



## The Importance of Financial Planning in Micro-Companies in The Manufacturing Sector of The State of Tlaxcala

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**Abstract.** As is already known, Micro, Small and Medium-sized companies have been a source for job creation at the international, national, state and regional levels. This has allowed that the economy of a country to be more promising and outstanding, which therefore contributes to increasing the standard of living of the communities. Due to the lack of planning in the different areas of the MSMEs and mainly of financial planning, it has been possible to determine that there is no growth in the companies, which causes a stagnation or in its case the closure of the same, due to This is not a stability in companies that allows them to remain in the market, which is why it is considered highly relevant to publicize the way in which the lack of financial planning impacts on micro-companies in the manufacturing sector of the state of Tlaxcala, with the purpose of which it is gotten to implement to be able to obtain a growth in the organisms and have a more promising future.

### To cite this article

[Beltrán, G. P., Hidalgo, K. G. & Aguirre, R. C. (2020). The Importance of Financial Planning in Micro-Companies in The Manufacturing Sector of The State of Tlaxcala. *The Journal of Middle East and North Africa Sciences*, 6(07), 8-11]. (P-ISSN 2412- 9763) - (e-ISSN 2412-8937). [www.jomenas.org](http://www.jomenas.org). 2

**Keywords:** MSMEs, Planning, Financial Planning.

### 1. Introduction:

MSMEs are a very important part of Mexico's economic development. Therefore, it is important to highlight that the majority of MSMEs fail to consolidate due almost entirely to internal factors that are manifested in them, and this causes them to be vulnerable to external changes. Due to this, the need has arisen to generate actions that allow us to remain in a competitive environment. Companies have a life cycle, and this is determined by how long they last operating, and is measured by how the company is managed financially and operationally. In Mexico, close to 80% of MiPyMes fail before reaching 5 years, studies have revealed that more than 50% of MiPyMes close before completing 1 or 2 years of existence (El Financiero, 2015).

One of the main characteristics of small businesses is that no information is generated to make financial decisions. The information generated is accounting in order to cover tax obligations, which indirectly implies that the accounting data does not reflect the actual situation of the organization. In this sense, the manager does not have the minimum information necessary to make decisions, not only because the accounting data does not reflect reality, but because the purely accounting approach to information does not allow a full understanding of the economic situation of the company, for which it is necessary that pertinent information be generated for financial decision-

making. Financial analysis and planning are basic activities of the financial function that are non-existent in small organizations, reflecting on problems that can represent the failure of a Company. Because entrepreneurs are mainly focused on obtaining medium resources to be able to carry out operating expenses, it is difficult for them to intend to develop financial plans when they do not have knowledge on how to carry them out, when everyday problems overwhelm the decision-making capacity of entrepreneurs and when they have basic problems to generate income. However, this should not imply that financial decisions should not be made in the short term based on financial planning as a useful tool (López & Contreras, 2007).

Financial planning in MSMEs can be of great help to the entrepreneur, in this way it is possible to pose in a more real way the financial situation in which the company is currently and in this way make decisions regarding the existing problems, being more precise for the design of the financial strategies that are decided to implement for their development and growth. Financial planning is responsible for identifying ways in which the company can achieve its financial goals, it focuses on identifying opportunities. However, there are few companies that perform financial planning giving greater importance to operational planning, given that they do not have trained personnel, nor the tools with which they can focus on their specific needs, therefore, this does not allow them anticipate so



appropriate to the internal and external situations that may arise and affect its operation, this puts them at a disadvantage serious with large companies that threaten the stability, since the fact of conducting a financial management empirical disfavor and more difficult their potential opportunities for growth that are wasted.

## 2. Theoretical framework:

### 2.1. MSMEs

Micro, small and medium-sized companies or their acronyms (MSMEs in Mexico) constitute the backbone of the national economy in Mexico according to the information obtained in recent years. There are a variety of criteria to define and thus classify companies as micro, small, medium and large, these criteria are different, depending on the country or entity that defines and classifies them. Therefore, it is interesting to mention that the existing companies in the current economic context present characteristics that are taken as elements that allow establishing a differentiation between large, small, micro and medium-sized companies (Saavedra & Hernández, 2008).

#### 2.1.1. Importance of MSMEs

According to CONDUSEF (2019), MSMEs are considered as the main engine of the economy. And it is that, in many cases, MSMEs are the companies that give the most jobs, and it is very easy to understand why, they contribute significantly to job creation. This is how an important market space is covered by these companies that are the backbone of the Mexican economy. Micro, small and medium-sized companies generate 72% of employment and 52% of the country's Gross Domestic Product (GDP). In Mexico, there are more than 4.1 million micro-enterprises that contribute 41.8% of total employment. The small ones add 174,800 and represent 15.3% of employability, on the other hand, the medium ones reach 34,960 and generate 15.9% of employment. MSMEs focus on activities such as commerce, services and the artisanal industry, as well as independent work.

#### 2.1.2. Classification

According to the information collected from the National Institute of Statistics and Geography (2009), the criteria for classifying micro, small and medium-sized companies are different in each country; traditionally, the number of workers has been used as a criterion to stratify establishments by size, and as complementary standard, total annual sales, income and / or fixed assets.

In 1985 the former Secretary of Commerce and Industrial Development (SECOFI), currently the Secretary of Economy, officially established the criteria to classify the industry according to its size. On December 30, 2002, the Ministry of the Economy published in the Official Gazette of the Federation a stratification under the following standard (INEGI, 2009):

Table 1: MSMEs classification, Official Gazette of the Federation

		Stratification	
Tamaño	Sector	Range of number of workers	Range of annual sales amount (mp)
Micro	All	Up to 10	Up to \$4
Small	Commerce	From 11 to 30	From \$4.01 to \$100
	Industry and service	From 11 to 50	From \$4.01 to \$100
Medium	Commerce	From 31 to 100	From \$100.01 to \$250
	Service	From 51 to 100	\$250
	Industry	From 51 to 250	From \$100.01 to \$250

### 2.2. Planning

Planning is the process of deciding in advance what will be done and how. It includes determining global missions, identifying key results and setting specific objectives, as well as development policies, programs and procedures to achieve them. Planning offers a framework for integrating complex systems of interrelated future decisions. In sum, a plan is a predetermined course of action (Rosenzweig and James, 1989).

#### 2.2.1. Importance of planning

According to Torres (2014), the importance of planning is best appreciated when we consider the place that many well-managed organizations occupy, convinced that their future depends on planning and technology, these organizations expect that all their administrators, from The front-line supervisor to senior management devotes a large part of their time to formulating plans, before taking any initiative.

It can be determined according to Rodriguez (2005) that planning is essential for the proper functioning of any organization, since through it you can have the ability to foresee future changes and in this way you can take appropriate measures to face them as follows:

- Promotes the development of the organism by establishing methods to rationally use the resources.
- It reduces the levels of uncertainty that may arise in the future, although it does not eliminate them.
- It fosters a futuristic mentality, having more vision of the future and a desire to achieve and improve things.
- It conditions the social organism to the external environment.
- Establishes a rational system for making decisions, avoiding empiricism (intuition, improvisation).
- Minimize risks and maximize opportunities.
- When establishing work plans, they lay the foundations with which the agency will operate.



- Minimizes potential problems and provides the administrator with adequate returns on their time and effort.
- Maximizes the use of time and resources at all levels of the organization.
- It makes employees fully aware of what is expected of them and gives them the opportunity to be part of the decisions that are reached.
- Provides the necessary elements to carry out the control.

### 2.3. Financial planning

Financial planning brings many advantages, such as the advance knowledge of the entire consumption and investment budget for the following period, allowing to establish, in advance, the method necessary to obtain the intended profit in the period to which the planning refers, which helps to set goals and establish more specific management guidelines.

Its practice still allows the identification by the company of needs such as the clarification or the possibility of expansion, the viability of its budget for the current market, the evaluation of the possibility of implementing new projects and their costs, and the reserve planning for future investments. Another important aspect of the financial plan is the possibility of identifying exaggerated costs, enabling the manager or directors to see and adjust such expenses to the reality of their cooperative and the market, leaving them further from empiricism, allowing them to make more decisions. reliable thus innovating profitability (Resdorfer, Neusa, & Salla, 2005).

#### 2.3.1. Financial planning concepts

Lack of an effective financial plan is often cited as one of the main reasons for financial problems and failure. Financial planning sets guidelines for change and growth in a company.

Initially it is necessary to define what financial planning is, it is the process by which it is calculated how much financing is necessary to continue the operations of an organization and if it decides how much and how the need for funds will be financed. It can be assumed that without a reliable procedure to estimate resource needs, an organization may not have sufficient resources to honor its assumed commitments, such as obligations and operational consumption (Gitman, 2007).

Financial planning is a three-phase procedure to decide what actions will have to be taken in the future to achieve the objectives set: plan what you want to do, implement what is planned and verify the efficiency of what is done (Ortega, 2012).

Financial administration technique with which the study, evaluation and projection of the future life of an organization or company is intended, visualizing the results in advance (Robles, 2012).

#### 2.3.2. Importance

Financial resources are among the most important within an organization, so it is necessary to use this resource appropriately to make the best use of it in the investments made in an entity.

Ortega (2012), mentions that the purpose of planning is to achieve the desired objectives in business, to be a control tool for senior management, to address aspects of uncertainty and to combine purposes when facing the uncertain future. The objective of financial planning is to minimize risk and take advantage of financial opportunities and resources, to decide in advance the money needs and their correct application, seeking their best performance and maximum financial security. The budget system is the most important tool that modern administration has to achieve its goals.

Financial planning establishes the way in which financial objectives can be achieved. A financial plan is therefore a statement of what must be done in the future. In a situation of uncertainty, it must be analyzed with great anticipation. Financial planning is an important part of the manager's job defining financial plans and budgets to achieve company goals. Furthermore, these instruments offer a structure to coordinate the various activities of the company and act as control mechanisms, establishing a performance standard against which it is possible to evaluate real events. In preparing a plan, it will be necessary to adapt to the economic reality in which the company lives. In the short term, the financial plan is mainly concerned with the analysis of decisions that affect current assets and liabilities. The absence of effective long-term financial planning is an often-cited reason in the occurrence of financial hardship and business failure. The financial plan allows determining the type and nature of financing needs. The success of the operation, performance and long-term viability of any business depends on a continuous sequence of individual and collective decisions made by the management team. Each of these decisions, ultimately, has an economic impact, to improve or not, in the business (Gitman, 2007).

#### 2.3.3. Content of a Financial Plan

In the Puente & 'Viñán Investigation (2017) it is mentioned that the financial plan is the result of financial planning, it must have the following elements: Financial objectives, Financial policy, Financial strategy, Assumptions adopted, Investment plan, Financing structure, Income and expenses, Forecasts of the Financial Statements, Risk Analysis of the Estimates.

A financial plan must have a projected income statement, a projected cash flow and a balance sheet, and that based on this information, it will be possible to carry out the decisions that contribute to obtaining the same development and growth that constitute the end result of that plan.



## 5. Conclusion

It is important to be clear about the function and benefits that MSMEs have been bringing to Mexico, since they have been responsible for keeping the economy of a country afloat, which has allowed to increase the quality of life of society in general. It was possible to observe through research that companies have internal weaknesses that can be exploited as an opportunity for growth and that, of course, it is within the reach of the heads of the organizations to take control to create competitive advantages that will allow the company to continue with your business activities.

Carrying out a plan to achieve the objectives is essential for the success of a company, this will allow having a broader view of the internal and external situation of the company, maintain stricter control and have the ability to make more accurate decisions and promising for the entity. Financial planning contributes to the company having the knowledge and commitment to manage its economic resources with which the organization works in a more efficient way, to carry out short, medium and long-term plans that have the minimum possible risk, this with the intention to generate favorable results for the company such as development and growth.

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Received May 18, 2020; reviewed June 01, 2020; accepted June 06, 2020; published online July 01, 2020