CHAPTER - I

INTRODUCTION AND RESEARCH DESIGN
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"In a modern money using economy, finance may be defined as the provision of money at the time it is wanted".\(^1\)

Undoubtedly; finance is the life blood of any business, whether it is large or small. No ambitious plans materialise unless adequate money is made available. Hence, finance is regarded as the kingpin of a business enterprise.

In the early stages of industrial development, finance was not at all considered as a problem, as the requirement of capital itself was very little. But the Industrial Revolution changed the very nature of industry. Many developments brought about by the Industrial Revolution made industry, capital intensive instead of (the then prevailing) a labour intensive activity. As a result capital became the most important factor of production and finance became an important problem of management.

Finance is the 'art of raising and spending money'.\(^2\)

In modern times, every prudent businessman is eager to master this art of raising and spending money, because of the keen competition in the market.

Business finance is defined as that business activity which is concerned with the acquisition and conservation of capital funds in meeting the financial needs and over all objectives of business enterprise. Several crucial decisions are to be taken in order to calculate the financial requirements accurately so that business concerns do not suffer for want of fixed capital or working capital or loaded with unwanted and unnecessary capital. Financial planning, therefore, covers three important aspects, 1) Estimation of capital, 2) Determination of the forms of raising capital, and 3) Administration of the financial plan.

Financial planning almost conforms to the process of capitalisation. Many writers support this view. Here a clear distinction needs to be made between capital and capitalisation. In a nutshell, capital can be defined as the money equivalent of tangible and intangible assets required to be provided for establishing and operating an undertaking on a viable basis. However, capitalisation is equivalent to the valuation placed upon the fixed capital by the corporation measured by Stocks and Bonds outstanding. According to another interpretation, capitalisation comprises (1) ownership capital which includes stock and surplus

in whatever form it may appear and 11) borrowed capital which consists of bonds or similar evidences of long term debt". Along with the quantitative meaning of capitalisation there is also a qualitative explanation. "Capitalisation of a corporation is the sum of the par value of the stocks and bonds outstanding".

Thus the term capitalisation refers to the share capital issued, debentures outstanding and the surplus accumulated. In other words, while capital includes all the loans and reserves of the concern, capitalisation includes only long term loans and retained profits, besides share capital.

The success of the concern largely depends upon only two types of capital i.e. Fixed Capital and Working Capital. These two types of capital constitute the aggregate funds necessary to procure physical assets and to make necessary monetary arrangements for operating a business undertaking. "The Fixed Capital is invested in fixed or long run assets. The amount of fixed capital needed, therefore, varies directly with the amount of fixed assets owned or used by a business."  

The role of fixed capital is almost limited compared —

to that of working capital as the business concern shall not have to face this problem repeatedly. But working capital needs constant attention, since it always rotates or circulates.

"Working Capital is descriptive of that Capital which is not fixed. But the more common use of the working capital is to consider it as the difference between the book value of the current assets and the current liabilities."\(^9\)

Working Capital is also termed as circulating Capital. "Circulating Capital means current assets of a company that are changed in the ordinary course of business from one form to another, as for example from cash to inventories, inventories to receivables, receivables into cash."\(^{10}\)

To be precise and simple in expression - working Capital is the amount of funds necessary to cover the cost of operating the enterprise. "Working Capital in a going concern is a revolving fund, it consists of cash receipts from sales which are used to cover the cost of current operations."\(^{11}\)

Working or Circulating of Floating Capital consists of

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the funds invested in current assets. Current assets are those assets which in the ordinary course of business can be converted into cash within a short period of time without laying any additional burden on the organisation. In the same way current liabilities are the liabilities which are to be met within a short time out of the day-to-day income. The working capital requirement differs from industry to industry, from company to company and from time to time.

There will always be a need for working capital as there is time gap between production and disposal of goods and services. During this time gap the concern has to meet several current expenditures. The routine purchases, the solvency of the firm, the credit worthiness, the advantages of cash discounts, the regular payment of wages and salaries etc., are possible only if the concern is endowed with sufficient capital. Otherwise, the concern becomes financially weak. "Financial weakness breeds contempt among employees"¹². The actual amount of working capital required depends upon several factors like size and volume of business, upon several processing period, seasonal variations, regularity of income, cyclical fluctuations, terms and conditions of purchase and sales etc.

The proper management of working capital aims at efficient

regulation of purchases, sales, production, stock and audit. The fundamental responsibility of management is to guide continuous and smooth flow of working capital in a proportion so that not a single paisa is held up unnecessarily. In order to overcome the extremities in the working capital, a proper estimation called 'Working capital budget' should be prepared. "Working capital Budget' provides a broad picture of future requirements and to make the most satisfactory arrangements for meeting those ends". Circular flow of cash for a business enterprise is like flow of fresh blood in the human body. Therefore it is needless to say that without working capital enterprises cannot survive at all.

'WORKING CAPITAL' - WHAT IS IT?

In simple words working capital represents the amount of funds which an industry (enterprise) must have to finance its day-to-day operations. It may also be termed as that portion of industry's total capital which is utilised in short term operations. Short term operations include items like stock of raw materials, supplies needed for manufacture, stocks of finished goods awaiting for sale, semi-finished goods or components that will soon merge into the finished goods, sundry debtors constituting the pending collections against sales and short term investments.

13. Husband (W.H.), and Dockery (J.C.) : Modern Corporation Finance Ed.4, Irwin, Home Wood (Ill.), 1959, p-491.
CONCEPTUAL INTERPRETATION:

The concept of working capital is broadly understood as 'Gross Working Capital' and 'Net Working Capital'. The financial aspect of Working Capital is the 'Gross' concept, whereas the accounting aspect of Working Capital is the 'Net' concept. The sum total of all the current assets of the enterprise is represented in the gross concept of Working Capital. The Net Working Capital is the difference between current assets and current liabilities. It is the excess of total assets over total current liabilities.

Though the gross working capital and net working capital are interwoven sets of activity, there is a difference between the two. The management of current assets increases the short term financial considerations whereas the net working capital covers an extended span of time.

SMALL SCALE INDUSTRIES - AN OVERVIEW:

The small scale industries have been passing through difficult times and in order to overcome these difficulties, many changes have been introduced including several definitions framed from time to time. Generally, the change in the definition of the small scale industry has rotated around the enhancement of the capital invested and the number of labour employed.
The Small Scale Industries Board adopted the first working definition of a small scale industrial unit as "A unit employing less than 50 persons if using power and less than 100 persons, in case the power is not used. And with capital assets not exceeding Rs.5 lakhs". This definition was by no means rigid and industries covered by other bodies and the factories registered under the Industries (Development and Regulation) Act, 1951, were excluded from this definition.

DEFINITION OF 1960:

The new definition as per the Ministry of Commerce and Industry letter No.12-55 I(A) (156)/57 dated 14th January, 1960, is: "Small Scale Industries will include all industrial units with capital investments of not more than Rs.5 lakhs, irrespective of the number of persons employed".

In this definition only the capital investment was given the top preference, neglecting the number of workers totally. In addition, it included all types of industrial units.

DEFINITION OF 1962:

It is the enlargement of the previous definition to cover small scale industrial units with the capital assets ranging from Rs.5 lakhs to Rs.10 lakhs.
DEFINITION OF 1966:

"Small Scale Industry will include all industrial units with a capital investment of not more than Rs.7.5 lakhs irrespective of the number of persons employed. Capital investment for this purpose will mean investment in plant and machinery only".

Though this definition resembles the definition of 1962, it was more specific in giving the meaning of capital investment.

DEFINITION OF 1974:

"Undertaking having investment in fixed assets in plant and machinery not exceeding Rs.10 lakhs".

Ancillary Industries: "Undertaking with investments in fixed assets in plant and machinery not exceeding Rs.15 lakhs and engaged in (a) The manufacture of parts, components, sub-assemblies, toolings or intermediates or (b) rendering or proposing to supply or render 50 per cent of their production or the total services as the case may be, to the other units for the production of other articles, provided that no such undertaking shall be a subsidiary or owned or controlled by any undertakings".

DEFINITION OF 1980:

The Government of India raised the amount of investment
in tiny units, small scale industries and ancillary units as under:

(i) The limit of investment in tiny units has been increased from Rs. 1 lakh to Rs. 2 lakhs.

(ii) The limit of investment in small scale unit has been raised from Rs. 10 lakhs to Rs. 20 lakhs and

(iii) The limit of investment in the ancillary has been increased from Rs. 15 lakhs to Rs. 25 lakhs.

Definition of small scale industries in the Union Budget of 1985-86:

The definition of small scale sector has been extended to include units with plant and machinery worth Rs. 35 lakhs with another Rs. 10 lakhs for ancillary units.

NEW DEFINITION OF SMALL SCALE INDUSTRIES OF 1991:

(a) An industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms or on lease or by hire purchase does not exceed Rs. 60 lakhs.

(b) In case of an industrial undertaking referred to in (a) above the limit of investment in fixed assets in plant and machinery shall be Rs. 75 lakhs provided the unit undertakes to export at least 30 per cent of the annual production by the end of 3rd year from the date of its commencing production.
Requirement to be complied with by an industrial undertaking for being regarded as an ancillary industrial undertaking. An industrial undertaking which is engaged or is proposed to be engaged in the manufacture of or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services, and the undertaking supplies or renders or proposes to supply or render not more than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire purchase, does not exceed Rs. Seventy five lakhs.

Whatever may be the definition of small scale industry framed in India, there still lies the difference in the definition of the same in other countries. However, the basis used for framing the definition remained one and the same, i.e. either on the basis of investment in plant and machinery or labour and power used or labour used without the power. But in the recent past it is noticed that almost all the countries are considering only the investment in plant and machinery i.e. fixed capital, as the yardstick to define a small scale industry.

Government of India have provided many incentives to small scale industries to generate more and more employment. In India more than 1.5 million people are engaged in this sector.
Special privileges are given to the small scale sector in order to boost production and employment, since this sector is considered to be well-suited to generate employment and to increase production. For a capital scarce country like India, with a large population of more than 800 million, the small scale units are indeed ideal, as they are low capital intensive and high employment potential.

The decentralisation of the industrial growth is aimed at broadening of the entrepreneurial base. This is another achievement of the small scale sector. However, this bright picture of Indian Industry has its own blemishes. The number of sick enterprises went up from 93,282 in December, 1984 to 1,59,282 in January, 1987 and at the end of December, 1987 it reached 2,04,000 units.

The Small Scale Industries Sector in India has been assigned a strategic role in its crucial battle against poverty and unemployment. But despite its impressive growth, it has failed to maintain sound health. The reported cases of alarming proportion of small units becoming sick, and finally moribund speaks of ill-health of this sector. Several reasons can be attributed to this sorry state of affairs. But by and large studies undertaken both at the micro and at the macro level have identified mismanagement of working capital as one of the most important reasons for

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this phenomenon. It is worth noting here that the studies on small scale industries have also revealed that their working capital requirements are more than their fixed capital requirements.

It is with this background that an attempt has been made here to study the Working Capital Management of the small scale industries in Hubli Dharwad Munciple Corporation (H.D.M.C.) Industrial area. This has been studied by analysing the liquidity and activity ratios, by developing diagrams, charts and by interpreting the opinions of the entrepreneurs covered by the survey.

The present study is based on the primary data collected from 94 sample small units with capital investments upto Rs.35 lakhs in plant and machinery situated in Industrial Estates of H.D.M.C. area. The necessary comparable all India figures have been drawn from Reserve Bank of India (R.B.I.) publications.

RESEARCH DESIGN:

This is a micro-study of Working Capital in small scale industrial units in the growing twin cities of Hubli-Dharwad. The first hand survey of the researcher reveals that there are in all 400 sheds installed in the industrial estate of H.D.M.C. area. Out of these 242 units are actually working, whereas 130 units are not working due to incompletion of erection, or are seized by the Karnataka State Finance Corporation (K.S.F.C.),
Karnataka Small Scale Industry Development Corporation (K.S.S.I.D.C.) or by nationalised banks, or have not started at all for reasons best known to the entrepreneurs and the remaining sheds are occupied by banks, K.S.S.I.D.C offices and warehouses, etc.

The researcher selected at random, samples of 50 per cent of actual working units in industrial estates coming under H.D.M.C. area. Among the 175 samples contacted only 94 units have responded. A comprehensive questionnaire schedule was prepared for the purpose of obtaining the detailed unit-wise information. The researcher visited a good number of units of different types and categories before finalising the questionnaire. This kind of a pilot study was necessary to acquaint oneself with the nature of the units and the extent of difficulties in the management of working capital.

The researcher had a number of discussions mainly with small scale entrepreneurs, Government agencies, trade associations like Chamber of Commerce, Small Industries Service Institute, (S.I.S.I.) the District Industry Centre (D.I.C.) etc.

Macro level studies conducted by individual researchers, institutions, and Government agencies have made it clear that mismanagement of working capital is prevalent in the country in
general, and in small scale industrial sector in particular.

The selection of the particular area of study objectives, concepts developed etc, are dealt within the following paragraphs.

The study is confined to small scale industrial units situated in the Industrial Estate coming under H.D.M.C. area. There are hardly five large and medium scale units. Sickness in the small scale industrial (S.S.I.) units is spreading like virus. Earlier studies conducted in this regard show that 75 per cent or more small scale industrial units are sick due to the mismanagement of working capital or wrong planning or no planning at all. Therefore, a need is felt to investigate and study the management of Working Capital in the S.S.I. units.

The industrial activities in the industrial estates are dominated by the S.S.I. units numbering 400. They cover different areas like Engineering, Agro-based, Chemical, Food, Building Material, Printing etc., Small scale sector in the industrial economy of the district has great potential for the growth due to some advantages associated with them, like infrastructural facilities, geographical advantages, facilities provided by the State Government, and Central Government, and declaration of Dharwad district as industrially backward. This is one of the main reasons for the choice of small scale units in the twin cities for the present study. A detailed picture of the geo-economic
spectrum providing necessary stimulus for the small scale industrial units in H.D.M.C. is given at the end of the chapter.

CHOICE OF THE AREA:

The choice of industrial estates for the present study was made to suit the personal convenience of the researcher. Moreover the small scale industrial units in the industrial estate of the twin cities represents a cross section of industrial activity. The potentials of this second largest city in the state to become an important centre of the industrial activity in the North Karnataka area, was also a compelling point in selecting this area. The industrial growth is very slow in the selected area, though Hubli-Dharwad is the second largest city in the state and fully equipped with all infrastructural facilities as well.

THE PERIOD OF THE STUDY:
The researcher restricted his study only to running units at the time of survey and not confining himself to any period of time. Therefore collected data show that there are units which were started as early as 1959 and as late as 1989. Another reason for not considering time factor is that the researcher is concerned with the management of working capital of running units and not the time of their establishment.
SOURCE OF INFORMATION:

Primary data regarding management of working capital were obtained from the selected units themselves. However, the official information was obtained from Government agencies like the District Industries Centre, K.S.S.I.D.C., SISI etc., by the researcher.

While preparing the questionnaire to collect the primary data from the SSI units the following aspects were given preference:

THE QUESTIONNAIRE:

1. Educational level, experience in the same line.
2. Nature of industry and activity of the units.
3. Organization.
4. Components of working capital.
5. Management of working capital.
6. Cash management.
7. Inventory management.
8. Variables, recurring expenses.
9. Overheads of the units.
11. Credit and its risk, credit limits etc.
12. Collection of receivables and management.
15. Advances to raw materials and employees.

OBJECTIVES:

The main objectives of the present study are:

1. To assess the working capital management in SSI units.
2. To identify the causes directly and indirectly responsible for the industrial mismanagement in small scale industrial units.
3. To measure the impact and incidence of mismanagement on working capital in small scale industrial units on different areas like production, marketing and different components like cash, inventory, receivables etc.
4. To highlight the Government policy and institutional approach towards management of working capital.
5. To suggest suitable measures for streamlining management activity in areas like finance, planning, accounting, controlling, etc.

HUBLI-DHARWAD - CITY - ECONOMIC AND GEOGRAPHICAL SETTING:

Hubli-Dharwad constitutes a twin city with a common municipal corporation for purposes of civic administration. The
H.D.M.C. came into existence in the year 1962. The city is located on latitude 15° 20' and longitude E 75° 30' (Hubli part of the city) and 15° 25' N latitude and 75° E longitude (Dharwad part of the city). The Hubli part of the city is situated at an altitude of about 2200 feet above mean sea level and the Dharwad part of city is situated at an altitude of 2550 feet above mean sea level. The Hubli city is connected with major cities like Poona, Bangalore, Sholapur etc, by a net-work of roads, rail lines and air ways. It also occupies a unique position is connecting the ports like Bhatkal, Honnavar and Karwar by a net work of good roads. The state's capital city Bangalore is at a distance of 440 kms to the South of the city. The Karwar port is 165 kms to the West of the city. The Dharwad part of the city is on the Poona-Bangalore National Highway Number 4. It is at an equi-distance between Poona and Bangalore by road. It is connected by the South Central Railway metre gauge line.

CLIMATE:

The Hubli part of the city has a warm and healthy climate. The summer season is generally hot and the maximum temperature is felt during the months of April and May. The average annual maximum temperature in the city is 86.8°F during the same period. Summer showers cool the city occasionally. The minimum temperature occurs in the month of December, and average annual minimum temperature is 67.9°F. The rain-fall is
spread over a period of about 5 months from June to October with occasional heavy showers in May or November as in most parts of the country. However, the city receives its highest showers in the month of July. The average annual rain-fall of Hubli is about 26" or 66 mm. Maximum variations in humidity prevail during the month of March and April. The variation is from 79.2% to 29.7% and 28.6% to 28% respectively between morning and evening. The maximum humidity prevails during the months of July, August and September. Generally the wind directions are East and West both being predominant. The maximum wind force is generally in the month of July, when it reaches a speed of about 10 to 12 miles per hour. The average annual speed of wind is about 7 miles per hour.

The climate of the Dharwad part of the city is pleasant, moderately cool and healthy throughout the year. During the month of April, the temperature will be maximum and by the end of April, thunder showers break out and frequently cool the town. The daily mean maximum temperature is found to be 96.70°F. The average annual rain fall is 32.5 inches. Maximum humidity is during the months of July, August and September and minimum during the months from December to March. The maximum humidity is found to be 96% and the minimum is 61 per cent. General wind directions are from East to West and West
to East both being equally predominant. The maximum wind velocity is in July when it reaches about 10 miles per hour.

TRANSPORT:

The National Highway Number 4 passes through Hubli-Dharwad city covering a total distance of about 25 Kms. It links the cities of Bombay on the northern side and Bangalore on the Southern side. The city is served by the South Central Railway with a total distance of about 25 Kms of metre-gauge providing vital transport facilities to the twin cities. The Hubli railway station is a junction providing railway links between Miraj city and Sholapur of Maharashtra State and Guntakal and Vijayawada of Andhra Pradesh and Bangalore city of Karnataka and other cities of South India. A wide net-work of rail and road system links the city of Hubli-Dharwad with many industrial, commercial and trade centres of Karnataka and the adjoining States of Western and Southern parts of India. The Hubli-Dharwad city is linked to Karwar port on the Western coast of India at a distance of about 160 kms. The Government of India started a Vayudoot air service at Hubli city. Vayudoot is a feeder airline of the Indian airlines which is a Government of India undertaking in the inland air transport system.

COMMUNICATION:

The Hubli-Dharwad city is provided with a wide communication system, like telephone, telex, telegraph and television net works.
The communication system has been instrumental in promoting the commercial and industrial growth of the cities of Hubli-Dharwad.

POWER AND WATER SUPPLY:

The Hubli-Dharwad city is served with power supply from two major Hydro-electric projects namely the Sharawati and the Kali projects. The Malaprabha river project is the main source of water supply to the twin cities.

POPULATION:

Hubli-Dharwad is the largest city in Karnataka, next only to Bangalore, in terms of population and industrial, commercial and trade activities. The total population of Hubli-Dharwad is 6,47,718 as per 1991 census (provisional). The demographic characteristic of the city shows that there are 3,36,383 males and 3,11,335 females.

EDUCATIONAL FACILITIES:

Educational facilities in the twin cities are quite substantial. There are two Universities, 2 Engineering Colleges, One Medical College, 6 Commerce Colleges, 4 Law Colleges, 3 Colleges of Education, 2 I.T.I's and One Polytechnic Institute and so on. These Institutions provide skilled man power for engineering units and accountants, technicians, managers, and others for commercial undertaking etc.
工业：

工业重要性 Hubli-Dharwad 城市可以被理解为有大、中、小型工业单位在纺织、工程、农业、化学、木制品和食品行业等区域。有两家大型纺织厂制造纱线和服装，另外有很多小规模工厂制造妇女服装。在工程领域，Kirloskar Ltd. 和 Star Volkmanns 有他们的机器制造单位。Walchand 组织有其时间件制造 Tiwac 单元在 Dharwad。一些本地工程单位如 Akay 行业和 others 有设立自己的单位。South Central Railway 有其分部工场和 Karnataka State Road Transport Corporation 有其大型服务站 Dharwad。The Indian Plywood 有在 Hubli 设立其单元。Government of Karnataka 也设立了一个牛奶单元在双城市。也有一些钢家具制造单位。在钢铁产品、化学、服务单位、用具、金属盒、鱼类产品、肥皂和洗涤剂、砖制造等。
There are three industrial estates in and around Hubli-Dharwad city. These estates are provided with necessary infrastructure like sheds, power-supply, storage facilities, communications and transport.

The Government of Karnataka have declared a 23 kms long and 10 kms wide area between Hubli and Dharwad on the national highway as industrial belt with some specific incentives and facilities.

COMMERCE:

Commercial importance of the city is clear from the fact that Hubli-Dharwad is the second most important trading centre in the state. It is the biggest textile trading centre in North Karnataka. It is also one of the most important centres for trade in agricultural products like cotton, jawar, groundnut, wheat and other food grains, vegetables and fruits, timber and brass ware etc.

SERVICES:

The city is well served with a good number of hotels, autorickshaws, taxis, city bus transport, petrol stations and medical centres etc. There are a good number of specialised consultants in the areas of management, accountancy, engineering, banking and finance, travel and tourism etc.
BANKS AND FINANCE:

Hubli-Dharwad city has a wide network of banking financial and insurance institutions. Branches of most of the scheduled banks in the public sector have been established. They include the branches of State Bank of India, Canara Bank, Corporation Bank, Syndicate Bank, Vijaya Bank, Bank of Baroda, Bank of Maharastra, Punjab National Bank, Bank of India, Indian Overseas Bank, Dena Bank, Andhra Bank, Karnataka Bank, State Bank of Mysore etc.

A good number of Urban Co-operative Banks have also been providing banking services to the public. In addition to the scheduled banks and other banks, there are a number of registered finance corporations and leasing companies. The Life Insurance Corporation of India has its Divisional Office at Dharwad with its many branches. There are the offices of General Insurance Companies. The Karnataka State Financial Corporation has its regional office at Hubli.

GOVERNMENT AND INDUSTRY:

The State and Central Governments have offices of the following institutions for the benefit of small scale industries of the city and the district.

1) District Industries Centre.

2) Small Industries Service Institutes.

3) Karnataka State Small Industries Development Corporation.
4) Technical Consultancy Organisation of Karnataka (T.E.C.S.O.K)

5) Small Industries Development Corporation.

The above offices have been assisting the small scale industrial units in various ways. The areas cover technical, marketing co-ordination with financial institutions, raw material supply, supplying of market information and obtaining facilities and clearances from various governmental agencies such as power supply, warehousing, tax concessions, subsidies, licensing etc.

WAREHOUSING:

The Central and the State Government have set up warehousing facilities through the Central Warehousing Corporation and State Warehousing Corporation.

CITY PLANNING:

The Government of Karnataka has set up a City Improvement Board and Town Planning Authority for a planned development of the city, keeping in view the fast growing commerce, trade and industry. The Karnataka Chamber of Commerce and Industry has its office in Hubli. It has been rendering useful service to the trading and industrial communities in the region.