ABSTRACT

1. Introduction
The Small Scale Industry (SSI) sector is a key driver of economic growth and contributes substantially to India’s total industrial production, exports and employment generation. As a result, 3.6 million SSI units in the country produce over 8000 items and provide employment to about 20 million people. Thus, they are the engines of growth.

Small Scale Industrial units have weak capital base of their own because they are mostly organized on proprietary or partnership basis and are usually of very small in size. They are poorly placed in the matter of capital formation.

As regards the output and employment generation, the progress has been so impressive that in international forums, it has become customary to talk of the, Indian Model, for the development of SSI. Indeed, many developing countries are trying to adopt Indian Programmers, to fulfill their respective requirements and are looking forward to Indian Model as guides in this respect. But the role and growth of SSI sector should not lead one to think that this sector is free from all the problems.

It is the fact that the success or failure of an enterprise to a large extent depends upon the efficiency and effectiveness with which financial resource of the firm is applied and managed. It mainly depends upon a firm's ability of management of its resources. Among all the resources, there is a direct relationship between a firm's growth and working capital needs.

The traditional approach dominated the scope of financial management and limited the role of financial manager simply to raising funds. In those days, the financial manager's only significant duty was to see that the firm has enough cash to meet its obligations.

In modern time's efficient management of working capital has been recognized as one of the basic functions of arrangement for successful conduct of business operations. It not only influences profit-earning capacity of business undertaking but also determines largely, their scope and content of operation. It is necessary that working capital should be properly determined and regularly reviewed.

Thus, management of working capital is said to be the life-blood and nerve centre of an enterprise. It is one of the most important facets of the firm’s overall financial management.
2. The Purpose of the Research

The purpose of this research is to make a survey regarding the management of working capital. The research contemplates to undertake a comprehensive study of working capital among the small industrial organizations. An attempt is made sincerely in this study to find answers to the following questions:

- What should be the criteria for the efficient management of working capital in an industry?
- What is the attitude of management with regard to working capital?
- What are the basic problems faced by small-scale industries in and around Pune in the management of working capital?

3. Statement of the Problem under the Study

Although small-scale industries comprise the backbone of any programme of industrialization in any developing country, they seem to be suffering from absence of appropriate decision-making. This applies to both long term or fixed assets management and the short term or current assets management areas.

The situation with regard to current assets management has been different than the fixed assets management. In view of this, working capital management or current financial decision-making assumes a critical significance. In any way, there are always the problems in the firms such as under-utilization of the available resources, unpredictable environmental situations, irregular supply of materials, lack of control on investment etc., that the management should be considering the measures for solution.

To increase the velocity of working capital flows, various aspects like management, Planning and control have to be accorded a high priority.

All this is subsumed under the generic theme known as working capital management. It helps in greasing the wheels of industrial progress of any entity because the growth of any industry largely depends upon the ability of prudent management at the lowest possible cost in proper time.

4. Objectives of the Study

Specifically the study aims at:

- To study the system of management of working capital in small-scale industry in and around Pune.
- To give an insight into the concept and process of working capital management.
| Abstract | Management of Working Capital |

- To see how far the management of working capital is efficient on the basis of the criteria is given aforementioned.
- To make proper suggestions for bringing about improvement in the management of working capital.

5. Salient Feature

The earlier studies on working capital management in small enterprises have not been addressed to specific present issues but were related to small enterprises in general. The present study has considered surveying the extent of inventory level maintained by the sample units. The research has also included the study of various inventory control technique used by sample units. All these and other allied questions such as impact of under-utilization of the available resources, unpredictable environmental situations, lack of regular supply of materials, and lack of control on investment in inventories form the subject matter of this study.

The present study highlights the requirement by making quantitative analysis of dependency of working capital on selected variables. Some variables are considered for such analysis to focus the finding on more prominent variables. Accordingly, the following variables are identified for statistical analysis:

- Application of the managerial skills for holding cash,
- Creation of the motivating behavior in manpower,
- Application of the economic order quantity,
- Use of the coordination on operations,
- Application of the credit policy,
- Effect on the business cycle,
- Effect on the assigned planning,
- Effect on the current decision making,
- Effect on the improper flows of operations,
- Attempt to reduce uncertainty,
- Delay in the product delivery,
- Irregular flows of the work,
- Reduction in the volume of output,
- Effect on the opportunity cost,
- Effect in the direct-indirect costs,
- Effect on the activities of sales, operating and financial, and
Effect on the liquidity and profitably of the firm.

6. The Research Hypotheses

The following four hypotheses have been considered for this study,

**Hypothesis A:** Whether any under-utilization of the available resources related to working capital is detected due to mismanagement?

**Hypothesis B:** Whether unpredictable environmental situations and lack of authority cause improper implementation and increase of costs of working capital?

**Hypothesis C:** Whether lack of regular supply of materials would cause increase of costs related to working capital?

**Hypothesis D:** Whether lack of control on investment in inventories would cause to increase the costs associated with working capital?

7. Scope of the Study

The present study confined to small-scale industrial units in the MIDC (Maharashtra Industrial Development Corporation), Pune city.

- The sample of study consists of:
- Manufacturing company units
- Having less than 50 person/employees
- In and around Bhosari, Mumbai-Pune

The present study has focused on examining regional and intra-regional practices of small-scale industries relating to the financing and control management of working capital.

8. Research Methodology

8.1 **Tools of Data Collection:** research methodology in any research, defines and indicates the ways and procedures chosen and gone through, in order to have a correct approach to the research work for achieving the predefined objectives.

The methods chosen and selected for studying and conducting the research work, from the first step of study, up to the last part, choosing the proper sources for data collection two disciplines are being used known as primary data collection and secondary data collection. So, in the present work, collections of secondary data have been derived from the related books, magazines, articles and also different web sites as the main sources. For the other kind of data collection process i.e. collection of the primary data,
a pilot survey has been conducted by the Researcher in Pune town of Maharashtra state of India to know the tendency of the management of working capital in answering the questions and the type of data which has made available by them. Consequently, the questionnaire has been modified suitably and a set pattern of question has emphasized through the questionnaire as well as in the in-depth interviews. Finally, a structured questionnaire has been prepared and distributed among selected companies, which were carefully filled in by them and were used afterwards for data analysis.

8.2 Population / Universe of Study: For the present research the working definition of “Small business units/firms”, which fulfilled the following quantitative characteristics, has been considered:

(I) All Small Scale Industries (SSI) registered (as defined under SSI Policy, Mahratta Chamber of Commerce, Industries and Agriculture, Tilak Road, Pune – 2).

- Manufacturing unit – investment limit in plant and machinery upto one crore, Rs. 10 million.

(II) Small Scale units who run firms with under fifty (50) employees (with full time/part time; skilled/unskilled labourers).

8.3 Selection of Sample: Stratified random sampling method has been followed for sampling, so that data becomes representative and purposive in nature. Due care has been taken to include in the sample different segments of the small business population. The segments are (a) Manufacturing units, (b) Service units (c) Trading units.

8.4 Size of Sample: As the gamut of small business is very large, it has been decided to use the following formula for assigning statistical sample size;

\[
n = \frac{(Z)(n)(p)(1 - p)}{(D)(N - 1) + (Z)(P)(1 - P)} = \frac{(1.96)(630)(0.5)(1 - 0.5)}{(0.5)(630 - 1) + (1.96)(0.5)(1 - 0.5)} \approx 240
\]

n = sample size
\n = tabulated value of \n
N = population parameter
P = probabilistic implication with 0.95 confidence level
d = estimation error

The total respondent's size is 240. In order to give proper representation to each group 60-sample S.S.I units, which comes to 25 per cent of the total, respondents have been
studied in each group. These samples have been randomly selected on the basis of a reasonable classification.

The researcher has collected field data through interviewer-assisted questionnaire from in and around Bhosari, Mumbai-Pune, and important places of the region.

8.5 **Statistical Tools for Analysis of Data:** The purpose of this section is to test the hypotheses and to analyze the objectives established in methodology chapter. Therefore, in this stage of research the collected data have been processed and analyzed. The processing stage consists of the editing, coding, classification and tabulation of collected data. The analysis stage includes the hypotheses testing through statistical tests of significance to determine the validity in which the conclusions have been based on. Following the data analysis and quantification of the collected data appropriate results were drawn, on which base the recommendations were provided accordingly. The details of these phases are described in related chapters one by one.

For analyzing the data, it is considered adequate by the researcher to conduct the t-Test distribution and also for more accuracy the study has used appropriate non-parametric tests of association. Chi-square is an important non-parametric test. Chi-square ($\chi^2$) has been used (i) as a test of goodness of fit, (ii) as a test of independence. The brief results of both tests are considered as follows:

**Results of Hypotheses testing**

<table>
<thead>
<tr>
<th>Hypothesis NO.</th>
<th>Results of t-Test</th>
<th>Results of Chi-square Test</th>
<th>Results of Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>T. Za</td>
<td>C. Z</td>
<td>T. $\chi^2$</td>
</tr>
<tr>
<td>1</td>
<td>1.645</td>
<td>7.89</td>
<td>9.488</td>
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<tr>
<td>2</td>
<td>1.645</td>
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</tr>
<tr>
<td>4</td>
<td>1.645</td>
<td>6.53</td>
<td>9.488</td>
</tr>
</tbody>
</table>

T. $Za$ : Tabulated value of "$Za$"  
C. $Z$ : Calculated value of "$Z$"  
T. $\chi^2$ : Tabulated value of "$\chi^2$"  
C. $\chi^2$ : Calculated value of "$\chi^2$"
**Interpretation:** since the calculated values of t-Test and \( \chi^2 \) - Test for all of them are greater than the tabulated value of t-Test and \( \chi^2 \)- Test, it is significant and \( H_0 \) (Null hypothesis) is rejected and hence, \( H_1 \) (Alternative hypothesis) is accepted which means the data are consistent with the model. In other words, the data supports the theory.

**9. Limitations of the Study**

The study is likely to have following limitations in spite of the best efforts:

Generally speaking, every research activity is, more or less, accompanied with some limitations and this one is not an exception. Therefore, those limitations, which have been incurred over this research project, can be outlined in the following:

- A limitation of the present research work is that the methodology used could not gauge all the factors influencing the responses, such as the moral standing and social beliefs of managers. The impact of these considerations on working capital management and reporting practices, limit the internal and external validity of the study.

- The sampling and data collection methodologies employed, inevitably impose limitations on interpretation of the results of this study. The accuracy and completeness of the data collected relied heavily on the ability and skills of interviewers and also the co-operation of managers interviewed.

- Sample size has been selected from registered SSI units under Mahratta Chamber of Commerce, Industries and they are representative of the whole of SSI units in and around Pune.

- The researcher does not have any control over the environment in which the research is performed.

- The findings are based on the ability of respondents to answer the researcher and if the respondents are not given their true information it leads marginal error.

**10. Outline of the Study**

- The first chapter, "Introduction" deals with the general introduction of the study in terms of the need, objective, scope, limitations etc., After a general introduction, various topics and issues related to the theme of this study are detailed in the following chapters.