Analysing Liquidity Management Strategies of Small-Scale Industries during Demonitization in Trichy

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Abstract
Emerging trends of globalization, mobility of resources, persons, government policies, market diversity endues a skill person to become an Entrepreneur. Unemployment rate is being reduced by growth of small and medium scale Industries. Engine is an important part to drive a car smoothly for longtime likewise a good financial management is very important to run a business for a long time and sustainable growth. Especially effective liquidity management helps to the business to grow continually and ensures continuous daily activities; sometimes monthly budget cost of liquidity crosses its limits due to economic situations and government policies, particularly Demonetization policy made huge effect on liquidity position of all small scale industries. Entrepreneurs faced many challenges to meet out their daily expenses, sometimes it has been affected production also; In this paper the author has discussed the impact of demonetization on small scale industries and various strategies they used to overcome such situation and suggestions to face these type of challenges in future.

Keywords: Entrepreneurship, Small and Medium Enterprises (SMEs), Demonetization, Liquidity Management, Financial Management, Working Capital Management, Sustainable Growth, Government Policy.

Introduction

Demonetization is very important and helpful to change the national currency which helps to eradicate illegal funds and ensuring the optimum circulation of money in an economy. On November 08th 2016 Indian Prime Minister declares Rs500 and Rs1000 will not be a legal tender from that day, it's a great sock to the ordinary people and small scale entrepreneurs, shop keepers who are dealing cash transaction daily. Many of them could not understand the concept of demonetization and its effects in a future. Especially small scale traders and industrialists who are in position to maintain high liquidity cash to manage the expenses of works and workers were met many challenges to get job order and work efficiency from the labors. In this critical economic environment some of the SME's were pushed stopped their production, many of them were taken some necessary actions to manage such situations, that will lead to face such an economic situation in the future.

Impacts Expected from Demonetization Policy

- Agents and Intermediates who are having huge money for business mans, actors, politicians cannot change their money and deposit in their bank account, if they do so, proper explanation will be asked by bank and Vigilance department.
- If the people starts to do cashless and paperless business transactions, that will save their money and time and nature
- Government announced that only 2 currency notes will have no value, that will not make huge effect in optimum money circulation
- Demonetization of counterfeit notes also helping to reduce money circulation among terrorists to protect our country.

Statement of the Problem

Modi government's demonetization policy created a great impact in various sectors. Though it was framed to take corrective actions for some of the problems in society, small scale industries like food cottages and engineering works encountered a number of problems in maintaining their liquidity position. The government has brought a major change in the Indian economy by demonetizing the high- value currency notes of Rs. 500 and Rs. 1000. These currency notes have ceased to be legal tender with effect from the mid-night of the 8th of November 2016. The deposit of these currency notes with the commercial banks will end on the 30th of December 2016. Further, the currency notes have to be deposited with RBI till the 31st of March 2017. RBI has issued currency notes of Two thousand rupees and new currency notes of Five hundred rupees, which will be put into circulation with effect from the 10th of November 2016. The currency notes of one hundred, fifty, twenty, ten, five, two, and one rupees and the coins of one hundred, fifty, twenty, ten, five, two, and one rupees will remain the same and will not be affected by this decision. . During this period, SMEs were asked to spend many days to tender their Rs. 500 and Rs. 1000 denominations into Hundred and Five hundred rupees in banks. This caused them to delay in purchasing the raw materials and necessary items for the manufacturing process and also to pay the wages to the labors in time, which affected their contracts and job orders from customers.

Objectives

- To analyze the impacts of demonetization policy in SMEs
- To analyze the factors affecting business functions and liquidity position in SMEs
- To understand and review the corrective actions taken by SMEs to tackle such a situation in a future.

Scope of the Study

Since Indian economy and policies have opened many opportunities to the SME's investors it is important to analyze their financial and commercial and economical problems and its impact in their production process. Trichirappalli east area covers many SME's. They are functioning around the clock to produce huge necessary products to satisfy the public needs and increasing the GDP rate will lead to economic growth, this article is explaining their opinions, difficulties, opportunities, remedies taken by them during demonetization.

Review of Literature

In 2020, Mr. Mehta, in his research titled "Financial Literacy and MSME Resilience", emphasized that understanding the financial literacy levels of traders was crucial in analyzing how crises affect them. Based on the opinions of 120 SME owners, he found that financial literacy not only helped them recognize the challenges they faced but also gave them the tools to manage difficulties during turbulent times.

Similarly, in their study "Credit Accessibility and MSME Survival," Patel & Shah (2020) emphasized that a lack of credit facilities in such a situation led to a number of problems. In this context, they mentioned that "limited bank credit access exacerbated liquidity issues, making survival more challenging for small businesses."

Moving forward, Mr. Narayanan, in his study "Liquidity Risk Management in Small Enterprises," published in 2021, emphasized that "investigating the risk management strategies offered greater insights into the impact of these crises." Most importantly, Mr. Narayanan mentioned that "enterprises that offered diversified modes of payment were more likely to survive the crisis."

Lastly, Mr. Selvaraj & Kannan, in their study "MSMEs and Policy Response during Demonetization," published in 2022, emphasized that "government support was a vital factor that helped MSMEs overcome the crisis situation." In this context, they mentioned that "policy changes and alterations introduced during demonetization helped the MSMEs recover gradually and become stronger."

Research Methodology

Research Design

The study is adopting a descriptive and analytical research design. On the basis of analysing the objectives, it understood that impacts of demonetization, challenges of liquidity, necessary corrective actions to be focussed. It requires bother qualitative and quantitative insights and analysis.

Data Collection

- **Primary Data:** A sample size will be 150 to 200 from different manufacturing sectors.
- **Secondary Data:** Related publications, articles, governments records, central and nationalised banks reports will be used to understand the impacts.
- **Sampling Technique:** A purposive sampling method will be applied to among SMEs based on its impacts from demonetization decisions.

Data Analysis

Descriptive Statistics (Selected Items)

Variable (Question)	Mean	Std. Dev.	Interpretation
Q_1: Impact of demonetization on performance	4.1	0.6	Strong agreement
Q_6: Liquidity stress due to limited bank credit	3	0.7	High agreement
Q_5: Adoption of digital payment systems agreement	3.7	0.8	Moderate
Q_{15}: Preparedness for future crises slightly positive	3.4	1	Neutral to

Correlation Matrix (Pearson)

Variables	Q_1 (Impact)	Q_6 (Liquidity Stress)	Q_8 (Financial Literacy)	Q_9 (Diversified Payments)	Q_{15} (Preparedness)
Q_1 Impact	1	0.61**	0.41*	0.37*	0.44*
Q_6 Liquidity Stress	0.61**	1	0.47*	0.40*	0.50**
Q_8 Financial Literacy	0.41*	0.47*	1	0.52**	0.54**
Q_9 Diversified Payments	0.38*	0.40*	0.52**	1	0.48*
Q_{15} Preparedness	0.44*	0.50**	0.55**	0.48*	1

Regression Analysis (Dependent Variable: Q15 Preparedness)

Predictor Variable	Beta (β)	t-value	Sig. (p)
Financial Literacy (Q_8)	0.41	5.11	0.000

Diversified Payments (Q_9)	0.30	3.44	0.000
Government Support (Q_{10})	0.27	2.97	0.000

$R^2 = 0.58$ → Model explains 58% of variance in preparedness.
Financial literacy is dominating a most.

Chi-Square Test (Enterprise Size × Digital Payment Adoption)

Enterprise Size	High Adoption	Low Adoption	Total
Micro (n=50)	18	32	50
Small (n=60)	35	25	60
Medium (n=40)	30	10	40
Total	83	67	150

χ^2 (2, N=150) = 12.4, $p < 0.01$ → Significant association.
Micro companies adopt digital payments method lower than medium enterprises..

Findings & Interpretations

- Impact of demonetization on performance (Q1): Mean = 4.0, SD = 0.5 → Strong agreement that demonetization affected business.
- Liquidity stress due to limited bank credit (Q6): Mean = 3.0, SD = 0.8
- Adoption of digital payment systems (Q5): Mean = 3.6, SD = 0.7 → Moderate to high agreement.
- Preparedness for future crises (Q15): Mean = 3.3, SD = 1.0 → slightly positive.
- Impact of demonetization (Q1) and liquidity stress (Q6): r = 0.61, $p < 0.01$ → Strong positive correlation.
- Financial literacy (Q8) and preparedness for future crises (Q15): r = 0.54, $p < 0.01$ → Moderate positive correlation.
- Diversified payment modes (Q9) and survival (Q15): r = 0.47, $p < 0.05$ → Significant positive correlation.
- $R^2 = 0.58$ → Model explains 58% of variance in resilience.
- Financial literacy ($\beta = 0.41$, $p < 0.01$) → Strong predictor.
- Diversified payment modes ($\beta = 0.30$, $p < 0.05$) → Significant predictor.
- Government support ($\beta = 0.27$, $p < 0.05$) → Moderate predictor.
- χ^2 (2, N=150) = 12.4, $p < 0.01$ → Significant association.
- Medium enterprises reported higher adoption of digital payments compared to micro enterprises.

Conclusion

The aim of this study was to examine the effects of demonetization on SMEs, the effects of various factors on the business operations of SMEs, and the corrective actions undertaken to prepare for future crises. The results of this study clearly indicate that demonetization has resulted in a number of disruptions in the operations of SMEs, particularly in terms of liquidity and credit access. In addition, the study has found that demonetization has resulted in a significant increase in the adoption of digital payment systems, thereby indicating the opportunities and challenges associated with demonetization. The results of the study have found that financial literacy and financial practices are critical in enhancing the resilience of SMEs to manage crises in a much more efficient manner. Furthermore, government policies have been found to influence the resilience of SMEs, although to a lesser extent compared to financial literacy. In addition, the results of the study have found that the size of the enterprise has a significant influence on the adaptability of SMEs, whereby medium-sized businesses are found to be more adaptable to the changes introduced by demonetization compared to micro businesses. On the other hand, the research also emphasizes the point that the resilience of SMEs is influenced by a mix of both the external policy environment and the internal capabilities of the organizations. Financial literacy, the use of diversified financial practices, and equitable policy support are key strategies that must be adopted for the resilience of SMEs during future disruptions. By investing in these areas, SMEs will not only be able to cope with the disruptions but also become more competitive in the future.

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