2.1 RESEARCH DESIGN

2.1.1 INTRODUCTION OF THE STUDY:

Cooperatives have played very important role in the development of rural areas mainly through the establishment of sugar cooperative factories, cooperative spinning mills, urban cooperative banks & cooperative dairies. Nearly for the last 75 to 80 years of the working of cooperatives found to be successful. The cooperative have contributed in substantial terms towards the development of rural economy. They have been responsible for not only economic development but also for social, cultural and educational development. Maharashtra is a leading example throughout the country and the success of cooperatives found in many places of the state.

However, during a last 20 years the cooperative movement in Maharashtra is in doldrums. Cooperative organizations have serious setback resulting in heavy losses. Many cooperatives have become bankrupt and few of them have either merged with others or closed down. There is a serious challenge of keeping the identity of cooperatives.

In the midst of this discouraging scenario, few groups of the cooperatives have remained successful in maintaining their record of accomplishment. Though few in number, these few examples of cooperatives provide evidence that though cooperative failed they can succeed.

The present study attempts to explore the strengths & weaknesses of cooperatives and the future threats and opportunities before them. For the purpose of empirical investigation, the researcher has selected one group of cooperatives namely: Rajarambapu Patil Group of cooperatives located at Walwa (Islampur). This group of cooperatives is a leading example of successful group of cooperative. The research is directed towards the investigation of why & how of this success. The enquiry proposed to extend further to look forward to the future threats and opportunities.

From 1990 onwards, the economic policy of India is drastically changed. The new policy is known as LPG policy. Many thinkers are of the opinion that there is no bright future for cooperatives in this age of globalization. The researcher proposes to confirm whether it is true or false. If at all required, what changes need to be made in existing structure of cooperatives. Recently, Vaidyanathan committee has also come out with important suggestions for the revival and revitalization of cooperatives. The present act of cooperatives is also under consideration to modified to apply the relevant provisions of Companies Act. Is this corporatisation of cooperatives is necessary and helpful? The present research takes this theme of investigation as a core aspect of the research.
Finance is lifeblood of any business, the overall success of any business depends to a major extent on efficient & effective management of funds. The researcher believes that although there are other managerial problems the problem of financial management occupy a central place in the overall management of any organization, even the problems in other areas may be in Production, Human Resource or Marketing are linked up with Finance. The financial analysis & control if carried out successfully other activities also remain very much under the control of management. It is with this intention the researcher proposes to undertake the research study of Rajarambapu Patil Group of Cooperatives.

2.1.2 STATEMENT OF THE PROBLEM:

The study titled as “A Critical study of Financial Management of Rajarambapu Patil Group of Cooperatives”

2.1.3 OBJECTIVES OF THE STUDY:

2. To know the sources of funds and proportionate amount collected by these sources i.e. Capital mix.
3. To arrive at the cost of rising the funds i.e. Cost of Capital.
4. To understand application of funds i.e. Investment Portfolio.
5. To study working capital management.
6. To understand Liquidity, Profitability, Solvency& Leverage levels.
7. To know the movement of funds in and out of units with the help of Fund flow and Cash flow statement.
8. To carry out SWOT analysis of cooperatives through tools & techniques of Financial Management.

2.1.4 HYPOTHESIS:

1. The framework of Professional Financial Management is applicable to Cooperatives as they are applicable to corporate organizations.
2. For procurement of funds, access of cooperatives to stock exchange will be helpful to modify the capital mix.
3. Cost effectiveness is a key to success at all levels of working of the organization.
4. Profitability alone cannot be a measure of performance in cooperatives; suitable socio-economic indices need to use to evaluate the performance of cooperatives.
5. The professional management can be applied to cooperatives provided the desirable changes in the existing structure of cooperative are made particularly in its organizational structure and legal framework.
2.1.5 **SCOPE OF THE STUDY:**

The study period covered is 10 years i.e. 2000-01 to 2009-10. For the purpose of investigation, the researcher has selected the following units of Rajarambapu Patil Group of Cooperatives:

1. Rajarambapu Sahakari Bank Ltd. (Rajarambapu Cooperative Bank Ltd.)
2. Rajarambapu Patil Sahakari Sakhar Karkhana Ltd. (Rajarambapu Patil Cooperative Sugar Factory Ltd.)
3. Rajarambapu Patil Sahakari Doodh Sangh Maryadit (Rajarambapu Patil Cooperative Doodh Sangh Ltd.)
4. Shetkari Vinkari Sahakari Soot Girni Ltd. (Shetkari Vinkari Cooperative Spinning Mill Ltd.)

All these units are engaged in different type of business activities but all of them are cooperative organizations. The researcher has deliberately selected the above four heterogeneous units. Each of it is a separate unit. The researcher intended to see the applicability of professional financial management to all the units in similar manner.

Though the topical scope is a critical study of financial management of Rajarambapu Patil Group of Cooperatives, it is confined to understand & study capital mix, cost of capital, investment portfolio, working capital management, ratio analysis, fund flow and cash flow analysis of all the units of Rajarambapu Patil Group of Cooperatives.

2.1.6 **SOURCES OF DATA COLLECTION:**

The present study has completed by using both primary and secondary data. The study is mainly based on secondary data drawn from the annual reports of the respective cooperative organisation. The data collected is of 10 years (2000-01 to 2009-10).

Major data is secondary; wherever secondary data remains inadequate necessary primary data collected by way of interviews, personal discussions and opinion surveys of the concern authorities through questionnaire. This extended inquiry considered important to find out, which may not arrived at by processing of secondary data.

The data collected processed by the techniques of coding & decoding, classification, tabulation. For the analysis of the data, the various techniques of financial analysis were used also important statistical tests viz. One Sample Student’s T-Test, F-Test for Variance, Z test has used to arrive at conclusions in a scientific way. As per the requirement the use of graphs & charts, statistical techniques are also used.
2.1.7 TESTING OF HYPOTHESIS:

In research, studies data is usually collected both from Primary and Secondary sources. To obtain an initial idea about the nature and characteristics of the data a researcher computes statistics such as mean, median, mode, standard deviation etc. These are called the Descriptive Statistics. At a later stage a researcher may have to deal with the following two activities.

i) Estimating the unknown parameters of a population.
ii) Testing whether sample data have sufficient evidence to support or reject a hypothesis about the population parameters.

These two activities come under the branch of inferential statistics.

STATISTICAL TERMS IN HYPOTHESIS TESTING:

i) STATISTICAL HYPOTHESIS: It is a verifiable statement about the population characteristics (parameters) formulated with prior knowledge or based on theoretical consideration.
   • NULL HYPOTHESIS (Ho): Null Hypothesis is the hypothesis which is tested for possible rejection under the assumption that it is true. It is a definitive statement about the population parameters, which is under test. It is a neutral hypothesis, stated with the intention of nullifying it later. It is usually formulated in a way opposite to what we wish to prove.
   • ALTERNATIVE HYPOTHESIS (H1): Any hypothesis which is complementary to the null hypothesis is called an alternative hypothesis. A null hypothesis consists of only a single parameters value and is usually simple while alternative hypothesis is usually composite.

ii) ERRORS :
   a) TYPE – I ERROR: Suppose we want to test whether the means of two population differ or not. In this case the hypothesis can be framed as-
      \[ H_0 : \text{The population means are equal} (\mu_1 = \mu_2) \]
      \[ H_1 : \text{The population means are not equal} (\mu_1 \neq \mu_2) \]
      It is possible that by looking at sample means we may conclude that Ho is wrong and hence support H1. Here H0 is really true and sample evidence is a chance occurrence, which has led to wrong rejection. This is called Type – I error.
It is more risky to accept a wrong hypothesis than to reject a correct one. i.e. consequences of type II error are likely to be more serious than consequences of type I error.

b) LEVEL OF SIGNIFICANCE: A researcher never would like to reject a correct hypothesis. But it is impossible as he works with a random sample. So he sets an a priori level like 0.5 or 0.10 as the risk of committing Type-I error. It is called the level of significance (Los) denoted by letter $\alpha$.

c) TYPE –II ERROR: Accepting a null hypothesis even though it is false is called type-II error. This risk of committing this error is denoted by $\beta$.

d) POWER OF TEST: For a fixed level of significance $\alpha$, a test procedure should have least risk $\beta$. Then the quantity $(1 - \beta)$ is called the power of the test.

iii) CRITICAL VALUE: Suppose we are testing the difference between the means of two population ($\mu_1$& $\mu_2$). Based on sampling distribution of means, we define a cut-off or threshold value that if the difference exceeds this value, we say that it is not an occurrence by chance and hence there is sufficient evidence to claim that the means are different. Such value is called the critical value and is based on the level of significance.

iv) TEST STATISTIC: It is a value obtained from a sample data based on a formula. We accept the null hypotheses (Ho) if this calculated value of the test statistic ($Z_{cal}$) is less than or equal to the critical value ($Z_{cri}$), otherwise it is not accepted.

NOTE: Critical values are available in statistical tables and one has to obtain the same before drawing the inference.

v) P – VALUE: It is the probability of wrongly rejecting a null hypothesis. Symbolically, the p-Value is simply $P(Z_{cal}>Z_{cri})$.

vi) DEGREES OF FREEDOM (DF): The D.F. is the number of independent observation available for estimating the true parameter of the population. If the sample size is $n$, then D.F. is $(n-1)$. Every constraint imposed on a data set reduces one-degree freedom.
1.0 ONE SAMPLE STUDENT’S t-TEST:

OBJECTIVE: To test the significance of difference between the hypothetical mean ($\mu_o$) and sample mean ($\bar{x}$), when sample size is small and $\sigma^2$ is unknown.

NULL HYPOTHESIS : $H_0 : \bar{x} = \mu_o \ H_1 : \bar{x} \neq \mu_o$

PRE REQUISITES : Small Sample, unknown $\sigma^2$

TEST STATISTIC : 

$$t = \frac{\bar{x} - \mu_o}{s/\sqrt{n}}$$

INFERENCE : If $t_{cal}>t_{cri}$ at (n-1) degrees of freedom we reject the null hypothesis and conclude that the sample mean is significantly different from the assigned mean.

2.0 F-TEST FOR VARIANCE:

While using t test for comparing two means, we have assume that variances of the two populations are equal. This assumption can be verified by testing the hypothesis

$H_0 : \sigma^2_1 = \sigma^2_2$

This is called the VARIANCE RATIO TEST

PRE-REQUISITES: Two Samples $n_1$ and $n_2$

Estimates of population variances $s^2_1$& $s^2_2$

TEST STATISTIC:

$$F = \frac{s^2_1}{s^2_2}$$

INFERENCE : If $F_{cal}>F_{cri}$ at $(n-1)x(m-1)$ degrees of freedom we reject the null hypothesis and conclude that the two sample variances are significantly different.

2.1.8 LIMITATIONS OF THE STUDY:

1. This research is a case study of four different types of Cooperatives.
2. An investigation confined to 10 years from 2001 to 2010.
3. This being an individual research, there are few constraints of time, efforts & money. However, the research expected to be a representative of similar cooperatives elsewhere.
2.1.9 OUTLINE OF THE STUDY:

The study has presented into eight chapters, which are as follows:

Chapter 1: Cooperatives and Professional Management

This chapter contains the introduction of cooperatives and professional management, where it discusses about the nature, definition, principles and role played in development of the society and organisation respectively. It also focuses on the Existing nature of cooperative Management.

Chapter 2: Research Design and Review of literature

This chapter is basically divided in three parts; the first part contains the introduction of the study, statement of the problem, objectives, scope and hypothesis of the study. It also presents sources of data collection, testing of hypothesis and limitations of the study.

The second part represents the review of literature i.e. the earlier study conducted by the research scholars. And the third part discuss about the theoretical aspects of financial management.

Chapter 3: Profile of Selected Cooperatives

This chapter deals with the historical background, Brief Profile, Organization chart, Manpower, Silent features, socio-economic activities undertaken etc. of all the units of Rajarambapu Patil Group of Cooperatives.

Chapter 4: Capital structure & Cost of Capital

This chapter contains brief conceptual framework related to the capital structure and cost of capital and analysis of data related to capital structure & cost of capital of all the four units of Rajarambapu Patil Group of Cooperatives and its interpretation.

Chapter 5: Investment Portfolio

This chapter discusses the meaning of fixed and current assets, its management in the business organisation and the Investment Portfolio of co-operatives.

It also contains data analysis related to the Investment Portfolio or application of fund of all the four units of Rajarambapu Patil Group of Cooperatives and its interpretation.
Chapter 6: Working capital

This chapter contains brief conceptual framework related to the working capital and analysis of working capital, current assets & current liabilities of all the four units of Rajarambapu Patil Group of Cooperatives and its interpretation.

Chapter 7: Ratio analysis, Fund flow and Cash flow analysis

This chapter presents the conceptual framework of Ratio analysis, Fund flow and Cash flow analysis and analysis of data related to liquidity, solvency, leverage and profitability ratios, fund flow and cash flow of all the four units of Rajarambapu Patil Group of Cooperatives and its interpretation.

This chapter also presents the testing of hypotheses through the application of statistical tools to all the four units of Rajarambapu Patil Group of Cooperatives and its interpretation.

Chapter 8: Conclusion

This chapter highlights the main findings, suggestions & conclusion emerging out of the critical study of financial management of Rajarambapu Patil Group of Cooperatives.
2.2 REVIEW OF LITERATURE:

Financial Management and its related areas have been studied by many academicians. In the various field studies that are available in the published form, the scholars have attempted to probe and analyse the financial performance taking the financial statement as indicator. These studies have been confined either to cooperative bank or sugar factory, or dairy, or spinning mill.

The sources of funds and its application in cooperative organisation also prompted scholars to study the fund flow management of the cooperatives.

However, studies in general on the professional management of cooperatives and in specific on the financial management of heterogeneous group of cooperatives are significantly scanty. The studies that are available in these areas are briefly mentioned below.

A) DISSERTATION/ THESIS:


   An extensive study on “Financial Management in Sugar Cooperatives with special reference to the study of Cooperative Sugar Factories in Ahmadnagar District”, B.P. Pawar, undertaken with the main object of identifying the uniqueness of cooperative finance and finding out as to how the funds have been raised & utilized by the sugar cooperatives. With this main object in view, the study was attempted to achieve following purposes:

   1. An analysis and interpretation of financial statements of the selected cooperative sugar factories.
   2. A critical survey of Financial Structure of these factories.
   3. An examination & assessment of organizational set up created for financial planning & decision making.
   4. Analysis of the problems being faced by these factories especially from the point of view of finance.

   The study undertaken was limited to only 12 cooperative Sugar factories in Ahmadnagar District for 3years from 1980-81 to 1982-83. After application of different ratios drawn from Balance Sheet, profit & loss he found that, the financial position of 12 cooperative sugar factories was not sound. i. e. most of factories were in cash losses every year. The Financial structure of all 12 sugar factories was almost the same also follow typical organization structure.
Further he found that, grower member never participate in day to day activities. The Board of Directors holds various meetings but the discussions were mostly related to politics instead of financial planning of the factory. Due to competition they bring sugarcane from out of factory area instead of their area, thus it increases the cost of transportation and naturally it has bear members. This happens due to lack of proper & effective financial planning. Managing Director provides guidance to the Board of Directors but in many cases the Managing Director happens to be the technical expert and hardly gives expert advice in financial management. The researcher thus suggested that it is necessary to appoint financial expert or to create post of financial expert in cooperative sugar factory. He further suggested that there is need to increase the meaningful participation of members for better accountability which can be done by improving better communication on financial results.

Thus, the study undertaken was limited to only financial management of sugar cooperative organisation. The main focus of the study was on requirement and sources of finance for sugar cooperatives, organization and information system for finance function, financial control & audit and problems of sugar cooperatives and the data processed through the application of various ratios.


Hanchinal S.S. in his study tried to detect the financial problems of dairy unit selected for case study. The study was limited to Gulbarga Cooperative Milk Producers Societies Union Ltd (GMUL). The period of the study was six years i.e. 1992-93 to 1997-98. After the study he concluded that, share capital from members is quite negligible as the debt equity ratio is high which indicates need for control on the use of borrowed funds.

Costs were not in control and the profitability of GMUL was very poor as the main objective of GMUL was not earning profit but to provide marketing facilities for the milk producers. After application of various ratios the researcher found that liquidity ratios were much below the accepted norms. Turnover ratios never show any progressive trend. There is zero working capital during the study period. The Net Value Added (NVA) has decreased during the study period need to improve financial control measures.


In the study “Financial Management in Dairy Enterprises-an inter-sectoral Comparison” the researcher tried to identify the financial problems of the dairy units selected for the case study. The important objectives of the study were
1. To take overview of dairy business at macro & micro level.
2. To study Working pattern & financial management of selected dairy units.
3. To undertake an inter-sectoral comparison in respect of Financial management of selected dairy enterprises and to identify relative strengths and weaknesses from inter-sectoral comparison

The study was confined to Cooperative Dairy enterprise, Warana and Public Sector Dairy enterprise i.e. Government Milk Scheme, Miraj. The period of study was 12 years (1978-80 to 1990-91). After the study he found that Reserves, Public Deposits and Borrowings in Cooperative Dairy enterprise and in Government Milk Scheme were nil. Return on Asset and Return on Earnings is higher in Cooperative Dairy enterprise than in Government Milk Scheme. Further he found that Fixed Asset turnover is higher in Government Milk Scheme while current asset management is better in Cooperative Dairy enterprise.


The study was undertaken with the objectives:

1. To examine the composition of capital structure and various sources used by sugar factory for obtaining the capital,
2. To study the trends of the current assets and current liabilities
3. To assess the liquidity position of the sugar factory.
4. To know the efficiency with which inventory, receivales and cash are managed & its relationship with sales.

The study was confined to six cooperative sugar factories and one private sugar factory from Satara district and it was undertaken for the period of 5 years i.e. 1995-96 to 1999-2000. The researcher has applied ratio analysis as accounting technique and some statistical tools like arithmetic mean, coefficient of variation, test of significance, trend indices, correlation coefficient, linear regression and chi-square test. After analyzing the data he concluded that, Difference between actual and expected value of current asset and current liability are significant. Liquidity management was not on sound footing. Current ratio and quick ratio shows that the size of inventory of sugar is more which is uncontrollable. The sugar factories have utilized their short term funds for financing fixed asset which implies inefficient and ineffective working capital management.


Farooqi A.W. in his research states that though professional management in cooperative especially in urban cooperative bank is widely accepted and
recognized in established business and federations, but this has not been well recognized by Indian cooperatives except few national and state levels cooperative. Where in some cases it has been realized, the results have been quite positive and encouraging probably one of the reasons behind these successes is independent and autonomous character of these cooperatives which have managed to develop their strong organizational basis through careful human resource planning. After conducting Thorough analysis of the working of urban cooperative banks in Delhi state the researcher found that, there were number of obstacles in the way of the professionalization of management of banks owned by financially weaker sections and therefore, the elected management was expected to render the service of managing and controlling the affairs of the bank without any remuneration. In spite of all efforts made by Delhi state cooperative training centre, New Delhi at state level & National Council for Cooperative Training at national level, the education & training programmes to various levels of management of these banks could not be fully utilized. Further he wrote in the context of promoting professional management that there should be a continuous emphasis on training and retraining of banking staff and their exposure to latest trends in banking will be an essential component in promoting operational efficiency in urban cooperative banks of Delhi state.


The study was carried with the objectives:

1. To present correct and actual financial position.
2. to study the present status of the bank and
3. To find out the strength and weakness of the bank.

The scope of the study is 10 years (1996 to 2005). After the calculation of various ratios and its analysis the researcher found that paid up share capital increasing and there was no borrowing for outsiders. The bank has shown efficiency in maintaining satisfactory level of working capital and reserve. Cost of management in total expenses was excess compared to total interest paid.


Vibhute A.M. conducted his study with the objective to study the financing decision, current Asset management decision and also to study wealth maximization of shareholders in the warana Dairy Project. The period of study was limited to five years i.e. 1983-84 to 1987-88. After the application of Ratio analysis as a major tool for analysing the data, he concluded that Debt equity ratio was below the ideal ratio. Net profit and
Return on Earnings was too low as compared to its annual turnover, there was fluctuating trend in case of Working capital. Further, after analyzing the fixed asset turnover and the market value of shares which showed the increasing trend and also the organization has created reserve funds out of profit so the researcher conclude that the financial position of Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Ltd, Amrutnagar was sound.


The objectives of the study were:

1. To review the historical background and the present working of Shree Swami Samartha Shetkari Vinkari Sahakari Soot Girni.
2. To study the sources of finance raised by Shree Swami Samartha Shetkari Vinkari Sahakari Soot Girni.

The study was limited to analysis and interpretation of financial statement with help of Ratio analysis to judge short term & long term financial strength for the period of five years.

After analyzing the data he concluded that, the share capital consist of redeemable preference shares by government of Maharashtra. Long-term finance was 97% and short term was only 9% of the total capital employed. The fixed assets share was of 79% while 21% was of current asset. Thus, he further concluded that, as the capital gearing was highly geared the overall long term financial position was satisfactory.

B) BOOKS:


This book is mainly divided into three parts. Part I provides the principles, theory and practice of cooperation. Part II deals with cooperation in other countries of the world and in the part III modest attempt is made to provide some ideas on cooperative management.

In the first chapter on cooperation and cooperative principles, the authors wrote that professional management in cooperatives is a necessity, because of its peculiar character. In the democratic process very often, people with little knowledge or no knowledge on cooperation and management use to come to the board. In such cases, the role of the chief executive is important. He is expected to be well conversant with the principles of cooperation and
management and working of the organization. He need be professionally trained. Moreover, he shall be assisted by asset of professional managers.

In the Indian cooperative sector a new thing has been developed. The government has provided a substantial part of finance to these institutions. In this case the principle of deofficialisation process of cooperative structure is rooted out. However whether it is official or non official who manage the cooperatives is not that important. What is important is the economic and social obligations of the cooperatives necessitate sound and scientific management. Such sound and scientific management is expected from only professional managers.

Further in chapter no. 17 on financial management in cooperatives, they conclude that the cooperative societies today are large business organizations with a considerable financial turnover. Large capital funds are invested in the cooperative sector, the funds being drawn from both internal and external sources particularly in developing countries like ours which requires continuous and conspicuous improvement in the financial management of cooperative societies


Datey C.D. in his paper on “Financial Management in the cooperatives” wrote that financial management of a very high order is needed in a cooperative, which comes into existence on the basis of the massive support extended by the government. He further addressed to all the various types of cooperatives that each one of these organizations must operate first on commercial or business lines and in case there is a surplus after meeting all the commitments including those in respect of loans guaranteed by the government or the government contribution to share capital, the same maybe distributed among the members as patronage dividend. Financial Management in these circumstances becomes an exercise in walking on a light rope, because it is not an easy job to convince the large body of membership of cooperative trading or manufacturing concern, that they must sacrifice their temporary gains in the larger interest of the organization.

Puri S.S. in his paper on “Needs and Problems of Cooperative Leadership and Management in South East Asia” discussed the role of cooperators within the functioning of cooperatives then observations about the importance of professional management for cooperative institutions. This is succeeded by a discussion on some of the problems of cooperative managerial personnel. And at last author dealt with the role of ICA in some of these aspects.
   This book contains all the many types of cooperative enterprise, placing the special emphasis on the basic and unique features that apply to all types of cooperatives, irrespective of the services they provide. In chapter 13 on cooperative management, he identified some major areas that contribute to cooperative failure. They are premature start, inadequate member support, failure of management and inadequate financial support and poor financial management. Further, in chapter no.15 on cooperative finance, he wrote that, sound financing and competent financial management is basic to the successful operation of cooperatives. Sound financing relate to the need for equity or ownership capital and debt or creditor funds for operations and growth. It is concerned with the sources of such funds and the relative merits of using each. It also involves the analysis of financial data in order to develop financial controls. It recognizes the importance of identifying control points, establishing standards and developing techniques for determining when and how to take corrective action.

   Pundir R.S. & Ballabh V. in the paper on “Governance of cooperatives in the new Economic Era: Challenges and Issues” wrote that in the new era, cooperatives are going to face growing competition from domestic and foreign companies, particularly in the agri-business sector. In view of this, it is now essential for the survival and growth of cooperatives that they are professionally managed. One of the main reasons for the failure of cooperatives to attract and retain professional managers is their inability to hire professional managers at the open market rates. Most of the cooperatives in India, especially the primary cooperatives at the village level, are small in terms of size of their business turnover and net profits. Hence, they cannot afford to hire professional managers.
   In the paper, “Carve for Professionalisation in Urban Cooperative Banks” the author Junare S.O. explained the meaning & importance of Professional Management in Urban Cooperative Banks, the various problems of professionalism in Urban Cooperative Banks and the measures for Professional Management in Urban Cooperative Banks. Further, he concluded that Urban Cooperative Banks have a bright future in the banking sector as well if they are transformed into professionalism, member controlled autonomous organizations, managed professionally and literate from unnecessary legal and governmental control.
C) RESEARCH ARTICLES:

Shaikh A.A. (1994) discussed the need for professionalisation of Cooperative Management. He wrote that, as the cooperative enterprise has grown and diversified & entered into more complex & sophisticated business like manufacturing & distributive trade. It has become obvious that it cannot rest on ideological laurels but must be judged by the standards of performance & these would have to be based on the application of modern management techniques, whether in banking or organization of supplies, marketing, and processing or consumer business. These tasks cannot be left to the amateurist management of honorary workers but require professional management. Further he express his views that, just to appoint some persons in the organization with management degree does not amount to professionalization of management, unless there is some change in the management process or in the process of decision-making. The managers in cooperatives should be expert and quick in understanding the various complicated issues cropping up in managing their environment and should manage most productively the human and material resources of the society for social benefit. They should become proficient and must adopt latest techniques of management which were not being applied so for either due to lack of technical skill & knowledge or due to the absence of a professional code of cooperative managers.

Reddy B.R. (1990) in his paper on “Capital Management in Cooperatives” an attempt has been made to explain how capital should be managed in cooperatives. He found that investment in shares of a cooperative was considered as an advance payment for the right of future service rather than an attractive investment. Shares of cooperatives lack all the investment characteristics of commercial stock. The cooperative structure of a cooperative is composed of only interest bearing capital with an exception to reserves. Leverage has no relevance in the case of cooperative enterprise. He concluded that in case of cooperative enterprise lowest cost of capital is only possible by resorting to internal sources of finance. Financing through internal sources along will achieve higher value for the cooperative.

Oza D.R. (1988) wrote that, to enable the carefully developed professional management infrastructure, to perform effectively towards desired MBO, elected management will need to demarcate the spheres & functions of elected organs of management on the one hand & those of professional executives on the other. If such inter-exclusive functional demarcation as may be appropriate for the given size & level organization, is carefully devised & properly implemented, it will help in creating fine & balanced synthesis of democratic control & professional management.
Tangirala H.S.K. (2006) has explained professionalism, the rules & acts related to cooperative to become a professional organization. Further he wrote that a cooperative has to fulfill financial code, strategic code, HRD code also he focused on technology up gradation and given tips related to how people in the cooperatives can become professional. In his research paper he concludes that it is high time for the cooperatives to align & focus their systems & procedures towards the timely changing needs of their members. It is possible only when the cooperative take up performance measurement at the board of directors’ level & employees’ level seriously. Further, he states that professionalism requires adherence to high values & following ethical code. The values & others at any cost should not be diluted or practiced at the surface level; rather these have to be deep rooted.

Rayudu C.S. (1987) in his paper on Financial Management in Industrial Cooperatives in India – A Case study of Spinning Industry discussed about sources of funds of spinning industry in cooperative sector. He tried to assess the share capital composition and the financial position through the application various financial ratios.

Pancras U. (1978) in this article only the aspects of fund management dealing with the procedure & actions by which the finances of the cooperative banks are handled daily were dealt with. The central cooperative bank set up was taken as an example. In the paper, the author discussed many things such as sources of funds and use of funds, operating of cash & liquidity position, deployment of borrowing, utilization of equity & deposit balance. For analysis he prepared two models i.e. Total funds management model & Application of the model. At the end of his article, he concluded that, an attempt has been made to bring an analytical approach to the problem of funds management in the cooperative banks. Use of the same, both as a tool for day-to-day management & as an analysis for control purposes would immensely improve the utilization of the funds available in the cooperative sector.

Deshpande R.S. (1993) wrote a paper with the main objective was to develop understanding about financial management of consumer cooperative stores. In his paper he discussed about sources of finance, liquidity & working capital position, profit & growth, investment and fixed assets position also the cost structure of consumer cooperative stores.

Rao V.T. (1995) in this paper an attempt has made to examine the nature of financial management in cooperative central bank. He wrote that, As such the management performance is examined in terms of its adherence to the norms of the RBI & the registrar in regard to financial matters. At the outset, the finance function in central cooperative bank briefly described & thereafter the selected aspects of financial management in bank under study were critically
examined. Finally, he concluded that the finance function in central cooperative bank was highly regulated by RBI & the registrar. The borrowing, lending & investments were regulated & subjected to rigorous discipline in respect of several other financial operations. Further he found that operations were failed to observe the financial discipline.

The various studies mentioned above indicate that the present study has some resemblance to the study done by Vibhute A.M., Pawar B.P. and the one done by Agase V. B. But these studies suffer from some limitations. Firstly, they have focused more on the sources of fund available to particular cooperative organisation and secondly, these studies have analysed the data by application of ratios and fund flow statement. The present study, while taking cue from these studies aims to broaden its coverage. As an improvement over the other studies, the present study proposes to focus on the some important aspects of the financial management and selected the four heterogeneous cooperative units. All these units are engaged in different type of business activities but all of them are cooperative organizations. Thus, the study takes an integrative approach in the study of financial management of Rajarambapu group of cooperatives.
2.3 THEORETICAL BACKGROUND OF FINANCIAL MANAGEMENT:

Finance is the foundation of a business and no business can be started without it. Finance is treated as the lifeblood of a business. It has widely been termed as the master key providing access to all resources required for running business activities.

Ray G. Jones and Dean Dudley have observed that the word finance comes directly from the Latin word ‘finis’. Finance is defined as ‘The issuance of, distribution of and purchase of liability and equity claims issued for the purposes of generating revenue-producing assets.’ According to Paul G. Hasings, finance is the management of the monetary affairs of a company. It includes determining what has to be paid for raising the money on the best terms available, and devoting available funds to the best uses.

Every business activity requires financial support, because financial viability is the central theme of any business proposition. It guides and regulates investment decisions and expenditure. The expenditure decision may pertain to recurring expenditure or they may be about capital expenditure programmes or capital budgeting. This point of view has been well brought out by A. L. Kignshott, who stated that “Finance is the common denominator for a vast range of corporate objectives, and the major part of any corporate plan must be expressed in financial terms.” Hence, efficient management of business enterprises is closely linked with efficient management of their finances.

The major areas of finance are:

1. Financial services,
2. Financial management.

Financial Services is concerned with the design & delivery of advice & financial products to individuals, businesses & government.

Financial management is concerned with financing, acquisition and management of assets of business concern in order to maximize the wealth of the firm for its owners. Financial managers actively manages the financial affairs of any type of business namely, financial & non-financial, private & public, large & small, profit seeking & not for profit.

2.3.1 DEFINITION & NATURE OF FINANCIAL MANAGEMENT:

The term financial management has been defined differently by different authors.

“Financial management is concerned with the efficient use of an important economic resource, namely capital funds.”

- Solomon.
“Financial management is concerned with the managerial decisions that result in the acquisition and financing of short term and long term credits for the firm” - Phillippatus.


Thus financial management is concerned with three activities:

Anticipating financial needs, which means estimation of funds required for investment in fixed and current assets or long term and short-term assets.

Acquiring financial resources- once the required amount of capital is anticipated the next task is acquiring financial resources i.e., where and how to obtain the funds to finance the anticipated financial needs and Allocating funds in business means allocation of available funds among best plans of assets, which are able to maximize shareholders’ wealth.

Nature of Financial Management:

Financial management is treated as the applied branch of business management, which looks after the financial aspects of a business. It is an integral part of overall management & not a staff function. It is not only confined to fund raising operations but extends beyond it to cover utilization of funds & monitoring its uses. The term ‘financial management’ has a number of meanings including the administration and maintenance of financial assets. It is concerned with the duties of the financial managers in the business firm. The process of financial management is the process associated with financial planning and financial control. Financial planning seeks to quantify various financial resources available and plan the size and timing of expenditures. The use of control techniques by the finance manager will help him in evaluating the performance in various areas and take corrective measures whenever needed. Financial control devices generally used are a) return on investment, b) budgetary control, c) break even analysis, d) cost control, e) Ratio analysis. Return on investment is the best control device to evaluate the performance of various financial policies.

Financial management relate to the process of procuring and utilizing the financial resources with a view to maximize the value of the firm. The main focus of financial management is on efficient and judicious use of resources to attain the desired objective of the firm.

The basic objectives of financial management centers around:
(a) The procurement of funds from various sources like equity share capital, preference share capital, debentures, term loans etc. and
(b) Effective utilization of funds to maximize the profitability of the firm and the wealth of its owners.

The basic responsibility of the finance manager is to acquire funds needed by the firm and investing those funds in profitable ventures that will maximize firm’s wealth as well as yielding returns to the business concern. The success or failure of any firm is mainly linked with the quality of financial decisions that are taken by finance manager. The responsibilities of the finance manager are linked to the goals of ensuring liquidity, profitability or both and are also related to the management of assets and funds of any business enterprise.

As a matter of fact, financial decision making is a continuous decision making process that goes on throughout the corporate life. Since a firm has to operate in an environment which is dynamic it has therefore, to interact constantly with various environmental forces in addition to changing conditions of the firm & adapt and adjust its objectives & strategies including financial policies & strategies. The Financial management of a firm affects its very survival because the survival of the firm depends on strategic decisions made in important matters such as product development, market development, entry in new product line, expansion of the plant etc.

The Financial management is neither a pure science nor an art. It deals with various methods and techniques, which can be adopted, depending on the situation of business and the purpose of the decision. As a science it uses various statistical and mathematical models and computer applications for solving the financial problems relating to the firm, for example, capital investment appraisal, capital allocation and rationing, optimizing capital structure mix, portfolio management etc. along with the above, a finance manager is required to apply his analytical skills in decision-making. Hence, financial management is both a science as well as an art.

Thus, financial management is concerned with the duties of the financial manager in a business firm. He performs such varied tasks as funds procurement, financial forecasting, cash management, credit administration, investment analysis & budgeting etc.

2.3.2 FINANCIAL DECISIONS:

Financial decisions relates to the financial matters of a business firm. These decisions must be viewed in the light of the financial viability of each activity and in the long term the financial repercussions of these decisions. They are considered as the means to achieve long-term objectives of a firm. Following are the main financial decisions which facilitate a business firm to achieve its ultimate goal of maximization of wealth of its shareholders.
i) Investment decision:

Investment decision is the vital business decision area where a finance manager has to decide about total amount of assets to be held in the enterprise, make up of these assets and business risk complexion of the enterprise. Investment decisions relate to the careful selection of viable and profitable investment proposals, allocation of funds to the investment proposals with a view to obtain net present value of the future earnings of the company and to maximize its value. It is the function of finance manager to carefully analyze the different alternatives of investment, determination of investment levels in different assets i.e. fixed assets and current assets.

The investment decision can be categorized into two groups. Long term investment decisions and short term investment decisions i.e. capital budgeting and working capital management. Long term investment decision decides about the allocation of capital to those projects which involves huge investment and yield a return over period of time in future.

Short term investment decision on the other hand decides about allocation of funds as among cash, receivables and inventories. It relates to the management of current assets popularly termed as working capital management. The main aspect of this is the tradeoff between risk and return.

The finance manager is also responsible for effective utilization of funds. He has to point out situations where the funds are being kept idle or where proper use of funds is not being made. All the funds are procured at a certain cost and after entailing a certain amount of risk. If these funds are not utilized in the manner so that they generate an income higher than the cost of procuring them, there is no point in running the business. The funds are to be invested in the manner so that the company can produce at its optimum level without endangering its financial solvency. Thus, financial implications of each decision to invest in fixed assets are to be properly analyzed.

While taking the decision of the investment of funds, it is very essential to ascertain whether the funds invested will generate sufficient income over & above the cost.

The investment decisions of a finance manager cover the following areas:

1. Ascertainment of total volume of funds, a firm can commit.
2. Appraisal and selection of capital investment proposals.
4. Prioritization of investment decisions.
5. Funds allocation and its rationing.
6. Determination of fixed assets to be acquired.
7. Determination of levels of investments in current assets and it’s management
8. Buy or lease decision.

ii) Financing Decision:

In financing decision, finance manager has to decide about the makeup of capitalization. The finance decision is concern with the financing mix or capital structure. The term capital structure refers to the proportion of debt & equity capital. The financing decision of the firm relates to the choice of the proportion of these sources to finance the investment requirements of the business concerns.

Since funds can be obtained from different sources their procurement is always considered as a complex problem by business concerns. Funds procured from different sources have different characteristics in terms of risk, cost and control.

The funds raised by the issue of equity shares are the best from the risk point of view for the company, since there is no question of repayment of equity capital expect when the company is under liquidation. From the cost point of view, however equity capital is usually the most expensive source of funds. This is because the dividend expectations of shareholders are normally higher than prevalent interest rate. Also the issue of new shares to public may dilute the control of the existing shareholders.

Debentures as a source of funds are comparatively cheaper since the interest is paid out of profits before tax. However debentures entail a high degree of risk since they have to be repaid as per the terms of agreement, also the interest payment has to be made whether or not the company makes profits.

There are thus risk, cost and control considerations, which a finance manager must consider while procuring funds. The cost of funds should be at the minimum level for that a proper balancing of risk and control factors must be carried out.

In the area of financing, there are various methods to procure funds. Funds may be obtained from long-term sources as well as from short-term sources. Long-term funds may be made available by shareholders, lenders, financial institutions and banks. Short term funds may be procured from commercial banks, suppliers of goods i.e. creditors, public deposits etc.

The finance manager has to decide an optimum capital structure with a view to maximize shareholders wealth. He follows various methods in designing a capital structure that can contribute to the maximization of shareholders wealth. Financial leverage or trading on equity is an important method by which a finance manager may increase the return to common shareholders.
The finance manager involves in following finance decisions:

1. Determination of degree or level of gearing.
2. Determination of financing pattern of long term, medium and short term funds requirement.
3. Rising of funds through issue of financial instruments.
4. Arrangement of finance for working capital requirement.
5. Maintaining balance between owners’ capital and borrowed funds.
7. Consideration of cost of capital.

**iii) Dividend decision:**

The third major area of decision is the decision relating to the dividend policy. The term dividend refers to that portion of company’s net earnings that are paid out to the equity shareholders. Dividend decisions concerned with the determination of quantum of profits to be distributed to the owners and frequency of such payments. The dividend decision should be analyzed in relation to the financing decision of a firm.

Two alternatives are available in dealing with the profits of a firm.

a) They can be distributed to the shareholders in the form of dividends or

b) They can be retained in the business itself.

When company uses a part of its net earnings for dividend payments then the remaining earnings are retained. Thus, there is an inverse relationship between retained earnings and payment of cash dividend. The alternative use of net earnings for paying dividends and retained earnings are competitive and conflicting.

The level and regular growth of dividends represent a significant factor in determining a profit making company’s market value and value of its shares in the stock market. But distribution of dividends or retaining should be in terms of its impact on the shareholders wealth.

When profits are earned, shareholder expects to receive their share in profit in the form of dividend. It is the reward of the shareholders for investments made by them in the shares of the company. The investors are interested in earning the maximum return on their investments and to maximize their wealth. The finance manager has to assist the top management in deciding as to what amount of dividend should be paid to the shareholders and what amount should be retained in the business itself. However, in practice, a large number of considerations like the trend of earnings, the trend of share market prices, the requirement of funds for future growth, the cash flow situation, the tax position of share-holders etc. are to be kept in mind.
Thus, the decision regarding the payment of dividend must be made in such a manner so as to equitably apportion the distributed profits and retained earnings. Since dividend is a right of shareholders to participate in the profits and surplus of the company for their investment in the share capital of the company, they should receive fair amounts of the profits. Therefore, the company should distribute a reasonable amount as dividends and retain the rest for its growth and survival.

The dividend decision of Finance manager cover the following areas:
1. Determination of dividend and retention policies of the firm.
2. Consideration of impact of levels of dividend and retention of earning on the market value of the share and the future earnings of the company.
3. Consideration of possible requirement of funds by the firm for expansion and diversification proposals for financing existing business requirements.
4. Reconsideration of distribution and retention policies in boom and recession periods.
5. Considering the impact of legal and cash flow constraints on dividend decisions.

2.3.3 GOALS OF FINANCIAL MANAGEMENT:

Efficient Financial management requires the existence of some objective or goal without which judgment as to whether or not a financial decision is efficient must be made in the light of some standard. In other words, the goals provide a framework for optimum financial decision-making.

A finance manager has therefore, an important role to perform in a business firm. He has not only to raise the resources at the lowest cost but also channelise them properly for their optimum utilization and maximization of shareholders wealth.

There are two widely accepted goals:

1. Profit Maximization:

Profit is primary motivating force for any economic activity. Firm is essentially being an economic organization, it has to maximize the interest of its stakeholders. McAlpine rightly remarked that, Profit cannot be ignored since it is both a measure of the success of business and the means of its survival and growth. Profit is the positive and fruitful difference between revenues and expenses of a business enterprise over a period of time. If an enterprise fails to make profit, capital invested is eroded and if this situation prolongs, the enterprise ultimately ceases to exist. The overall objective of business enterprise is to earn at least satisfactory return on the funds invested, consistent with maintaining a sound financial position. This implies that the finance manager has to make his decisions in a manner so that the profits of the concern are
maximized. Each alternative therefore, is to be seen as to whether or not it gives maximum profit.

**Limitations:** The goal of profit maximization has, however, been criticized because of the following reasons:

**(a) Vague:** The term profit is vague and does not clarify what exactly it means. It has different interpretations for different people. For example, profit may be in short term or long term, total profit or net profit, profit before tax or profit after tax, return on capital employed. Profit maximization is taken as objective, the question arises which of the above concept of profit should an enterprise try to maximize.

**(b) Ignores Risk factor:** There is direct relationship between risk and profit. Higher the risk, higher is the possibility of profits. This implies that he will accept highly risky proposals, if they give high profits. In practice, however risk is very important consideration and has to be balanced with the profit objective.

**(c) Ignores Time value of money:** Time value of money refers a rupee receivable today is more valuable than a rupee, which is going to be receivable in future period. Profit maximization gives equal importance to all earnings though the receivable in different periods. Hence, it ignores time value of money.

**(d) Ignores quality of benefits:** Quality refers to the degree of certainty with which benefits can be expected. The more certain expected benefits, the higher the quality of the benefits and vice versa.

Profit maximization objective is suitable for self financing, private property and single owner firms. A company is financed by shareholders, creditors and financial institutions and is managed & controlled by professional manger. There are some other who are interested towards company are: employees, government, customers & society. Hence one has to take into consideration of all these parties interest, which is not possible under the objective of profit maximization.

2. **Socio-Economic Development:**

For a cooperative, measuring business success is more complicated than for an investor-owned business. For the latter, the objective is to maximize profit or rate of return on equity. For cooperatives, the objective simply may be to give members a better price or service, as they are member centered as contrasted to companies where capital is at the centre in order to earn profits.

Cooperatives are socially conscious responding to the needs of their members whether it is to provide literacy or technical training. Through partnership building, they are able to tackle social issues like environmental conservation among other things.
Cooperatives, in their dual role as economic enterprises and as autonomous self-help organizations, play a meaningful role in improving the socio-economic conditions of their members and their local communities. Over the years, cooperatives enterprises have successfully operated member-owned people-centered businesses while also serving as catalysts for social and technical innovation and providing social organization and cohesion.

By putting cooperative principles and values and ethos in practice, they promote solidarity, tolerance and accountability; while as schools of democracy, they promote the rights of each individual—women and men. Cooperatives create, improve and protect income as well as generate employment opportunities and contribute to poverty reduction.

“The ILO views cooperatives as important in improving the living and working conditions of women and men globally as well as making essential infrastructure and services available. Deeply rooted in local communities, cooperatives as business organization contribute to economic development and have acted as sources of jobs and livelihoods in their own communities,” said Peter van Rooij, the ILO’s Country Director in Indonesia.

2.3.4 IMPORTANCE OF FINANCIAL MANAGEMENT:

Collins brooks has remarked, ‘Bad production management and bad sales management have slain in hundreds, but faulty Financial Management has slain in thousands.’

As financial management is the key function, any inefficiency in it will be concluded with a disastrous situation. Therefore, in every organization, where funds are involved, sound financial Management is necessary. Sound Financial Management is essential in both profit and non-profit organizations.

1. **Basis for success of the enterprise:**

   Financial Management is the dynamic, evolving or making of day-to-day financial decisions in a business of any size. It provides the best guide for future resource allocation by a firm. It provides relatively uniform yardstick for judging most of the enterprise operations and projects, and is continually concerned with achieving an adequate rate on investments, as this is necessary for survival and success of the enterprise.

2. **Optimum allocation and utilization of resources:**

   Financial Management squeezes the most out of every available rupee. It essentially helps in optimizing the output from a given input of funds i.e. maximum utilization of resources at minimum cost and thus helps in increasing the wealth of the firm.
3. Central focal point of decision-making:

The finance manager must realize that when a firm makes a major decision, the effect of the action will be felt throughout the enterprise. The most of the decisions are taken on the basis of financial analysis and comparison. It helps in profit planning, capital budgeting, measuring cost, controlling inventories, account receivables, etc.

4. Measurement of performance and efficiency:

Financial Management helps in monitoring the effective deployment of funds in fixed assets and in working capital. It measures the performance and efficiency by using certain tools & techniques. The finance manager assesses the financial position of the company through working out the return on capital or investment.

5. Financial planning and forecasting:

Financial Management helps in ascertaining how the company would perform in the future. It helps in indicating whether the firm will generate enough funds to meet its various obligations like repayment of the various installments due on loans and redemption of other liabilities.

6. Financial Control:

For financial control, different types of budgets are prepared and standards are set. The performance of an organization is measured in terms of standards as compared to actual. The returns on the investments must be continuous and consistent. The cost of each financial decision and returns of each investment must be analyzed. Wherever deviations are found, necessary steps of strategies are to be adopted to overcome such events.
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