CHAPTER VIII

SUMMARY, CONCLUSIONS AND SUGGESTIONS
CHAPTER 8
SUMMARY, CONCLUSIONS AND SUGGESTIONS

This chapter consists of a brief summary of the research carried on, conclusions arrived at based on the analyses given in different chapters, suggestions based on the conclusions wherever necessary, testing of hypotheses, and further areas of research.

8.1 Introduction

The economic development of a country depends upon development of the industries. Establishment of industries depends upon availability of capital. In a country like India, where capital is scarce and unemployment is widespread, small scale industry plays an important role in the industrial development.

The strength of small-scale enterprises lies in:

- Providing immediate large scale employment opportunities with low capital cost per unit of labour,
- Ensuring a more equitable distribution of national income including the spread of industries over different regions of the country,
- Counteracting the tendency towards concentration of economic power by widening opportunities for new entrepreneurs, and
- Mobilizing small capital resources and skills that might otherwise remain unutilized.

Having recognized the significance of small scale industry, Government of India has set up several agencies and institutions at different levels, offering several incentives and concessions for their promotion and development, and pursuing the policy of protection since independence. According to the economic survey 2001-2002, “the small scale sector has played a very important role in the socio-economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of gross domestic product (GDP), employment generation and exports. The performance of the small scale sector therefore has a direct impact
on the growth of the overall economy". In the wake of economic reforms and liberalization programs launched by the government, various measures have been taken from time to time to improve the productivity, efficiency and competitiveness of the small-scale sector.

8.2 Definition of Small Scale Industry

Ever since the official recognition of small-scale industry by independent India in 1950, the definition of small-scale industry has been revised several times taking into consideration the emerging changes in economic and industrial environment of the country. At present Section 7 (1) of the Micro, Small and Medium Enterprises Act – 2006 takes into account ‘enterprise’ in place of erstwhile ‘industry’. Enterprises have been classified broadly into two categories: (1) Enterprises engaged in the manufacture / production of goods and (2) Enterprises engaged in providing / rendering of services.

The enterprises engaged in the manufacture/production of goods have again been divided on the basis of investment in plant and machinery (excluding land and buildings) into:

(a) **Micro Enterprises** with an investment limit up to Rs. 25 lakhs;
(b) **Small Enterprises** with an investment limit of Rs. 25 lakhs to Rs. 5 crores; and
(c) **Medium Enterprises** with an investment limit of Rs. 5 crores to Rs. 10 crores.

Enterprises engaged in providing/rendering services have again been divided on the basis of investment in plant and machinery (excluding land and buildings) into:

**Micro Enterprises** with an investment limit up to Rs. 10 lakhs;
**Small Enterprises** with an investment limit of Rs.10 lakhs to Rs.2 crores; and
**Medium Enterprises** with an investment limit of Rs.2 crores to Rs.5 crores.

(Source: Compiled from www.smallindustryindia.com)
8.3 Policy of the Government

Ever since India has got independence, the Government of India through various industrial policies and resolutions has been striving hard to promote and protect the small industry in the country. The approach of the Government of India towards small scale sector has been emphatically reflected in the Industrial Policy Resolutions from time to time. The main thrust of the industrial policies was:

- to promote cottage and small scale industries widely dispersed in rural areas and small towns,
- to support cottage and small scale industries by restricting the volume of production in the large scale sector, by deferential taxation or by direct subsidy,
- to see that whatever can be produced by small and cottage industries must only be so produced,
- to ensure that the decentralized sector acquired sufficient vitality to be self-supporting and its development be integrated with that of the large scale industry,
- to ensure a balanced growth of economy where large, medium, and small and cottage industries could play their respective roles in the growth of national economy,
- to ensure adequate and timely flow of credit to small scale industries through Small Industries Development Bank of India (SIDBI), commercial banks and other financial agencies,
- to integrate the production programmes of small industry with large private and public sector units etc.

The Government, to encourage the small industry, has made a provision for:

- Availability of cheaper and adequate credit through equity participation and supply of risk capital through limited partnership and other facilities,
- supply of adequate raw materials,
- creation of an effective marketing mechanism,
- measures to ensure speedy payments arising from the sale of products etc.
The Small Industry Development Organization was directed to act as nodal agency for the export of SSI products. Planned progression, growth and performance of small scale enterprises during 1994 to 2007 have been discussed at length with facts and figures in chapter 1. The gradual move towards liberalization and other economic reforms have landed the small scale industry in survival problems.

Since the launching of five-year plans in the country the SSI sector has grown at a phenomenal rate. This sector comprises 95 per cent of the total industrial units in the country, accounting for 40 per cent of the total industrial production, 34 per cent of the national exports, and 250 lakhs persons of industrial employment1. So, this sector emerged as a bosom and dynamic part of the Indian economy.

8.4 Financial Management

Finance is the life blood of industry. Any enterprise, whether big, medium or small, needs finance to carry on its operations and to achieve its targets. Without adequate finance, no enterprise can possibly accomplish its objectives. The term financial management can be defined as the management of flow of funds in a firm and it deals with the financial decision making of the firm. It encompasses the procurement of the funds in the most economic and prudent manner and employment of these funds in the most optimum way to maximize the return for the owner. Since raising the funds and their best utilization is the key to the success of any business organization, the financial management as a functional area has got a place of prime relevance. All business decisions have financial implications and therefore financial management is inevitably related to almost every aspect of business operations.

8.5 Need for the Study and Statement of the Problem

India being a labour-intensive country faces the problems of poverty, unemployment, inter-regional and inter-personal inequalities. In order to overcome these problems, small-scale enterprises (SSEs) has been chosen as an opportunity to ensure rapid economic development as it enables the utilization of local resources meaningfully and enhances the income and living standards of the people besides reducing imbalance among various regions and providing employment opportunities.
From the above need for the development of small scale industry requires no further emphasis. It is also true that the Government of India continues to give much importance to the small-scale enterprises (SSEs). As a result small scale enterprise sector is playing a key role in the Indian economy. It is not sufficient if the small scale industrial enterprises are set up in the country. They have to be run successfully. The small scale enterprise sector has been playing a key role in the Indian economy. In spite of its prominent place in the country’s economy, sickness in small scale enterprise sector is growing. The main reasons for growing sickness in small scale enterprises may be traced to the problems relating to finance. Therefore there is a need to study financial management in small scale enterprises. A review of literature on the subject shows that though there are many studies on the subject due to changes in the economic environment in the country need for a study of financial management in small scale enterprises exists. Hence it has been decided to study financial management practices in small scale enterprises.

8.6 Objectives of the Study

Main objectives of the present research are to study/examine/evaluate:

(i) the general finance management related aspects including sources of capital and capital structure in the selected small scale enterprises;

(ii) the working capital management practices in the selected small scale enterprises;

(iii) the cash management related aspects in the selected small scale enterprises;

(iv) the aspects relating to receivables management in the selected small scale enterprises;

(v) the inventory management practices in the selected small scale enterprises; and

(vi) to offer suggestions for improving the financial management in the selected small scale enterprises.

8.7 Hypotheses

The present study is based on the following hypotheses.

(i) In many of the small scale enterprises finance function is looked after by the owners themselves and no separate Finance Department exists.
(ii) Systematic financial management methods and techniques are not used in many of the small scale enterprises.

(iii) Small scale enterprises depend more on external sources of finance.

(iv) Small scale enterprises have been marked with relatively a higher share of investment in current assets than investment in fixed assets.

(v) Small scale enterprises are characterized by low current ratios despite large investment in current assets.

(vi) Small scale enterprises maintain large inventory holdings leading to liquidity crisis.

8.8 Area of Study/Universe and Sample Selection

As it is not possible for an individual researcher to cover a large area it has been decided to confine himself to one district. As the researcher owes his allegiance to Anantapur District due to his birth, studies and livelihood he has purposefully selected it. Moreover Anantapur is a backward district in backward Rayalaseema area in Andhra Pradesh. As it is also not possible to have a source list of the unregistered small scale enterprises, in the next stage it has been decided to choose only those small scale enterprises which are registered with the District Industries Centre and are located in the industrial estates in the District. Hence for the purpose of the study the universe means the registered small scale enterprises located in the Industrial Estates in Anantapur District. As per the information obtained from the District Industries Centre, Anantapur, there are 290 small scale enterprises registered in the six industrial estates in Anantapur district as at the end of March, 2007. Out of the 290 small scale enterprises, 107 units have been identified as sick units by the District Industries Centre. As it is beyond the capacity of the individual researcher to survey all the units it has been decided to select approximately 50 per cent of the units from each industrial category on random basis. Sick units were not considered for the purpose of the study, because the data collection from such units was found neither possible nor useful. The number of the enterprises/units selected industry-wise is shown in table 8.1.
Table 8.1

Industry-Wise Classification of Sample Small Scale Enterprises

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Industry Type</th>
<th>No. of Working Units in Universe</th>
<th>Sample (No. of units)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Engineering</td>
<td>64</td>
<td>32</td>
<td>50.00</td>
</tr>
<tr>
<td>2</td>
<td>Mineral-Based</td>
<td>50</td>
<td>25</td>
<td>50.00</td>
</tr>
<tr>
<td>3</td>
<td>Agro-Based</td>
<td>18</td>
<td>10</td>
<td>55.55</td>
</tr>
<tr>
<td>4</td>
<td>Plastic</td>
<td>16</td>
<td>09</td>
<td>56.25</td>
</tr>
<tr>
<td>5</td>
<td>Chemical</td>
<td>07</td>
<td>04</td>
<td>57.14</td>
</tr>
<tr>
<td>6</td>
<td>Miscellaneous</td>
<td>28</td>
<td>15</td>
<td>53.57</td>
</tr>
<tr>
<td>---</td>
<td>Total</td>
<td>183</td>
<td>95</td>
<td>51.91</td>
</tr>
</tbody>
</table>

Source: Records of Andhra Pradesh Industrial Infrastructure Corporation Limited, Industrial Estates of Anantapur and Hindupur.

8.9 Period of the study

The period of the study refers to six years commencing from 2000-2001 to 2005-2006. Economic liberalization, privatization and industrial delicensing formed the core components of the economic reforms. There has been perceptible change in the government policy towards small scale sector since 1991. The small scale enterprise sector as per the new industrial policy has been exposed to market forces. Further, the flow of credit to small scale enterprise sector is no more allowed at low interest rates. The economic reforms adopted in the country in early 1990s had a critical impact on the financial management of small scale enterprise sector.

8.10 Collection and Analysis of Data

Primary data have been collected with the help of a pre-tested schedule from the selected small scale enterprises. Secondary data were collected from different published and unpublished sources.

The data collected have been analyzed by using averages, percentages, ratios, trend values, and coefficients of correlation. The data so analyzed have been presented in the form of tables and diagrams.
8.11 Profile of the Selected Small Scale Enterprises/Entrepreneurs Selected

As per the analysis given in Chapter 2 profile of the entrepreneurs/respondents of the selected small scale enterprises is as follows.

(a) Gender of the Entrepreneur: A lions’ share of the selected small scale enterprises (91.58 per cent) are run by the male entrepreneurs and the remaining 8.42 per cent of the enterprises are run by the female entrepreneurs. A majority of the respondents are male members.

(b) Age of the Entrepreneur at the Time of Commencement of the Unit: As many as 92.63 per cent of the respondents have started their units when their age was 40 years or less.

(c) Age of the Entrepreneurs at the Time of the Survey: Age of a majority of the respondents at the time of the survey falls between 31 and 55 years.

(d) General Education of the Entrepreneurs: General education of the respondents is low as more than one-half of the respondents have studied only up to intermediate.

(e) Technical Education of the Entrepreneurs: About three-fourths of the respondents do not have any technical education.

(f) Entrepreneurs’ Experience: As many as 32.63 per cent of the respondents have 6 to 10 years of experience in the industry. Another 32.63 per cent have put in 11 to 15 years of experience in the industry concerned, 18.95 per cent of the respondents have 16 to 20 years of experience and the remaining 15.79 per cent of the respondents have more than 20 years of experience in running the units concerned. In engineering industry as many as 96.87 per cent of the respondents have 6 to 20 years of experience, 96 per cent of mineral based units have up to 20 years of experience, all the respondents of chemical units have 11 to 20 years of experience.

(g) Generation of the Entrepreneurs: As many as 74.77 per cent of the respondents are first generation entrepreneurs and the remaining 25.26 per cent of the respondents are second generation entrepreneurs. In engineering, mineral-based and chemical
enterprises, the trend is almost similar. The trend is slightly different in plastic enterprises. The first generation entrepreneurs constitute 62.50 per cent and the second generation entrepreneurs constitute 37.50 per cent. In agro-based units, (this is considered to be mostly traditional in nature) the second generation entrepreneurs are more (56.56 per cent) when compared to the first generation entrepreneurs (44.44 per cent). In the case of miscellaneous units, all (100 per cent) the respondents are first generation entrepreneurs.

(h) Family Structure: Type of the family of 65.26 per cent of the respondents is nuclear and the remaining 34.74 per cent of the respondents are members of joint families. In engineering, mineral, agro-based, plastic and miscellaneous enterprises the trend is almost similar, but the trend in chemical enterprises is slightly different. In chemical enterprises 50 per cent of the respondents are members of joint families and the remaining 50 per cent are members of the nuclear families. Members of the joint families can muster financial and other support from the other members of the family in case of need.

(i) Family Background of the Entrepreneurs: Family background is decided on the basis of father’s occupation. Generally those who come from business background do not have much problem in successfully running the units. Slightly more than one-third (36.84 per cent) of the total respondents have business background, 34.74 per cent of the respondents come from agricultural background and the remaining 12.63 per cent of the respondents come from professional background.

(j) Type of the Organization: Type of the organization also matters much in deciding the capacity to raise capital. In the case of sole proprietorship concern it is limited to credit worthiness of one individual, in the case of partnership firm the capacity is limited to credit worthiness of the partners, and in the case of a joint stock company the capacity to raise capital is much more. As many as 66.32 per cent of the enterprises selected for the purpose of the study are sole proprietorship concerns, one-fifth of the enterprises are partnership firms, and the remaining 12.63 per cent of the enterprises are Private Limited Companies. Only one public Limited Company is there in the selected small scale enterprises.
(k) Earlier Occupation of the Entrepreneurs: As low as 7.37 per cent of the respondents were students before becoming entrepreneurs, 28.42 per cent of the respondents were running similar units, 9.47 per cent of the respondents were unemployed and earlier occupation of as many as 54.74 per cent of the respondents was business. From this it can be understood that majority of the entrepreneurs of the selected small scale enterprises have business background.

(l) Nature of the Activity: According to the provisions of the MSME Act (2006), all the small enterprises can be divided into manufacturing units and servicing units. Out of the total 95 units 78.95 per cent of the enterprises are in the manufacturing sector, whereas 21.05 per cent of the enterprises are in the service sector. From this it can be understood that, in the area small enterprises comprise mostly manufacturing units that is why many of the manufacturing units found place in the sample.

(m) Commencement of the Enterprises: Of the selected small scale enterprises 23.15 per cent of the enterprises were started before 1990, (i.e., prior to the introduction of economic reforms in the country), 75.79 per cent of the enterprises were started after 1991 but before 2000 (i.e. in the first decade of the introduction of economic reforms) and one selected enterprise was started after the year 2000 (i.e. in the 21st century). As many as 96 per cent of the mineral based, 87.50 per cent of the plastic, 84.37 per cent of the engineering, 55.56 per cent of the agro-based, 50 per cent of the chemical and 41.18 per cent of the miscellaneous enterprises were started between 1991 and 2000.

(n) Nature of Operation: A few (18.95 per cent) of the selected small scale enterprises are seasonal in nature and a majority (81.05 per cent) of the enterprises are not seasonal in nature. Seasonal nature of the industry requires a better financial plan to cope with the fluctuations in the working capital requirements.

(o) Number of Levels in the Organisation: If levels in the organization structure of the enterprises are more, the efficiency as well as cost will be more. In 57.89 per cent of the selected small scale enterprises have two levels - entrepreneurs and operative employees, 23.16 per cent of the enterprises have three levels - owner, manager and operative employees, 17.90 per cent of the enterprises have more than three levels in
the organization structure - owner, manager, accountant and operative employees. In only one unit the entrepreneur is the whole and sole of the organization.


On the basis of the analysis given in chapter 3, conclusion relating to some of the financial management practices, sources of finance and financial structure in the selected small scale enterprises are given hereunder.

(a) Existence of Separate Finance Department in the Selected Small Scale Enterprises

Only six enterprises (6.32 per cent) have separate finance departments with finance managers, in only nine enterprises (9.47 per cent) finance function is looked after by others i.e., a paid employee but there is no separate finance department, in other enterprises finance function is looked after by the owners themselves. This shows the importance given by the entrepreneurs to the finance function in the selected small scale enterprises. Most of the entrepreneurs think that financial management means maintenance books of accounts. This wrong perception on the part of the entrepreneurs leads to ineffective management of financial resources.

(b) Existence of Separate Stores Section in the Selected Small Scale Enterprises

In a very few small scale enterprises separate stores section. In a majority of the enterprises no separate stores section exists and the stores is looked after by the owners themselves. This may result in poor inventory management.

(c) Methods/Bases of Estimating the Capital Requirement in the Selected Small Scale Enterprises

Basically there are three methods on the basis of which the selected small scale enterprises estimate their capital requirements. They are estimating capital requirements on the basis of production, on the basis of turnover and on the basis of demand. Relatively more number of the selected small scale enterprises, estimate their capital requirements on the basis of demand. It is followed by estimating the capital
requirement on basis of production (28.42 per cent) and estimating on the basis of turnover (28.42 per cent).

(d) Methods/Bases of Capital Expenditure Proposals in the Selected Small Scale Enterprises

A meager 2.11 per cent of the respondents take advice from the authorities of the DIC concerned, 23.16 per cent of the respondents hire the services of the consultants, and as many as 74.73 per cent of the respondents said that they use other sources/methods. Other sources/methods include personal experience, discussions with senior entrepreneurs, conducting research etc. From this one can understand that an overwhelming majority of the selected small scale enterprises follow other methods for preparing the capital expenditure proposals.

(e) Investment Decisions

In 92 out of the 95 selected small scale enterprises the owner(s) takes the investment decisions. In the remaining three units (two are partnership firms and one is a limited company) some other person (i.e. an employee) is authorized to take the investment decisions. Industry-wise analysis shows that, in the entire plastic, chemical and miscellaneous enterprises entrepreneurs themselves take investment decisions, whereas in one engineering enterprise, one mineral-based enterprise and one agro-based enterprise paid managers are authorized to take investment decisions.

(f) Investment in Fixed Assets

Though all the four factors (cost of the asset, quality of the asset, life of the asset and rate of return) are important, a majority of the respondents (>50 per cent) consider cost of the asset at the time of investment in a fixed asset.

(g) Procedure for Purchasing Fixed Assets

The selected small scale enterprises are not following proper procedures for purchasing fixed assets. They are not maintaining a list of suppliers. They are not calling for quotations. They select the suppliers in a haphazard manner and place the orders. The negotiations they make regarding quality, price, and terms and conditions are not recorded. This gives scope for manipulation of accounts.
(h) Techniques Used For Evaluating Investment Proposals

Most of the selected small scale enterprises (86.32 per cent) do not use systematic investment evaluation techniques. Less than one-tenth (9.47 per cent) of the enterprises use pay back period method for evaluating investment proposals and 4.21 per cent of the enterprises use the rate of return method for evaluating investment proposals. No selected small scale enterprise is using discounted cash flow method for evaluating investment proposals.

(i) Sources of Finance in the Selected Small Scale Enterprises

Sources of finance to the selected small scale enterprises include (i) own capital (that is the capital provided by sole proprietor / partners / promoters or shareholders) (100 per cent), (ii) retained earnings (34.74 per cent), (iii) borrowings from commercial banks (55.79 per cent), (iv) borrowings form APSFC (23.16 per cent), (v) borrowings from private money lenders (36.84 per cent), (vi) borrowings from friends and relatives (47.37 per cent), (vii) trade finance (23.16 per cent), (viii) deposits from the customers (17.89 per cent), and (ix) borrowings from the NBFCs (33.68 per cent) like Sriram Chit Funds and Kapil Chit Funds. No respondent enterprise has borrowed from SIDBI. SIDBI has no branch at Anantapur and many of the entrepreneurs are not aware of the existence of SIDBI.

(j) Composition of Internal and External Sources of Finance in the Selected Small Scale Enterprises

In the selected small scale enterprises:

- Internal and external resources are approximately in the ratio of 30:70.
- Internal sources of capital consist of capital, reserves and surpluses, and depreciation. They are approximately in the ratio of 70:20:11.
- External sources of capital consist of long term loans, bank loans, non-bank loans, and trade creditors. They are approximately in the ratio of 20:36:12:32.
(i) Composition of internal and external sources of finance in the selected small scale engineering enterprises:

- Internal and external resources are approximately in the ratio of 20:80.
- Internal sources of capital consist of capital, reserves and surpluses, and depreciation. They are approximately in the ratio of 36:53:11.
- External sources of capital consist of long term loans, bank loans, non-bank loans, and trade creditors. They are approximately in the ratio of 21:42:02:35.

(ii) Composition of internal and external sources of finance in the selected small scale mineral-based enterprises:

- Internal and external resources are approximately in the ratio of 29:71.
- Internal sources of capital consist of capital, reserves and surpluses, and depreciation. They are approximately in the ratio of 30:59:11.
- External sources of capital consist of long term loans, bank loans, non-bank loans, and trade creditors. They are approximately in the ratio of 18:52:00:31.

(iii) Composition of internal and external sources of finance in the selected small scale agro-based enterprises:

- Internal and external resources are approximately in the ratio of 16:84.
- Internal sources of capital consist of capital, reserves and surpluses, and depreciation. They are approximately in the ratio of 40:45:15.
- External sources of capital consist of long term loans, bank loans, non-bank loans, and trade creditors. They are approximately in the ratio of 18:40:03:39.

(iv) Composition of internal and external sources of finance in the selected small scale plastic enterprises:

- Internal and external resources are approximately in the ratio of 39:61.
- Internal sources of capital consist of capital and depreciation. They are approximately in the ratio of 88:13.
• External sources of capital consist of long term loans, bank loans, non-bank loans, and trade creditors. They are approximately in the ratio of 31:22:22:25.

(v) Composition of internal and external sources of finance in the selected small scale chemical enterprises:

• Internal and external resources are approximately in the ratio of 37:63.
• Internal sources of capital consist of capital, reserves and surpluses, and depreciation. They are approximately in the ratio of 62:32:06.
• External sources of capital consist of long term loans, bank loans, non-bank loans, and trade creditors. They are approximately in the ratio of 29:27:23:21.

Table 8.2
Industry-Wise Internal and External Resources in the Selected Small Scale Enterprises in Percentages

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Sources</th>
<th>Industry Type</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Eng</td>
<td>Min</td>
</tr>
<tr>
<td>1</td>
<td>Capital</td>
<td>36</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>Reserves &amp; Surpluses</td>
<td>53</td>
<td>59</td>
</tr>
<tr>
<td>3</td>
<td>Depreciation</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>A. Total Internal Sources</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[20]</td>
<td>[29]</td>
</tr>
<tr>
<td>5</td>
<td>Long-Term Loans</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>6</td>
<td>Bank Loans</td>
<td>42</td>
<td>52</td>
</tr>
<tr>
<td>7</td>
<td>Non-Bank Loans</td>
<td>02</td>
<td>00</td>
</tr>
<tr>
<td>8</td>
<td>Trade Creditors</td>
<td>35</td>
<td>31</td>
</tr>
<tr>
<td>9</td>
<td>B. Total External Sources</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[80]</td>
<td>[71]</td>
</tr>
<tr>
<td>10</td>
<td>C. Total Sources</td>
<td>[100]</td>
<td>[100]</td>
</tr>
</tbody>
</table>

(vi) Composition of internal and external sources of finance in the selected small scale miscellaneous enterprises:

• Internal and external resources are approximately in the ratio of 39:61.
• Internal sources of capital consist of capital and depreciation. They are approximately in the ratio of 91:09.
• External sources of capital consist of long term loans, bank loans, non-bank loans, and trade creditors. They are approximately in the ratio of 00:38:30:32.

For the purpose of ready reference industry-wise internal and external resources in the selected small scale enterprises in percentages are given in table 8.2.

(vii) Trend exhibited by Internal and External Sources of Finance

• Capital in plastic and miscellaneous enterprises is showing an increasing trend; whereas capital in engineering, mineral, agro-based and chemical enterprises is showing a decreasing trend. On the whole capital is showing an increasing trend.

• Reserves and Surpluses in engineering, mineral-based, agro-based and chemical enterprises are showing an increasing trend; whereas there are no reserves and surpluses in plastic and miscellaneous enterprises. On the whole reserves and surpluses are showing an increasing trend.

• Depreciation in agro-based enterprises is showing an increasing trend; whereas depreciation in engineering, mineral-based, plastic, chemical and miscellaneous enterprises is showing a decreasing trend. On the whole depreciation is showing a decreasing trend.

• Total internal sources in engineering, mineral-based, agro-based, plastic and chemical enterprises are showing an increasing trend; whereas total internal sources in miscellaneous enterprises are showing a decreasing trend. On the whole total internal sources are showing an increasing trend.

• Long-term loans in engineering and mineral-based enterprises are showing an increasing trend; whereas long-term loans in agro-based, chemical and plastic enterprises are showing a decreasing trend. Existence of long-term loans has not been reported by miscellaneous enterprises. On the whole long-term loans are showing an increasing trend.

• Bank loans in engineering, mineral-based, agro-based and miscellaneous enterprises are showing an increasing trend; whereas bank loans in chemical and plastic enterprises are showing a decreasing trend. On the whole bank loans are showing an increasing trend.
• Non-bank loans in engineering, agro-based and chemical enterprises are showing an increasing trend; whereas non-bank loans in plastic and miscellaneous enterprises are showing a decreasing trend. Existence of non-bank loans has not been reported by mineral-based enterprises. On the whole non-bank loans are showing a decreasing trend.

• Trade creditors in agro-based, plastic, chemical and miscellaneous enterprises are showing an increasing trend; whereas trade creditors in engineering and mineral-based enterprises are showing a decreasing trend. On the whole trade creditors are showing a decreasing trend.

• Total external resources in miscellaneous enterprises are showing an increasing trend; whereas total external resources in engineering, mineral-based, agro-based, plastic and chemical enterprises are showing a decreasing trend. On the whole total external resources are showing a decreasing trend.

For the purpose of ready reference item-wise trend values of internal and external sources of finance in the selected small scale enterprises are shown in table 8.3.

Table 8.3
Item-Wise and Industry-Wise Trend Values of Internal and External Sources of Finance in the Selected Small Scale Enterprises

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Sources</th>
<th>Industry Type</th>
<th>Eng</th>
<th>Min</th>
<th>Agro</th>
<th>Pla</th>
<th>Che</th>
<th>Mis</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Capital</td>
<td></td>
<td>-1.851</td>
<td>-0.343</td>
<td>-4.387</td>
<td>2.16</td>
<td>-3.219</td>
<td>3.436</td>
<td>0.121</td>
</tr>
<tr>
<td>2</td>
<td>Reserves &amp; Surpluses</td>
<td></td>
<td>2.465</td>
<td>0.987</td>
<td>4.988</td>
<td>0</td>
<td>4.043</td>
<td>0</td>
<td>1.164</td>
</tr>
<tr>
<td>3</td>
<td>Depreciation</td>
<td></td>
<td>-0.611</td>
<td>-0.645</td>
<td>1.312</td>
<td>-2.16</td>
<td>-0.823</td>
<td>-1.151</td>
<td>-1.285</td>
</tr>
<tr>
<td>4</td>
<td>A. Total Internal Sources</td>
<td></td>
<td>1.182</td>
<td>2.627</td>
<td>1.522</td>
<td>2.034</td>
<td>0.832</td>
<td>-1.448</td>
<td>1.404</td>
</tr>
<tr>
<td>5</td>
<td>Long-Term Loans</td>
<td></td>
<td>1.201</td>
<td>0.029</td>
<td>-1.651</td>
<td>-0.803</td>
<td>-2.779</td>
<td>0</td>
<td>0.298</td>
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<td>6</td>
<td>Bank Loans</td>
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<td>0.377</td>
<td>4.897</td>
<td>0.072</td>
<td>-0.886</td>
<td>-0.369</td>
<td>0.057</td>
<td>0.03</td>
</tr>
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<td>7</td>
<td>Non-Bank Loans</td>
<td></td>
<td>0.577</td>
<td>0</td>
<td>0.885</td>
<td>-1.333</td>
<td>0.855</td>
<td>-4.34</td>
<td>-0.141</td>
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<td>8</td>
<td>Trade Creditors</td>
<td></td>
<td>-2.156</td>
<td>-4.927</td>
<td>0.689</td>
<td>3.021</td>
<td>2.293</td>
<td>1.849</td>
<td>-0.186</td>
</tr>
<tr>
<td>9</td>
<td>B. Total External Sources</td>
<td></td>
<td>-1.182</td>
<td>-2.627</td>
<td>-1.522</td>
<td>-2.034</td>
<td>-0.832</td>
<td>1.448</td>
<td>-1.404</td>
</tr>
</tbody>
</table>
Determinant Factors of Financial Structure of the Sample Units

Entrepreneurs of 85.26 per cent of the selected small scale enterprises say that cost of capital is the factor determining financial structure, 6.32 per cent of the entrepreneurs opine that directives of financial institutions is the factor influencing financial structure, and as per the opinion expressed by the remaining 8.42 per cent of the entrepreneurs other factors like rate of return, market conditions of the product and seasonal conditions of the business influence financial structure. Industry-wise analysis shows that all the engineering enterprises and a large majority of the other industrial enterprises are following the basis of cost of capital at the time of determining financial structure.

Financial Structure of the Selected Small Scale Enterprises

The financial resources of the selected small scale enterprises can be broadly divided into long-term resources and short-term resources. Long-term resources can again be divided into own resources and long-term loans. Capital and reserves & surpluses are own funds. Financial structure in the selected small scale enterprises is as follows.

- Long-term and short-term resources are in the ratio of 41:59.
- Long-term resources consist of capital, reserves & surpluses, and long-term loans. They are in the ratio of 21:06:14.
- Short-term resources consist of bank loans, non-bank loans, trade creditors, and other current liabilities. They are in the ratio of 25:09:22:03.

Financial structure in the selected small scale engineering enterprises is as follows:

- Long-term and short-term resources are in the ratio of 34:66.
- Long-term resources consist of capital, reserves & surpluses, and long-term loans. They are in the ratio of 07:11:16.
- Short-term resources consist of bank loans, non-bank loans, trade creditors, and other current liabilities. They are in the ratio of 33:02:28:05.
(ii) Financial structure in the selected small scale **mineral-based enterprises** is as follows:

- Long-term and short-term resources are in the ratio of 38:62.
- Long-term resources consist of capital, reserves & surpluses, and long-term loans. They are in the ratio of 09:17:12.
- Short-term resources consist of bank loans, trade creditors, and other current liabilities. They are in the ratio of 35:22:05.

(iii) Financial structure in the selected small scale **agro-based enterprises** is as follows:

- Long-term and short-term resources are in the ratio of 31:69.
- Long-term resources consist of capital, reserves & surpluses, and long-term loans. They are in the ratio of 06:07:18.
- Short-term resources consist of bank loans, non-bank loans, trade creditors, and other current liabilities. They are in the ratio of 31:02:30:05.

(iv) Financial structure in the selected small scale **plastic enterprises** is as follows:

- Long-term and short-term resources are in the ratio of 55:45.
- Long-term resources consist of capital and long-term loans. They are in the ratio of 35:20.
- Short-term resources consist of bank loans, non-bank loans, trade creditors, and other current liabilities. They are in the ratio of 14:14:16:02.

(v) Financial structure in the selected small scale **chemical enterprises** is as follows:

- Long-term and short-term resources are in the ratio of 53:47.
- Long-term resources consist of capital, reserves & surpluses, and long-term loans. They are in the ratio of 23:12:18.
- Short-term resources consist of bank loans, non-bank loans, trade creditors, and other current liabilities. They are in the ratio of 17:15:13:02.

(vi) Financial structure in the selected small scale **miscellaneous enterprises** is as follows:

- Long-term and short-term resources are in the ratio of 40:60.
• Long-term resources consist of capital only.
• Short-term resources consist of bank loans, non-bank loans, trade creditors, and other current liabilities. They are in the ratio of 21:19:18:02.

For the purpose of ready reference the above information has been given in table form (Table 8.4)

Table 8.4
Industry-Wise Financial Structure in Terms of Percentages

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Components</th>
<th>Industry Type</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Eng</td>
<td>Min</td>
</tr>
<tr>
<td>1</td>
<td>Capital</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>2</td>
<td>Reserves &amp; Surpluses</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>3</td>
<td>Long-Term Loans</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>4</td>
<td>A. Total Long-Term Funds</td>
<td>34</td>
<td>38</td>
</tr>
<tr>
<td>5</td>
<td>Bank Loans</td>
<td>33</td>
<td>35</td>
</tr>
<tr>
<td>6</td>
<td>Non-Bank Loans</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Trade Creditors</td>
<td>28</td>
<td>22</td>
</tr>
<tr>
<td>8</td>
<td>Other Current Liabilities</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>B. Total Short-Term Funds</td>
<td>66</td>
<td>62</td>
</tr>
<tr>
<td>10</td>
<td>C. Total Liabilities</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

(vii) Trend Exhibited by Different Components in the Financial Structure in the Selected Small Scale Enterprises

• Capital in mineral-based, plastic and miscellaneous enterprises is showing an increasing trend; whereas capital in engineering, agro-based and chemical enterprises is showing a decreasing trend. On the whole capital is showing an increasing trend.

• Reserves and surpluses, irrespective of the industry type, are showing an increasing trend.

• Long-term loans in engineering and agro-based enterprises are showing an increasing trend; whereas long-term loans in mineral-based, chemical and plastic enterprises are showing a decreasing trend. On the whole long-term loans are showing a decreasing trend.
• Total long-term funds in engineering, mineral-based, agro-based, plastic and miscellaneous enterprises are showing an increasing trend; whereas total long-term funds in chemical enterprises are showing a decreasing trend. On the whole total long-term funds are showing an increasing trend.

• Bank loans in mineral-based enterprises are showing an increasing trend; whereas bank loans in engineering, agro-based, plastic, chemical and miscellaneous enterprises are showing a decreasing trend. On the whole bank loans are showing a decreasing trend.

• Non-bank loans in engineering, agro-based, and chemical enterprises are showing an increasing trend; whereas non-bank loans in plastic and miscellaneous enterprises are showing a decreasing trend. On the whole non-bank loans are showing a decreasing trend.

• Trade creditors in plastic, chemical and miscellaneous enterprises are showing an increasing trend; whereas trade creditors in engineering, mineral-based, and agro-based enterprises are showing a decreasing trend. On the whole trade creditors are showing a decreasing trend.

• Other current liabilities in engineering, mineral-based, agro-based, plastic and chemical enterprises are showing an increasing trend; whereas other current liabilities in miscellaneous enterprises are showing a decreasing trend. On the whole other current liabilities are showing an increasing trend.

• Total short-term funds in chemical enterprises are showing an increasing trend; whereas total short-term funds in engineering, mineral-based, agro-based, plastic and miscellaneous enterprises are showing a decreasing trend. On the whole total short-term funds are showing a decreasing trend.

For the purpose of ready reference industry-wise trend values of different components of the financial structure in the selected small scale enterprises are given in table 8.5.
Table: 8.5
Industry-Wise Trend Values of Different Components in the Financial Structure

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Components</th>
<th>Industry Type</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Eng</td>
<td>Min</td>
</tr>
<tr>
<td>1</td>
<td>Capital</td>
<td>-0.023</td>
<td>0.589</td>
</tr>
<tr>
<td>2</td>
<td>Reserves &amp; Surpluses</td>
<td>1.023</td>
<td>1.663</td>
</tr>
<tr>
<td>3</td>
<td>Long-Term Loans</td>
<td>0.559</td>
<td>-0.566</td>
</tr>
<tr>
<td>4</td>
<td>A. Total Long-Term Funds</td>
<td>1.557</td>
<td>1.68</td>
</tr>
<tr>
<td>5</td>
<td>Bank Loans</td>
<td>-0.436</td>
<td>1.757</td>
</tr>
<tr>
<td>6</td>
<td>Non-Bank Loans</td>
<td>0.418</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Trade Creditors</td>
<td>-2.278</td>
<td>-4.4</td>
</tr>
<tr>
<td>8</td>
<td>Other Current Liabilities</td>
<td>0.76</td>
<td>0.974</td>
</tr>
<tr>
<td>9</td>
<td>B. Total Short-Term Funds</td>
<td>-1.557</td>
<td>-1.68</td>
</tr>
<tr>
<td>10</td>
<td>C. Total Liabilities</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

8.13 Working Capital Management in the Selected Small Scale Enterprises

On the basis of the analysis given in chapter 4 the following conclusions can be drawn.

(a) Components of Working Capital

In general cash, trade debtors, inventories, and marketable securities constitute working capital in the small scale enterprises. Industry-wise differences do exist. But mainly the differences in the working capital composition are based on the credit policy. Those who do not sell on credit do not have trade creditors and those who have the habit of investing surplus funds in the securities have marketable securities.

(b) Personnel for Managing Working Capital

In a majority of the selected small scale enterprises, entrepreneurs themselves manage working capital. The reasons may be three. First, the entrepreneurs' financial position may not permit the appointment of a qualified person to look after working capital management. Secondly, some of the entrepreneurs may be having the necessary skills and qualifications to manage the working capital. Thirdly, the
entrepreneur may not like to share the secrets of finance with others. Consequently he/she himself/herself looks after working capital management.

(c) Working Capital Bases

Industry-wise analysis reveals that, a great majority of the mineral-based (76 per cent), agro-based (77.77 per cent), chemical (75 per cent), plastic (87.50 per cent) and miscellaneous enterprises (76.47 per cent) determine their working capital requirements on the basis of their projections relating to production or sales, whereas a majority of the selected engineering enterprises (53.13 per cent) estimate the working capital requirements on the basis of their past experience. From this it can be concluded that in the small scale enterprises working capital requirements are estimated on the basis of estimated production and sales, and in some cases on the basis of past experience of the entrepreneur.

(d) Size of Working Capital

In the selected small scale enterprises working capital is generally estimated as a percentage either on sales or on production.

(e) The Practice of Reviewing Working Capital

All the selected small scale enterprises have the practice of reviewing the working capital position periodically. Of course the periodicity of review may differ. The practice of ‘reviewing working capital position monthly once’ appears to be more popular among the selected small scale enterprises (48.42 per cent). In the order of popularity, it is followed by the practice of ‘reviewing working capital position quarterly’ (26.32 per cent), ‘reviewing working capital position once in a week’ (15.79 per cent) and ‘reviewing working capital position daily’ (9.47 per cent). Industry-wise differences do exist, but are not so significant.

(f) Assessing the Performance of Working Capital

A few of the selected small scale enterprises are using systematic methods like ratio analysis (9.47 per cent) and funds flow analysis (4.21 per cent) for assessing the performance of the working capital. That means most of the selected small scale enterprises (86.31 per cent) are not using any systematic method for assessing the performance of the working capital.
(g) Working Capital Control

Use of periodical production and sales budgets is the most popular method of exercising control over working capital. Controlling through cash and bank balance reports is the next popular method used for the purpose.

(h) Shortage of Working Capital

About seven-eighths of the selected small scale enterprises either do not face the problem of working capital shortage or do face the problem occasionally. The remaining one-eighth of the enterprises are reported to have been facing the problem of working capital shortage frequently. Shortage of working capital means shortage of cash and inventories. Shortage of cash results in borrowing at higher rates of interest and/or delayed payments to creditors, whereas shortage of inventories results in disruption to production.

(i) Sources of Working Capital

A majority of the selected small scale enterprises (64.21 per cent) use both internal and external sources of working capital.

(j) Bases for Bank Finance

Both ‘quality of the proposal’ and ‘financial strength’ are considered by the banks while providing finance to the small scale enterprises. Among them ‘financial strength’ of the enterprise seems to be more considered by the banks. A majority of the entrepreneurs of engineering, mineral-based, agro-based, plastic and chemical enterprises, and a considerable number of the entrepreneurs of mineral-based and miscellaneous enterprises are of the opinion that banks give loans on the basis of ‘financial strength’

(k) Forms of Bank Loans

A majority of the selected small scale enterprises, irrespective of industry, get bank credit by hypothecating or pledging the inventories.
(i) Operating Performance of the Selected Small Scale Enterprises

The working results of the selected small scale enterprises show that during the period under consideration:

- the sales increased by five per cent, cost of sales increased by 4 per cent and operating profits increased by 27 per cent.
- as a percentage on sales, cost of sales varied from 92.24 per cent to 94.92 per cent.
- as a percentage on sale, operating profit varied from 5.08 to 7.76.

(i) Operating performance of the selected small scale **engineering enterprises** show that during the period:

- Sales and cost of sales are show an increasing trend, whereas operating profits show a decreasing trend.
- As a per cent on sales, cost of sales varied between 94.88 and 98.18 whereas operating profits varied between 1.82 and 5.12.

(ii) Operating performance of the selected small scale **mineral-based enterprises** shows that during the period:

- Sales, cost of sales, and operating profits are showing a decreasing trend.
- As a per cent on sales, cost of sales varied between 94.54 and 97.45 whereas operating profits varied between 2.55 and 5.46.

(iii) Operating performance of the selected small scale **agro-based enterprises** shows that during the period:

- Sales, cost of sales and operating profits are showing an increasing trend.
- As a per cent on sales, cost of sales varied between 94.90 and 98.83 whereas operating profits varied between 1.17 and 5.10.

(iv) Operating performance of the selected small scale **plastic enterprises** shows that during the period:

- Sales and cost of sales are showing an increasing trend, whereas operating profits are showing a decreasing trend.
• As a per cent on sales, cost of sales varied from 84.18 to 96.78, whereas operating profits varied from 3.22 to 15.82.

(v) Operating performance of the selected small scale chemical enterprises shows that during the period:
• Sales, cost of sales and operating profits are showing an increasing trend.
• As a per cent on sales, cost of sales varied from 75.50 to 78.35, whereas operating profits varied from 21.65 and 24.5.

(vi) Operating performance of the selected small scale miscellaneous enterprises shows that during the period:
• Sales, cost of sales, and operating profits in the selected small scale enterprises depict a rising trend.
• Cost of sales has varied from 78.57 per cent of the sales to 86.90 per cent of the sales, whereas operating profits have varied from 13.10 per cent of sales to 21.43 per cent of sales.

Note:
• If the sales increase, the proportion of cost of capital remaining constant, working capital requirement would be high.
• If the proportion of cost of sales increases total sales remaining constant working capital requirement increases and vice versa.
• If the operating profit increases working capital required to be procured from other sources will decreases and vice versa.

(m) Working Capital Structure in the Selected Small Scale Enterprises

Working capital comprises of both current assets and current liabilities. The components of current assets in the sample small scale enterprises include inventory, short term investments, trade debtors, cash and bank balances and others such as advance payments to suppliers and prepaid expenses. The current liabilities constitute short term bank loans, non-bank loans, trade creditors and others like outstanding wages and salaries, taxes, and advances from customers.
- **Current assets** consist of Inventory (Average 39.23 per cent), short term investments (Average 4.34 per cent), trade debtors (Average 23.56 per cent), cash and bank balances (Average 2.05 per cent), and others (Average 10.06 per cent). Total current assets vary from 77.34 per cent to 80.75 per cent (Average 79.24 per cent) of the total assets.

- **Current Liabilities** consist of bank loans (Average 24.84 per cent), non-bank loans (Average 8.61 per cent), trade creditors (Average 22.04 per cent), and others (Average 3.31 per cent). Total current liabilities vary from 54.93 per cent to 61.00 per cent (Average 58.81 per cent) of the total liabilities.

- **Net working capital** varies from 16.45 per cent to 25.82 per cent. (Average 20.44 per cent)

(i) Working capital structure in the selected small scale **engineering enterprises**

- **Current assets** consist of inventory (Average 50.74 per cent), short term investments (Average 5.13 per cent), trade debtors (Average 28.22 per cent), cash and bank balances (Average 0.53 per cent), and others (Average 4.11 per cent). Total current assets vary from 88.62 per cent to 90.37 per cent (Average 88.75 per cent).

- **Current Liabilities** consist of bank loans (Average 32.59 per cent), non-bank loans (Average 1.50 per cent), trade creditors (Average 27.56 per cent), and others (Average 4.76 per cent). Total current liabilities vary from 62.65 per cent to 69.35 per cent. (Average 66.43 per cent)

- Net working capital varies from 19.80 per cent to 25.97 per cent. (Average 22.33 per cent)

(ii) Working Capital Structure in the Selected Small Scale Mineral-Based Enterprises

- **Current assets** consist of Inventory (Average 47.71 per cent), short term investments (Average 5.22 per cent), trade debtors (Average 26.65 per cent), cash and bank balances (Average 0.27 per cent), and others (Average 1.56 per cent). Total current assets vary from 76.72 per cent to 83.20 per cent. (Average 81.47 per cent)
• **Current Liabilities** consist of bank loans (Average 35.39 per cent), trade creditors (Average 21.96 per cent), and others (Average 4.67 per cent). Total current liabilities vary from 55.84 per cent to 68.76 per cent. (Average 62.02 per cent)

• **Net working capital** varies from 14.41 per cent to 25.10 per cent. (Average 19.45 per cent)

(iii) **Working Capital Structure in the Selected Small Scale Agro-Based Enterprises**

• **Current assets** consist of Inventory (Average 52.64 per cent), short term investments (Average 5.17 per cent), trade debtors (Average 29.04 per cent), cash and bank balances (Average 0.67 per cent), and others (Average 5.93 per cent). Total current assets vary from 90.00 per cent to 95.82 per cent. (Average 93.46 per cent).  

• **Current Liabilities** consist of bank loans (Average 31.39 per cent), non-bank loans (Average 2.34 per cent), trade creditors (Average 30.44 per cent), and others (Average 4.93 per cent). Total current liabilities vary from 64.74 per cent to 74.69 per cent. (Average 69.11 per cent)

• **Net working capital** varies from 19.14 per cent to 29.71 per cent. (Average 24.35 per cent)

(iv) **Working Capital Structure in the Selected Small Scale Plastic Enterprises**

• **Current assets** consist of inventory (Average 23.88 per cent), short term investments (Average 3.14 per cent), trade debtors (Average 16.36 per cent), cash and bank balances (Average 2.96 per cent), and others (Average 13.64 per cent). Total current assets vary from 51.70 per cent to 65.03 per cent. (Average 60.45 per cent)

• **Current Liabilities** consist of bank loans (Average 13.99 per cent), non-bank loans (Average 13.67 per cent), trade creditors (Average 15.72 per cent), and others (Average 1.81 per cent). Total current liabilities vary from 38.78 per cent to 47.96 per cent. (Average 45.18 per cent)

• **Net working capital** varies from 5.6 per cent to 25.16 per cent. (Average 15.27 per cent)
(v) Working Capital Structure in the Selected Small Scale Chemical Enterprises

- **Current assets** consist of Inventory (Average 59.16 per cent), short term investments (Average 2.75 per cent), trade debtors (Average 5.57 per cent), cash and bank balances (Average 2.67 per cent), and others (Average 5.63 per cent). Total current assets vary from 73.81 per cent to 79.48 per cent. (Average 75.79 per cent)

- **Current Liabilities** consist of bank loans (Average 17.28 per cent), non-bank loans (Average 14.81 per cent), trade creditors (Average 12.98 per cent), and others (Average 1.73 per cent). Total current liabilities vary from 41.84 per cent to 48.69 per cent. (Average 46.80 per cent)

- **Net working capital** varies from 25.12 per cent to 32.11 per cent. (Average 28.99 per cent)

(vi) Working Capital Structure in the Selected Small Scale Miscellaneous Enterprises

- **Current assets** consist of Inventory (Average 22.05 per cent), short term investments (Average 4.33 per cent), trade debtors (Average 26.38 per cent), cash and bank balances (Average 4.73 per cent), and others (Average 22.76 per cent). Total current assets (Average 80.23 per cent).

- **Current Liabilities** consist of bank loans (Average 21.05 per cent), non-bank loans (Average 19.12 per cent), trade creditors (Average 18.41 per cent), and others (Average 1.94 per cent). Total current liabilities (Average 60.52 per cent).

- **Net working capital** varies from 16.91 per cent to 24.60 per cent. (Average 19.70 per cent)

(n) Size of Working Capital Finance

An enterprise should expand and strengthen its working capital base on par with the expansion in the operational activity. The working capital of the selected small scale enterprises has shown a slow but steady increase over the years. The working capital of the selected small scale enterprises has increased by 67.25 per cent during the six years period. Industry-wise analysis shows that, during the six-year period working capital of the selected small scale engineering enterprises has
increased by 36.92 per cent, agro-based enterprises by 95.10 per cent, plastic enterprises by 37.7 per cent, chemical enterprises by 14.29 per cent, and miscellaneous enterprises by 59.56 per cent. The expansion in working capital base in agro-based and plastic enterprises is far more than in all the selected small scale enterprises. These industrial enterprises might have expanded their business activities and might have enlarged their working capital base to meet their increased operational needs.

Net working capital of the selected plastic, agro-based, mineral-based and engineering small scale enterprises is showing a definite increasing trend during the period 2001-06. Net working capital of miscellaneous and chemical small scale enterprises is almost the same and is not showing any definite trend.

8.14 Cash Management in the Selected Small Scale Enterprises

On the basis of the analysis given in chapter 5 the following conclusions can be arrived at.

(a) Causes for Keeping Cash

A majority of the selected small scale enterprises irrespective of the type of industry keep cash ‘to meet daily obligations’ (60.00 per cent). Hence it can be taken as the most important reason for small scale enterprises to keep cash. It is followed by ‘to take advantage of favourable market conditions’ (14.74 per cent), ‘to meet the contingencies’ (8.42 per cent), and ‘to secure cash discount from the suppliers’ (5.26 per cent) in that descending order. Some of them (11.58 per cent) do not have clarity regarding the reason for maintenance of cash is concerned.

(b) Review of Cash Position

Irrespective of the type of the industry a majority of the selected small scale enterprises review the cash position daily. The next popular practice among the selected small scale enterprises is to review cash position weekly once. Some of the small scale enterprises also follow the practice of reviewing cash position monthly once.
(c) Methods Followed for Determining Minimum Cash Balance

Determining the minimum cash balance required ‘as a percentage on wages and purchases bill’ appears to be the most popular method among the selected small scale enterprises. It is followed by ‘fixed sum method’, as a ‘percentage on production budget method’, and as a ‘percentage on total investment method’. It is noteworthy that none of the agro-based, plastic and chemical enterprises follow the fixed sum and percentage on total investment methods for determining the minimum cash balance required.

(d) Ways and Means to Overcome Shortage of Cash

‘Raising cash from non-banking sources’ is the most popular method of overcoming the problem of insufficiency of cash, in the selected small scale enterprises. It is followed by ‘utilizing the bank credit line’ (22.11 per cent), ‘liquidating the marketable securities’ (15.79 per cent), and ‘delaying the payments’ (14.73 per cent). In spite of the development of the organized financial markets unorganized sector sources like friends, relatives, money lenders, private financial institutions, and pawn brokers form an important source for raising short term resources in the small scale sector. Raising finance from these sources results in a number of problems to the small scale entrepreneurs.

(e) Liquidity Position in the Selected Small Scale Enterprises

For every enterprise liquidity is important for meeting the day to day expenses and short term obligations. Many respondents (92.63 per cent) opine that their enterprises have enough of liquidity. The remaining 7.37 per cent of the respondents opine that they do not have enough of liquidity. Industry-wise analysis shows that irrespective of the type of industry, respondents of many enterprises are of the opinion that they maintain enough of liquidity. The remaining respondents also should try to maintain enough of liquidity in their enterprises.

(f) Assessment of Liquidity of Funds

About 15 per cent of the enterprises have reported to be using cash flow analysis to evaluate liquidity position, 9.47 per cent of the enterprises are using ratio analysis and 12.63 per cent of the enterprises are using other methods for assessing the liquidity position. It is noteworthy that most of the small scale enterprises (63.16
per cent) are not using any systematic method for assessing liquidity position. Industry-wise analysis further confirms it.

(g) Methods of Utilising the Excess Cash

Proper use of excess cash by the enterprises is also necessary for maximizing profits or for minimizing losses. Enquiry reveals that ‘paying short and long term liabilities’ is the most common purpose for which small scale enterprises generally use the excess cash if any. ‘Investment in the associates’ is the second most popular purpose for which the excess cash if any is used by the small scale enterprises. It is followed by ‘purchasing marketable securities’.

(h) Methods of Raising Short Term Loans

‘Cash credit’ is the most popular method of raising short term loans. It is followed by receiving ‘unsecured loans’, receiving ‘secured loans’, and availing ‘overdraft’ facility in that order.

(i) Short Term Investments Made by the Selected Small Scale Enterprises

Average size of short term investments in the selected small scale enterprises is Rs. 27.31 thousand. During the period concerned short-term investments are showing an increasing trend. Industry-wise analysis reveals that the size of short term investments in agro-based, plastic and miscellaneous enterprises are on higher side whereas they are on lower side in engineering, mineral-based and chemical enterprises.

(j) Size of Cash

The rule is that as sales increase cash also increases but at a decreasing rate. Hence the sales position, in the selected small scale enterprises, has been studied. The results show that sales of the selected small scale engineering, agro-based, plastic, chemical and miscellaneous enterprises show an increasing trend, whereas sales of mineral-based enterprises show a decreasing trend.

Cash balances in the selected small scale enterprises show an increasing trend. Industry-wise analysis shows that cash balances in the selected small scale engineering, mineral-based, agro-based, plastic and chemical enterprises show an
increasing trend, whereas cash balances in the miscellaneous enterprises show a decreasing trend.

Coefficients of correlation show existence of a positive correlation between sales and cash balances in engineering, agro-based, plastic and chemical small scale enterprises and a negative correlation between sales and cash balances in mineral and miscellaneous small scale enterprises.

In the selected small scale enterprises cash balance as percentage on sales in different years vary from 1.33 to 2.63. Industry-wise analysis shows that cash balances as a per cent on sales vary:

- from 0.04 to 1.61 in engineering enterprises,
- from 0.04 to 1.24 in mineral-based enterprises,
- from 0.03 to 2.32 in agro-based enterprises,
- from 1.28 to 2.96 in plastic enterprises,
- from 0.61 to 5.24 in chemical enterprises, and
- from 2.89 to 9.91 in miscellaneous enterprises.

Trend values show an increasing trend in the cash balance in engineering, mineral-based, agro-based, and chemical enterprises; whereas in plastic and miscellaneous enterprises they show a decreasing trend. On the whole cash balances as percentages on sales show an increasing trend.

(k) Current Ratio

In all the industry groups’ current ratio is less than the ideal current ratio 2:1. That means liquidity position in all the industry groups theoretically is not satisfactory. In engineering and plastic enterprises the current ratios are showing a definite increasing trend, whereas in chemical enterprises current ratios during the six years period are showing curvilinear trend. In the beginning and at the end they are high and in the middle they are low. In other industry groups they are showing a mixed trend. An inter-industry comparison shows that liquidity position in chemical industry is better than the other industries. It points to the fact that liquid funds are not
tied up in current assets. By and large, technically speaking, the liquidity in the selected small scale enterprises is not satisfactory.

(l) Quick Ratio

In 2006 in plastic enterprises the calculated quick ratio (1:1) has just equaled the ideal quick ratio (1:1). In the same year in miscellaneous enterprises the calculated quick ratio (1.04:1) has exceeded the ideal quick ratio (1:1). Except those two in all the industry groups in all the years the calculated quick ratios are less than the ideal quick ratio (1:1). That means, irrespective of the industry, liquidity position in the selected small scale enterprises, is not satisfactory. In plastic enterprises the quick ratios are showing an increasing trend, whereas in other industry groups they are showing a mixed trend.

(m) Net cash flows to current liabilities

In the selected small scale enterprises the net cash flows to current liabilities vary from 13.10 per cent to 17.38 per cent. In plastic, chemical and miscellaneous enterprises the ‘ratio of net cash flows to current liabilities’ is on higher side, whereas in engineering, mineral-based and agro-based enterprises it is on lower side. Higher the ratio greater is the degree of liquidity and solvency of a firm and vice versa.

(n) Coverage of Current Liabilities

An increasing trend in the ratio of ‘coverage of current liabilities’ may be due to increased profit margins or increased turnover of current liabilities or both and vice versa. In spite of increasing trend in the ratio in many industry groups the situation is not satisfactory in all the industry groups with the exception of chemical industry. So it can be concluded that actual liquidity too is not up to the mark in the selected small scale enterprises.

(o) Operational Adequacy of Cash

Turnover of cash or cash in terms of number of days operational requirements in the small scale enterprises is considered to be very low.
(p) Cash to Current Assets Ratio

Cash balances maintained by the selected small scale enterprises in different years under the study are within the stipulated norms, inconsistent and do not show a definite trend. Inconsistency in the maintenance of cash balances points towards poor planning and control over cash flows. Six-year average percentage of cash to total current assets is the lowest (0.35) in the mineral-based enterprises and the highest (5.90) in the miscellaneous enterprises. Six-year average percentages of cash to total current assets in engineering, mineral-based, and agro-based enterprises are lower than the six-year average of all the selected small scale enterprises, whereas it is higher in plastic, chemical and miscellaneous enterprises.

(q) Cash to Sales Ratio

The ratio of cash to sales has been computed in order to assess the control of cash flows. The percentage of cash to sales in the selected small scale enterprises in different years vary from 1.32 to 2.62. Six-year average percentage of cash to sales is the lowest (0.24) in the mineral-based enterprises and the highest (6.79) in the miscellaneous enterprises. Six-year average percentages of cash to sales in engineering, mineral-based, and agro-based enterprises are lower than the six-year average of all the selected small scale enterprises, whereas it is higher in plastic, chemical and miscellaneous enterprises.

(r) Cash Turnover in Sales Ratio

The ‘ratio of cash turnover in sales’ in the selected small scale enterprises in different years do not show a definite trend. Five-year average ratio of cash turnover to sales in the selected small scale enterprises is the lowest (14.63) in the miscellaneous enterprises and the highest (2254.52) in the agro-based enterprises. Five-year average of ratios of cash turnover to sales in engineering, mineral-based, agro-based and chemical enterprises are higher than the five-year average of all the selected small scale enterprises, whereas it is lower in plastic and miscellaneous enterprises. Cash turnover in sales ratios in engineering, agro-based, plastic, chemical, and miscellaneous enterprises show a declining trend, whereas cash turnover in sales ratios of mineral-based enterprises show an increasing trend.
8.15 Receivables Management in the Selected Small Scale Enterprises

On the basis of the analysis given in chapter 6 the following conclusions can be drawn.

(a) Method of Sales

A majority of the selected small scale enterprises follow the practice of selling their end-products both for cash and on credit. It is also evident that a large number of small scale enterprises adopt credit sales as a motivating variable for effecting sales. Other noteworthy point in the analysis is none of the engineering enterprises follow the practice of selling their goods and services on cash basis only and 50.00 per cent of the engineering enterprises follow the practice of selling goods and services on credit basis only. The reason for this is some of the engineering enterprises surveyed are ancillaries to Wipro Company. They receive raw materials from ‘Wipro’ and supply their products to ‘Wipro’ on credit basis.

(b) Forms of Credit Sales

The forms of credit sales in the selected small scale enterprises are of two types, one is debtors or bills receivables, and the other is open account system. Forty per cent of the selected small scale enterprises provide credit in the form of debtors/receivables, 18.95 per cent of the selected small scale enterprises provide open account form of credit, and the remaining 26.32 per cent of the selected small scale enterprises provide credit both in the form of ‘debtors/bills receivables and open account’. Industry-wise analysis shows almost the same thing. The open account practiced in the selected small scale enterprises are of two types. In the first case, the party supplying raw material to the small scale enterprises, purchases back the product made out of the raw material. The arrangement is on ongoing basis. The account settlement period depends upon mutual understanding of the parties concerned. In the second case, two small scale enterprises in the same industrial area establish an open account arrangement for all their mutual exchanges. Both the types of methods are mostly seen in engineering enterprises located in Hindupur Industrial Estate.
(c) Reasons for Credit Sales

About twenty seven per cent of the selected small scale enterprises provide credit because of market tradition, 18.95 per cent of the selected small scale enterprises provide credit as a sales promotion measure, 28.42 per cent of the selected small scale enterprises provide credit to concede the demand from friends, and the remaining 10.53 per cent of the selected small scale enterprises allow credit to accommodate special customers. Industry-wise analysis shows that a majority of the engineering (65.63 per cent) and plastic (50.00 per cent) enterprises allow credit because of ‘market tradition’, a majority of the mineral-based enterprises (68.00 per cent) treat credit as a ‘sales promotion’ measure and a considerable percentage of the mineral-based (44.00 per cent) and miscellaneous (47.06 per cent) enterprises provide credit to concede the ‘request of the friends’.

(d) Duration of Credit

Twenty per cent of the selected small scale enterprises provide one week credit, 33.68 per cent of the selected small scale enterprises provide credit up to three weeks, 23.16 per cent of the selected small scale enterprises provide credit up to five weeks, 8.42 per cent of the selected small scale enterprises provide more than five weeks credit. That is a majority (53.68 per cent) of the selected small scale enterprises provide less than three weeks credit. Industry-wise analysis also does not present a different picture. The period of time for which credit extended would usually be short in SSE sector. Limited access to liquid funds may be the reason for this.

(e) Evaluation of Credit Worthiness of the Customers

The selected small scale enterprises evaluate credit worthiness of the customers on the basis of ‘past experience’ (55.79 per cent), on the basis of ‘opinions collected from friends and relatives’ (14.74 per cent), on the basis of ‘public enquiry’ (12.63 per cent), on the basis of the opinions expressed by the ‘sales representatives’ (9.47 per cent), and on the basis of ‘bank reference’ (7.37 per cent). Industry-wise analysis shows that a majority of the engineering, plastic and miscellaneous enterprises evaluate the creditworthiness of the customers on the basis of ‘past experience’, a considerable number of miscellaneous enterprises follow the method of assessing the credit worthiness of the customers on the basis of the opinions collected from ‘friends and relatives’, a majority of the agro-based and chemical enterprises
follow the method of evaluating the credit worthiness of the customers on the basis of the ‘reports of the sales representatives’.

(f) Credit Policy

Irrespective of the type of the industry a great majority of the selected small scale enterprises (80 per cent) evolve an independent credit policy. They do not follow the same credit policy to all the customers. They offer credit to their customers on the basis of credit worthiness, past experience if any with them, customers’ value system and nature of business. The remaining 20 per cent per cent of the enterprises do follow the same credit policy to all the customers.

(g) Changing the Credit Policy

Many (75.79 per cent) of the selected small scale enterprises change the credit policy now and then, some others (16.84 per cent) change the policy frequently, and a few (7.37 per cent) never change the credit policy. Changing the credit policy frequently is not good, at the same time never changing the policy is also not good. Changing the policy ‘now and then’ depending upon the need and after giving a fair trail to the existing one is good.

(h) The Practice of allowing Cash Discounts to the Customers

A great majority of the selected small scale enterprises do not offer any cash discount to their customers. Oral enquiry reveals that, though the small scale enterprises offer cash discount, customers have not made use of this facility, either because of their ignorance or because of weak financial position.

(i) Method of Collection of Dues

Though both the methods – direct collection and collection through representatives - are used by the selected small scale enterprises, ‘direct collection from the customers’ method appears to more popular than the second method. A majority of the selected small scale enterprises (75.78 per cent) further say that they are able to collect overdue accounts also within two months.
(j) Action Taken against Defaulters

A majority of the selected small scale enterprises either do not prefer to go to court of law or sometimes prefer to go to court of law in case of default of any customer.

(k) Size of Investment in Debtors

In the selected small scale enterprises the size of investment in debtors varies from Rs. 119.2 thousand to Rs. 5017.9 thousand. The size of investment in trade debtors in engineering and mineral-based enterprises shows a decreasing trend whereas investment in debtors in agro-based, plastic, chemical and miscellaneous enterprises shows an increasing trend.

(l) Sales and Trade Debtors

In agro-based, plastic, chemical and miscellaneous enterprises both sales and debtors show a positive trend. In mineral-based enterprises both sales and debtors show a negative trend. In mineral-based, plastic, chemical and miscellaneous enterprises coefficients of correlation between sales and debtors are positive and significant.

(m) Ratio of Debtors to Sales

Trade debtors, as a per cent on sales, in the selected small scale enterprises vary from 16.26 to 21.50. Industry-wise analysis shows that the ‘trade debtors as a per cent on sales’ are very less in ‘chemical enterprises’ and very high in ‘miscellaneous enterprises’. The wide variations in the percentages show the existence of industry-wise differences in the small scale sector.

(n) Debtors as a Percentage on Current Assets

Trade debtors as a percentage on current assets, in the selected small scale enterprises, vary from industry to industry. In the chemical enterprises the percentage is low, and in the engineering, mineral-based, agro-based and miscellaneous enterprises these percentages are on higher side. In plastic enterprises trade debtors constitute less than 30 per cent of the current assets. Debtors formed the lowest percentage of current assets in chemical enterprises.
(o) Debtors Turnover Rate and Average Collection Period

Higher debtors’ turnover coupled with the quick collection of debtors enables a firm to transact larger volume of business without corresponding rise in the investment of debtors. Lower turnover and longer average collection period are indicators of liberal credit policy of a firm and thereby implying ineffective credit management. On the other hand, higher the turnover more effective and rewarding the investment made in debtors.

- In the selected small scale engineering enterprises
  - Debtors turnover varies from 3.8 to 5.8, and shows an increasing trend.
  - Debtors collection period varies from 63 to 96 days, and shows a decreasing trend.

- In the selected small scale mineral-based enterprises
  - Debtors turnover varies from 3.9 to 5.2, and shows an increasing trend.
  - Debtors collection period varies from 70 to 99 days, and shows a decreasing trend.

- In the selected small scale agro-based enterprises
  - Debtors turnover varies from 3.9 to 6.3, and shows an increasing trend.
  - Debtors collection period varies from 58 to 99 days, and shows a decreasing trend.

- In the selected small scale plastic enterprises
  Debtors turnover varies from 8.1 to 9.4, and shows a decreasing trend.
  Debtors collection period varies from 39 to 45 days, and shows an increasing trend.

- In the selected small scale chemical enterprises
  - Debtors turnover varies from 15.4 to 27.1, and shows a decreasing trend.
  - Debtors collection period varies from 13 to 24 days, and shows an increasing trend.

- In the selected small scale miscellaneous enterprises
  - Debtors turnover varies from 2.6 to 2.9, and shows an increasing trend.
  - Debtors collection period varies from 126 to 139 days, and shows a decreasing trend.

- In all the selected small scale enterprises put together
o Debtors turnover varies from 4.7 to 5.8, and shows an increasing trend.
o Debtors collection period varies from 63 to 78 days, and shows a decreasing trend.

Higher the debtors turnover rate better it will be. Increasing trend in debtors turnover rate is better than the decreasing rate. Less the debtors collection period better it will be. Decreasing trend in debtors collection period is better than increasing trend.

8.16 Inventory Management

On the basis of the analysis of the data relating to inventory management practices in the selected small scale enterprises, given in chapter 7 following conclusions can be drawn.

(a) Minimum Level of Raw Material Inventory

For determining minimum level of raw material inventory mainly three methods are used by the selected small scale enterprises. They are (i) on the basis of consumption during a fixed period, (ii) on the basis of consumption at the time of procurement, and (iii) on the basis of consumption during procurement period and safety stock. Though three methods are in use in the selected small scale enterprises the last two methods appear to be more popular than the first method. Industry-wise analysis shows that, one-half of the plastic enterprises determine the minimum levels of raw material inventories on the basis of ‘consumption for a fixed period of production’; a majority of the of the agro-based (55.56 per cent) and chemical (75.00 per cent) enterprises determine the minimum levels of raw material inventories on the basis of ‘consumption during procurement period’; and a considerable number of engineering (40.62 per cent), mineral-based (32.00 per cent), agro-based (44.44 per cent) and miscellaneous (47.06 per cent) enterprises follow the method of determining the minimum levels of raw material inventories on the basis of ‘consumption during procurement time & safety stock’.

(b) Maximum Level of Raw Material Inventory

The selected small scale enterprises determine the maximum level of raw material inventory on the basis of future plan for production (36.85 per cent), on the
basis of supply condition of material (29.47 per cent), on the basis of expected changes in the prices of raw materials (16.84 per cent), on the basis of availability of storage space (8.42 per cent), and other bases (8.42 per cent). Other bases include carrying cost etc. Industry-wise analysis shows that while deciding maximum levels of inventories 100 per cent of the chemical enterprises follow the ‘future plan for production’ method, 66.67 per cent of the agro-based enterprises take the supply condition of materials into account, and 62.50 per cent of the plastic enterprises take availability of storage space into consideration. Though the selected small scale enterprises use all the four methods, the methods, future plan for production and supply condition of material appear to be more popular than the other methods among the selected small scale enterprises.

(c) Review of Raw Material

Approximately three-fourths of the selected small scale enterprises review the inventory position either weekly or monthly once. Hence the practice among the selected small scale enterprises appears to be reviewing the inventory position either weekly or monthly once.

(d) Lead Time

All the selected small scale enterprises use only indigenous raw materials. As many as 47.37 per cent of the selected enterprises say that they get their supplies within a week, 42.11 per cent of enterprises say that they are able to get their supplies within a month, and more than one month time is required for getting the required raw materials in case of 10.52 per cent of the enterprises. Industry-wise analysis reveals that a majority of the engineering (71.88 per cent), agro-based (66.67 per cent), and chemical (100 per cent) enterprises get their supplies within a week; and a majority of mineral-based (56.00 per cent), plastic (50.00 per cent), and miscellaneous (64.71 per cent) enterprises get their supplies within a month.

(e) Ordering System

A majority (72.63 per cent) of the selected small scale enterprises (except engineering enterprises) follow the system of ordering for the raw materials as and when required. Unlike the others, a majority of the engineering enterprises (59.38 per cent) follow the fixed period system.
(f) Control over Raw Material Inventory

In a majority of the selected small scale enterprises owners themselves exercise control over the inventories.

(g) Reasons for Making Emergency Purchases

Unexpected demand for production is the important reason for acquisition of raw materials by the small scale enterprises on emergency basis.

(h) Norms for the Consumption of Raw Material

In a majority of engineering, agro-based and chemical enterprises norms for utilization of raw materials have been developed, whereas in a majority of mineral-based, plastic and miscellaneous enterprises norms have not been developed for utilization of raw materials.

(i) Controlling Techniques for Raw Material Consumption

A majority of the selected small scale enterprises (53.68 per cent) use ‘classification and codification’ for controlling the consumption of raw materials. Some of the enterprises use ‘variety reduction’ (21.06 per cent) and ‘ABC Analysis’ (12.63 per cent) for controlling the consumption of raw materials.

(j) Methods of Purchase of Raw Materials

Both cash and credit methods of purchase of raw materials are popular among the selected small scale enterprises.

(k) Methods of Credit Purchases

Both ‘open account’ and ‘trade bill acceptance’ methods are popular among the selected small scale enterprises. But ‘trade bill acceptance’ method is more popular.

(l) Credit Period Allowed by the Suppliers

To a majority of the selected small scale enterprises credit upto 30 days is available. Shorter credit period enhances the working capital requirements of the enterprises vice versa.
(m) Discount Facility

A majority of engineering enterprises are getting discount facility, whereas a majority of the mineral-based, agro-based and miscellaneous enterprises and all the chemical and plastic enterprises do not get discount facility from the suppliers.

(n) Penal Interest on the Overdue Accounts

A few (15.79 per cent) of the selected small scale enterprises (43.75 per cent of the engineering and 4 per cent of the mineral-based enterprises) say that there is the practice of charging penal interest on overdue accounts by the suppliers. Others say that there is no such practice of suppliers charging penal interest on the overdue accounts.

(o) Size of Inventory

Inventories in all the industry groups except mineral-based enterprises are showing a growing trend. The calculated trend value of agro-based small scale enterprises is the highest (8.1590). It is followed by plastic enterprises (6.2258), chemical enterprises (3.3218), engineering enterprises (3.2823), and Miscellaneous enterprises (2.4119). Mineral-based enterprises are showing a decreasing trend (-3.8725).

(p) Output – Inventory Relationship

- Average ratios of engineering, mineral-based, agro-based, chemical and miscellaneous enterprises have exceeded the average ratio of all small scale enterprises.
- Average ratio of plastic enterprises (2.71) is far less than the average ratios of all other small scale industry groups.
- Average ratio of chemical enterprises (8.20) is more than the average ratios of the other industry groups. That means inventories and related costs are relatively more in chemical enterprises.
- Calculated ratios of inventories in terms of month’s value of production figures show that the raw material inventories maintained by the selected small scale enterprises, except plastic enterprises are more than the norms mentioned by the Tariff Commission.
• All the industry groups have maintained inventories more than two months value of production. All the small scale enterprises, which maintain inventories more than two months' value of production are supposed to have been over stocking the raw materials.

(q) Inventory Turnover

Inventory turnover rate in the selected small scale enterprises is more than 2.32 times during the years of study (standard norm is eight times). It means that the selected small scale enterprises are overstocking the inventory. In none of the enterprises, the standard norm of eight times has been achieved. The plastic enterprises showed better inventory turnover when compared to other industrial enterprises. In engineering, mineral-based, agro-based and miscellaneous enterprises inventory turnover rates are more or less equal. In the chemical enterprises turnover rate is less than the all small scale enterprises rate in all the years of the study. It may be observed that the low turnover is due to poor merchandise, existence of stocks of un-salable goods, over-buying of raw materials and over-stocking of finished products in anticipation of hike in future price and sales volume.

(r) Structure of Inventory

In the selected small scale enterprises, the components of inventories are raw materials, work-in-process, finished goods and stores & spares. The data concerning the average structure of inventory in the selected small scale enterprises show that on average raw materials have constituted 17.8 per cent, work-in-process 49.3 per cent, finished goods 26.3 per cent and, stores & spares 6.6 per cent of the total inventory. Work-in-process formed a major component of aggregate inventory in the selected small scale enterprises. Individually, work-in-process constitutes more than 70 per cent of the total inventory in agro-based enterprises and 60-70 per cent in engineering and mineral-based enterprises. ‘Finished goods’ is the major component of inventories in chemical and miscellaneous enterprises. The proportion of stores and spares in the aggregate inventory is the lowest when compared to other items.
Approximately one-fifth of the inventory investment is in the form of raw materials. The percentage share of raw materials to total inventory is significant in plastic and miscellaneous enterprises.

The storage period, more or less, remained constant, may be because of stabilized raw material turnover. From the above information it may be inferred that in the selected mineral-based enterprises variations in the storage period are much and in the miscellaneous enterprises storage period is unusually longer than the other industry groups of enterprises. In the engineering, mineral-based, and chemical enterprises storage period is less than the storage period in ‘all the small scale enterprises’ put together. In engineering, mineral-based, and agro-based enterprises storage period is showing a decreasing trend.

Inventory turnover is high in mineral-based, chemical, engineering and agro-based enterprises. In plastic and miscellaneous enterprises turnover appears to be poor. Especially in miscellaneous enterprises turnover rates are very low when compared to the other industry groups.

Approximately one-half of the inventory investment is in the form of work-in-process. The percentage share of work-in-process to total inventory has exceeded 60 per cent in engineering, mineral-based and agro-based enterprises. Work-in-process, as a percentage on total inventory, is on the lower side in plastic and chemical enterprises, and is very less in the miscellaneous enterprises. Increase in the work-in-process during a year or in an industry can be attributed to increased capacity utilization.

The conversion period is on higher side in engineering (114 days), mineral-based (114.2 days), and in agro-based (116.8 days) enterprises. On the other hand conversion period is on lower side in plastic (16.6 days), chemical (57.2 days) and miscellaneous (6.2 days) enterprises. In engineering, agro-based, plastic, and miscellaneous enterprises the conversion period is showing a decreasing trend.

Work-in-process inventory turnover is on higher side in plastic (21.9 times), chemical (6.4 times), and miscellaneous (59.66 times) enterprises. In engineering
(3.22 times), mineral (3.5 times) and agro-based (3.2 times) enterprises work-in-process inventory turnover rates are on lower side. More the turnover lesser the investment required, consequently lesser the inventory costs and higher the profits and vice versa.

Approximately one-fourth of the inventory investment is in the form of finished goods. The percentage share of finished goods to total inventory has exceeded 70 per cent in chemical enterprises, around 50 per cent in miscellaneous enterprises, and around one-third in plastic enterprises. ‘Finished goods inventory’, as a percentage on total inventory, is on the lower side in agro-based and engineering enterprises. Increase in the finished goods during a year or in an industry can be attributed to delay in promoting sales. In engineering, mineral-based and miscellaneous enterprises finished goods inventories are showing a decreasing trend.

The storage period is on higher side in chemical (186 days), miscellaneous (67.6 days) and mineral-based (38 days) enterprises. On the other hand storage period is on lower side in plastic (23.4 days), engineering (21.8 days) and agro-based (11.6 days) enterprises. In engineering, mineral-based, agro-based and miscellaneous enterprises the storage period is showing a decreasing trend. Longer the storage period higher is the investment in the finished goods inventory and vice versa.

Finished goods inventory turnover is on higher side in agro-based (32.38 times), engineering (20.26 times), plastic (15.78 times), and mineral-based (12.62 times) enterprises. In chemical (1.98 times), and miscellaneous (5.44 times) enterprises finished goods inventory turnover rates are on lower side. More the turnover lesser the investment required, consequently lesser the inventory costs and higher the profits and vice versa.

Approximately $\frac{1}{15}$ of the inventory investment is in the form of stores and spares in the selected small scale enterprises. The percentage share of stores and spares to total inventory has exceeded all SSEs’ average in engineering, mineral-based and agro-based enterprises. It is highest in mineral-based enterprises. This percentage is lower than the all industry average in chemical, plastic and
miscellaneous enterprises. It is the lowest in chemical enterprises. In all the industry
groups, (except in mineral-based enterprises) investment in ‘stores and spares’, both
in absolute and percentage terms, is showing an increasing trend.

The storage period of stores and spares is on higher side in agro-based (141
days), plastic (156.8 days) and in miscellaneous (203.8 days) enterprises. On the other
hand storage period of stores and spares is on lower side in engineering (95 days),
mineral-based (54.8 days) and chemical (57.8 days) enterprises. Except in plastic
enterprises in all the selected small scale enterprises the storage period of stores and
spares is showing an increasing trend.

Stores and spares inventory turnover is on higher side in engineering (5.28
times), mineral-based (8.68 times), and chemical (6.36 times) enterprises. In agro-
based (3.46 times), plastic (2.4 times) and miscellaneous (1.8 times) enterprises stores
and spares inventory turnover rates are on lower side. More the turnover lesser the
investment required, consequently lesser the inventory costs and higher the profits and
vice versa.

(s) Profitability in terms of capital employed

In chemical and miscellaneous enterprises ROCs are higher than the all
industry ROCs. In all the industry groups, except mineral-based enterprises, ROC is
showing an increasing trend. The increasing performance is a positive sign of
strengthening the working capital base.

(t) Operating Profit to Sales Ratio in the Selected Small Scale Enterprises

Operating profit to sales ratios are on higher side in chemical (23.23 per cent)
and miscellaneous (17.34 per cent) enterprises. On the other hand operating profit to
sales ratios are on lower side in engineering (3.59 per cent), mineral-based (3.40 per
cent), agro-based (3.68 per cent) and plastic (5.11 per cent) enterprises. In all the
industry groups, except mineral-based enterprises, operating profit to sales ratios are
showing an increasing trend. The erratic behaviour of the ratio implies the failure of
the small scale enterprises in controlling the operating expenses and also an
inconsistency in the pricing policy pursued. Enterprises with low operating profits
find it difficult to adjust themselves with their working capital requirements.
Returns on owners' investments are on higher side in chemical (58.57 per cent) and miscellaneous (28.56 per cent) enterprises. On the other hand returns on owners' investments are on lower side in engineering (10.54 per cent), mineral-based (5.97 per cent), agro-based (15.68 per cent) and plastic (11.20 per cent) enterprises. In engineering, agro-based, plastic and miscellaneous enterprises return on owners' investment is showing an increasing trend. In mineral-based and chemical enterprises return on owners' investment is showing a decreasing trend.

8.17 Suggestions

On the basis of the conclusions drawn following suggestions can be made.

(a) In many of the small scale enterprises finances are managed by the owners themselves. Reason may be anything. It doesn't mean that they are professionals or financial experts. That is why training should be given to the entrepreneurs in financial management on a continuous basis. For the purpose of avoiding sickness due to financial problem this is necessary. To encourage the entrepreneurs to undergo training in the management of finances, training received by him may be given weightage at the time of providing finance by the banks and other financial institutions. Whenever possible the small scale enterprises are advised to appoint a qualified person to look after financial function and to give appropriate status to him. What is necessary here is 'professionalism'.

(b) It is better if a separate stores section is maintained and if a separate trained store keeper is appointed.

(c) Many entrepreneurs manage their enterprises themselves. Hence the entrepreneur/managers or owner/managers have to be identified and should be given training.

(d) Systematic methods have to be used for estimating the capital requirements.

(e) Small scale enterprises can make use of the services provided by the DICs concerned while preparing capital expenditure proposals.

(f) Small scale enterprises should use proper techniques for evaluating investment proposals and should follow proper procedure for purchasing fixed assets. All the three aspects - cost, quality and rate of return - are to be taken into account while investing in the fixed assets.
‘Money lenders’, ‘friends and relatives’, ‘trade creditors’ and ‘deposits from customers’ are traditional and unorganized sources of finance. It is not advisable to depend on unorganized sources of finance.

Plastic and miscellaneous enterprises have to create and maintain reserves and surpluses.

Industry standards are to be taken into account while deciding the ratio between internal and external sources of capital and between one item and another item. It seems in the small scale sector industry-wise standards relating to composition of different internal and external sources of capital are not available. Industry-wise studies are to be conducted and standards relating to mix and composition of internal and external sources of capital are to be decided by appropriate authorities or leaders of the industry and circulated among the entrepreneurs for the purpose of guidance.

Systematic methods are to be used for the purposes of determining working capital requirements. Entrepreneurs/managers are to be educated or trained in using different methods of determining working capital requirements.

Many entrepreneurs do not know about the existence of SIDBI. Awareness regarding the existence of SIDBI should be created among the entrepreneurs.

All the small scale enterprises have to use systematic methods for assessing the performance of the working capital.

Small scale enterprises should also use proper methods for exercising controlling working capital.

Small scale enterprises should take all the steps to avoid the problem of shortage of working capital. Enterprises facing the problem of shortage of working capital should systematically study the reasons for continued shortage of working capital and should find out the remedial measures. Somehow they have to improve the working capital position.

Some of the entrepreneurs may have good ideas and workable solutions for productive purposes but may not have enough of financial strength. So to encourage such budding entrepreneurs with meaningful proposals finance should be provided by the banks on the basis of quality of the proposal but not on the basis of financial strength of the enterprise or entrepreneur.

All the small scale enterprises should use systematic methods for assessing liquidity position. Entrepreneurs should use systematic methods for assessing
liquidity position. If they are not aware of the use of systematic methods they should be given training in using the systematic measures for assessing liquidity position.

(q) Dependence on the unorganized financial sector sources in case of shortage of liquid funds should be minimized. The surplus cash if any should be used purposefully without keeping it idle.

(r) Liquidity position in all the small scale enterprises is not satisfactory. So they have to improve liquidity position.

(s) Planning for and control over cash flows should be increased, inconsistencies should be avoided and adequacy of cash should be ensured.

(t) Small enterprise and individual credit rating should be taken up by an independent organization in the country just like in some developed countries to facilitate getting and granting of credit to the customers.

(u) Different ratios relating to debtors, debtors turnover rates and debtors collection period should be calculated and studied by the managements of the small scale enterprises for the purpose of improving receivables management.

(v) Systematic methods should be used for deciding minimum, maximum, reordering and danger levels for different inventory items. Proper norms and procedures should be developed for ensuring proper inventory management.

(w) Norms for the consumption of raw materials should be developed for the purpose of ensuring control over utilization of raw materials.

(x) Different ratios, averages and turnover rates, storage period etc. relating to different inventory items should be calculated and carefully studied for further improving inventory management in the small scale enterprises.

(y) Overstocking of inventories should be avoided.

(z) Storage and conversion periods should be kept at minimum to avoid cost overruns.

(aa) Associations of small scale entrepreneurs should try to educate the small business entrepreneurs, collect and disseminate latest information relating to small enterprise management and clarify the doubts raised by different entrepreneurs through internet both in English and in vernacular languages. They have to create and circulate electronic news letters.
8.18 Testing the Hypotheses

The present study is based on the following hypotheses.

**Hypothesis 1**

In many of the small scale enterprises finance function is looked after by the owners themselves and no separate Finance Department exists.

This hypothesis has been proved correct because in many selected small scale enterprises there are no separate finance departments. Only six enterprises (6.32 per cent) have separate finance departments with finance managers, in only nine enterprises (9.47 per cent) finance function is looked after by others i.e., a paid employee but there is no separate finance department, in other enterprises finance function is looked after by the owners themselves. No separate finance manager is appointed. There is no professionalism. In many of the selected small scale enterprises owners themselves look after the finance function and many of the entrepreneurs are not well educated.

**Hypothesis 2**

Systematic financial management methods and techniques are not used in many of the small scale enterprises.

Basically there are three methods on the basis of which the selected small scale enterprises estimate their capital requirements. They are estimating capital requirements on the basis of production, on the basis of turnover and on the basis of demand. Relatively more number of the selected small scale enterprises estimate their capital requirements on the basis of demand. It is followed by estimating the capital requirement on basis of production (28.42 per cent) and estimating on the basis of turnover (28.42 per cent).

This hypothesis also has been proved correct beyond doubt because in many of the cases systematic financial management methods and techniques are not used.

**Hypothesis 3**

Small scale enterprises depend more on external sources of finance.
In the selected small scale enterprises total external resources constitute approximately 70 per cent of the total resources. Because of this it can be said that small scale enterprises depend more on external sources of finance.

**Hypothesis 4**

Small scale enterprises have been marked with relatively a higher share of investment in current assets than investment in fixed assets.

Current assets vary from 77.34 per cent to 80.75 per cent (with an average of 79.24 per cent) of the total assets. Hence it can be said that small scale enterprises are marked with relatively a higher share of investment in current assets than investment in fixed assets.

**Hypothesis 5**

Small scale enterprises are characterized by low current ratios despite large investment in current assets.

In all the industry groups current ratio is less than the ideal current ratio 2:1. That means liquidity position in all the industry groups theoretically is not satisfactory.

**Hypothesis 6**

Small scale enterprises maintain large inventory holdings leading to liquidity crisis.

This hypothesis also has been proved because the research results show that there is overstocking of inventories.

**8.19 Areas for Further Research**

There is lot of scope for further research on the subject. Area covered, aspects to be covered, and period to be covered can be increased/widened/enlarged for the purpose of better understanding the problem concerned in the small scale enterprises. Because of the revision of the definition many enterprises with greater financial strength come under the purview of the definition of small scale enterprise. Further systematic and comprehensive research can be conducted for the purpose of
crystallizing the ideas on the subject and theorizing the financial management in small scale enterprises. Such a step will certainly be useful to small scale enterprises.

8.20 Conclusion

This is only a beginning but not the end. The aspects covered and surveyed have to be taken into consideration and further research has to be carried on. For many finance related problems of small scale enterprises entrepreneurial education is the panacea.