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Conceptual Review on the Role of Financial Control in Small-Scale Business Survival

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Abstract

It is the future of the economy and the well-being and social progression of small-scale businesses especially. This paper focuses on the significance ofanalyzing, implementing, and maintaining financial control mechanisms for the stability and sustainability of emergent ventures. The study thus examines various national and international studies as well as theoretical frameworks in order to evaluate key practices like budgeting, financial reporting, and internal audits that help in the effective use and allocation of resources, decision-making, and managing risks effectively. Therefore, the research findings elucidate that effective financial control is a crucial strategy that fortifies operational success, in addition to improving perceived credibility by stakeholders and thus fortifying the company's ability to seek external financing for growth. Recommendations are provided concerning the specifics of the subject matters for small business entities to adopt in enforcing practical financial control measures such as- improving the internal control systems; pushing for better techniques of budgeting; increasing the transparency of financial reports; conducting periodic internal audits, and the like. Also, recommendations for future research highlight the importance of the development of the research instruments, cross-sectorial comparisons and sectorial investigations, and the examination of the influence of technological changes on the essentiality of financial controls. Based on the said integration, this study enlightens the understanding of how financial control can facilitate the positive management of growth and enable small businesses to overcome challenges in the pursuit of sustainable income and sustainable business success in today's competitive environment.

Keywords: Financial control, Small-scale business, Business survival, Budgeting, Financial reporting.

1. Introduction

Small-scale enterprises are significant precursors of economic development and vitality of the business environment due to their diversification, pertinence, and employment generation capacity, especially in high-risk ventures. These enterprises create employment, bring new products as well as services to the market, and assist in economic and social development. For instance, it is reported that small business generates up to 50% of the global employment, and about 40% of the GDP of emerging economies, (World Bank, 2020). They put pressure on the marketplace and afford customers better options and are flexible with change and this makes them very important in conditions of economic change (OECD, 2019; Nimfa & Chidi, 2021). As a result, promoting and buying from small businesses is crucial both for short- and long-term economic development of the region and for improving the welfare of people living in it.

However, small businesses are overwhelmed by many obstacles that put an onus on their survival. Lack of finance, weak management capability, and the formidable threat posed by large organizations remain critical challenges. It is often more difficult for these small enterprises to obtain financing because they lack adequate assets or fail to meet banking standards (Guner, 2023). Besides, issues with the managerial aspect entail suboptimal decision-making as well as the running of the business (Nimfa & Chidi, 2021). Besides, competition by larger firms with access to resources deepens these challenges since small enterprises cannot transform, find ways to cut costs, or gain useful market publicity (OECD, 2019).

To overcome such challenges different solutions have been instituted. The governments, international organizations as well as the financial institutions have launched programs including subsidies, loan guarantees, grants, tax credits, and special financial instruments for the promotion of the small businesses (World Bank, 2020; Mago & Modiba, 2022). Other novel approaches to improving decision-making among managerial personnel and improving operations among small businesses include training and apprenticeship programs (Nimfa & Chidi, 2021).

Nevertheless, small businesses are not devoid of many challenges that put a business's existence at risk. Lack of access to capital, weak management skills, and competition of small businesses by large organizations are still considered major challenges. A research by Guner (2023) shows that a high percentage of small businesses find it hard to access credit, whether from major banking institutions or other methods because of weak security or high-standard crediting. Besides, low managerial skills lead to suboptimal decision processes and enterprise management (Nimfa & Chidi, 2021). Moreover, small business competition from larger firms with access to resources only increases these problems as small businesses lack the competency to economies of scale and cost, and effective market positioning capabilities (OECD, 2019).

Several interventions have been made in order to mitigate these challenges. Cross-sections of governments, international organizations, and financial institutions have used incentives like subsidies, seed funds, grants, tax credits, and financial instruments among others to spur small businesses (World Bank, 2020; Mago & Modiba, 2022). Other interventions include procedures for training managers and apprenticeships that increase the effectiveness of decision-making and conduct of small business entities (Nimfa & Chidi, 2021). Nonetheless, some problems such as financing constraints and competitive threats remain perennial challenges to small business health and longevity.

The issue of financing currently also remains acute, mainly due to the high credit standards set by financial organizations that small businesses usually do not meet (OECD, 2019). Furthermore, training programs have been effective as an improvement; however, they do not solve all problems with business owners who lack various managerial skills (Nimfa & Chidi, 2021). Especially, the danger of larger organizations remains high thanks to their ability to possess more capital, and expertise, and develop better ideas and efficiency in terms of growth.

To overcome these challenges that have been mentioned time and again, having sound financial control is the key for any small business to adopt. This aspect enables the prediction of the availability of resources in an organization, provides direction on strategic decisions, and enhances the financial process (Atrill and McLaney, 2019). Finance should be kept on track, expenses should be controlled, and effective sound budgets should be prepared to enhance organizational efficiency. Besides, Sound financial governance ensures reliance on outside stakeholders and is likely to secure funds for growth and development as observed by Collier (2015).

Based on this background, the research seeks to identify how effective management of finances will assist the small businesses to overcome some of the drawbacks and increase effectiveness. In the case of the present investigation, it will evaluate the efficiency of financial control in resource management, budgeting, and business success. In other words, the study aims at establishing factors that might be used to predict the opportunities and threats, within which small business operates to ensure sustainability and hence maximize their contribution to the economy.

2. Literature Review

Financial control consists of actions that entitle to the management of financial resources and obligations for the sake of the organization's goals achievement. This includes areas that are key elements in every organization including budgeting, financial reporting, and internal audit. Budgeting is the process of creating a financial plan and procedures to use resources effectively and make measurements toward organizational performance (Lependina&Bezrukova, 2022; Hryhorash et al., 2023). Culture relevant for financial reporting Cultures of accountability Reporting ensures transparency in presenting vital functional statements including balance sheets and cash flow reports necessary for decision-making and regulatory compliance (Agrawal, 2023; Collier, 2015). The following are the objectives of internal audits; risk identification, financial reporting improvements, and the assurance of operational stability through conformity to legal and organizational standards (Daif& Jalal, 2022; Millichamp& Taylor, 2012). Altogether, collectively these practices provide a strong financial control environment and strengthen financial decisions and strategies.

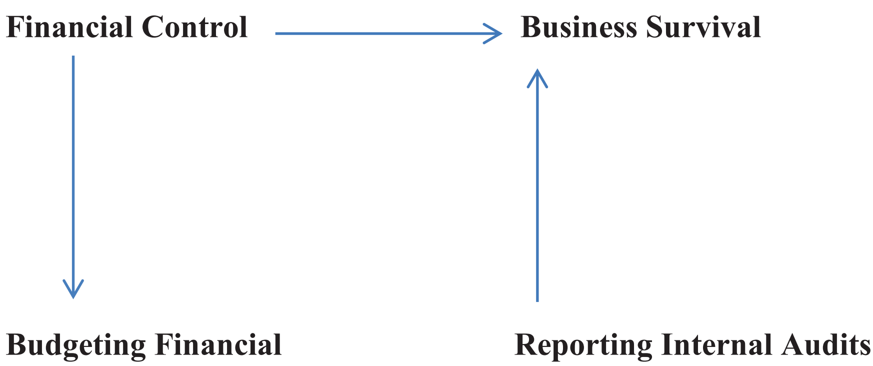
The ability to sustain a small business venture also has a considerable relationship with factors within its organization and forces outside in the global environment among which are; competition, and economic forces. Financial reporting and risk management afford organizations the contingencies to manage change in uncertain markets while promoting operational stability (Lukashov, 2022; Mihalciuc, 2022). Sustainable actions of credit management and risk minimization are sufficient for adequate funds, and essential for protection and profit-making opportunities for small businesses during business risks and uncertainty (Nimfa & Chidi, 2021). Yet, issues of global financing remain a challenge; however, 'earnest credit control, which strengthens internal controls, is important "for greater access to credit and investor confidence, which is critical for sustainable growth," OECD (2019).

Writing on the subject innovates a positive correlation between efficacious financial control and business sustainability. Budgeting enables an organization to prepare for the various difficulties that might arise, for an organization to make sure that its actions correspond to its goals and objectives, and to ensure efficient control of the use of resources (Atrill& McLaney, 2019). Likewise, it accords transparency and compliance because every economic activity needs direction and investors need assurance (Collier, 2015). Internal audits prevent and reduce severe issues including fraud, enhance organizational reliability making it more suitable for the future (Millichamp& Taylor, 2012). Not only does the solidification of financial controls perpetuate business structures but it also brings legitimacy to finance figures from lenders, fitting one of the biggest challenges for small businesses – funding (Rao et al., 2021; Lin et al., 2020).

For a better understanding of how and why financial controls bring manager's and owner's interests together to minimize the waste of resources, there is Agency Theory (Jensen & Meckling, 1976; Kasbar et al., 2020). As pointed by Barney (1991); Brovkova et al. (2021), Resource-Based View considers financial control practices as valuable and inimitable source of competitive advantage and survivability. At the same time, the Contingency Theory has stressed the fact that financial control depends on the organizational environment, which means that only tailored solutions are useful in small-scale companies (Fernandes et al., 2023). Such theoretical frameworks also buttress the need for small-scale firms to adopt efficient financial control mechanisms that will enhance the sustenance and growth of these businesses.

Budgeting, financial reporting, internal audits, and the likes comprise an elaborate course of the company's financial controls necessary for survival. Budgeting enables efficient allocation of resources and appropriate financial management for operations to go on (Atrill& McLaney, 2019). According to Collier (2015), financial reporting promotes stakeholders' needs to enhance their understanding in order to make improved decisions and meet regulatory requirements. Internal audits thus assist in the detection of weaknesses and frauds, that the strong and competitive financial base on which sustainable growth depends on has to be preserved (Millichamp& Taylor, 2012). Altogether, these practices lay a groundwork for long-run financial sustainability and robustness for independent businesses and so, prove an appreciable part of sound financial management for their survival and growth.

The conceptual framework below visually represents the linkages between the key variables: The conceptual framework below visually represents the linkages between the key variables:



3. Methodology

This paper adopts an exploratory tone with which to raise awareness of the importance of financial control mechanisms in supporting the operations and profitability of SS. Agency Theory, Resource-Based View, and Contingency Theory have been used to formulate the study's conceptual model that considers the variables of budgeting, reporting, and internal audits including qualitative and quantitative data analysis. These methods compare the existing approaches to financial control and their effectiveness and adaption in business currently.

A conceptual model is formulated to depict how financial control variables influence business survival parameters as well as whether moderating /mediational effects exist. It also reveals the ways by which financial controls ensure owner-manager congruence, improve resource utilization, and shape strategic choices. Research implications are presented for furthering the framework of financial controls in the context of different industries in order to develop theoretical knowledge of the phenomenon in small-scale businesses.

4. Results and Discussions

In the course of developing this research, the thematic synthesis was used to synthesize the literature review with the theoretical literature to determine the role of FC practices including budgeting, reporting, and internal auditing in the survival of the small-scale business. That these practices are effective in enhancing resource utilization, decision making, and organizational performance was also pointed out by findings. Effective and sustainable financial risks and return management strategies were considered necessary and vital in the management of risks, optimization of financial performance, and organizational ability to overcome volatile business environments.

The study found out that accurate budgeting and comprehensive financial reporting enhance the efficient distribution of funds by ensuring better budgeting and proper reporting of financial statements to improve the company's competitiveness and recognition of organized capital from stakeholders such as investors and lenders (Atrill& McLaney, 2019; Collier, 2015; OECD, 2019). The internal audits were presented to identify the fraud mentioned in the study, compliance, along with sound financial health (Millichamp& Taylor, 2012). All of them together help to reduce risks, improve disclosure, and ensure the perpetuity of small business ventures.

The paper's results suggest that theoretical evaluations of actual management methods remain valuable for pragmatic risk management and highlight the significance of striving for the financial ceiling. This is because the restricted cash controls provide close cash flow prediction and control, while accurate reports enhance investor trust and source of cheap capital (Atrill& McLaney, 2019; Collier, 2015). Corporate internal audits also improve the operation performance since they point out the areas of weaknesses and put in place sound internal controls (Millichamp& Taylor, 2012).

Tactically, these conclusions support policy conditions that encourage the implementation of proper FCs as a way of enhancing the economic performance of SB during adversity. Small businesses' financial product and service enrollment is recommended to be aligned to create financial accessibility and support structures among the financial institutions (OECD, 2019). In conclusion, the study reveals that solid financial stewardship is a managerial imperative and best strategic weapon that is essential for operating small-scale enterprises in the volatile market environment.

5. Conclusion

This study has therefore shown the importance of financial control for the survival and growth of small-scale businesses. Because of the fact that by the process of reading literature and the theoretical frameworks it was decided that various practices such as budgeting, financial reporting, and internal audit are crucial for anything ranging from evaluation of the financial strength and weakness to making better decisions and managing risks (Atrill& McLaney, 2019; Collier, 2015; Millichamp& Taylor, 2012). Besides, these measures contribute to efficiency in business operations and help to strengthen the trust of external stakeholders and open access to external financing, and support the transition to more sustainable development paths (Beck and Demirgükc-Kunt, 2006; OECD, 2019).

Financial control appears to be the means for profit-investing companies other than just a management power, enabling businesses to respond to souring economic standards, demands, and threats and to seize on potential financial prospects in cutthroat markets.

Adaptive management for efficient implementation of sound financial controls enhances the ability of industries to perform and achieve sustainable revenue and profitability.

To enhance working financial control in small business organizations, the following areas should be regarded as strategic; budgeting, reporting, internal assessment, financial training, and application of technology. They help the effective management of resources, conformity to obligatory norms, and the improvement of choice-making capacities. There is a need for future studies to examine FC practices in sectorial levels, in different areas and with accounting technologies like artificial intelligence and blockchain.

With such a direction of developments, the growth of further studies can enhance understanding of how financial control sustains and develops the SMEs' resistance and stability in the context of an unsteady economic environment.

Conflict of Interest Statement

The authors declare that there are no conflicts of interest regarding the publication of this paper. The research was conducted independently, and no financial, personal, or professional relationships influenced the findings or conclusions.

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