CHAPTER V

FINDINGS AND SUGGESTIONS
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(1) Forty seven per cent of the selected units have centralization of accounting and book keeping system and remaining 53 per cent were having decentralization.

(2) A large majority of the entrepreneurs risk themselves taking finance decision by themselves. This also shows a lack of consulting service in the area.

(3) Among the selected units only 28 per cent were found to have a correct concept of working capital components. The position regarding conceptual clarity about working capital in the selected units was found to be highly non-satisfactory. Steps may be taken to encourage the use of standard accounting classification regarding components of working capital, through educational process in the form of extension work and/or management development programme in this area for S.S.I. Units.

(4) Ninety one point five per cent of the selected units were found to have total centralization of working capital management authority with proprietors and partners. Remaining 8.5 per cent of the selected units delegated this authority to a very limited extent to their managers and accounts. The main reason stated for centralization of this
function is not financial but the need to maintain secrecy, which is very high even in case of big business units. This state of affairs cannot be objected to in case of S.S.I. Units. Besides this there is the practice of considering from the standpoint of confidentiality and serious nature of responsibility which may well justify this type of situation.

(5) Fifty nine per cent of the selected units were found to assess working capital requirement on the basis of cash flow statement only, and cash flow and funds flow methods. About 20 per cent of the units use other tools to assess working capital requirements, whereas 21 per cent of the selected units were not determining their working capital requirements.

It is suggested that the S.S.I. units may be encouraged to learn modern tools and techniques for systematic assessment of working capital requirement. Extension or deputation or on-job-education (training) programmes for the proprietors or the person in charge of working capital management, may be designed for this purpose.

(6) Periodic review of working capital position was found to be done by 70 per cent of the selected units. Thirty four per cent of the units were found doing this review
at least once a month. This shows a moderate degree of vigilance in the matter of proper control and utilization of working capital in the selected units. However, the period of review varied very widely and it depended on resource availability and degree of pressure for additional funds. It is suggested that systematic forecasting, planning and control techniques be adopted for better management of the working capital.

(7) Ninety four per cent of the selected units control the working capital. The control aspect received greater attention in the selected units. It is a very good trend and entrepreneurs should be encouraged in this practice. It is suggested that the planning aspect should be brought to the attention of the entrepreneurs in S.S.I. Units.

(8) Strategies adopted to meet the working capital shortage by the selected units do not appear to be logical and convincing. Only 18 per cent of the selected units stated that production will be allowed to be disturbed but they will not borrow at higher rates of interest. Another 12 per cent of the selected units stated that they will borrow at higher rates of interest but production will not be allowed to be disturbed. 47 per cent of the selected units stated that they will delay in making payments to the suppliers. However, it has not been
duly realised by these units, because further supplies will get adversely affected in case prompt payments are not made to suppliers. Another 4 per cent prefer to lose their customers rather than to borrow at higher rates of interest. Remaining 19 per cent were not found to have any worry regarding shortage of working capital. The real cause of this happy situation was found to be that the concerned unit owners were basically merchants and/or having permanent sources of finance. Because of their sound financial background they felt so carefree and secure.

It is suggested that the combination of S.S.I. units with trading/or finance business will ensure still greater safety, confidence and success.

/(9) Among the respondents 67 per cent have said that for 40 per cent of their working capital requirement, they depend on their own capital as sources. It does mean that much of their dependence is on the other source than their own fund, which includes borrowing from financial institution, friends and relatives, money lenders etc. This type of dependence is likely to prove risky in case the funds are not made available from these outside sources. Therefore, the small scale industrialists are suggested to increase their contribution in the working capital.
(10) It is found from the study that banks are playing a predominant role in financing the working capital requirements of the small scale industries. Only 43 per cent of the respondents could get loan facility from the banks, ranging from 60 to 80 per cent of their requirements. Hence, it is recommended to increase the contribution by these financial institutions.

(11) Despite the financial assistance rendered by many financial institutions, agencies and govt, it is noticed that money lenders are playing their own role because the entrepreneurs decisions are motivated by the considerations of cost freedom from the fixed interest burden, complicated and lengthy procedural formality etc involved in financing by the institutions.

(12) Seventy three per cent of the respondents were following one or the other accepted method of cash planning, whereas 25 units were unaware of any method of cash planning. Therefore, these units should start adopting a proper method of cash planning so as to remain on the safer side.

(13) The units which were having very meagre cash balance were quite conscious of keeping the cash balance ideal.

(14) The units which did not follow any method of cash planning and which were not able to keep a proper
cash balance to meet eventualities are found to have suffered extremely for want of cash balance. Frequently such cash shortages have affected the concerns adversely. Therefore, those who plan well, will keep well.

(15) At the time of cash shortage, 29 per cent of the selected units were found to have resorted to borrowing at higher rates of interest, 52 per cent of the selected units lose the discount on early payment in order to deal cash shortage problem. Remaining 19 per cent of the units did not have such problems.

(16) Forty ony units maintain minimum level of inventory on the basis of consumption for a fixed period of production and 22 units on the basis of consumption during procurement time and safety stock. Single lot of ordering method is not popular among the selected units i.e. 54 per cent of the selected units follow various methods to order inventories. It is suggested that they follow scientific methods to maintain minimum level of inventory and adopt E.O.Q. system to order inventory.

(17) In all the selected industrial units it is found that a large stock of raw materials, building materials and finished goods was lying in stock at the end of the year. This type of holding the stock leads to the shortage of working capital. Therefore, it is suggested that...
the shortage of working capital caused by speculative holdings of inventory, be avoided.

(18) It has been found that 54 per cent of the selected units were selling both on cash and on credit. 27 per cent of the units were selling on credit only. However, 6 per cent of units were lucky enough to have cash sales only. Remaining 13 per cent said this question did not apply to them. The overall percentage of credit facility granted by the industrialists to their customers has exceeded 81 percent. This would affect the concern by holding up their funds in the debtors only. Thereby working capital requirements will increase. Therefore, this percentage of granting the credit facility should be rationally fixed.

(19) The study reveals that the credit facility sanctioned by the entrepreneurs was motivated by a number of reasons which varies from industry to industry. No standard practice has been followed by them. There has been confusion among them with regard to the system followed so far as credit policy. However, a general lack of awareness of the competitors' credit policy was also noticed. In order to overcome this basic unawareness it is necessary that an association formed in the interest of the entrepreneurs should guide them properly.

(20) Practice adopted by the entrepreneurs while evaluating
the credit-worthiness of customers is alright if the market is confined to the local area only. The existing method of ascertaining credit worthiness based on the personal knowledge of the customers cannot be suitably applied in case the market extends over other areas. Under such circumstances bank reference, opinions of sales representatives, agency remarks etc. can also be adopted.

(21) It is quite satisfactory to know that the financial institutions, and bankers have sanctioned loans to the industrialists only by following proper methods of granting the finance. Not even a single case is found of availing the loan facility either by influence or by political pressure. Indeed it is a healthy sign.

(22) A majority of the respondents were in a privileged position in obtaining the credit facility by the suppliers. Indeed, it is a great source of working capital, in addition it helps in boosting of the cordial relation between the suppliers and the industrialists.

(23) It is observed that very few units have carried out their business by using the bills of exchange as a media for generation of funds. Majority of them have made use of open account facility. There is a need to popularise the trade bills for meeting the financial requirements.
(24) The credit period allowed by the suppliers seems to be too less. It varied from 15 to 45 days. Within this period the entrepreneurs are not capable of getting themselves refinanced. Therefore this period should be extended to 90 days. However, this should reckon with the credit facility granted to the debtors.

(25) In order to generate funds for the working capital by recovering the amount from the debtors, many of the entrepreneurs have introduced the cash discount system, which ranges from one per cent to 6 per cent. However, this was not possible in case of 47 per cent of the respondents. This clearly indicates that only half of the respondents are in a better position so far as sound working capital is concerned.

(26) About 55 per cent of the respondents were deprived of getting the cash discount from their suppliers, because of non-payment of their dues. It is also a sign of an unhealthy working capital position. Cash discounts are attractive means of increasing the rate of profit. Many of the units could not take the cash discount offered by the creditors, due to tight liquidity position. On the contrary 27 per cent of them pay penal interest for delayed payment which ranged from 2 to 7 per cent.
(27) The S.S.I. units under study do not have any capacity to invest funds outside their business. It is only 2 per cent of the selected units having invested willingly outside their business. However, 41 per cent of the selected units have invested some of their funds in Government securities in order to please the Government authorities who compel them to do so. Some funds are invested in other than Government securities, just as a matter of social obligation.

(28) Some funds were utilised in giving advances to employees, in order to retain their services and also to have better human relations. 85 per cent of selected units advanced thus to their employees.

(29) There exist several reasons for advancing money to the workers. The labour turnover is not the main factor for doing so. But giving advances to their workers has contributed to the reducing of the labour turnover.

(30) ESTABLISHMENT OF GOVERNMENT AGENCY:

1) To overcome the major problem of working capital of the S.S.I. units the Government has to solve the problem of sales of finished goods of S.S.I. units.

a. The researcher suggests that Government should install a purchasing house equipped with quality testing laboratory
for finished goods. This purchasing house should purchase only goods which are successful in the quality test. By doing so S.S.I. units will improve the quality of goods which they manufacture. Hence, the purchasing house will not have any problem of selling qualitative goods in the market.

b. Purchasing house may be permitted to give job orders to S.S.I. units since they are capable of manufacturing standard and quality goods. The purchasing houses have to have good contacts with major markets and good distributing channels to minimize time factors. This makes the purchasing house to act as middleman.

c. To meet the cost of maintenance, purchasing houses may charge say about 10 per cent as their service charges on total sales. Otherwise they can purchase the finished goods paying say about 15 per cent more than actual production cost of the products. The production cost should be calculated on the basis of cost of raw material, plus actual labour, factory overheads and other variable costs etc.

d. Payments on finished goods purchased from S.S.I. units should be made within 15 days from the date of purchase.

e. Setting up of the purchasing house will reduce considerable
pressure on the S.S.I. units, since majority of the owners of the S.S.I. units have no contact with the major market or the individual unit's product is not sufficient to enter into the main market. Another factor is that a small quantity of manufactured goods will not compensate the expenses of transportation to the main market (since the industrial estate under study is far away from the main market) and other related expenses with sales. The obstacles are minimized or completely eliminated by collective sales activities by the S.S.I. units or setting up of the purchase house by the Government.

In order to reduce the difficulties faced during the purchase of raw material, spares etc by the S.S.I. units, a collective purchasing house is to be made available by the S.S.I. units themselves or by State or Central Government agencies.

(31) The study of engineering, plastic and chemical industries confirms that the quick assets position is highly unsatisfactory in comparison with quick liabilities.

It is suggested that industries reduce inventory holding and improve quick current assets.

(32) The study of inventory utilization (turnover) ratio reveals that all units in these three industries have not properly utilized their inventory.
Entrepreneurs are advised to adopt scientific inventory management to improve working capital management.

(33) Profit margin ratios for plastic and chemical industries are far below the interest earned by the fixed deposits in the banks.

It is suggested that plastic and chemical industries should reduce their overhead expenditure, reduce wastage in inventory and slightly increase the sales price to increase profit.

(34) Return on total assets is net profit to total assets for all units of engineering, plastic, and chemical industries was well below the accepted norm. This proves inefficiency on the part of management of small scale industrial units.

It is suggested that strict control over borrowed money, abandoning the pile up of excess inventory on borrowed money, adopting E.O.Q. method of inventory order system, bargaining for low interest loan, finding out a creditor who can give longer trade credit with low interest rate etc. should be adopted.

(35) Again the gross profit ratio for all these industries under study is well below the norm.

It is suggested that industrialists improve the profit margin by reducing overheads and other expenses adopting scientific management, use of improved machine etc.