

## **Financial Structure of SMEs in the area**

GÓMEZ-BRAVO, María De La Luz \* †, ANDRADE-OSEGUERA, Miguel Ángel, RAMIREZ-BARAJAS, Alejandro and ROJAS-NÚÑEZ, María Fernanda

Universidad Tecnológica del Suroeste de Guanajuato

Received January 14, 2016; Accepted June 12, 2016

---

### **Abstract**

This work is focused on small and medium enterprises, an important part in the economy of the area, for this reason it was decided to explore the factors that affect positively or negatively to these kinds of companies. The structure of the financial information that helps the preparation of financial statements in accordance with Financial Reporting Standards, is important because it facilitates compliance with tax obligations that companies must cover; it should be mentioned that this information revealed that our area is a good source of new business but the lack of information from employers and a system of empirical organization make the development of these businesses is difficult, so the importance study to determine the needs and to collaborate for the improvement and growth of these companies.

### **SMEs, Financial Structure, Financial Statements**

---

**Citation:** GÓMEZ-BRAVO, María De La Luz, ANDRADE-OSEGUERA, Miguel Ángel, RAMIREZ-BARAJAS, Alejandro and ROJAS-NÚÑEZ, María Fernanda. Financial Structure of SMEs in the área. ECORFAN Journal-Mexico 2016, 7-17: 1-9

---

---

\* Correspondence to Author (email: mlgomezbra@utsoe.edu.mx)

† Researcher contributing first author.

## Introduction

Today we can see that the implementation of SMEs in the state of Guanajuato has adapted in a way that is really impacting society, as both local trade and survival needs have enabled it from which we look forward to the development Economic situation of the state in a way that really comes to surprise; Aside it is important to mention that it brings benefits like the financial leverage of external form that is obtained from said figure. What it means to have a business with its own investment and external investment. The purpose of SMEs is to reactivate local trade as meeting basic needs.

There are times when people who have their business do not know how important it is to analyze the financing structure they manage to carry out or verify a check of each of the results obtained. Since it is easier to make decisions in a way that benefits the boss or partners on the subject of investments and thus when making investments are sure that they will be able to cover the debt that they have acquired.

One of the biggest benefits of having financial leverage is that as a company you can invest more money than the company considers to have; But like everything, it is a risk that presents itself because when investing you do not know if it will be for good or for bad and in this case when having a debt you do not know if your capital is going to increase presenting gains or will decrease with resulting losses.

As a company that is willing to invest or practice leverage you must be aware that the greater your leverage, the greater the interest based on the debt, which affects the profits that are generated.

If a company really wants to work for a long time, it is important that as you invest and pay, look for the implementation of some strategies either to increase your economic stability or to find ways to pay off each of your debts which is good because with it Can force them to do it routinely.

It is worth mentioning that the use of industrial SMEs is a strategy of the government to disassociate itself from a structural responsibility (obligations that are of the State) and are transferred to society with a meritocratic discourse. What is meritocratic discourse? It is an extremely consumable discourse where people are told that everything depends on them, and mainly their status of social class and social status, for that reason they must do their own company, and of course, as a government they give the facilities so that These germinate, but they cross arms in if these request supports. It is basically for self-employment, to avoid a little migration, since Gto have a high migration rate.

## Framework

In Mexico, SMEs have helped to decentralize large cities and small towns are urbanized, exporting in some cases their products, an example of which is the coffee in some regions of Veracruz, its taste to the palate is delicious, with quality of Export, accepted in several international markets. (Www.clarin.com, s.f.)

Before identifying the importance of SMEs in Mexico, we will start by analyzing their meaning. Arthur Anderson in 1999, in his book Dictionary of Economics and Business, defines them as "An Economic Unit of Production and Decisions that, through the Organization and coordination of a series of Factors (Capital and Labor), seeks to obtain a profit by producing and marketing Products or providing services in the market".

For a long time, SMEs have been the main income of many Mexican families, since a family can be sustained, without the need for any additional work, and it is considered to be a support for the next generations of entrepreneurs, for the Transmission of the secrets of the family business, contributing to the growth and development of Mexican companies, in an empirical way in most cases. (Mercado H Salvador, 1999)

The biggest problem that have had to overcome the SMEs is the Globalization, situation that at the beginning caused that many companies had to close by the great number of transnational companies that arrived at our country.

In the past a Mexican family had to go through several businesses to be able to supply their basic basket, butchery, greengrocer's, greengrocer's, corner store, etc ..., nowadays it is enough to go to a self-service to buy everything Which require, in addition, that the service is more comfortable, by carts to transport their products, parking, prepared food areas, collections with various means of payment, etc.

Life has evolved and with that they have left almost in the forgetfulness to many businesses that previously were indispensable in the daily life.

Transnational companies, because of their tremendous purchasing power, can request better conditions in terms of price and credit from their suppliers, thus having an almost insurmountable advantage for small businesses.

All this caused many people to be unemployed, as several companies of various sizes began to close and unemployed people were in need of applying for work in these international business chains, which offered them a salary well below Of which they obtained as entrepreneurs and owners of a company.

Currently, 99.8 percent of Mexican companies are Micro, small and medium-sized, of this amount 90 percent are micro-enterprises, all of MSMEs employ 70 percent of the economically active population.

The company Bimbo® emerged as an SME and over time became a transnational company, helping to open markets in other places, and companies like 3M set in Mexico to invest.

### **Methodology**

The financial structure of the company is the composition of the capital or financial resources that the company has captured or originated. These resources are those that appear in the Balance Sheet under the generic name of Liability, which collects, therefore, the debts and obligations of the company, classifying them according to their origin and term. The financial structure constitutes the financing capital, or what is the same, the financial sources of the company.

The composition of the capital structure in the company is relevant, since, in order to achieve the financial objective established: maximizing the value of the company, a mix of financial resources should be available to provide the lowest possible cost, with the Lower level of risk and to seek the greatest possible financial leverage. Thus, the main types of decisions on financial structure are about the following two issues:

- The amount of short-term and long-term financial resources
- The relationship between own funds and long-term borrowings

Therefore, it is necessary to analyze the financial structure of the company, namely the study of the financial sources available to the company and its characteristics (including different sources, internal or external, short, medium or long term); And criteria should be established that allow the best fit of the global financial means to investments - both current and future - in current and non-current assets. There are multiple criteria to classify the financial sources of the company, among which the one is used in the General Accounting Plan. However there are other alternatives.

The criterion of the General Chart of Accounts

According to the classification of the General Accounting Plan (Law 16/2007 on the Reform and Adaptation of Commercial Law in accounting matters for international harmonization based on European Union regulations and Royal Decree 1514/2007, approving the Plan General Accounting), the financial structure is composed of Net Equity and Liabilities

### Liabilities

They include current obligations arising as a result of past events, for which the company expects to dispose of resources that may produce future economic benefits or returns. For this purpose, provisions are tax included. Within the liabilities is differentiated between:

- Non-current liabilities: includes long-term provisions, long-term debt, long-term debt with group companies and associates and deferred tax liabilities.
- Current liabilities: includes Liabilities related to non-current assets held for sale, Short-term provisions, Short-term debt, Group companies and short-term associates, Trade and other payables.

### Shareholders' equity

It is constituted by the residual part of the assets of the company, once all its liabilities are deducted. It includes the contributions of the partners, as well as the accumulated results or other variations that affect them. Therefore it comprises: Own Funds, Adjustments for change of value and Grants, donations and bequests. (Mercado H Salvador, 1999)

### Decisions on the financial structure

Each financial source has a cost, so the company tries to capture resources at the lowest possible cost, maintaining certain balances within the financial structure itself. To do so, it has to determine the Cost of Own Resources, the Cost of Other Resources and, as a weighted average of the two above, the Weighted Average Cost of Liabilities. As this cost is affected by the capital structure itself then the proper management of the financial structure is an important element of the economic-financial direction.

In turn, the financial structure has to keep some balance with the economic structure in relation to the destination of those resources. This balance is measured by the Rotation Fund or Maneuver Fund that is determined as the excess of the Permanent Capitals, that is, the Net Asset Value plus Non-Current Liabilities less Non-Current Assets. This fund is an indicator of the company's long-term financial solvency.

The composition of the financial structure of the company therefore depends on the cost of the financial resources, the risk that the company is willing to assume, and the destination of those resources so that there is a correspondence between the nature of the financial resource and the of the investment it finances.

There are different theories about the capital structure being this the difference between the financial structure and the current liabilities. The objective of capital structure management is to seek the combination of financial sources that maximizes the value of the company or alternatively minimizes the cost of capital. However, there is no single model accepted to determine it, but there are different basic capital structure management tools.

The decision on the capital structure is framed in the decisions of business financing that together with the decisions of investment and of policy of dividends form the central axis of the Financial Management of the Company.

As Michel Porter describes, companies and business sectors, not nations, are competing (Andrade, 2007), which is why the company plays a fundamental role in the countries' economies, in sustainable economic development and is a generator of wealth. In Mexico there are structural problems that hinder the development of small and medium-sized enterprises (SMEs), a phenomenon that is not unique to our country, since it is possible to analyze it in almost every country in the world.

For the census of 2005, it is highlighted that the generation of jobs by small companies are 2'058,867 and medium-sized companies 2'317,328, compared to the 4,3'3,774 generated by large companies; That is, micro, small and medium-sized enterprises (MSMEs) generate 69.1% of jobs in companies in the productive sector, without taking other sources of employment; And considering that 80% of SMEs close during their first year of operation due to lack of leadership or internal problems, and 70% of family businesses disappear after the death of the founder and only between 9% and 15%.

The third generation, this document raises the importance of carrying out research to identify models of strategic planning in secondary sector companies, incorporating four strategic lines: ethics and corporate governance, quality of life in the company, The community and its development, as well as the care and preservation of the environment. The four previous lines include the linking educational institution company and the mentoring process as training.

The results obtained will allow the development of strategic guidelines for SMEs in the industrial sector that will enable organizations to achieve a competitive business vision. It is necessary to analyze quantitative and qualitative data on the performance of SMEs in the industrial sector, to establish bases that contribute to boost and improve competitiveness, innovation and decision making, specifically in the state of Guanajuato, Mexico.

It is intended to analyze in a documentary way the SMEs of the aforementioned sector, identifying the production units, total gross production, census added value and total occupied personnel, as well as other indicators that reveal the degree of SME participation in Guanajuato, to describe the vision Existing business in them; After the contributory and vision analysis, the elements to be assessed will be those present in the areas of strategic planning, linkage, human resources and technology, outlining some of the main elements that contribute to the proposal of specific intervention proposals of companies to improve their Finance, technology, organizational behavior and thus respond to specific demands and needs of the region. In short, they proposed.

### Top of the form

The following is an example of the operational structure of a SMEs' predicted income statement. CASE: \$ 10 million in financing is required to expand the installed capacity of a SME.

An investment of \$ 10 million pesos is required to finance an investment. It will be assumed that the financial manager has two financing alternatives to evaluate: Debt or Equity (issue of Shares). If the debt is decided, the company will pay an interest rate of 15%; In case of deciding to issue shares, the company, for logical reasons, will not have financial costs. To evaluate the financing alternatives will be taken a tax rate (taxes) of 35%.

Customer Service	15.000.000
Variable cost	9.000.000
Contribution margin	6.000.000
Fixed operating costs and expenses	4.050.000
Operating profit UAII	1.950.000

**Table 1**

As for the financial structure of the income statement, this should be different for the two alternatives because there are two different sources of financing. The use of equity capital will not generate interest payments while the use of the debt will be forced to comply with the established cost of financing, which in this case will be 15%.

Operational utility	OWN CAPITAL	DEBT
Interests	1.950.000	1.950.000
Profit before tax		1.500.000
Taxes	1.950.000	450.000
Net profit	682.500	157.500
Operational utility	1.267.500	292.500

**Table 2**

As you can see, there will be a greater benefit from financing through the issuance of equity. However, it is important to analyze the following aspects when using one or another source of funding: DEBT: 1) Interest on the debt option amounts to \$ 1,500,000; 2) A tax will be paid for \$ 157,500. HERITAGE: 1) There is no interest payment. 2) A tax will be paid for \$ 682,500.

When looking at the tax effect in the two possible scenarios, it will be noted that: a) when using stockholders' equity, the company must pay a higher tax on higher profits, exactly \$ 525,000 more than when using debt. B) When using debt as a source of financing, the company would save \$ 525,000 in tax payments; If this saving is subtracted from the interest amount, its net cash flow would be an exit of \$ 975,000.

When using financial leverage, this saving produces a decrease in the cost of debt: from 15% before taxes it passes to 9.75% after taxes, which is demonstrated as follows:

Debt \$ 10,000,000

Amount of interest \$ 1,500,000

Less tax benefit \$ 525,000

Actual cost of debt \$ 975,000

After-tax debt rate: = 9.75%

Or, otherwise:  $15\% (1-35\%) = 9.75\%$

The difference in profits (\$ 975,000), in this case, is equal to the real cost of post-tax debt (\$ 10,000,000 x 9.75%). However, it is necessary to keep in mind that the entrepreneur will always be attentive to obtain a rate equal to or greater than the rate of financing. It should be noted that not using the debt who assumes the risk will be the entrepreneur.

In the present situation, the entrepreneur invested a capital of \$ 10 million pesos and obtained a 12.68% of profitability. In the other scenario, the entrepreneur obtained \$ 292,500 of utility at the expense of the risk assumed by the lender.

In theory and in terms of profitability (%), the second situation (debt) is the most favorable for the entrepreneur because its equity or stockholders' equity will be lower than that in which there is a need to increase the number of shares to be able to undertake the investment project. However, it is risk aversion that will be in charge of deciding for the best option; there will be entrepreneurs who love adventure and decide to put their own resources. Others, with less exposure to danger, will decide to seek external financing at the expense of lower profits and lower taxes. In short, depending on the side you see the situation may favor one or the other behavior. The important thing is to take into account the tax benefit offered by the use of debt

### **Form Finish**

There are multiple criteria to classify the financial sources of the company, among which the one is used in the General Accounting Plan. However there are other alternatives.

### **Other criteria**

However, there are other criteria to classify the financial resources of the company among which can be cited: enforceability, ownership, origin or permanence in the company.

### **Methodology**

It is Qualitative because data collection is used without numerical measurement to discover or refine research questions in the interpretation process, Qualitative studies can develop questions and hypotheses between, during and after data collection and analysis.

The qualitative data make detailed descriptions of situations, events, people, interactions, observed behaviors and their manifestations.

The qualitative approach seeks mainly "dispersion or expansion" of data and information, reflection is the bridge that links the researcher. (Hernandez, Sampieri, Roberto, 2006)

The qualitative approach studies the various subjective realities constructed in research, which vary in their form and content between individuals, groups and cultures, reality if it changes by observations and data collection, describes and interprets phenomena through Perceptions and meanings produced by the participants' experience.

The qualitative approach provides depth to data contextualisation of the environment or unique environment and experiences as well as provides a "fresh, natural and holistic" view of phenomena as well as flexibility.

The orientation towards the prediction and explanation description is directed towards measurable or observable data. The goal of mixed research is not to replace quantitative and qualitative research, but to use the strengths of both types of inquiry by combining them and trying to minimize their potential weaknesses.

Mixed methods represent a set of systematic, empirical and critical research processes and involves the collection and analysis of qualitative and quantitative data as well as their integration and joint discussion to make inferences resulting from all collected information and achieve their greater understanding of the Phenomenon under study. (Hernandez, Sampieri, Roberto, 2006)

They are the systematic integration of qualitative and quantitative methods into a single study to obtain a more complete picture of the phenomenon, these can be combined in such a way that the qualitative and quantitative approaches retain their original structure and procedures.

### **Conclusion.**

Analyzing the financial structure of SMEs will be good to establish some actions or measures to support and improve the economic environment within the municipality. Orientation and support are needed to grow them and thus generate various jobs to reduce the unemployment rate, in terms of support it is necessary that they receive financial support from the government to make them flourish and be solvent to remain A long time and is not a simple project of 3, 5 years. It can be said that SMEs are a very important factor within a municipality because they could be said to promote economic growth and social welfare, supporting in various ways. I think that because of the lack of SMEs and the payment of good salaries here in the municipality we have enough migrants looking for a better life in other countries.

Not only the municipality of Valle de Santiago would be solvent for having small and medium enterprises if we do not know what all Mexico needs of these organisms to be able to have an economic development since thanks to the production that these generate as the export of all those products and services.

That these loans have several treaties with several countries, I believe that every Mexican that every resident should use these agencies to jointly be able to strengthen not only the municipality but the country in order to be able to classify us as a competitive country and make each one of The products with Mexican manufacture are quite important and they are of the value that they must have inside and outside the zone.

SMEs tend to have certain budgetary constraints, sensitivity, sharpness and accuracy, since they are organizations with a small number of employees. Another of the factors that influence is tourism we know that Valle is an area where people from different regions can visit and observe each of its natural reserves or some of the companies that are.

It is known that in order to make this not only a dream but a reality that will last for more than 8 years since it is the average life of a business, it is important that the people who own this economic entity carry in a competitive manner as you will see Accounting information which will favor to be able to say that the company is solvent, that has liquidity, that is capable of solving any debt that this comes to present, to know all the financial structure of the company to establish all the balances that are presented month to month .

The support for SMEs is something really important and more in Valle de Santiago since more than 75% of the population has a small business or is working for some of these, thanks to them we can say that in Valle there are jobs.



**References**

(revistaempresarial, s.f.)

(www.clarin.com, s.f.)

(www.masmisionpyme.com, 2016)

Mercado H., Salvador, Administración de Pequeñas y Medianas Empresas, Ed Pac, México D.F. 1999.

Escobar R., Francisco, ABC del análisis Financiero para micro, pequeñas y medianas empresas y ejecutivos, Ariel Divulgación Ed. Planeta Mexicana, 1995.

Robinson I., Roland. Financiamiento de la dinámica empresa pequeña, ediciones contables y administrativas, México 1972.