



ROLE OF FINANCIAL CONSULTING IN IMPROVING PROFITABILITY OF SMEs: A CASE STUDY OF RANCHI CITY

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ABSTRACT

Small and Medium Enterprises (SMEs) play an important role in economic development by generating employment opportunities, boosting industrial growth, promoting innovation, and driving regional development, especially for developing countries like India. Apart from their structural importance, SMEs face numerous challenges related to finance, such as a lack of financial planning, low profitability, ineffective cash flow management, and limited financial guidance. Looking at these critical problems, financial consulting has emerged as an essential support mechanism for guiding SMEs toward better financial performance, sustainability, and assistance. This study focuses on a case study of Ranchi City, the capital city of Jharkhand State, addressing a clear gap in localized empirical research. The research design is descriptive and exploratory, utilizing a mixed-methods approach that combines quantitative and qualitative measures for a comprehensive understanding of the subject. Primary data was gathered from 77 business owners via structured questionnaires and surveys, supplemented by secondary data from government reports and past literature. The findings highlight that SMEs receiving proper financial consulting services are more capable of managing resources efficiently, making informed financial decisions, reducing unnecessary expenses, and improving overall profitability. The study aims to build awareness among SME owners regarding the strategic value of financial consulting in achieving sustainable business growth and competitive advantage in the Ranchi district.

KEYWORDS: SMEs, Financial Consulting, Profitability, Entrepreneur, Acceptance.

CHAPTER 1: INTRODUCTION

1.1 Background of the Study

"Money makes the world go around" — Jamie Thomas. Structural business research reveals that many enthusiastic entrepreneurs focus heavily on direct operational business activities, such as production, increasing demand, and sales optimization, while remaining reluctant to prioritize the systematic recording and maintenance of financial transactions. However, long-term enterprise success fundamentally depends on managing strategic financial decisions. Financial crises can be minimized or entirely averted if the structural financial needs of an organization are well planned and executed.

In a developing economy like India, Micro, Small, and Medium Enterprises (MSMEs) act as the engine of growth, contributing a major share of Gross Domestic Product (GDP) and employment. Despite this pivotal role, SMEs consistently struggle to maintain and increase profits due to poor financial management, lack of strategic planning, and traditional operational methods that prove insufficient in highly competitive environments.

1.2 The Concept of Financial Management

Financial management involves the strategic planning, organizing, directing, and controlling of monetary resources. It guides key investment decisions, balances cash flows, and drives long-term sustainability to maximize firm value. The discipline ensures businesses effectively mobilize and deploy funds through four main pillars:

- **Investment Decisions:** Capital allocation into long-term fixed assets or short-term operations.
- **Financing Decisions:** Determining the optimal mix of debt and equity.
- **Dividend Policies:** Deciding on the distribution or retention of earnings.
- **Working Capital Management:** Ensuring day-to-day operational liquidity. Past research indicates a wide gap between theoretical financial models and the actual management practices of SMEs in India. Entrepreneurs running financially strained or "sick" units often lack foundational knowledge of financial management and fail to maintain proper records.

1.3 Small and Medium Enterprises in India and Jharkhand

Nationally, SMEs contribute 9% of India's GDP, 45% of its manufacturing output, and 40% of its exports, employing approximately 60 million people across 26 million enterprises. The sector's high labor intensity offers employment potential at low capital cost, making it essential for inclusive national growth. In Jharkhand, established as a state in 2000 with Ranchi as its capital, SMEs leverage rich natural resources and mineral reserves. They drive rural development, supporting youth, women, and tribal communities across sectors like fabrication, support services, agro-processing, and handicrafts.

- **Manufacturing Enterprises in Ranchi:** Based in industrial areas like Kokar, Namkum, Tupudana, and Mesra, these units support large-scale industries but face



constraints in technology adoption and infrastructure bottlenecks.

- **Service Enterprises in Ranchi:** Driven by urbanization, sectors like IT, logistics, healthcare, digital marketing, and financial consultancy show strong growth but face skilled workforce shortages and capital limitations.

1.4 Financial Management Practices of SMEs

Sound financial discipline involves multiple functional areas:

1.4.1 Financial Planning, Analysis, and Control

Financial planning acts as a blueprint, balancing capital needs with available funds to reduce liquidity risks. Ongoing businesses require continuous planning to navigate inflation, market competition, and regulatory changes.

1.4.2 Financial Structure Management

While capital structure focuses on long-term funds (equity, debentures, retained earnings), financial structure encompasses both long-term and short-term funds. SMEs rely heavily on short-term trade credit, bank overdrafts, and personal or family loans for daily operations.

Balancing this ratio is critical to minimize interest burdens without restricting business growth.

1.4.3 Maintenance of Books of Accounting

Proper accounting records allow tracking of profitability, assets, and liabilities to meet legal requirements. However, many SMEs rely on incomplete or irregular records managed by owner-managers without formal accounting training due to fears of tax exposure or perceived implementation costs.

1.4.4 Capital Budgeting Decisions

Capital budgeting involves evaluating long-term investments (machinery, land, expansions) using analytical techniques like Payback Period, Net Present Value (NPV), Internal Rate of Return (IRR), and Profitability Index (PI). Excessive asset investment ties up capital, while under-investment limits production capacity.

1.4.5 Working Capital Management

Working capital acts as a lubricating agent for day-to-day operational transactions. It requires precise cross-functional optimization:

- **Inventory Management:** Balancing carrying costs against stock-out risks through methods like Economic Order Quantity (EOQ) and ABC analysis.
- **Cash Management:** Direct monitoring of cash inflows and outflows to optimize liquid balances through forecasting and cash budgeting.
- **Accounts Receivables Management:** Establishing structured credit policies to capture sales opportunities while preventing cash from being locked up in delayed payments or bad debts under the MSMED Act 2006.

1.5 Profitability Metrics and Analytical Framework

Profitability reflects an enterprise's capacity to convert operational assets, resources, labor, and technology into sustainable value. It is evaluated using standard financial ratios:

- **Gross Profit Margin:** Measures pricing policy strategy and production efficiency.

$$\text{Gross Profit Margin} = \left(\frac{\text{Gross Profit}}{\text{Net Sales}} \right) \times 100$$

- **Net Profit Margin:** Reflects remaining earnings after all operating expenses, interest, and taxes are paid.

$$\text{Net Profit Margin} = \left(\frac{\text{Net Profit}}{\text{Net Sales}} \right) \times 100$$

- **Return on Assets (ROA):** Measures efficiency in asset deployment.

$$\text{ROA} = \left(\frac{\text{Net Profit}}{\text{Total Assets}} \right) \times 100$$

- **Return on Equity (ROE):** Evaluates equity value creation for owners and shareholders.

$$\text{ROE} = \left(\frac{\text{Net Profit}}{\text{Shareholders' Equity}} \right) \times 100$$

- **Return on Investment (ROI):** Determines the direct return of invested financial capital.

$$\text{ROI} = \left(\frac{\text{Net Profit}}{\text{Total Investment}} \right) \times 100$$

1.6 Problem Statement and Research Gap

Most contemporary literature on SME financial performance focuses on metropolitan cities or macro-level indices. No empirical research has examined localized financial consulting dynamics within Ranchi city, which represents a critical territorial and administrative growth hub for Jharkhand. Furthermore, with the rise of digital platforms and fintech solutions, there is limited evidence on how localized advisory adoption addresses internal operational bottlenecks to affect profitability.

CHAPTER 2: LITERATURE REVIEW

A review of empirical studies shows the diverse factors influencing SME financial sustainability and credit accessibility:

- **Kharub & Sharma (2017):** Leveraged Porter's diamond model via exploratory factor analysis to demonstrate that demand conditions and organization-level competitive strategies heavily dictate sector competitiveness inside Indian industrial clusters.
- **Singh & Wasdani (2016):** Evaluated 85 small businesses in Bangalore, establishing that formal banking channels are underutilized due to an absence of collateral assets and limited financial literacy among entrepreneurs.
- **Rathnasiri (2015):** Applied non-parametric Kruskal-Wallis and Mann-Whitney U tests to show that legal structure, scale, and owner education significantly cause variations in the adoption of financial tools.
- **Gul & Khan (2013):** Analysed working capital cycles in Pakistan, confirming that a shorter Cash Conversion Cycle (CCC) via restrictive payment procedures directly optimizes shareholder wealth and profitability.



- **Panigrahi (2012):** Argued that proactive risk management frameworks that anticipate market shifts act as an essential source of competitive cost advantage.
- **Asuquo & Effiong (2012):** Confirmed a strong positive relationship between automated Accounting Information Systems (AIS) and bottom-line profit margins.
- **Mendoza (2016):** Found that while MSMEs might report strong liquidity and activity indices, they frequently exhibit low profitability, requiring a structural reassessment of cash resource management.

- **H₁:** Financial consulting has a positive impact on the performance and profitability of SMEs in the Ranchi District.

3.3 Research Design and Sampling

The research uses a combined descriptive and exploratory mixed-methods design. Quantitative parameters capture measurable effects on revenues, turnovers, and ratios, while thematic qualitative analysis uncovers underlying owner perceptions. Primary data was gathered via field surveys, Google Forms, and structured interviews from a final sample size of 77 valid respondents in Ranchi. Data analysis was performed using Analysis of Variance (ANOVA), percentage analysis, and multiple linear regression models.

CHAPTER 4: DATA ANALYSIS AND INTERPRETATION

4.1 Demographic and Operational Profile Analysis

Percentage distribution across the primary survey sample (n = 77) reveals several key demographic and business characteristics:

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Objectives

1. To examine the operational challenges faced by SMEs in aligning business strategies with local execution.
2. To analyze the empirical impact of a formal strategic consulting approach on profitability metrics.
3. To evaluate the effect of day-to-day cash, inventory, and cost management practices on structural growth.

3.2 Hypotheses

- **H₀:** Financial consulting has no significant impact on the performance and profitability of SMEs in the Ranchi District.

Variable	Classification Category	Sample Percentage (%)	Source Reference
Age Profile	Less than 30 Years 30–40 Years 40–50 Years Above 50 Years	16.9% 20.8% 29.9% 32.5%	
Gender Distribution	Male Female	93.4% 6.6%	
Education Level	Intermediate Level Graduation Student Postgraduate / Professional	29.9% 54.5% 15.6%	
Business Location	Urban Area Settlements Semi-Urban Dwellers	70.1% 24.7%	
Legal Form	Sole Proprietorship Units Partnerships / Others	97.4% 2.6%	
Product Category	Consumer Goods Selection Industrial Goods	96.1% 3.9%	
Business Nature	Retail Trade Sector Manufacturing Units Wholesale / Service	70.1% 19.5% 10.4%	
Registration Status	Unregistered Operations Normal Formal Registration Composition Scheme	70.1% 27.3% 2.6%	
Annual Turnover	Below INR 10 Lakhs INR 10–50 Lakhs Above INR 50 Lakhs	57.1% 29.9% 13.0%	
Consulting Usage	Sometimes (Occasional) Never Utilized Services	41.6% 22.1%	



4.2 Inferential Statistical Analysis (ANOVA)

To evaluate the impact of financial consulting frequency on various dimensions of business performance, single-factor ANOVA tests were conducted at a 95% confidence interval ($\alpha = 0.05$).

- **Perceived Effect on Firm Profitability:** The test evaluated whether variance in profitability perceptions correlates with advisory usage frequency. The resulting p-value was $< .001$, pointing to a highly significant difference across usage tiers. This confirms that higher consulting frequency is associated with more favorable profitability trends, rejecting the null hypothesis H_0 .
- **Respondent Satisfaction Levels:** Testing the satisfaction of respondents against their frequency of consulting engagement resulted in a p-value $< .001$. This indicates a significant relationship between regular professional engagement and overall financial satisfaction.
- **Core Business Problem-Solving Capabilities:** The relationship between consulting usage and success in resolving liquidity and credit challenges was evaluated. The test yielded a p-value $< .001$, confirming that regular financial consulting significantly strengthens problem-solving capacity.
- **Strategic Financial Decision-Making & Awareness:** Evaluating the perceived value of financial tools for future planning and the need for localized financial awareness programs returned a p-value $< .001$. This highlights a strong consensus among active users regarding the strategic value of continuous financial guidance.

4.3 Linear Regression Modeling

Multiple regression summaries were run across different parameters to assess predictive capabilities. Across models tracking cost reduction, investment selection, and net profit improvements, the calculated Pearson correlation coefficient (R) values consistently ranged between 0.3 and 0.7.

This range indicates a stable, moderate positive relationship, showing that professional advisory input explains a reliable portion of the variance in SME financial outcomes. Consequently, across all primary statistical tests, the localized null hypothesis is rejected, supporting the alternative hypothesis (H_1) that financial consulting significantly improves SME performance metrics within Ranchi district.

CHAPTER 5: FINDINGS, CONCLUSIONS, AND POLICY RECOMMENDATIONS

5.1 Main Findings

1. **Demographic Constraints:** The sample is heavily skewed toward traditional sole proprietorships (97.4%) and male-dominated setups (93.4%) with a high reliance on traditional, intuitive decision-making.
2. **Low Formal Registration:** 70.1% of surveyed retail and manufacturing units operate without formal registration, limiting their access to institutional credit lines and government assistance schemes.

3. **Turnover & Advisory Gaps:** 57.1% of businesses operate with a micro-turnover below INR 10 Lakhs. While 41.6% report occasional consulting usage, 22.1% have never engaged financial professionals, largely due to cost concerns and low awareness.
4. **Empirical Performance Shift:** Active engagement with financial advisors is associated with lower operational costs, optimized inventory turnover, reduced tax penalties, and better capital budgeting choices.

5.2 Conclusions

This empirical study of Ranchi City shows that while financial consulting serves as an effective tool for improving profitability, a significant awareness gap limits its adoption. Many entrepreneurs rely entirely on personal experience, viewing formal bookkeeping and advisory services as an unnecessary expense rather than a strategic investment. Correcting this structural bottleneck is essential to strengthen the long-term sustainability and market competitiveness of the local economy.

5.3 Recommendations

- **Localized Awareness Campaigns:** Government bodies like the Jharkhand Department of Industries and local trade associations should launch targeted financial literacy initiatives and workshops.
- **Digital Accounting Incentives:** Provide institutional incentives and subsidies for cloud-based accounting platforms and ERP applications to help micro-enterprises maintain reliable business records.
- **Affordable Advisory Frameworks:** Establish specialized helpdesks and business advisory centers that provide low-cost, reliable financial consulting services tailored to unregistered and micro-level operations.

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