

Mediating Role of Professional Consultants in Enhancing Financial Performance of MSMEs: Evidence from Thane District

Abhiraj Shivdas¹, Girish Korde²

¹Alkesh Dinesh Mody Institute for Financial and Management Studies.

²Alkesh Dinesh Mody Institute for Financial and Management Studies. girish.korde.edu@gmail.com

Corresponding Author: Girish Korde

Abstract: The present study examines the mediating role of professional consultants in enhancing the financial performance of MSMEs in Thane District. The study is descriptive and analytical in nature and is based on primary data collected from 80 MSME respondents using a structured questionnaire and purposive sampling technique. Scale reliability was tested using Cronbach's Alpha, and the value was found to be more than 0.700, indicating acceptable reliability. The Friedman test identified market and business growth challenges as the most serious issues faced by MSMEs, followed by financial challenges and operational and human resource challenges. PROCESS Model 4 mediation analysis confirmed that consultants hired significantly mediate the relationship between business challenges and financial performance. The bootstrap indirect effect was significant, as the confidence interval ranged from -0.5034 to -0.1653, which does not include zero. The study contributes to MSME consulting literature by presenting professional consultants as an important mediating mechanism rather than only a direct support service. The findings offer practical implications for MSME owners, consultants, policymakers and business development agencies by highlighting the role of consultancy support in improving decision-making, profitability, sustainability and overall financial performance.

Keywords: MSMEs, Professional Consultants, Business Challenges, Financial Performance

1. Introduction:

Micro, Small and Medium Enterprises (MSMEs) play a very important role in the economic development of India. They contribute significantly to employment generation, regional development, industrial production, exports, entrepreneurship development and balanced economic growth. In a developing economy like India, MSMEs act as a backbone of the business system because they provide livelihood opportunities to a large section of the population with comparatively lower capital investment. In Maharashtra, and particularly in Thane District, MSMEs are engaged in various manufacturing, trading and service activities. Thane District has witnessed rapid industrial, commercial and urban development, which has created many opportunities for MSMEs. However, along with these opportunities, MSMEs also face several challenges related to finance, marketing, technology, taxation, compliance, human resource management and business expansion.

In the present competitive business environment, MSMEs are required to adopt professional practices to survive and grow. Many MSME owners have technical skills, business experience and entrepreneurial ability, but they may not always possess specialized knowledge in areas such as financial planning, legal compliance, taxation, digital marketing, project management, government schemes, quality certification, export procedures and strategic decision-making. Due to limited resources and lack of professional expertise, MSMEs often face difficulties in solving business problems independently. At this stage, professional consultants can play an important role by providing expert guidance, practical solutions and strategic direction. Consultants help MSMEs to identify business gaps, improve operational efficiency, reduce risks, manage compliance, access finance, adopt technology and strengthen overall business performance.

The mediating role of professional consultants becomes important because consultants act as a connecting link between business challenges and business performance. MSMEs may face several internal and external challenges such as low profitability, working capital problems, poor market reach, lack of skilled manpower, technological backwardness and increasing competition. These challenges can negatively affect their growth and sustainability. However, when MSMEs take support from professional consultants, the impact of these challenges may be reduced through expert advice and systematic intervention. Professional consultants may help MSMEs convert challenges into opportunities by offering suitable business strategies, restructuring processes, improving decision-making and guiding entrepreneurs toward better utilization of available resources. Therefore, studying the mediating effect of professional consultants helps to understand whether the involvement of consultants strengthens the relationship between MSME challenges and business outcomes.

2. Review of Literature

1. **Bruhn et.al (2018)**, In the research paper “The impact of consulting services on small and medium enterprises: Evidence from a randomized trial in Mexico” concluded that consulting services can create a positive impact on the performance of small and medium enterprises by improving managerial practices, decision-making, productivity, and long-term business growth. The study shows that professional consultants help entrepreneurs identify operational weaknesses and adopt better business strategies. The findings are highly relevant for MSMEs because they indicate that external professional guidance can support firms in overcoming internal limitations and improving business outcomes. Therefore, the study supports the idea that professional consultants can act as an important mediating factor between business challenges and MSME performance.
2. **Bruhn et.al (2010)**, In the research paper “What capital is missing in developing countries” highlighted that lack of managerial and professional knowledge is one of the major missing forms of capital in developing countries. The study concluded that financial capital alone is not sufficient for business growth if entrepreneurs do not have access to proper managerial guidance and professional expertise. This finding is important for MSMEs because many small firms face difficulties not only due to lack of funds but also due to weak planning, poor financial management, and limited strategic knowledge. Hence, professional consultants can help MSMEs bridge this knowledge gap and improve their business sustainability.
3. **Bloom et.al (2013)**, In the research paper “Does management matter? Evidence from India” concluded that management practices have a significant effect on firm performance, particularly in the Indian context. The study found that better management practices can improve productivity, efficiency, quality control, and overall business performance. This conclusion is useful for MSMEs because many small and medium enterprises operate with traditional methods and informal decision-making systems. The study indicates that professional intervention and improved managerial systems can help enterprises become more competitive. Thus, consultants may play an important role in introducing structured management practices among MSMEs.
4. **Bloom & Van Reenen (2007)**, In the research paper “Measuring and explaining management practices across firms and countries” concluded that differences in management practices explain variations in firm productivity and performance across countries and organizations. The study emphasized that firms with better management systems, monitoring practices, target setting, and incentive structures tend to perform better than firms with weak management systems. This conclusion is relevant to MSMEs because effective management is often a major challenge for smaller businesses. Professional consultants can support MSMEs by helping them introduce modern management tools, performance monitoring systems, and strategic planning methods. Therefore, the study strengthens the argument that professional consultancy can improve MSME performance through better management practices.
5. **McKenzie & Woodruff (2014)**, In the research paper “What are we learning from business training and entrepreneurship evaluations around the developing world” concluded that business training and entrepreneurship support programmes can improve business knowledge, practices, and performance, although the impact may vary depending on the type of enterprise and quality of intervention. The study shows that entrepreneurs benefit when they receive practical training in finance, marketing, record keeping, planning, and business operations. This is particularly important for MSMEs, as many owners lack formal business education and professional exposure. The findings suggest that professional consultants and business advisors can contribute to enterprise development by strengthening entrepreneurial skills and improving decision-making capacity.
6. **Drexler et.al (2014)**, In the research paper “Keeping it simple: Financial literacy and rules of thumb.” concluded that simple and practical financial training is more effective for small entrepreneurs than complex financial

education. The study found that easy-to-understand financial rules and practical guidance help business owners improve financial discipline, record keeping, and decision-making. This conclusion is highly applicable to MSMEs because many small business owners struggle with financial planning, cash flow management, budgeting, and profitability analysis. Professional consultants can help MSMEs by providing simplified financial advice and practical solutions suited to their business capacity. Therefore, the study supports the role of consultants in improving financial management among MSMEs.

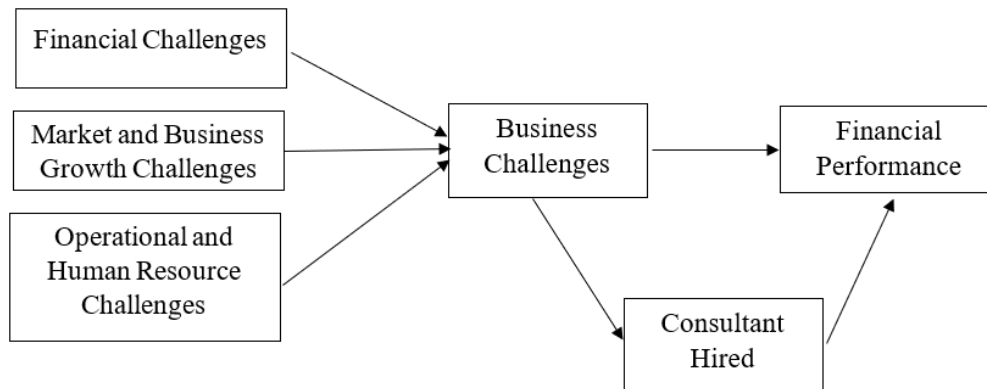
7. **Goyal et.al (2018)**, In the research paper “Business development services for micro, small and medium enterprises: Literature review of past trends and future directions” concluded that business development services play an important role in the growth and sustainability of micro, small and medium enterprises. The study highlighted that MSMEs require support in areas such as finance, marketing, technology, training, innovation, and business planning. It also emphasized that professional support services help enterprises improve competitiveness and adapt to changing market conditions. This conclusion is directly relevant to the present study because professional consultants are one of the key providers of business development services. Hence, the study supports the view that consultancy services can mediate the relationship between business challenges and MSME growth.

Research Gap: From the above reviewed literature, it is observed that several studies have examined the importance of consulting services, business development services, managerial practices, financial literacy, and entrepreneurship training in improving the performance of small and medium enterprises. Previous studies have proved that professional consultancy support can improve decision-making, productivity, financial discipline, management practices, operational efficiency, and long-term business growth among SMEs and MSMEs. However, most of these studies are conducted in broader national or international contexts such as Mexico, developing countries, Kenya, and general Indian industries, while limited research is available specifically focusing on MSMEs in Thane District. Moreover, earlier studies mainly discuss the direct impact of consultancy services or business training on firm performance, but very few studies have examined the mediating role of professional consultants between business challenges and MSME performance. Therefore, there is a clear research gap in understanding how professional consultants act as an intervening factor in reducing MSME challenges related to finance, marketing, management, technology, compliance, and growth. Hence, the present study attempts to fill this gap by examining the mediating effects of professional consultants on MSME development and performance with special reference to Thane District.

Research Methodology

The present study is descriptive and analytical in nature. It focuses on examining the mediating effects of professional consultants between business challenges and financial performance of MSMEs in Thane District. Primary data was collected from 80 MSME respondents through a structured questionnaire. The respondents included micro, small and medium enterprises engaged mainly in manufacturing and service activities. The study considered business challenges as the independent variable, consultants hired as the mediating variable and impact on financial performance as the dependent variable. Frequency analysis was used to study the demographic and business profile of respondents. The Friedman test was applied to identify the major challenges faced by MSMEs, while PROCESS Model 4 mediation analysis was used to examine the mediating effect of professional consultants between business challenges and financial performance.

Conceptual Framework



The above conceptual model explains the relationship between different challenges faced by MSMEs, professional consultants hired, and financial performance. In this model, Financial Challenges, Market and Business Growth Challenges, and Operational and Human Resource Challenges are considered as major components of overall Business Challenges faced by MSMEs. These business challenges directly affect the Financial Performance of MSMEs, as issues such as shortage of funds, low sales growth, competition, operational inefficiency, and human resource problems may reduce profitability and business stability. At the same time, the model shows that Consultants Hired act as a mediating variable between business challenges and financial performance. This means that when MSMEs face business difficulties, they may take support from professional consultants for finance, marketing, operations, compliance, and strategic planning. The guidance provided by consultants can help MSMEs reduce the negative impact of business challenges and improve their financial performance. Therefore, the model highlights the important mediating role of professional consultants in strengthening MSME growth and sustainability.

Data Analysis

Data analysis is an important part of the present study as it helps to examine and interpret the responses collected from 80 MSME respondents in Thane District. The analysis focuses on understanding the demographic profile of respondents, nature of enterprise, nature of business, years of operation, major challenges faced by MSMEs, and the mediating role of professional consultants between business challenges and financial performance. Frequency analysis is used to study the basic profile of respondents, while the Friedman Test is applied to identify and rank the major MSME challenges such as financial challenges, market and business growth challenges, and operational and human resource challenges. Further, PROCESS Model 4 mediation analysis is used to examine whether consultants hired significantly mediate the relationship between business challenges and financial performance. Thus, the data analysis provides meaningful insights into the role of professional consultancy support in improving MSME performance and sustainability in Thane District.

Demographic Factor

Question No.	Statement	Category	Frequency	Percent
1	Nature of Enterprise	Micro	47	58.8
		Small	25	31.3
		Medium	8	10.0

2	Nature of Business	Manufacturing	57	71.3
		Services	19	23.8
		other	4	5.0
3	Years of Operation	Below 5	9	11.3
		5–10	14	17.5
		10–15	27	33.8
		Above 15	30	37.5

The frequency table shows the demographic and business profile of 80 MSME respondents selected for the study. In terms of nature of enterprise, the majority of respondents belonged to the Micro enterprise category, with 47 respondents (58.8%), followed by 25 respondents (31.3%) from Small enterprises and 8 respondents (10.0%) from Medium enterprises. This indicates that the sample is largely dominated by micro enterprises. Regarding the nature of business, most of the respondents were engaged in Manufacturing activities, with 57 respondents (71.3%), while 19 respondents (23.8%) were from the Services sector and only 4 respondents (5.0%) belonged to other business categories. This shows that manufacturing MSMEs form the major part of the study. In terms of years of operation, 30 respondents (37.5%) had been operating for above 15 years, followed by 27 respondents (33.8%) operating for 10–15 years, 14 respondents (17.5%) for 5–10 years, and 9 respondents (11.3%) for below 5 years. Overall, the table indicates that most respondents are experienced MSME owners, mainly from micro and manufacturing enterprises, with a substantial proportion having more than ten years of business experience.

Objective and Hypothesis

Objective 1 To Study the Challenges of MSME's in Thane District.

Null Hypothesis H01: There is no Challenges of MSME's in Thane District.

Alternate Hypothesis H11: There is a Challenges of MSME's in Thane District.

To test the above null hypothesis Friedman Test is applied and obtained and results are as follows.

Test Statistics ^a	
N	80
Chi-Square	33.606
df	2
P-value	.000
a. Friedman Test	

Interpretation: The above results indicate that calculated p-value is 0.000. It is less than 0.05. Therefore, Chi-square test is rejected. Hence Null hypothesis is rejected and Alternate hypothesis is accepted.

Conclusion: There is a Challenges of MSME's in Thane District.

Findings: To understand the findings of hypothesis, mean score of Challenges of MSME's in Thane District is shown in below table.

Ranks	
	Mean Rank
Financial Challenges	1.78
Market and Business Growth Challenges	1.70
Operational and Human Resource Challenges	2.52

The rank table shows the comparative priority of challenges faced by MSMEs. Market and Business Growth Challenges received the lowest mean rank of 1.70, indicating that this is the most serious challenge among the three factors. It suggests that MSMEs are facing major difficulties related to sales growth, market expansion, competition, customer attraction, promotion, and business development. Financial Challenges ranked second with a mean rank of 1.78, showing that issues such as working capital shortage, cash flow problems, low profitability, difficulty in getting loans, and rising costs are also important concerns for MSMEs. Operational and Human Resource Challenges received the highest mean rank of 2.52, which means it is comparatively less severe than market and financial challenges, though problems related to manpower, employee skills, productivity, and operational efficiency still affect business performance. Overall, the results indicate that MSMEs in the study area experience the highest difficulty in market and business growth, followed by financial challenges and operational and human resource challenges.

Objective 2 To Study the mediation effect of professional consultants between challenges and financial performance.

Outcome Variable	Predictor Variable(s)	R	R Square	MSE	F Value	df1	df2	P-value
Consultants Hired	Business Challenges Faced	0.830	0.690	196.7407	173.7123	1	78	0.000
Impact on Financial Performance	Business Challenges Faced and Consultants Hired	0.878	0.772	47.0428	130.7078	2	77	0.000

Interpretation

The PROCESS Model 4 mediation result shows that Business Challenges Faced significantly predict Consultants Hired among MSMEs. The model summary indicates an R value of 0.8307 and R² value of 0.6901, which means that business challenges explain 69.01% variation in consultants hired. The model is statistically significant, as the F value is 173.7123 with a p-value of 0.000, which is less than 0.05. The coefficient value of Business Challenges is -1.4952, with a p-value of 0.000, indicating that business challenges have a significant negative effect on consultants hired. This means that changes in business challenges are significantly associated with the type or extent of professional consultants hired by MSMEs. Thus, the first path of mediation between Business Challenges and Consultants Hired is statistically significant.

The second model shows the combined effect of Business Challenges Faced and Consultants Hired on Impact on Financial Performance. The R value is 0.8789 and R² is 0.7725, indicating that both predictors together explain 77.25% variation in financial performance impact. The model is statistically significant with an F value of 130.7078 and p-value of 0.000. Business Challenges have a significant direct negative effect on financial performance, with coefficient -0.5512 and p-value 0.000. Consultants Hired also have a significant effect on financial performance, with coefficient 0.2138 and p-value 0.0002. The indirect effect of Business Challenges on Financial Performance through Consultants Hired is -0.3197, and the bootstrap confidence interval ranges from -0.5034 to -0.1653. Since zero does not fall between this interval, the indirect effect is significant. Therefore, it can be concluded that Consultants Hired significantly mediate the relationship between Business Challenges Faced and Impact on Financial Performance of MSMEs.

3. Conclusion

The study concludes that MSMEs in Thane District face significant challenges in their business operations, especially in the areas of market and business growth, financial management, and operational and human resource

management. Among these, market and business growth challenges are found to be the most serious concern. The mediation analysis confirms that professional consultants play a significant mediating role between business challenges and financial performance. This means that when MSMEs take professional consultancy support, they are better able to manage business problems and improve their financial outcomes. Consultants help MSMEs through expert advice, better planning, improved decision-making, compliance support, financial guidance and strategic business solutions. Therefore, the study highlights that professional consultants are important support mechanisms for MSMEs and can contribute to their growth, sustainability and financial performance in Thane District.

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