2.1 Review of Literature

Ever since the evolution of the concept of working capital, several authors have attempted to analyze the concept by defining it so that the components of working capital are properly identified. In doing so, quantitative and qualitative characteristics of working capital are also identified to make working capital analysis for meeting specific needs. These efforts have offered further scope to the authors to approach this topic in the context of management of components of working capital in many ways. Such approaches have also facilitated evolution of techniques to manage working capital. Each of these approaches has their own basis and justification. Views expressed by various authors suggest further need to analyze working capital management issues. Review of some of the studies carried out and suggestions offered by eminent authors on the subject have helped in formulating the theme meaningfully and to carry out the study in line with the objective and scope. A sincere effort has been made for comprehensive review of literature on working capital management in general and small enterprises in particular, reveal the following:

2.2 Diversity in Approaches to Working Capital Concepts

Various authors have formulated working capital theories with diverse perceptions, using both gross working capital concept and net working capital concept. The theories that used gross working capital concept were based on the patterns of utilization of funds, in terms of investment in current assets. Thus by literal meaning, if investment in fixed assets is to be regarded as fixed capital, investment in current assets could be termed as working capital, since the current assets are considered as means to utilize the fixed assets productively and profitably. Most of the authors have supported this view and consider working capital as current assets only, treating the sources of funds for investment in short term current assets as a distinct aspect.

2.3 Quantitative Definition of Working Capital

Mead Edward\(^1\), Field Kenneth\(^2\), Baker and Mallot\(^3\) have suggested for the quantitative

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approach to define working capital. They have suggested that the whole of the current assets help to earn profits and prudent financial management calls for efficient utilization of total current assets and their contribution of fixed assets to device desired profits. They have suggested that working capital should be considered as current assets only because,

a. Both fixed assets and current assets help an enterprise make profits. While fixed assets are means to produce, current assets are means to operate these fixed assets and thus generate profits. While theoretically fixed assets are termed as fixed capital investment, current assets therefore should be termed as working capital, and

b. The management is generally concerned with the total amount of finds available in terms of current assets for meeting the operational requirements. The sources of funds for such current assets are treated as a different aspect.

Adam Smith has supported this view. According to him "the goods of a merchant yield him no revenue of profit till he sells them for money and the money yield him a little till it is again exchanged for good. His capital is continuously going from him in one shape and returning to him in another, and it is only by means of such circulation or successive exchanges, that can yield him any profit. Such capital, therefore, may very appropriately be called circulating capital (current assets)".  

William H. Husband and James C. Dockery have also supported the quantitative definition of working capital on the grounds that "Despite the uncertainty of quantitative concept of working capital, it provides more objective basis of determining the type and the amount of financing".

J. I. Bogen has considered that working capital is the total of current assets of an enterprise which circulates from one form to another, for instance, from cash to inventories, from inventories to receivables and from receivables to back into cash. Thus, the capital that circulates, equal the total current assets of an enterprise. Hence, working capital and current assets are interchangeable terms.

C. W. Gesten Berg has further supported the views of Professor Bogen and considered working capital as the total of current assets of an enterprise which circulates from one

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from to another.\textsuperscript{7}

Some others, however, have used the net working capital concept indicating that
working capital comprises the sum of current assets and correspondingly, resources of
the enterprise for investment in such current assets will have to be necessarily
considered while assessing working capital in an enterprise.

\textbf{2.4 Qualitative Definition of Working Capital}

In Accountants' Handbook it has been stated that a statement of working capital (excess
of current assets over current liabilities) is designed to emphasize the current financial
position.\textsuperscript{8}

Authorities like Lincon\textsuperscript{9}, Saliers\textsuperscript{10} and Stevens\textsuperscript{11} have suggested that:
\textbf{a.} What matters in the long run is the surplus of current assets over current liabilities
and not the absolute quantum of current assets,
\textbf{b.} This concept of working capital helps the investors and creditors of an enterprise to
judge its financial soundness and margin of safety.
\textbf{c.} It is a dependable source to meet the contingencies since the enterprise has no
obligation to this amount, and
\textbf{d.} It is useful in assessing financial position of the enterprises possessing the same
amount of current assets.

According to Dr. Colin Park and Professor J. W. Gladson, working capital is defined as
the excess of current assets of business (cash, accounts receivables, inventories) over
current items owed to employees and others (such as salaries, wages, and accounts
payable, taxes owed to government).\textsuperscript{12}

As defined by the National Council of Applied Economic Research, working capital is
taken as the total current assets or as the excess of current assets over current
liabilities.\textsuperscript{13}

According to Harry G. Guthman and Herbert E. Dougall, "working capital is the excess

\textsuperscript{8} American Institute of Accountants, "Committee on Accounting Procedure", New York, Restatement and
Revision Accounting Research Bulletin No.43, 1952.
\textsuperscript{10} Saliers E.A., "Hand Book of Corruption Management and Procedure",
of current assets over current liabilities".\textsuperscript{14} William H. Husband and James. Dockery have suggested that, "working capital comprises the sum of current assets, and it takes into consideration all the current resources of the enterprise, and their application to the current and future activities".\textsuperscript{15} Some authors have, however, clarified that only that part of the long term source of an enterprise which has been utilized for investment in current assets should be termed as working capital.

In the absence of any universally accepted concept of working capital, earlier research studies were based on both these concepts. The gross working capital concept was considered for studies on management of working capital in an enterprise while the net working capital concept was considered for studies on financial position of an enterprise with specific reference to liquidity.

A sincere review of theoretical concepts and research studies on working capital management has helped to adopt the "Gross Working Capital Concept".

\textbf{2.5 Review of Earlier Studies in Working Capital Management in Enterprises}

Considerable numbers of studies have been done in the area of working capital management in enterprises. The studies have considered overall management of working capital as also the management of individual component of working capital. This chapter highlights the review of previous literature and tries to provide necessary information about what is already known and what is unknown, also describe shortcoming and strengths and in where they are agreed/disagreed. This study emphasizes that prior to the initiation of this study other researchers in this areas have been developed but this study will try to find out the new answers for the new developed questions that have been described under the problem under the study.

\textbf{2.5.1 Working Capital Management}

Research studies on working capital management pertaining to small scale undertakings are found to be very limited which pinpoints the very cant attention paid to this

particular area of financial management.

Sagan's theory of working capital management has advocated that working capital management should be linked with the objectives of liquidity and profitability of the enterprise. He also has suggested that working capital management should aim at stability and growth of the enterprise. However, Sagan's theory has put emphasis on cash management, on the assumption that in an enterprise, it is cash which is more liquid and difficult to manage than other components of working capital i.e., inventories and receivables. Sagan's theory also further stated that a high level of sales in an enterprise calls for large cash balances.16

ABDE. L. Motall has observed that the largest portion of a financial manager's time is utilized in the management of working capital. He also has noticed that shortage of working capital so often advocated as the main cause of failure of an enterprise, is nothing but the evidence of mismanagement of working capital, which is so common.17 Earnest W. Walker in his study of nine enterprises has indicated that the level of working capital and rate of return are not directly related. It was more a change in working capital than its level that caused a gain or loss to an enterprise. The study also has revealed that a decrease in working capital resulted in an increase in the rate of return while an increase in working capital generally has resulted in a decrease in the rate of return.18

Chadda (1964) assessed inventory management practices of Indian companies. The application of modern inventory control techniques like operations research has been suggested for the advantage of companies.

As far back as in 1966, the first and foremost study on working capital management in relation to Indian industry was compiled and published under the caption “Structure of Working Capital” by the National Council of Applied Economic Research (NCAER, 1966)19. The study was confined to the analysis of the composition of working capital with special reference to three types of industries viz., Fertilizers, Cement and Sugar. The principal objective of this study was to examine as to what extent these three industries controlled and utilized working capital components. The study has revealed

that there had been excessive working capital funds locked up in most of these industries. It finally concluded that the need of the hour was to establish good accounting and costing systems, including new techniques of inventory management in each company of these three key industries.

Jerome B. Cohen and Sydney M. Robbins\footnote{Jerome B. Cohen and Syndney M. Robbins, "The Financial Manager", Harper and Row, New York, 1968, p.307.} have suggested that to assess an ideal level of working capital, operating cycle method has been considered as an effective tool, through which the flow of cash invested is identified throughout, from the stage of procurement of raw material to finished goods and flow of cash back to business through cash sales or collections from debtors. In practice, however, there may be subsidiary flows and circuits existing alongside the mainstream of enterprise flows.

Van Horne, in his study on working capital during 1969, has observed that if the level of liquid assets in an enterprise is reduced, its ability to meet the current obligations would also reduce. Based on this, his study was an examination of liquid assets and the current obligations of an enterprise as separate issues. The liquid assets considered for the study were only cash and marketable securities, for the purposes of ascertaining the liquidity. On this basis Van Horne emphasized that the risk of an enterprise in meeting the current obligations increases, when the liquid asset's position decreased.\footnote{James C. Van Horne, "A risk-return analysis of a firm's working capital position, The Engineering Economist", 1969, pp.71-88.}

The welter study on the other hand has focused more on the profitability goal of working capital management. A unique feature of this study was to identify 'delay centers' located throughout the production and marketing function, and work out the possibility of reducing delays occurring in various delay centers. Reduction in delays would eventually reduce working capital investment by the firm.\footnote{Paul Welter, "How to calculate taxing possible through reduction of working capital, Financial Executive", 1970, pp.50-58.}

Appavadhanulu in his study of working capital and choice of techniques has stated that the period of production in an enterprise depends on technical factors. In view of this, the techniques of production either increase or decrease the length of production, which in turn, change the amount of working capital.\footnote{Appavadhanulu, "Working Capital and choice of techniques, The Indian Economic Journal", July-September,pp.34-41.}

The study carried out by Chakraborty has pointed out two issues, ViZ., the relationship of return on capital employed to excessive or insufficient working capital and
estimation of working capital through relating operating cycle and operating expenses.\textsuperscript{24} Mishra’s (1975) work was based on the case studies of working capital management in six central public sector enterprises in India for the period 1960-61 to 1967-68. His study has identified inventory, receivables, cash and working finance as the four problem areas of working capital confronting public enterprises. The study has also included large-scale units, promoted by the Central Government such as Fertilizer Corporation of India Limited (FCI), Hindustan Steel Limited (HSL), Heavy Electrical India Limited (HEI), National Coal Development Corporation Limited (NCDC) and Instrumentation Limited (INS). After a thorough probe into the problems of working capital management in these enterprises, he has pointed out the need for efficient and effective utilization of working capital, as it was a neglected area hitherto affecting the profitability.

Smith has observed that working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationship that exists between them.\textsuperscript{25}

A basic study by Misra on problem of working capital in selected enterprises has indicated that,

\textbf{a.} They have not been able to manage working capital efficiently,

\textbf{b.} Inventory constituted a major component in the current assets,

\textbf{c.} Inventory management and receivables management were inefficient, and

\textbf{d.} There were disproportionately high levels of cash due to improper planning and control.\textsuperscript{26}

Weston and Brigham have stated that there are many aspects of working capital management, which make it an important function of the financial manager.\textsuperscript{27}

Gitman has suggested that the goal of working capital management is to manage each of the firm's current assets and current liabilities in such a way that an acceptable level of net working capital is maintained.\textsuperscript{28}

Ramamurthy has stated that the management of working capital is part of the total

\textsuperscript{24} Chakraborty S.K., "Use of operating cycle concept for better management of working capital, The Economic and Political Weekly", August 1973, pp.1769-2776.


management process, focusing on the most effective choice of working capital and the most effective operating combinations and management of current assets.\textsuperscript{29}

The problems of working capital management have not received proper attention, in spite of the fact that more than one-half of the business failures are caused by either its inadequacy or mismanagement. In fact, working capital represents half of the balance-sheet side. It is with working capital that fixed assets are utilized without which they remain idle.

Mismanagement of working capital may decrease the rate of return significantly. It may also lead to failure of an otherwise profitable business.\textsuperscript{30}

Lal (1981) examined the inventory problems of Modi Steels. He has pointed out that the current practice of inventory management is that the price variable is not taken into account in inventory decision-making and all the existing inventory models are based on this practice. While studying the inventory problem in Model Steels he has followed the existing practice of ignoring the price-variable. Later on, however, he has developed a model, which takes into account the price variable also. He has finally concluded that a well worked out inventory policy must take care of number of variables both endogenous and help management to decide the largest economic order quantity at the most appropriate time.

Lambrix and Singhvi have pointed out those factors affecting the length of working capital cycle determine the quantum of working capital. Their study also has suggested that working capital management in an enterprise should aim at optimizing working capital level, in relation to return on net assets.\textsuperscript{31}

The study carried out by N.K.Aggarwal on the management of working capital in selected undertakings of the private sector in India also has revealed that;

a. Working capital in relation to sales was declining over the years, and
b. Growth in accounts receivables was not commensurate with growth in sales.\textsuperscript{32}

Kulkarni has further observed that working capital management is looked upon as the driving seat of a finance manager.\textsuperscript{33}


\textsuperscript{31} Lambrix R.J. and Singhvi S.S., "Managing the working capital cycle, Financial Executive", 47, June 1979, pp.32-41.


Khandelwal’s (1985) study “Working Capital Management in Small Scale Industries” is based on empirical research done by Late Prof. V.S. Agrawal of Jodhpur University. The study revealed that the selected units were found to have recorded slower and declining rates of transmutation of working capital. The main reason responsible for this situation was high share of inventories in current assets, which ranged between 40 per cent and 70 per cent with an increasing trend during the period of study. Another important cause responsible for slow transmutation of working capital in the selected units was inefficient management of receivables. On an average, 40.9 per cent of the working capital was accounted for by receivables. He has stressed the need for efficient management of working capital, as any trouble in this area should be a major factor contributing to higher degree of incidence of sickness in small-scale industrial units.

Rajeswara Rao (1985) has thoroughly examined the managerial aspects of inventories, receivables and advances and cash of certain central public enterprises in India. The study has revealed that inventories formed a major proportion of total current assets investment, which recorded 63 per cent in 1971-72 and 66 per cent by 1976-77 in the public sector. The inventory of finished goods proportion had been increasing year after year. He pointed out that the policies of public enterprises for achieving the working capital objectives were not clearly defined. His impression is that the prudent management of working capital shall be recognized as an important area for the enterprises studies.

Panda (1986) studies the working capital problems of small manufacturing companies confined to the State of Orissa, the study has covered the problems of adequacy, the choice, sources and problems of raising working capital. The project is based on a sample of 50 small manufacturing companies. However, the sample was further reduced to 26 companies for the reasons mentioned.

(a) Incomplete Data (b) Non-manufacturing, and (c) Habitual defaulters. Some of the issues, which were examined in the study, are:

- Large current investment in the small firms leads to low current ratios.
- Small firm depend mainly on short-term credit, because the accessibility to acquire long-term funds is relatively limited.
- Small firm at growth stage characteristically hold a high proportion of total investment in current form.
- The expanding scales of firms and the need for financing current assets have close
and direct relationship.

- Higher funds generating ability determines current position of firm.
- Firm finance a low proportion of current assets from net working capital.
- Bank loans bridge a greater part of working capital gap in the firms.

Lastly, in his opinion one important reason for low performance is imprudent management of working capital, mostly emanating from misapplication of operating funds in these small manufacturing companies.

Singh, Sinha and Singh (1986) have thoroughly analyzed the extent to which volume of working capital has been effectively and efficiently utilized in the fertilizer industry, i.e., in the Fertilizer Corporation of India (FCI) and its sister units and compare it with that of Gujarat State Fertilizer Company (GSFC) Limited, during the period 1978-79 to 1982-83. In their study, besides studying the quantum of working capital in relation to operational requirement, the structural aspects covering inventory, cash, receivables and working finance, have also been analyzed so as to identify the shortcomings in the management of working capital in the fertilizer industry. The study reveals that a large portion of working capital was tied-up in different components especially in inventory and receivables. However, modern techniques of management of inventory, receivables and cash were not applied to exploit fully the working funds available in the public sector undertakings. They have pinpointed that though the industry has the problem of paucity of funds in general, idle funds were laying at different pockets, for instance, cash-in-transit, dues with the Government departments and undertakings.

Swamy’s (1987) study “Materials Management in Public Undertakings” comprises the case studies of five centrally owned public enterprises functioning in Rajasthan. The study covers various aspects of materials management in the enterprises from 1977-78 to 1981-82. The study reveals that inventory represented more than 61 per cent of the total current assets of the concerns. At the same time inventories stood more than 108 per cent of the net working capital of the undertaking taken together. Moreover, the rate of growth of inventory in the selected public enterprises has been very high. In the end, Swami concluded that the existing system of materials management in public undertakings in Rajasthan selected for study is not satisfactory and needs improvements in all directions without delay.

Khandelwal in his study on working capital management in select small-scale industries in Rajasthan has mainly focused on the analysis of components of working capital. His
study has revealed that there was a need for better inventory management in the selected sample. D.K. Kotia, has observed that working capital has an important bearing on the profitability on the enterprise. Every care should, therefore, be taken to ensure its judicious management.

Agrawal (1988) has made an attempt to study the industry practices of working capital management in the private sector industries in India. The selection of industries was made in order to represent all the classes of industries, viz., basic industry, capital goods industry, intermediate goods industry and consumer goods industry producing both durable as well as non-durable goods and also wholesale trade in commodities other than food stuffs, treating it as one of the industries. The period covered by the study extends over 11 years from 1966-67 to 1976-77. He has mainly processed the financial data published in Stock Exchange Official Directory, Bombay, for the purpose of analysis. He has utilized 34 selected companies in respect of certain large manufacturing and trading public limited companies in the private sector. He has concluded that the majority of industries have failed to plan their working capital requirements properly. As a result, they often have experienced excess of working capital and sometimes they had to face the problem of shortage of working capital. It was further observed that a wide variation was found in the size of working capital in relation to sales of different industries. He has further concluded that the industries had to optimize the use of the working funds available at their disposal only through the efficient management of working capital.

Jain (1988) has highlighted various facets of working capital management in the state enterprises in Rajasthan. In his study ten selected manufacturing, trading, financing and service motive enterprises of the public sector in Rajasthan have been included. After careful investigation he has suggested that the state enterprises should try to match their working capital with the sales/services trends. Where there is a deficit of working capital, the enterprises should try to build an adequate amount of working capital. Where there is an excessive working capital, it should be invested either in securities or be used to repay borrowings. The cash position of working capital should be improved by reducing inventories and efficient collection of debts.

Chapter Two

Review of Literature

Indira, Raman, has indicated that the inventory management goal can be interpreted as the avoidance of over-investment or under-investment in inventories, as an essential step in improving profitability. Determination of the right level of investment in inventories, consistent with maintenance of smooth flow of production and prompt customer services, is the crux of inventory management.\textsuperscript{35}

Sushil K. Jain, in his study of working capital management has suggested that the firm should maintain a sound working capital position. It should have adequate working capital to run its business operations. Both excessive as well as inadequate working capital position are dangerous from the firm's point of view. Excessive working capital means idle funds which earn no profits for the firm. On the other hand, paucity of working capital not only impairs firm's profitability but also results in production interruptions and inefficiencies. Management of working capital therefore, is essential to ensure that the amount of working capital available is neither too large nor too small.\textsuperscript{36}

M.I.Lakadawala, has observed that the function of finance is a specialized one. Most of the concerns try to see that the position of the finance manager is managed by an experienced and professional person. Even the finance manager tries to ensure that his subordinates are ones who are capable and who know their job well. Besides, the finance manager has to be motivated to do his job well and to the utmost advantage of the concern. Hence, comes in the role of human relations in the field of "financial management".\textsuperscript{37}

Mahesh Chand Gard, has pointed out that the concepts of working capital, there are two district views. The first view is of the opinion that working capital should be taken to mean current assets only. The second view is of the opinion that the working capital should mean the total current assets minus current liabilities. Current assets are such

\textsuperscript{35} Indira, Raman "Inventory Management", Institute for Financial Management and Research, Madras, first published, June 1980, p.132.


assets, which can be converted into cash within 12 months, and current liabilities are such liabilities, which have to be paid off within a period of 12 months.\textsuperscript{38}

In the present study, both concepts have been used to study the aspects of working capital.

R. Neelamegam and R. Maria Inigo, have observed that in working capital, the portion of capital that circulates from one from to another in the ordinary conduct of business. This idea embraces the recurring transition from cash to inventories to receivables to cash that forms a conventional chain of business operations.\textsuperscript{39}

P. K. Garg, has indicated that estimating working capital involves forecasting requirements in subsequent months and regular update dating as and when any substantial change in the working capital requirements is expected according to past experience and / or because of new developments.

Proper management of working capital would improve generation of funds from internal operation. In the case of financing working capital from internal generation, depreciation should only be used for expansion and modernization of plant to meet the objectives of growth.\textsuperscript{40}

A study by Holmes and Nicholls (1998) has concluded that the amount and nature of accounting information prepared or acquired is dependent on number of operating and environmental variables like, business size, age, industrial grouping, owner-managers education etc. study also shows that there is a big gap between the owner-managers, awareness and the uses of financial management techniques (Siop and Ahmed, 2000).\textsuperscript{41}

P. K. Jain and Surendra S. Yadav, have stated that sound current assets management is considered to be the primary goal of working capital management in a business organization. Each current asset such as cash, inventory and receivables, etc. must be managed efficiently in order to maintain the liquidity of the firm, while not keeping too high a level of any one of them.


\textsuperscript{41} Ashim Kumar Das and Nikhil Bhusan Dey, National Institute of Technology, and Assam University, Silchar, Indid, Paper, Financial Management and analysis practices in small business. 2006
Chapter Two

Review of Literature

The objective of inventory management is two-fold: to minimize investments in inventory (with a view to reducing its carrying costs) and to meet demand for products by efficient production and sales operations (to minimize stock-out costs). In operational terms, its goals are to have a trade-off between costs and benefits associated with holding of inventory.\textsuperscript{42}

Muhammad Rafiqul Islam has suggested that the efficiency of the working capital of a firm depends to a large extent, on the ability with which its working capital is managed and utilized. Holding period of components of current assets are concerned with measuring the efficiency of the working capital management. Generally, the smaller the holding period, the more efficient is the use and the smaller the requirements of the working capital.\textsuperscript{43}

Muhammad Rafiqul Islam has observed that Management of cash is one of the key areas of working capital management. Cash is the most liquid current asset. It is both the beginning and the end of the working capital cycle. It is compared to the blood of the corporate body, obviously, that gives vitality and strength at a firm.\textsuperscript{44}

T.Satyanarayana Chary and V.Venkateshwarlu, have indicated that working capital can be regarded as the circulatory system of any business. Management of working capital is complicated on account of two important reasons, namely, fluctuating nature of its amounts, and the need to maintain a proper balance between current assets and non-current assets in order to maximize profit. Shortage of working capital is a chronic disease with the industrial sector in India.

The importance of working capital in an industry cannot be over-stressed, as it is one of the important causes of success or failure of an industry. Whatever be the size of a business, working capital is its life-blood.\textsuperscript{45}


Sanjay J. Bhayani, has pointed out that there is a considerable academic debate about the impact of working capital on the profitability of a firm. One school of thought argues that fixed capital only plays a very significant role in profit generating process. Moreover, he has also suggested that there may be a negative relationship between working capital and profitability. The other school of thought argues that unless there is a minimum level of investment in the working capita, which provides a promising vehicle for increasing profitability, output and sales, cannot be maintained. In this case, working capital acts as an explanatory variable in the profit function of a company. Obviously a large number of considerations plays significant role in the development of arguments and counter arguments in this regard the profitability risk trade off, cost factors in relation to investment in current vis-à-vis fixed assets, financing through sources are the common ones.  

Drucker has argued that accounting systems should provide answers about their businesses, markets, customers, and environment to "information literate" manager. Thus, the role of a management account expanded in multiple dimensions. They were not just to collect the cost information as accurately as possible but also analyze the utility of the cost information for taking vital managerial decisions. This new paradigm of management accounting called for certain additional skills of the management accountants.  

Golgotha R.P. has suggested, if the working capital level is not properly maintained and managed, then it may result in unnecessary blocking of scarce resources of the firm. The insufficient working capital, on the other hand, put different hindrances in smooth working capital of the firm. Therefore, the working capital management needs attention of all the financial managers. 

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Chapter Two

Compute giant Dell has recognized that a good way of increasing shareholder value is efficient management of working capital through effective supply chain management. Improvement in inventory turnover increases cash flow and eliminates liquidity risk.\(^{49}\) Working capital management involves the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses.\(^{50}\)

2.6 Salient Feature

1. 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 samples 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.

2. Working capital management in an enterprise depends upon a number of variables like operating cycle, storage period of inventories, cash holding, credit period to customers, credit period from suppliers etc. Only a few studies with particular reference to small enterprises have highlighted such dependency by working capital on the variables cited. Even those studies neither consider all the dependent variables of working capital, nor the impact of dependency by working capital on such variables analyzed in depth.

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,

\(^{49}\) Journal of the Accounting World, working capital: a road map for high returns, the ICFAL University Press, July 2006, p.5.

\(^{50}\) http://www.studyfinance.com/lessons/workcap/index.mv

53
- 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 on the firm.

Statistical analysis helps to establish the relationship of working capital quantum with the variables as mentioned. Such an analysis would help the enterprises to concentrate more on management of those components of working capital and implication of investment in such components for an enterprise.

Considering the same variables, the performance in terms of growth of working capital and its components in the sample enterprises was analyzed. Such an analysis has helped to identify the extent to which these components are utilized, contributing to the liquidity and profitability of the enterprise.