Financial Information for the permanence of the Agri-food Smes

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In México, the small and medium-sized enterprises play a relevant role in the economic structure. However, the SMEs mortality rate is high and is attributed to several factors, among which include: no or weak planning, poor access to financing, constraints arising from lack timely financial information, and suffer from a suitable organizational structure.This is a theoretical work, done within the framework of a doctoral research, taking as reference the analysis of Financial Reporting Standards issued by the Council for Research and Development of Financial Reporting Standards (CINIF, 2012), the International Financial Reporting Standards for SMEs (2009), and complementary researches of Kalantaridis Vassileb (2011), Aragon & Rubio (2005), Lacayo & García (2011), Julien (2011) and Segovia & Huerta (2011). This paper includes the results of an exploratory study which let find the importance given by SMEs to the accounting aspect. The first target is to analyze how the SMEs in the food industry use information derived from the accounting records and make decisions to strengthen the permanence in the market. It was found that 66.7% of SMEs surveyed do not have a catalogue of accounting accounts, so do not have accounting or financial information to analyzed and make right decisions about the business.

Financial Information, SMEs, Food Industry

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FINANCE

Introduction

The SMEs in the food industry have a very important role in the Mexican economy, generated employment and participate on provide food. The National Statistics Board of Economic Units (DENUE) has registered to May 2013, 3738 companies of this type. Morales & Najar (2011) note that SMEs face serious problems such as low administrative capacity, lack of management expertise and low innovation.The Economic Commission for Latin America and the Caribbean (2010) mention that SMEs need to survive government financial support and unfortunately this support is not for all.

In a Business Victimization Survey prepared by the INEGI, businessmen mention that the main problems they face are insecurity and crime (28%), the low purchasing power (19%), lack of government financial support (18%), the tax burden (16%), the paperwork with the government (11%) and corruption (8%). The above problems reflect in the continuing business closures across the country. Researches conducted by CONCAMIN (2012) show that one hundred percent of the start ups companies, at the end of the first year only remains fifty percent, at the end of the year fifth remains only twenty percent.

Following last researches, we can see that is a high rate of companies that go out of market, and colateral losses are not possible to quantify, as well as aspects that directly impact the entrepreneur pocket, like time loss and negative potential consequences from employers frustrated.

To stay in business, enterprises require information as a basis for decision making. Globalization, continuous changes on the environment and competition, forces SMEsto use systems that generate timely information for decision making. This is the reason why needs information have evolved.

In 2002 was created in Mexico, the Mexican Board for Research and Development of Financial Reporting Standards, with the aim of developing financial reporting standards that favor international convergence. These financial reporting standards are considered the minimum requirement of accounting techniques.

The International Financial Reporting Standards for SMEs are published in 2009 and notes that the objective of financial statements is to provide information about the financial position, performance, the cash flows and financial management. The qualitative characteristics of financial statements obtained by the application of International Financial Reporting Standards for SMEs are understandability, relevance, materiality, reliability, substance over the form, prudence, completeness, comparability, timeliness and cost-benefit balance. However, these standards are not born with the character of compulsory and Financial Reporting Standards applied in Mexico only represent a minimum requirement of accounting techniques.

The Ministry of Economy, in the stratification criteria of companies published in the Official Gazette of 2009, are recognized that industrial SMEs have eleven employees as minimum and until two hundred and fifty employees as maximum; and revenues goes four to two hundred fifty million pesos.

When are constituted only as individuals, tax obligations depend on the regime under which taxed.

In accordance with Mexican tax law, individuals are taxed at the rate of small taxpayers (this regimen will disappear in 2014), by now are not required to keep accounts or accounting records , in some cases, their only concern is to fulfill its taxes. In a research conducted by Segovia and Huerta (2011) found that a third of SMEs in Mexico do not have accounting records so you do not have information that may be considered as a basis for decision making.

The SMEs in Mexico have very specific characteristics and as objects of study represent a major challenge by its heterogeneity. Among its main features can be listed that has a flexible structure that allows them to adapt to the changing environment, a low level of specialization, reduced size, informal coordination mechanisms and simple information systems (Fong, 2008). Cleri (2007) notes that a quick response to the environment, allows them to gain competitive advantage, however, this adaptability is wasted, otherwise, mortality rate of SMEs could be lower.

For Hernández (2012) the capital mix, the labor force, and management are focused on producing goods and services, increases employment resources and allows to the growth and development of enterprises. The administrator has a close relationship with the accounting and financial information, and their decisions are based on economic performance which although are derivatives of administrative management, are the result of the accounting process too.

The objective of this paper is to analyze the importance of the use of information derived from the accounting records for decision making in small and medium enterprises in the food industry and the use of it to build the permanence in the market. First, a survey was conducted in a sample of the Guasave City, Sinaloa; in order to know who are those use an accounts catalogue to the accounting and the importance given to the accounting of business transactions andthat allows them to obtain timely information for decision making.

Subsequently, will be applied interviews to fully understand how SMEs in the food industry are organized, which kind and specialization degree of human resources are require to meet the information needs of users for proper decision making. Following the above reasoning, the question arises,

Does carry out accounting records enabling to SMEs have adequate financial information for decision making?
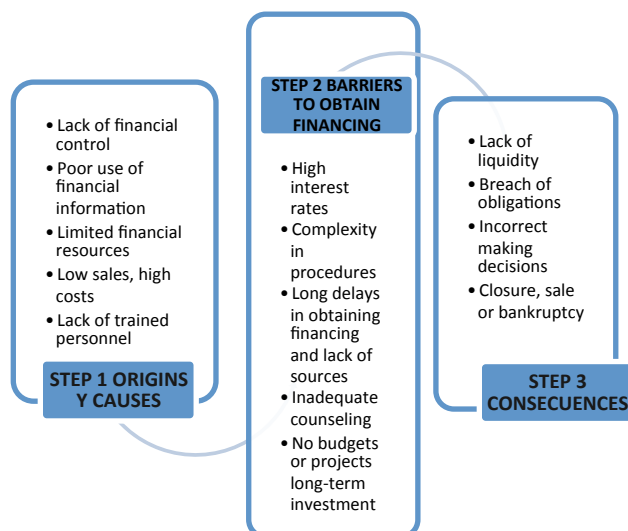
Financial Information

The Financial Reporting Standards (2013) define financial information like quantitative, and descriptive; should showing the position and financial performance of an entity in order to target the general userin making decisions. As part of the information needs of the general user are mentioned evaluation of the financial economic behavior, the ability to optimize their resources and viability as a going concern.

Financial statements should be useful for making investment decisions, financing, assessing the ability of the entity to generate resources and distinguish the origin and characteristics of these resources, the ability to distinguish growth and cash flow generation, among others.

In a world of rapid change, accounting can not be excluded, therefore, has been evolving, always aiming to provide useful decision-making information. However, in a study conducted by Lacayo & Garcia (2011) on the main problems that hinder the permanence of Mexican companies, found that poorly used financial information which generates incorrect decisions. Additionally mention problems related to the financing, management of resources, reduced sales and increased costs as the source of problems; within the obstacles to obtaining financing said the high interest rates, terms and the difficulty of getting up to the closure, sale or bankruptcy of the company.

Graphic 1

Evolution of the financial problems of Mexican companies

Source: Authors. Adapted from Lacayo and Garcia (2011)

Cervantes and Gallardo (2012) note that decision making is an important factor of economic and financial information as it is going to facilitate, through methodical analysis, surpass the achievements by making appropriate decisions.

Knowing the financial information for prior years can trace the path that you must go for higher profits from previous years and that the company can grow having defined parameters to enable the evaluation of progress. Despite the limitations of the use of accounting information may be the most accessible source of information (Mateos, Marin and Segui, 2011).

Financial information must be structured and managed according to the problem to be solved according to the sector to which the company (Pacheco, 2011) so as to facilitate the planning and achievement of business goals without neglecting belongs environment in which the company operates.

Success or business failure

To understand the business success you must know the meaning of failure. To Mosqueda (2008) failure is when exists non-compliance of financial objectives issued from management, the corporate bankruptcy is cancer of the economy, when businessman can not sell their products on the market, is because the company did not understand the signs indicating that business failure was imminent. Justo (2007) notes that it is important to analyze the failure moments to obtain additional knowledge and create value without dying in the attempt.Mateos, Marin and Segui (2011) set business failurethrough a literature review ofvarious researches about business failure and claim that the orientation is towards the elements of financial statements.

To doing a comparison of insolvent companies with solvent companies, the objective of the study is oriented to models of business about prediction of business failure.

The definitions of business success are many and varied, the most important are related to obtaining sustainable benefits (Wernefelt, 1984).

Higher performance than competitors (Aragon and Rubio, 2005), sustentables gains (Collins, 2011), getting strong financial returns (Kalantaridis, Vassileb and Fallon, 2011), performance improvement on global sense (Cebada, 2008), efficient and effective performances (Ríos, Ferrer and Regalado, 2010), a long-lived business and with quality of life too (Restrepo and Rivera, 2006), the power lies in the structure of the company and to facilitates the achievement of its purposes (Greiner, 1994), Garcia (2006) using models of balanced and sustainable growth.

SAGE (2006) states that the difference between success and failure lies in making decisions regarding: focus on the needs and experiences of consumers, understand and adapt to change and assimilate and learn from past experiences . For this article, success is the permanence of the companies in the market by obtaining sustainable yields that facilitate the growth and development of the company, in addition to enabling the return on investment to the owners without affecting the financial future of the same.

Business permanence

One of the most important goals of an organization is to survive (Morales, 2002), however, for Collins (2012) companies can improve with basis their reality, although could be unfavorable.

Looking to do things better than the competition and get economic benefits through people appropriate for the organization. Dominguez and Rosas (2010) conclude that culture, strategic planning and entrepreneurial orientation are the leitmotif for the business permanence.

Aragon and Rubio (2005), derived from an investigation about 1201 Spanish SMEs mentioned that obtaining competitive advantages allows companies be profitable in the long term, and lets them achieve the survival and success.

On the other hand, Rivera (2007) conducts a study and identifies changes required in the organizational structure andfinancial performance of the companies that survive. To Capelleras and Kantis (2011) companies can use growth as a strategy to stay on the market and argue that it is a sign of vitality and strength.

For this article, the permanence is that the company achieves its objectives and the ability to remain a going concern, that is, minimizes uncertainty about its continuity in the market.

Methodology

First, we reviewed the related literature about the subject of research and subsequently we collect the information. The scope focuses on achieving the objective to explore the reality of the SMEs of Guasave, regarding the register and use of financial information. This research is descriptive because it collects information about how SMEs used its financial information.

The design of the research was not transversal since information was collected only once, using as an instrument of data collection, a survey applied to leaders or owners of SMEs considered as sample.

We considered the total population constituted by the number of business registered on the National Statistical Directory of Economic Units (DENUE) of the National Institute of Statistics, Geography and Informatics (INEGI).

As selection criteria these companies, should be locate in the county seat of Guasave, Sinaloa, Mexico.The total number of companies registered in Guasave on the DENUE is 10,329. For this research was considered only companies with 11 employees as minimum and 250 as maximum, which gives us a total of 624, of which were removed government agencies, corporations and associations, branches and subsidiaries as well as the parastatals companies, the final population considered was only 195 SMEs.

To determine the sample statistical we used the formula for finite population with an error level of 0.06 and a 95% confidence level was applied, the particular sample was 112 companies. The survey was applied to the total sample, but we do not considered business with less than ten employees and with less of four million income pesos, according to stratification of enterprises of the Ministry of Economy published in the Official Gazette in 2009, which ranks companies as micro and are not the subject of this investigation. However, we add to the sample, companies that meets at least one criteria, on the complement we add 45 SMEs. The results of the Micro business, we will analyze on other paper later, because have very different characteristics.

Main findings

Of those surveyed managers, 31.1% are family, 8.9% are not family related and the rest are the owners. 48.9% of companies belong to commercial sector , 35.6% belong to industrial sector,and the rest belongs to other services. For analysis of the number of employees and the income range we used the contingency table generated by software SPSS Ver 20, which shows below:

Table 1

Contingency Table
Classification by number of employees and revenue range

		Revenue Range			Total
		Until $4 Mills	From 4.01 until 100 millones	From 100 to 250 millones	
Employees	0 to 10	0	11	0	11
	11 to 30	5	9	1	15
	11 to 50	8	6	0	14
	31 to 100	0	3	0	3
	51 to 250	0	1	0	1
	More than 100	0	1	0	1
Total		13	31	1	45

Source: Research results. MACR (2013)

As can be seen in the previous table, we found 11 companies with a total of less than ten employees and a rank of income that fluctuate from 4.01 to 100 million pesos,5 business in a rank of eleven to thirty employees, and earning less than four million pesos, we found too, nine business with revenues of 4.01 to one hundred million pesos, and we found, only one business with income above 100 million without exceeding the 250. In the commercial and services sectors with a range from 11 to 50 employees and less four million income can we list eight companies and with over four million pesos but less than 100, we found six companies.

Only found three SMEs with revenues ranging from four to one hundred million pesos of revenues, in the same income range we found only one business but belongs to the industrial sector, and in the service sector we found only one business too but with over a hundred employees even in the same income range.55.6% of companies surveyed have more than fifteen years operating and 20% is in the range of six to ten years, 11.1% has less than five years operating and 13.3% ten to fifteen year, as we can note in Table 2.

Table 2

Years of Operation of the companies surveyed

Operating years

		Frequency	Percentage	Percentage valid	Percentage accumulated
Valid	0 to 5 years	5	11.1	11.1	11.1
	6 to 10 years	9	20.0	20.0	31.1
	10 a 15 years	6	13.3	13.3	44.4
	More than15 yrs	25	55.6	55.6	100.0
	Total	45	100.0	100.0	

Source: Research results. MACR (2013)

To analyze the accumulated managerial years by managers and business propietors, for the analysis we chose a descriptive study using a mean statistics, Namakforoosh (2010) notes that serves to obtain the sum of the values divided by the number of observations. In this case, the arithmetic mean is at 12.74 which represents the average of years old of all managers and leaders of the sample, as shown in Table No. 3

Table 3

Mean of accumulated managerial years by managers and business propietors

	N	Min	Max	Mean	St Desv.
Accumulated managerial yrs	45	0	40	12.74	9.063
N valid (accord list)	45				

The above table shows that those in charge of SMEs are not people without experience, otherwise has accumulated more than twelve years of experience, and which is reflected in the managed companies. The core of this work is summarized in the following contingency table, taking into account whom makes decisions in the company, if they have a mission for define the objectives of the company in the long term, and if they have a catalog of accounts evidencing the obtaining of financial information for decision making.

Table 4

Table contingency for decision-making, business mission and catalogue of accounts

Decision Making, business mission and catalogue of accounts			Mission			
Catalogue of accounts			Mission, no published	Mission published	mission, not defined yet	Total
Catalogue of account	Decision Making	Only Proprietors	6	7		13
		Manager	1	0		1
		Others	1	2		3
	Total		8	9		17
No catalogue of accounts	Decision Making	Proprietors Only	11	6	10	27
		Manager	1	0	0	1
	Total		12	6	10	28
Total	Decision Making	Proprietors Only	17	13	10	40
		Manager	2	0	0	2
		Others	1	2	0	3
	Total		20	15	10	45

From the information provided by the forty-five companies, twenty of them has a mission however, this is not published, so the people within the company are not familiar with the objectives of the company's long-term and neither are involved on the enforcement planning . On fifteen of them has published its mission, only in ten has not been defined mission. Regarding the decision-maker, forty of them said that only the owner is whom decide.

However, they consider on account the views of middle managers and workers involved. The companies thatmake its financial information are around 37.8% and handled the catalogue of accounts, which means that the rest does not meet accounting standards and much less are used the financial information for making decisions.

Importantly, 75% of those surveyed said that financial information is used exclusively for the fulfillment of tax obligations and it is not always possible to do so in a timely manner as the company is the mainstay of the family support, so give priority to meeting the basic needs of the family and then to the payment of taxes. 85% are registered in any of the tax systems of the Tax Administration Service (which was not verified), from which 32% of companies have an accountant employee, 53% used the services of accountants external and the rest are involved in the informal economy.

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