

Financial education in SMEs versus business failure

La Educación financiera en las PYME's versus fracaso empresarial

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Abstract

For SMEs, knowledge of good financial administration can mean their success or failure, since financial education corresponds to all their bank movements and cash flow, which corresponds to their control since they may run the risk of presenting "red numbers", if no control is established. The objective of this research is to recover information that allows evaluating the knowledge of financial education in SMEs to avoid their closure, which is why throughout this work a mixed investigation was used, the collection of information from Various authors who have knowledge of this topic, as well as, the conduct of surveys in the area of finance that allows analyzing the financial situation of SMEs. The results obtained made it possible to identify the factors that affect the financial situation of SMEs for decision making and generate strategies that lead to the optimization of their resources.

Resumen

Para las Pymes el conocimiento de una buena administración financiera puede significar su éxito o su fracaso, pues la educación financiera corresponde a todos sus movimientos bancarios y flujo de efectivo, que corresponde a su control ya que pueden correr el riesgo de presentarse "números rojos", de no establecerse un control. El objetivo de esta investigación es recuperar información que permita evaluar el conocimiento de la educación financiera en las Pymes para evitar su cierre, es por ello que a lo largo de este trabajo se utilizó una investigación de corte mixto, se realizó la recopilación de información de diversos autores que tiene el conocimiento de este tema, así como, la realización de encuestas en el área de finanzas que permita analizar la situación financiera de las PYME's. Los resultados obtenidos permitieron identificar los factores que repercuten en la situación financiera de las PYME's para la toma de decisiones y generar las estrategias que conllevar a la optimización de sus recursos.

Financial education, Finance, SMEs, Business failure, Entrepreneurship

Educación financiera, Finanzas, Pymes, Fracaso empresarial, Emprendimiento

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Introduction

(SAP Blog Innovación, 2021) According to the International Labor Organization (ILO), SMEs are units that in many countries represent more than 90% of the companies, and in most of the nations that make up the Organization for Economic Cooperation and Development (OECD), SMEs represent more than 50% of the Gross Domestic Product and are ranked as the companies that generate the most jobs.

In Latin America, only five countries have National Financial Education Strategies (ENEF,2022): Brazil, Chile, Colombia, Mexico and Peru. Each ENEF has formulated general and specific objectives, which differ mainly in their main focus. Some objectives are focused on financial education as an element that contributes to the promotion of financial inclusion, while others are based on a broader approach and seek to contribute in general to the good management of resources and responsible financial decision-making (Jay Vanegas, López, & Mugno Noriega, 2021).

According to (Bind ERP staff, 2022) the government should try to encourage entrepreneurship by offering better economic conditions to support them so that more people are able to create more companies of this type that contribute to the country's economy in general through profitable businesses that also meet the needs of Mexicans. Meanwhile, technology becomes their best ally, so it is crucial that entrepreneurs are always looking for cutting-edge solutions that help them attack their problems in a more scalable and cheaper way.

There are many entrepreneurs who have managed to get ahead despite the difficulties, so it is also a goal that can be achieved little by little. SMEs in Mexico will continue to grow and the idea is that they will be able to consolidate year after year, so their importance should not be overlooked.

State of the Art

Within financial education, various concepts and opinions are established: López Lapo, et al (2022) define financial education as the process through which consumers and investors improve their understanding of financial concepts and products.

And through information, instruction and objective guidance, develop skills and confidence to become more aware of financial risks and opportunities that allow them to make informed decisions, know where to turn for help and take other effective measures to improve their wellbeing and security. In his article "Financial Education in Latin America" (2022) he aims to overcome financial illiteracy in the population, since from several previous studies it was identified that there is a large margin of the population that does not fully understand the effective way to use financial services and products, resulting in decision making without appropriate information.

Its methodology aims to provide the reader with an overview of the financial education programs developed in Latin America and their impact on the population. The purpose of this type of review is to provide the reader with an update on useful concepts in areas of constant evolution. Primary and secondary sources were considered, with a validity of the last ten years. The results show that financial education can contribute in a limited way to improving the quality of life of the most vulnerable sectors, making a structural integration between financial education and state policies necessary. Although studies have been carried out in several countries, together with the above analysis carried out in Latin America, (Jay Vanegas, López, & Mugno Noriega, 2021) in his article "Financial education, an approach to growth and social development" carries out his study focused on Colombia, stating that "Financial education is one of the drivers of economic and social development in the world, since making the right financial decisions improves our standard of living".

It also states that the lack of financial education leads families to abuse credit and get into debt beyond their ability to pay. For this reason, financial education is essential, as it generates benefits for everyone at all stages of life. (Jay Vanegas, López, & Mugno Noriega, 2021) set out to demonstrate through international and national experiences, the different financial skills of people, in order to build a foundation that will serve as the necessary tools for an effective education of the Colombian population, all this was carried out through the implementation of financial education policies in the world, considering the European and Latin American context.

Then, in order to measure the financial capabilities of the Colombian population, a national survey on financial behaviors, attitudes and knowledge conducted by the World Bank, Banco de la República (2013), which was applied to 1,526 Colombian adults from all over the country in June and July 2012, was analyzed. At the end of this research, it was obtained that taking into account the basic financial concepts for an optimal financial education, it can be seen that the average Colombian does not have clear concepts as simple as the interest rate and credit. These results are alarming because of this lack of knowledge the population increased the bad financial decisions being this the main cause of the bad administration of resources of the population.

With regard to Mexico (Mungaray, González, & Osorio, 2021) establish that financial education is a process by which individuals acquire capabilities and skills in money markets allowing, among other things, to improve the understanding of the economy, access to banking products and investment opportunities.

According to their research "Financial education and its effect on income in Mexico", measuring the impact that financial education generates on the income of Mexicans, in people between 18 and 70 years old, capable of making financial decisions, they assure that a head of household with a higher level of financial education obtains significant increases in his or her income.

The methodology they used to reach this result was the collection of information from the National Survey of Financial Inclusion (ENIF, 2021) for formal credit, considering the number of credit cards that respondents have, the amount of payment they make and whether they have access to additional credit, with which they obtained that the lag in financial education of the Mexican population lies in the lack of social inclusion due to inequality and high levels of indebtedness, as this limits the success of public or private efforts made.

Another concept about SMEs is said by (Solis Granda & Robalino Muñiz, 2019) who states that SMEs are the small and medium-sized enterprises that have become the central object of study of administrative theory because they have a significant representation in the economies of a country.

Research has focused mainly on the analysis of the economic perspective and in the field of business management.

The research conducted by (Solis Granda & Robalino Muñiz, 2019) under the title "The role of SMEs in societies and their business problems" aims to investigate the management processes and the problems of SMEs through a documentary and deductive-quantitative research since in recent years the literature review, debate and discussion on the topic in question has expanded and deepened.

For the methodological part the research has two methods related to its particular characteristics, the first through documentary analysis with which it was possible to gather information for the subsequent analysis of the importance of SMEs and their business problems, the second method is a deductive-quantitative method that considers that the conclusion is implicit in the premises. The results obtained from the research revealed: (1) technological backwardness (2) lack of associativity of the SMEs, evidencing a deficiency in internal management and difficulty in facing national and international competitions.

The contribution of this research focuses on delving into the specific causes of these problems, to determine them and can help improve the productive development of entrepreneurs and microentrepreneurs.

The article "Financial evaluation of investment projects for SMEs" written by (Cevallos-Ponce, 2019) was created with the objective of putting the project in such scenarios and, at the same time, try to raise the challenges that this would imply, for the fulfillment of the initial goals. In this way, the project managers can introduce the changes that will improve the execution of the project.

The research has a descriptive level because it analyzes and describes the minimum structure necessary for the evaluation of investment projects for SMEs, thus characterizing the phenomenon in order to establish its structure or behavior.

Likewise, it has a non-experimental design, under the transactional or transversal modality, since there was no intentional manipulation or random assignment, and it will be studied directly, in order to collect data from the reality where the events occur in their natural context at a given time or period.

Regarding the implementation of the analysis of production processes. 76.5% of the SMEs evaluated indicated that this procedure was carried out for financial evaluation purposes, considering factors such as the activity involved in the production process, material and human resources, machinery and equipment, as well as the required infrastructure. For this last item, which is part of the tangible investment of the SMEs, it is necessary to define its dimensions, measures and prices.

With respect to business failure derived from the same income that people have, (Romero Espinoza, Melgarejo Molina, & Vera-Colina, 2018), gives a different meaning to what SMEs are and describes it as the small and medium enterprise defined as "any unit of economic exploitation, carried out by natural or legal person, in business, agricultural, industrial, commercial or service activities, rural or urban, which responds to the following parameters.

The objective of the article "Business failure of small and medium-sized enterprises (SMEs) in Colombia" is to identify the financial variables that explain the situation of business failure of small and medium-sized enterprises (SMEs) in Colombia. The database used in the analysis was constructed from accounting data issued by Colombian companies that report to the Colombian Superintendency of Companies.

For the results in relation to total sales revenues, they were cost of sales (67% and 78%), administrative operating expenses (18% and 14%) and sales operating expenses (9% and 13%), which means that the companies are mostly financed from the development of their corporate purpose. The sample selection is made in the SPSS 19 program where the 2013 Balance Sheet data are taken (10,804 companies; final base obtained, 5070 small and 5734 medium-sized); by means of the random sample function, 48 companies are selected managing to take a sample that best represents the total population.

Thus, the final database consisted of a group of 48 healthy companies and another of 48 failed companies. Entrepreneurial failure is associated with the discontinuity of ventures in early stages of development for not having met the objectives, is the opinion of (Dolores Dupleix, 2021) in her article "Effectiveness theory and entrepreneurial failure", This article responds to calls to examine and integrate the theory of effectuation with other theoretical concepts, models and theories related to entrepreneurship, with the aim of contributing to the understanding of effectuation, as well as to the broader field of entrepreneurship. In the present study, efficacy theory is used to analyze cases of failed ventures through an interpretative phenomenological analysis in the software and computer services sector in Argentina.

The results obtained thus open the debate on some assumptions that have been carried over time, and future research is needed to investigate in greater depth how, in what situations or in what decisions efficacy may be negative and, therefore, it may be convenient to apply a causal logic, or how both models can be combined to better represent the behavior of the entrepreneurial sector.

Methodology

The methodology to be used is qualitative and quantitative, using the technique of observation and documentary, how SMEs interact within society and the factors that most lead to a decline in their businesses, and quantitative research is carried out with the survey instrument to determine the knowledge of finance in the owners of SMEs, the approach in which this research is developed is an explanatory study in which is written about the phenomenon to be investigated, it is responsible for determining the causes of the events and phenomena surrounding this problem and to provide the most general explanation of the subject.

The methodology is applied with the intention of exploring a complex phenomenon such as failure in relation to a theoretical perspective little explored empirically, an interpretative phenomenological study was developed. This inductive method has been applied mainly in pedagogy and psychology research.

Results

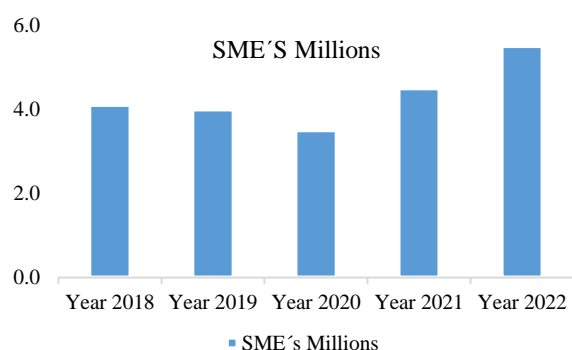
The results obtained from this research reflect that in Mexico in 2018 there were approximately 4.1 million SMEs classified in all sectors, with 97.3% belonging to microenterprises and 2.7% to small and medium-sized enterprises.

Size	Enterprices	
	Number	Participation %
Small Enterprises	4,057,719	97.3%
Small and medium enterprises (SME's)	111,958	2.7%
	4,169,677	100%

Table 1 Number of companies by size in 2018

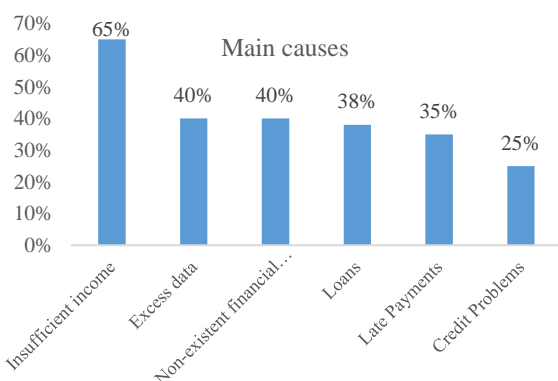
Source: INEGI, 2022

The National Statistical Directory of Economic Units (DENUE,2022) shows a total in the country of 5.5 million companies categorized as SMEs throughout the national territory, showing an increase of 34.1%. In the Córdoba area alone, there are 11,902 SMEs (see graphic 1).



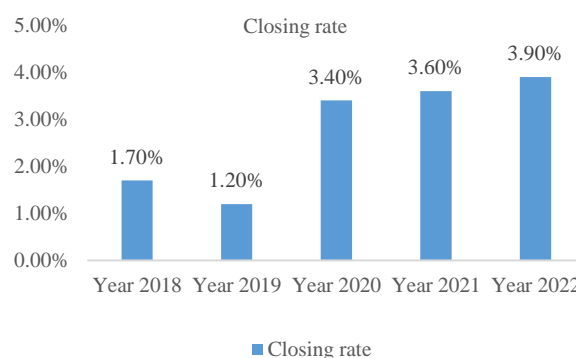
Graphic 1 SMEs in millions throughout the country from 2018 to 2022

However, many of the SMEs do not survive too long in the market for various reasons, of which the poor management of resources and lack of financial knowledge corresponds to 40%, which is why more than 30% of the companies have to close before reaching 5 years of age (see graphic 2).



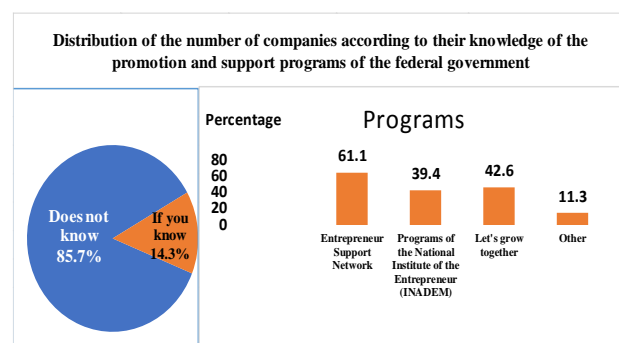
Graphic 2 Percentage of causes of business closures

On average, the increase in closures of micro and small businesses in 2019 has been the most representative, since it shows a closure of micro and small businesses by 2.20%, subsequently it has remained at a lower percentage, considering an average of 3.63%, showing a 0.50% increase in the last three years, according to graphic 3.



Graphic 3 Closure rate of companies from 2018 to 2022

Likewise, many of the companies are not aware of the various programs available to the government to acquire this knowledge, one of the most important being the "Cuida tu cartera" program, or financing programs of the government and financial entities, as shown in graphic 4.



Graphic 4 Percentage of knowledge of financial programs in companies

Source: INEGI, 2022

Conclusions

Financial education is key for companies to be able to have a longer permanence in the market and have an economic balance. Most companies in Cordoba do not have knowledge of financial education; however, with the promotion by the government and various financial companies, they are helping them to learn about it and be able to have results in the new companies that are entering the market.

It is also expected that with this improvement the life of the companies can increase in greater capacity and they can go from being SMEs to a company at state or national level, generating financial strategies that allow them to be competitive and the optimization of their financial resources for decision making.

Similarly, many of the companies are not aware of the various government programs available to acquire this knowledge, one of the most important being the "Cuida tu cartera" program, or financing programs of the government and financial institutions.

Therefore, it will be necessary as future work to generate dissemination strategies for SMEs in support programs and generate a financial culture, since providing them with knowledge to control their income, expenses and their optimal application will allow the care, control and supervision of the same according to their needs, considering a work in which the government sector, educational institutions and the business sector intervene.

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