	12%
Strongly disagree	946	4%
I do not know / Does not apply	2,595	10%

**Table 5** I am very clear about how much my company's assets are worth. Specifically, what is not sold: furniture, cars, electronics, machinery, etc.

*Own preparation*

In the question, "I am very clear about how much my company's assets are worth," specifically what is not sold, 74% of the directors of MSEs in Mexico agree. In companies, fixed assets represent one of the best investments that have an impact on the financial, fiscal and cost aspects of MSEs.

Scale	Number	Percentage
Strongly agree	9,364	36%
Agree	9,683	38%
Disagree	2,054	8%
Strongly disagree	776	3%
I do not know / Does not apply	3,873	15%

**Table 6** I have very clear how much I owe to my suppliers

*Own preparation*

74% of the directors of the mepes of Mexico state that they are very clear about what they owe to their suppliers, the suppliers for the mepes of Mexico represent the availability of products to achieve the production or realization of the sale. For companies to have suppliers in a profit that represents financing, wasting it can reduce profits.

The purchasing function means obtaining higher prices and higher quality, calculated the time of acquisition and receipt of the goods, quality and service provided by suppliers and achieve the supply of raw materials and merchandise that will be sold.

Scale	Número	Porcentaje
Strongly agree	2,883	11%
Agree	6,046	23%
Disagree	6,863	27%
Strongly disagree	5,066	20%
I do not know / Does not apply	4,892	19%

**Table 7** I borrow from institutions and acquaintances to make my company work well.

*Own preparation*

In relation to the question "I borrow from institutions and acquaintances to make my company work well, only 34% agree to contract debt. Some of the reasons why MSEs do not hire credit are: They do not have confidence in banks, credit is expensive, they do not need to buy credit, they do not believe that they are given credit, the term is very short. (inegi.org.mx, 2017)

Scale	Número	Porcentaje
Strongly agree	7,097	28%
Agree	8,293	32%
Disagree	2,631	10%
Strongly disagree	1,115	4%
I do not know / Does not apply	6,614	26%

**Table 8** I am very clear about how much I owe on loans to relatives and acquaintances

*Own preparation*

60% of the directors of MSEs in Mexico agree on the question "I am very clear about how much I owe in loans to relatives and acquaintances." 8% of companies in Mexico use institutional financing, 31% of companies turn to family loans, 33% of the companies are financed through suppliers, 18.2 of the GDP in Mexico is generated by commercial credit.

34% of the credit to SMEs is already granted through the commercial bank, 10% of the companies median has financial indicators and finally 60% of companies that borrow have bad credit management. (Calderón, 2011)

Scale	Número	Porcentaje
Strongly agree	6,923	27%
Agree	7,584	29%
Disagree	2,544	10%
Strongly disagree	1,169	5%
I do not know / Does not apply	7,530	29%

**Table 9** I am very clear about how much I owe the bank and other institutions.

*Own preparation*

56% of the directors of the MSEs in Mexico recognize that they are very clear about how much they owe to the bank and other institutions.

Scale	Número	Porcentaje
Strongly agree	8,372	33%
Agree	10,635	41%
Disagree	3,443	13%
Strongly disagree	1,098	4%
I do not know / Does not apply	2,202	9%

**Table 10** I am very clear about the value of everything I sold last month.

*Own preparation*

The most important activity carried out in the company is the sales function. Which allows to specify one of the financial objectives of achieving profits. For the question "I am very clear about the value of everything I sold last month", only 74% of the directors of MSEs in Mexico say they agree. Unaware of the amount of sales made can be interpreted as a lack of control, every day companies seek that this concept is growing; offering various options for this to happen.

Scale	Número	Porcentaje
Strongly agree	9,044	35%
Agree	10,666	41%
Disagree	3,112	12%
Strongly disagree	983	4%
I do not know / Does not apply	1,945	8%

**Table 11** I am very clear about the value of everything I spent.

*Own preparation*

76% of MSEs directors agree with the question "I am very clear about the value of everything I spent" Expenditure control is a financial strategy to avoid unnecessary expenses, to know where money is spent, to identify leaks. The control of expenses allows to improve the finances of the company.

Scale	Número	Porcentaje
Strongly agree	8,286	32%
Agree	10,493	41%
Disagree	3,426	13%
Strongly disagree	1,072	4%
I do not know / Does not apply	2,473	10%

**Table 12** I am very clear about the value of everything I collected last month.

*Own preparation*

The collection consists of the recovery of the granted credits, at the moment one looks for to reduce the period of collection. 73% of MSEs directors agree with the question "I am very clear about the value of everything I collected last month" A manual of policies and procedures in the area of credit and collection.

## 5. Conclusions

With the results, the degree of management of the finances of the entrepreneurs of the MSEs in Mexico was analyzed.

**1. In the question I have very clear how much money I have either in cash or in the bank.**

Regarding the question, the entrepreneur answered that he knows clearly what he has both in cash and in the bank by 80%. It is one of the most important aspects in any organization to know how much money the company has.

**In question number 2. I am very clear about how much my clients owe me.**

68% of the directors of the MSEs agree, data considering how low, this point is very important, the employer must know very well who and how much they owe.

**Regarding question 3. I am very clear about how much my inventory is worth.**

Only 72% of directors say they agree. It is very important to have in the warehouse only useful raw material and easy conversion in production and sale.

**In question 4 I am very clear about how much my company's assets are worth. Specifically, what is not sold: furniture, cars, electronics, machinery, etc.**

74% of MSEs directors in Mexico agree. The percentage obtained is important, because with these goods the company will work and generate sales and wealth for your company.

**Regarding question 5. I am very clear about how much I owe to my suppliers. (Own preparation)**

74% of the directors of the MSEs of Mexico state that they are very clear about what they owe to their suppliers. In this research, entrepreneurs are well aware of what they owe to their suppliers of products and services. The good management of their debts leads to the increase of their profits.

In question 6 I borrow from institutions and acquaintances to make my company work well.

Only 34% agree to contract debt. Regarding this response, it is mentioned that if the entrepreneur is financially self-sufficient, he is healthy. But there is an area of opportunity to make credits and support for MSEs more accessible.

**In question 7. I am very clear about how much I owe on loans to relatives and acquaintances.**

60% of the directors of the MSEs of Mexico agree on the question. The entrepreneur must take care of the commitment of the loan and pay in time and form to be able to receive other credits and secure the fund for more microentrepreneurs.

**In question 8 I am very clear about how much I owe the bank and other institutions.**

56% of the directors of the MSEs of Mexico recognize that they are very clear about how much they owe to the bank and other institutions. It is a low percentage, from which it can be deduced that a high percentage does not ask for credit and others that should be given that do not comply with their payments in a timely manner.

**In question 9 I am very clear about the value of everything I sold last month.**

Only 74% of the directors of the MSEs in Mexico say they agree. This point is the most important for any company and to know my sales to the maximum helps me to project my growth and plan of action to increase them if I was not reaching the planned goals.

**Regarding question 10 I am very clear about the value of everything I spent.**

76% of the directors MSEs agree with the question, the entrepreneurs know well in which they spent the resources and the good management of the expenses helps us to obtain a greater utility in the company.

**Regarding question 11 I am very clear about the value of everything I received last month.**

73% of the directors MSEs agree with the question, this is interpreted that they know how much they charged and that they can project with that income to continue growing and fulfill the financial obligations of the company.

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