3. The relationship between the dependent and independent variables are assumed as linear.

4. The scope of the study is confined to textile units in South India only.

5. Only limited financial management practices are included for the study.

6. The variables related to FM practices are identified with the help of previous research studies and the experts’ views and

7. The textile units are primarily classified into composite and spinning mills.

**SCHEME OF THE REPORT**

The entire study is divided into seven chapters

The first chapter deals with introduction, the need for the study, review of previous studies, research gap, proposed research model, objectives and the methodology adopted, limitations and chapterisation of the study.

The second chapter includes the conceptual framework of the study.

The third chapter exhibits the profile of the textile units.

The fourth chapter discusses the level of implementation of Financial Management Practices at the textile units;

The fifth chapter shows the financial performance of the units with the help of important financial ratios and the financial health of the units with the help of Altman’s ‘Z’ score analysis.

The sixth chapter deals with the impact of implementation of financial management practices on the financial performance of the units.

The seventh chapter presents the summary of findings, conclusion, policy implication and direction for future study.

**CHAPTER–II**

**CONCEPTUAL FRAME WORK OF THE STUDY**

Financial analysis is a process of evaluating relationship between various financial components to obtain a better understanding of a firm’s
position and performance (Metcalf and Titard 1976). It is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items in the balance sheets and the profit and loss account (Pandey, 1986). One of the objectives of this study is to evaluate the financial performance of sampled textile units in South India to obtain a better understanding of its position and performance.

Normally for analyzing the financial data and interpreting them in a systematic manner, tools such as comparative financial and operating statements, common size statements, trend analysis, leverage analysis, ratio analysis and fund flow statements to evaluate the liquidity management, activity management, cash management, receivables management, capital structure management and profit management will be used. In this study a separate attempt is made to fit Altman’s model for analysis of the financial statements of the units. The concepts used in the present study are given below.

Ratio analysis is a powerful tool for analyzing the underlying reasons for the financial structure, conditions and trends of business. Such analysis helps in spotting reasons behind better or poor performance and in finding out significant deviations from any average or relatively applicable standards (Gekfert and Irving 1957).

Liquidity Management

Liquidity management of the units was analysed using the current, quick and inventory to current assets ratios. The skill in managing the working capital leads to the efficient use of funds and minimize the risk of loss. They are the indication towards understanding and capitalization.

1. Current Ratio

The current ratio is the proportion of current assets to current liabilities. It is a measure of solvency and an index of the working capital available to them (Sukla and Grewal. 1966)\(^{59}\). The standard ratio is 2:1. The lesser ratio is a warning sign of insufficient resources available to satisfy current liabilities. In the present study, the current ratio is calculated by

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

Whereas current assets include cash in hand, cash at bank, inventories, sundry debtors and prepaid expenses. The current liabilities include the sundry credits or short-term loans, bank overdraft and other short term commitment of the units.

2. Quick Ratio

The quick ratio or acid test ratio is a much more defined measure of the industry’s liquidity. Generally a quick ratio of 1:1 is considered to represent a satisfactory current financial condition (Miller Donald, L 1966)\(^{60}\). The quick ratio is calculated by


The quick assets represent the difference between current assets and inventory.

**Cash Management**

The objective of cash management is to make the most effective use of funds and to accelerate the inflow and decelerate the outflow of cash. A high cash balance ensures prompt payment but adversely affects profitability. Ratio of cash to current assets gives an idea regarding current operation of the business. The Cash to current assets ratio in the present study is computed by

\[
\text{Cash to Current Assets Ratio} = \frac{\text{Cash in hand} + \text{Cash at bank balance}}{\text{Current Assets}}
\]

The higher ratio indicates higher liquidity. At the same time, it represents lower profitability of the units also.

**(ii) Cash Turnover ratio:** It represents the ability of the firm to convert its cash balances into sales. It is calculated by

\[
\text{Cash Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Cash balances}}
\]

The higher cash turn over ratio represents the efficient cash management of firm.

***(iii) Cash Sales to Total Sales:** It is the relationship between the cash sales and total sales of the firm. It reveals that how much portion of sales is made at cash.

The higher ratio reveals more cash inflows because of sales. It is calculated by
(iv) **Liquid funds to Current Liabilities**: It represents the coverage of liquid funds to the current liabilities of the firm. It is calculated by

\[
\frac{\text{Liquid funds}}{\text{Current liabilities}} = \frac{\text{Liquid funds}}{\text{Current liabilities}}
\]

The liquid funds indicate the Cash, debtors and bills receivable.
Inventory to Current Assets Ratio

This ratio explains the portion of current assets kept in the form of inventory. The higher ratio indicates more dominance of inventory in current assets which consists of more carrying costs. The lesser ratio reveals the lesser portion of current assets in the form of stock which leads to more ordering costs. In the present study, this ratio is calculated by

\[
ICR = \frac{\text{Inventory}}{\text{Current Assets}}
\]

Whereas ICR = inventory to current assets ratio

Inventory includes stock of raw materials, semi-finished goods and finished goods of the units.

Activity management

The activity management of the units has been measured with the help of some turnover ratios. The complete turnover ratios in the present study are:

\[
\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}
\]

Whereas the cost of goods sold = Sales-Gross profit

\[
\text{Average inventory} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}
\]

\[
\text{Net working capital turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Net working capital}}
\]

Whereas net working capital = current assets-current liabilities

\[
\text{Working capital turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Working capital}}
\]

The working capital represents investments on current assets.
Fixed Assets turnover ratio = \( \frac{\text{Cost of goods sold}}{\text{Fixed Assets}} \)

Total Assets Turnover Ratio = \( \frac{\text{Cost of goods sold}}{\text{Total sales}} \)

The higher ratio represents the higher activity of the units.

**Collateral value of Assets**

It represents the total value of collateral assets to the total assets of the firm. It infers the borrowing capacity of the firm. It is calculated by

\[
\text{Collateral value of assets} = \frac{\text{Net Fixed Assets + Inventory + Receivables}}{\text{Total assets}}
\]

**PROFITABILITY MANAGEMENT**

The profitability management of the firm is evaluated by its profitability ratios. It represents the comparison of return on various financial concepts like capital employed, assets, sales and others. In general, the ratios are used to compare the profitability of the firm with other firms in the industry. The ratios applied to reveal the profitability management in the units are return on capital employed, return on assets, Gross profit margin and net profit margin.

**Return on Capital employed (ROCE)**

It is the relationship between the return of the firm and its capital employed. In the present study it is valued by

\[
\text{ROCE} = \frac{\text{Earning before interest & Tax (EBIT)}}{\text{Total capital employed}} \quad \text{or}
\]

\[
= \frac{\text{Net profit}}{\text{Total capital employed}}
\]
It reveals the earning rate of the assets involved in the business. In the present study, it is calculated by

\[ \text{ROA} = \frac{\text{Net profit}}{\text{Total assets}} \]

**Gross Profit Margin**

It indicates the relationship between gross profit of the firm and its net sales. It is calculated by

\[ \text{Gross Profit Margin} = \frac{\text{Gross profit}}{\text{Net sales}} \]

**Capital to Reserve Ratio**

It indicates the relationship between the capital and the reserves of the unit. This clearly shows the amount of resources, which the company possesses to meet future requirements. The higher ratio indicates more resource for future requirements. In the present study the ratio is computed by

\[ \text{Capital to resource ratio} = \frac{\text{Reserve fund}}{\text{Total Capital}} \]

**Capital Employed to Net worth Ratio**

It shows the proportion of share capital in the total net worth of the unit. It is calculated by

\[ \text{Capital employed to net worth} = \frac{\text{Capital employed}}{\text{Net worth}} \]

The higher ratio indicates the higher proportion of owned capital in the net worth of the units.

**Borrowed funds to Working Capital Ratio**
The borrowed funds to working capital ratio explain the proportion of working capital which is financed by the borrowed funds of the unit. The higher ratio reveals that higher proportion of working capital which is financed by borrowed funds. It is calculated by

\[
\text{Borrowed funds to working capital} = \frac{\text{Borrowed funds}}{\text{Working capital}}
\]

**Debt Equity Ratio**

It explains the relationship between debt and equity capital of the firm. Even though the firm may earn more, the risk of the firms will be too high.

\[
\text{Debt Equity Ratio} = \frac{\text{Total liabilities}}{\text{Net worth}}
\]

**Assets Compositions**

The assets composition reveals the proportion of net fixed assets to total assets of firm. The higher ratio reveals the higher proportion of net fixed assets to the total assets of the firm. It is calculated by

\[
\text{Assets composition ratio} = \frac{\text{Net fixed assets}}{\text{Total assets}}
\]

It represents the minimum non performing assets in the units. In the present study, it is calculated by

\[
\text{Bad debt losses to receivable ratio} = \frac{\text{Bad debt losses}}{\text{Sundry debtors}}
\]

**Capital Structure Management**

Capital structure is the mix of the owned borrowed capital or equity and debt securities that are used to finance a company’s assets. A decision on capital structure formulation on long term financing is influenced by multiple factors. The capital structure management indicates the optimum combination of debt and equity capital to increase the earning per share of the
company. This capital structure management is essential to avail the favourable financial leverage. The ratio to be examined to evaluate the capital structure of the firm is too many. In the present study, these are capital and long term funds to total fixed assets ratio, proprietary ratio, capital to reserves ratio, capital employed to net worth ratio, borrowed funds to working capital ratio, debt equity ratio, assets composition and collateral value of assets to total assets.

**Capital and Long Term Funds to Total Fixed Assets**

It is calculated for the purpose of identifying the proportion of long term sources of funds used in financing purchase of fixed assets. It also reveals the way in which the fixed assets of the firm are financed. In the present study it is calculated by

\[
\text{Capital and long term funds to total fixed assets} = \frac{\text{Capital and long term funds}}{\text{Total fixed assets}}
\]

**Proprietary Ratio**

It helps in identifying the proportion of owner’s funds in financing fixed assets. The higher rate indicates the higher proportion of owner’s funds in financing fixed assets. It is calculated by

\[
\text{Proprietary ratio} = \frac{\text{Owner Capital}}{\text{Total fixed assets}}
\]

**Receivable Management**

The receivable management represents the ability of the units to manage its receivables. It is highly essential to speed up the collection from the sundry debtors and it reduces the operating cycle. By that the requirement of working capital can be minimized to a greater extent. It is computed by the following ratios.

**Debtors Turnover Ratio**
The debtors’ turnover ratio reveals the ability of the firm to turn its debtors into cash. The higher ratio indicates the efficiency of the firm. It is calculated by

\[
\text{Debtor Turnover Ratio} = \frac{\text{Credit Sales Average Sundry Debtors}}{\text{Debtor Turnover Debtor Ratio}}
\]

Whereas average sundry debtors = \(\frac{\text{Opening sundry debtors} + \text{Closing sundry debtors}}{2}\)

**Average Debt collection period**

The average debt collection period is the credit period allowed by the firm to their customer. The higher the period, the requirement of working capital will also be higher. The efficiency of management is reflected by the reduction of the average Debt collection period. It is computed by

\[
\text{Average Debt Collection Period} = \frac{\text{No. of days in a year}}{\text{Debtor’s turnover ratio}}
\]

**Receivables to Sales Ratio**

It exhibits the relationship between the receivables and sales of the units. It reveals the debt position of the firm compared to its sales. It is calculated by

\[
\text{Receivables to sales} = \frac{\text{Receivables}}{\text{Total sales}}
\]

The lower ratio indicates the higher efficiency of the firm whereas the higher ratio represents lower efficiency of the firm regarding the collection of the debtors with respect to its total sales.

**Bad debts losses to receivables**

Bad debts losses to receivables explain the relationship between the amounts of bad debt losses and the sundry debtors in a given year. It reveals
the portion of receivables as bad debt losses. The higher ratio indicates more deterioration of profit.

**Ratio of Market Value of Equity to Book Value of Debt**

It is the reciprocal of the familiar debt equity ratio. Equity is measured by owned capital, while debt includes both current and long term liabilities of the units. The measure shows how much assets of an enterprise can decline in value before the liabilities exceed the assets and the concern becomes insolvent.

**Ratio of Sales to Total Assets**

The ratio of sales to total assets is calculated by

\[
\text{Sales} \div \text{Total assets} \times 100
\]

The capital turnover ratio is a standard financial measure for illustrating the sales generating capacity of the assets.

**Measurement of financial health**

Altman established the following to be used to classify firms as either financially sound or bankrupt. Altman’s guidelines for Healthy zone:

<table>
<thead>
<tr>
<th>Situation</th>
<th>Z scores</th>
<th>Zones</th>
<th>Possibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Below 1.8</td>
<td>Bankruptcy Zone</td>
<td>Certain to fall</td>
</tr>
<tr>
<td>II</td>
<td>1.8-3.0</td>
<td>Healthy Zone</td>
<td>Uncertain to predict</td>
</tr>
<tr>
<td>III</td>
<td>3.0 And above</td>
<td>Too healthy zone</td>
<td>Not to fall.</td>
</tr>
</tbody>
</table>

1. Below “Z” scores of 1.8 of the unit is considered to be in bankruptcy zone. Its failure is certain and extremely likely and would occur probably within a period of the year.
2. If a unit has a “Z” score ‘between 1.8 to 3’, its financial viability is considered to be healthy. The failure in this situation is uncertain to predict.

3. Above “Z” score of 3, the unit is in too healthy zone. Its financial health is very viable and not to fall.

Financial Health of the Firm

The financial health of the units has been measured with the help of Altman ‘Z’ score analysis. Edwin I Altman combined a number of accounting ratios (Liquidity, Leverage, activity and profitability) to form an index of the profitability, which was an effective indicator of corporate performance in predicting bankruptcy. In this direction, a variety of studies have been conducted over the period by applying multiple discriminant analysis (MDA) to predict the corporate failure by financial analysis like Altman. The formula used to evaluate the “Z” score analysis system as established by Altman is as follows

\[ Z = 0.012x_1 + 0.014x_2 + 0.033x_3 + 0.006x_4 + 0.999x_5 \]

“Z” is the overall index and the variables \( x_1 \) to \( x_4 \) are computed as absolute percentage values while \( x_5 \) is computed in number of times. Variables used in “Z” score analysis are

1. Working Capital to Total Assets (\( X_1 \))

The ratio of working capital to total assets is (WC/TA x100). It is the measure of the net liquid assets of a concern to the total capitalization.

2. Net Profit to Sales (\( X_2 \))

The ratio of the net operating profit to net sales is (NOP / sales x100). It indicates the efficiency of management in manufacturing, sales, administration and other activities.
3. EBIT to total assets (X₃)

The ratio of earning before interest and tax to total assets is \((\text{EBIT/TA} \times 100)\). It is a measure of productivity of assets employed in an enterprise. The ultimate existence of an enterprise is based on the earning power. In the present study, it is computed by Net operating profit / TA x 100.

4. Equity to debt (X₄)

It shows the ratio between equity capital and debt capital of the unit. It represents the relationship between the owned capital used by the firm and the borrowed capital of the firm.

5. Sales to total Assets

It reveals the activity of the unit with reference to its total assets. It is computed by the ratio between the sales of the units and its total assets.
Financial Management Practices

A variety of definitions have been offered to characterize financial management. Barry et al (2000) describe the financial management as “the acquisition and use of financial resources and rotation of equity capital from various sources of risk”. Brealey and Meyers summarize the corporate manager’s responsibilities by noting that “the overall task of the financial manager can be broken down into (i) the investment or capital budgeting decision, and (2) the financing decision”.

The financial management practices adopted by the small units were assessed with the help of the implementation of certain financial tools of financial management in the business (Graham and Harvey 2001). In the present study, these are classified into Business Analysis / control, investment analysis, capital acquisition, profitability analysis, debt management, cash management, inventory management, credit management, sources of working capital (Misra et al., 2001). In the present study, these are classified into Business Analysis/control, investment analysis, capital acquisition, profitability analysis, debt management, cash management, inventory management, credit management, sources of working capital (Mishra et al., 2001; Purdy et al., 1997; Jensen and Langemeier, 1996).


Business Analysis / Control Practices

One of the most important responsibilities of the financial manager is to monitor and ensure the profitability, liquidity and solvency of the business. The activities are crucial for the short-term operation of the business (Boyer and Lewis, 2002). The business analysis / control practices are activities related to financial control systems and the purchase of operating inputs (Voss, 1997). Business analysis and control functions also support capital acquisition and Investment analysis decisions. The variables related to business analysis / control practices have been derived from the reviews (Venkatraman, 1989; Zhao et al., 2002; Kaymak 2003). In the present study, these variables are: (1) implementation of a financial system to ensure solvency; (ii) Identification of key measures of business performance; (iii) apply the benchmarking; (iv) using trend analysis; v) using SWOT analysis; vi) prepare a financial budget; vii) trade off between quality and price; and viii) conduct review and meeting. The respondents are asked to rate the


above eight variables at five point scale according to the order of implementation at their units.
CAPITAL MANAGEMENT PRACTICES

Investment Analysis

The financial manager must evaluate alternative investments, determine whether the investments are profitable, and decide whether they present an acceptable risk-return trade off. In the present study, the extent to which the investment analysis has been implemented by the selected textile units is analysed. Even though, there are so many variables related to investment analysis, the present study confines to seven variables which are drawn from various previous studies (Alkinson and Shaffir, 1998; Holmes and Kelly, 1988; Lybaert, 1998; Marriot and Marriot, 2000; Scapens, 2000). These are: (i) identifying potential capital investment opportunities, evaluation of risk-return trade off; (iii)analyse the investment regarding profitability and feasibility iv) obtain relevant information on opportunities; v) utilization of feedback from execution; vi) make cash flow projection for capital investment and vii) identification of appropriate investment appraisal techniques. The respondents are asked to rate the above said seven variables at five points according to the order of execution at their units.


Capital Acquisition Practices

It refers to the process of raising debt and equity funds. In small scale units, the options for raising equity funds are limited (Chittenden, and Hutchinson, 1996)\(^76\) and debt funds are typically obtained with standard loan agreements. In addition to debt funds, the owners can also use lease agreements to control assets. Generally, the owners must identify lenders, evaluate cost of credit, determine an appropriate capital structure for the business, and acquire necessary capital (Aug, 1992)\(^77\). In the present study, the variables related to the capital acquisition practices are identified with the help of reviews (Cassar and Holmes, 2003\(^78\); Heshmati, 2001\(^79\); Peterson and Rajan, 1994\(^80\); Timan and Wessels, 1988\(^81\); Wald, 1999\(^82\)). The identified variables are: (1) identification of various sources of lending; ii) evaluation of various sources of lending, iii) consider the financial terms and conditions; iv) evaluation of financial benefits; v) trade off between risk and return vi) assessment of impact of credit on leverage; vii) comparison of various rate


of interest and viii) secure credit from lender. The respondents are asked to rate the above said eight variables at five point scale according to the order of implementation.
Debt Management Practices

It represents the management of sundry debtors or trade credit to maintain the liquidity of the company. (Petersen and Rajan, 1997)\(^8^3\). The debt management activates the debtor’s turnover ratio and reduces the collection period of the company. There should be a trade off between profitability and liquidity in working capital management especially debt management (Smith, 1980)\(^8^4\). The companies are implementing so many practices to manage the debt of the company. In the present study, these practices are drawn from the reviews (Wang, 2002\(^8^5\); Jose et al., 1996\(^8^6\); Demigurc-Kunt and Maksimovic, (2002)\(^8^7\). These are: (i) periodical review of debts; (ii) speed up debt collection ;( iii) preparation of ageing schedule; iv) consider the debtors turnover ratio; v) collection period; vi) action against the long pending debts; and vii) try to minimise the bad debts. The respondents are asked to rate the above said seven variables at five point scale according to the order of execution at their units.

Profitability Analysis Practices

The profitability analysis is defined as the setting of target for the relevant measures / ratios and comparing the achievement related to the

\[ \text{References} \]

target (Neely et al., 1999). Managers often use profitability measures, without these being part of integrated performance measurement system (Mc Kinson, and Burns, 1992) represent the profitability analysis which includes the cost-benefit analysis, opportunity cost principles, profitability ratios and breakeven analysis. The selection of these measures is closely linked with the operational strategy of the organization (Kaplan and Norton, 2000). In the present study, the relevant variables related to profitability analysis practices have been identified with the help of previous studies (Evans, 2004; Bourne et al., 2003; Fullerton and Mc Watters, 2002). These variables are: (i) evaluation of return and cost; (ii) Consideration of probability of return; (iii) Consideration of opportunity cost; (iv) evaluation of additional benefit and cost; (v) Consideration of return on sales; (vi) Consideration of return on investment and (vi) Consideration of operating income and expenditure. The respondents are asked to rate these variables at five point scale according to the order of implementation at their units.

Cash Management Practices

Cash management is an integral part to enrich the financial performance of the company (Largay and Stickney, 1980)\(^94\) and Lee, 1982)\(^95\). The cash management indicates the proper balance between cash inflow and outflow (Joose, 1999)\(^96\). It is used to make some planned actions and arrangements to meet out the cash inadequacies (Everingham et al., 2003)\(^97\). Cash management is highly essential to generate sufficient funds for repayments of loans, maintaining operating capabilities; payment of wages and salaries and make new investments. The cash flow ratio and efficiency ratios (Giacomino and Milke, 1993)\(^98\) have been applied to manage the cash. In the present study, the cash management practices have been identified with the help of reviews (Juchau and Ross, 1994)\(^99\); Giacomino and Mielke, 1993). These are: (i) keeping enough balance at bank; ii) allowing cash credit; iii) Maintenance of quick assets to meet cash deficiencies; iv) balance between cash inflow and out flow; v) importance given on cash sales. The respondents are asked to rate the above said five variables at five point scale.

**Inventory Management Practices**

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Inventory management is critical to financial performance (Nevill et al., 1998). The inventory management involves the management of inventories in order to avoid excess stocks and also stock out situation which involves higher cost to the company (Copaimo, 1997). A large body of normative inventory memory offers optimal order quantities, safety stock levels and inventory control procedures, lead time and cost structures (Tensine, 1994; Sherbrooke, 1992). The inventory management factors have modeled by some researchers (Lau, 1982). The Inventory management practices starts from the procurement of raw-materials to the finished goods. The inventory management practices are considerably solving the problem of working capital crisis and also increase the profitability of the firm. (Evers, 1999). In the present study, the level of inventory management practices adopted by the firm have been searched with the help of some relevant variables drawn from reviews (Larson and Luseh, 1990; Larson and Demarais, 1999). These are: (i) reduction of


46. Copaimo, W.C (1997), Supply Chain Management: The Basics and Beyond, St Lucie Press, Boca Raton, FL.


dead stock; (ii) reduction of lead time; (iii) consideration of ordering cost; (iv) removal of stock out situation; v) Consideration of minimum stock maintenance; vi) application of Economic order quantity; vii) Consideration of stock turnover ratio; viii) Consideration of carrying cost.

Credit Management Practices

The credit management indicates the efficient management of trade credit in order to enrich the profit of the organization. The trade credit, short term credit and long term source of funds are the important sources of funds to the organization. Even though all the sources of funds have its own cost of capital, the cost of trade credit is comparatively lesser. Deloof (2003)\(^{108}\) points out that the management of credit in the organization reduces its cost of capital and ultimately increases in its financial performance. Even though, the variables related to credit management practices are too many, the present study confine to five variables which are drawn from the reviews (La Porla et al., 1997\(^^{109}\); Peel and Wilson, 1996\(^{110}\); Smith, 1987)\(^{111}\). These are; (i) Manage the payment days with collection days; ii) Consideration of payment periods; iii) identify the cheaper credit purchase; iv) Consider interest free trade credit and; v) Consideration of regular supply of credit. The respondents are asked

---


to rate the variables at five point scale according to the order of importance given at their units.

Management of Working Capital

In the case of small scale units, the dominance of current assets is greater than the fixed assets (Pedro and Pedro, 2007). Working capital management is important because of its effects on the firm’s profitability and risk, and consequently its value (Smith, 1980). Especially working capital investment involves a trade off between profitability and risks. Decisions that tend to increase profitability tend to increase risk, and conversely, decisions that focus on risk reduction will tend to reduce potential profitability (Gitman, 1974). The aggressive working capital policy affects profitability. (Shin and Soenen, 1998). Fazzari and Petersen (1993) indicated that the optimum matching of needs and sources of working capital is an important task of the finance manager or owner of the concern. The management of working capital in the present study is measured with the help of some variables drawn from the reviews (Whited, 1992, La Porta et al., 1997;}


and Ng et al., 1999). These are: i) Consider the cheapest source of working capital; ii) Optimum utilization of working capital; iii) Classify the working capital into permanent and temporary; iv) Reliable source of working capital; v) Avoid excess and inadequate working capital situation and vi) Matching the needs and sources of working capital.

Fixed Assets Management Practices

It shows the management activities from the acquisition to the disposed of fixed assets (Ang, 1991). It is also called as capital budgeting decision (Christy, 1967) since it involves significant capital outlay to acquire fixed assets. The effective utilization, control, management of acquired fixed assets is equally important for the firm’s financial well being (Grablowsky and Burns, 1980). In the present study, the fixed assets management practices are measured with the help of variables drawn from reviews (Mc Mahon and Holmes, 1991; Sangster, 1993). These are shown in Table 2.1.

### TABLE 2.1
Variables in Fixed Assets Management Practices (FAMP)

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Variables in FAMP</th>
<th>Sl.No.</th>
<th>Variables in FAMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Appropriate acquisition process</td>
<td>7</td>
<td>Implementation of capital retaining</td>
</tr>
<tr>
<td>2</td>
<td>Proper record keeping</td>
<td>8</td>
<td>Proper disposal of fixed assets</td>
</tr>
<tr>
<td>3</td>
<td>Maintenance of fixed assets</td>
<td>9</td>
<td>Matching the some and application fixed</td>
</tr>
<tr>
<td>4</td>
<td>Formulation of investment proposals</td>
<td>10</td>
<td>Application of made or buy decisions</td>
</tr>
<tr>
<td>5</td>
<td>Evaluation of proposals by capital budgeting</td>
<td>11</td>
<td>Efficient utilization of food assets</td>
</tr>
<tr>
<td>6</td>
<td>Selection of appropriate capital budgeting methods</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The respondents are asked to rate the above said practices at five point scale.

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Financial Accounting, Reporting and Analysing Practices (FARAP)

It is the primary practice of the financial management (Brigham and Ehrhardt, 2008). It is the base for all financial analysis and management of the financial affairs (Higgin, 1995). It is used for the preparation of common and comparative statement for all financial variables (Walker and Petty, 1978) which is essential for management accounting and financial management. The variables in financial accounting, reporting and analyzing practices are drawn from reviews (Brigham and Gapenski, 1997; Barran et al., 2002). These are shown in Table 2.2.

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Variables in FAMP</th>
<th>Sl.No.</th>
<th>Variables in FAMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Book keeping</td>
<td>6.</td>
<td>Auditing (Internal and External)</td>
</tr>
<tr>
<td>2.</td>
<td>Cost Accounting</td>
<td>7.</td>
<td>Financial Analysis</td>
</tr>
</tbody>
</table>

70. Brigham, E.F. and Ehrhardt, M.L., (2008), Corporate Finance – A Focused approach, USA.


The respondents are asked to rate the above said variables at five point scale.

**Dividend Management Practices**

The dividend management indicates the management of pay out ratio of the company (Ross et al., 2003)\(^{130}\). It depends upon the earning of the company, shareholders expectation (Pandey, 1999)\(^{131}\), company’s reputation (Mc laney, 1991)\(^{132}\), and profitable opportunities to the company (Pandey, 2005)\(^{133}\). The implementation of Dividend Management practices in the company is measured with the help of variables drawn from reviews (Parkinson and Ogilvie, 1999\(^{134}\); Petty, et al., 1993)\(^{135}\). These are shown in Table 2.3.

**TABLE 2.3**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables in DMP</th>
<th>Sl. No.</th>
<th>Variables in DMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Dividend based on shareholders</td>
<td>6.</td>
<td>Periodical revision of dividend</td>
</tr>
<tr>
<td>2.</td>
<td>Dividend based on welfare of shareholders</td>
<td>7.</td>
<td>Flexible dividend as per earning</td>
</tr>
<tr>
<td>3.</td>
<td>Dividend based on commercial</td>
<td>8.</td>
<td>Always skip the dividend</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables in IMP</th>
<th>Sl. No.</th>
<th>Variables in IMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Management outlook</td>
<td>6.</td>
<td>Fiscal incentive</td>
</tr>
</tbody>
</table>

The respondents are asked to rate the above said variables at five point scale.

**Investment Management Practices**

It shows the investment practices applied by the company before taking the investment decisions, (Pandey, 2007)\(^{136}\). Since the investment decisions of the textile companies have significant impact on their financial performance (Agarwal, 2010)\(^{137}\), it is included as one of the important aspects of financial management of the companies. The variables related to investment management practices are drawn from the reviews (Manikandan and Thirunavukkrasu, 2010\(^{138}\); Khatik and Titho, 2012\(^{139}\)). These are given Table. 2.4.

**TABLE 2.4**

**Variables in Investment Management Practices (IMP)**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables in IMP</th>
<th>Sl. No.</th>
<th>Variables in IMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>Dividend based on presentation of financial strength</td>
<td>9.</td>
<td>Lesser dividend for ploughing back of profit</td>
</tr>
<tr>
<td>5.</td>
<td>Dividend is declared in bonus shares</td>
<td>10.</td>
<td>Flexible divided</td>
</tr>
</tbody>
</table>


The respondents are asked to rate the above said variables at five point scale accounting to the order of importance.

Financial Planning and Control Practices

It shows the various functions in management accounting (Chung and Chaung, 2009). It includes the financial objectives and targets, cost volume profit analysis, pricing, short term financial budgeting and control, and management of responsibility centers (Kwame, 2010). It covers a wide array of plans and budgets in all functional areas (Mohd et al., 2010). Since the detailed functional plan budgets will have a positive effect on profitability of firm (Horngren et al., 2006), it is included as one of the financial management practices in the present study. The variables are drawn from the above said reviews.

TABLE 2.5

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>Competitors Strategy</td>
</tr>
<tr>
<td>3.</td>
<td>Technology</td>
</tr>
<tr>
<td>4.</td>
<td>Past Market Trends</td>
</tr>
<tr>
<td>5.</td>
<td>Market Forecast</td>
</tr>
<tr>
<td>7.</td>
<td>Cash flow budget</td>
</tr>
<tr>
<td>8.</td>
<td>Non Economic factors</td>
</tr>
<tr>
<td>9.</td>
<td>Risk and Return</td>
</tr>
<tr>
<td>10.</td>
<td>Demand and supply</td>
</tr>
</tbody>
</table>


Variables in Financial Planning and Control Practices (FPCP)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables in FPCP</th>
<th>Sl. No.</th>
<th>Variables in FPCP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Cost volume profit analysis</td>
<td>6.</td>
<td>Preparation of expense budget</td>
</tr>
<tr>
<td>2.</td>
<td>Pricing</td>
<td>7.</td>
<td>Budgeted income statement</td>
</tr>
<tr>
<td>5.</td>
<td>Preparation of financial plans</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The respondents are asked to rate the above said variables at five point scale according to the order of implementation.

Capital Management Practices

It shows the management of capital structure of the firm (Barrow, 2001)\(^{144}\). It includes the practices related to the matching of sources and needs of Capital (Idolor, 2010)\(^{145}\) and the searching of optimum capital mix (Pandey, 2005\(^ {146}\); Tikk and Almam, 2011\(^{147}\)). It is used to observe the financial leverage since it is a double edged weapon (Luby, 2013)\(^{148}\). In the present study, the implementation of capital management practices is drawn

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from the reviews (Uwalomwa and Vadiale, 2012). These are given in Table 2.6.

TABLE 2.6
Variables in Capital Management Practices (CMP)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables in CMP</th>
<th>Sl. No.</th>
<th>Variables in CMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Searching of optimal capital mix</td>
<td>5.</td>
<td>Computation of cost of capital</td>
</tr>
<tr>
<td>2.</td>
<td>Monitoring the financial leverage</td>
<td>6.</td>
<td>Aiming to maximize the earning per share</td>
</tr>
<tr>
<td>3.</td>
<td>Search for cheaper source of capital</td>
<td>7.</td>
<td>Extending the sources of capital</td>
</tr>
<tr>
<td>4.</td>
<td>Consideration on retained earning</td>
<td>8.</td>
<td>Issuing of corporate securities</td>
</tr>
</tbody>
</table>

The respondents are asked to rate these variables at five point scale according to the order of implementation.

CHAPTER-III
PROFILE OF THE TEXTILE UNITS

The profile of the units is more important to analyse the financial performance, financial health and the financial management practices implementation by the units. The units with high profile may be sound in application of all management principles in their organizations, so that they could easily manage any financial problems in their business. But the units with lesser profile may be lacking in the implementation of financial management practices as well as achieving its financial performance. Hence, the present study includes the profile of the organizations to provide basic information to the study.

Even though the profile variables are too many, the present study confines these variables to the year of establishment, nature of ownership,