Chapter - I

Introduction and Research Methodology
The manner of management of working capital to a very large extent determines the success of operations of a concern. Constant management is required to maintain appropriate levels in the various working capital accounts. Working capital determines the appropriate levels of current assets and their efficient use as well as the choice of financing mix for raising the current resources. The goal of working capital management is to manage the current assets and current liabilities of a firm in such a way that a satisfactory level of working capital is maintained. The main theme of the theory of working capital management is to have healthy interaction between current assets and current liabilities. And so it can be stated that working capital is a double edged sword. Because both excessive and inadequate working capital positions are very dangerous for business enterprises. Insufficient working capital reduces the firms profitability and badly affects the production and trading. Therefore there should be control over the working capital to ensure proper functioning of business unit.

The need for working capital arises due to the time gap between production and realisation of cash from sales. There is a time gap in the purchase of raw material and production, production and sales and sales and realisation of cash. In a competitive environment, the stocks have to be kept ready to meet the demand. Though working capital is needed in times of inflationary situation in order to protect the business from adverse effects, credit offers have also to be given to the customers for the goods purchased, when the demand is less than supply.

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2 S.P.Vijaya Saradhi, working capital management, A complete overview the Management Accounts, June 1981, P-273.
For the success of the enterprises prudent management of working capital is very essential. Efficient management of working capital is required to protect the purchasing power of assets and maximising the return on investment. The firm should maintain the balance in its various needs to achieve the objectives of profit maximisation and wealth maximisation and also to maintain sound liquidity.

For any organisation Application of working capital is very important in order to have proper operation and complete development. Fixed assets also play an important role. So, the required fixed assets should be provided and employed for its effective operation. The firm's profitability increases if the working capital is added to fixed capital, provided the firm does not exceed 100% capacity. The firm has to keep sound liquidity without affecting its profitability. Otherwise it will face technical insolvency and bankruptcy.

The firm should maintain adequate working capital to meet its obligations in time. Adequate working capital means maintaining sound bank credit, trade credit, maintaining solvency, availing of discount facilities offered by suppliers and finally achieving profitability. Both the excessive or inadequate working capital positions are very dangerous and damage the economic health of any business enterprise.

Every business enterprise should have adequate working capital to carry its activities on most economical lines and then meet all the current obligations promptly without any financial stringency. So the adequate working capital of business enterprise can fetch good service and supply the material without facing recurring credit constraints.

7 Ibid - 4.
Need for the study

Basically the entire market was in the hold of the private business men and they ruled the market as they desired. They did not mind the consumer needs and welfare. For their profit they created artificial scarcity and charged exorbitant prices. The consumer was compelled to buy the essential commodities though the prices are exorbitant.

The Government always feels its responsibility to hold the price line in the Market by introducing various legislative measures to control the malpractices of businessmen to protect the consumer from them. But it is the experience that these controlling systems are not effectively protecting the interests of consumers. Many of the efforts of the Government have become in vain. Hence in addition to Government efforts, complementary and supplementary measures have to be taken to tackle the social problems and menace of consumer exploitation. These measures led to the promotion of consumer co-operative societies.

Voluntary associations of consumers such as consumer co-operatives came into existence to organize and to procure the essential food items to distribute among the consumers. With the result these co-operatives free the market from the exploitation. The co-operatives have taken the duty and play very important role in controlling the sky high prices of essential commodities. These co-operatives have become very powerful and well suited means for consumer protection to eradicate the malpractices in the market and they are given top priority and getting all types of support and help by the Government. The Government has been extending its helping hand to strengthen the consumer co-operatives by including development programmes in every subsequent plan to safeguard the interest of consumers.
A consumer co-operative society effectively reflects real consumer consciousness and helps the entire society in which it is setup by sale of quality goods at reasonable prices. Thus it can effectively cater to the needs of the people with an effective check against market exploitation. It plays its role satisfactorily to eliminate profit making middlemen. More the middlemen indulge, more the need for consumer co-operatives arises.

The Intuition of consumer co-operatives is to procure the goods in bulk from production centers at low prices to arrange the same to their members at fair prices. If they get goods in bulk from production centers, they can distribute them or sell them at affordable prices to their customers as there are no expectations for profit. Any how they sell the goods at reasonable profits to meet the maintenance. Any surplus profit in the business will be paid back to the members as patronage rebate. If co-operatives work properly it is not at all a hard task to serve the consumers as said above.

GOVERNEMENT EFFORTS:

It is well known that the consumer is the main person for any economic activity, but he is totally neglected in the market. Moreover a number of problems are created around and against him. The Government of India has been taking steps to safe guard the interest of consumers by enacting various acts, such as Indian Penal code, 1860, contract Act, 1872. The Sale of goods Act, 1930, Agricultural products (Grading and Marketing) Act, 1930, Drugs and Cosmetics Act, 1940, Forward Market (Regulation) Act, 1952, Indian Standard Institution (Certification Mark) Act, 1952 (Changed to bureau of Indian Standards Act, 1986) Drugs and Magic Remedies
The main objective of consumer co-operatives is to supply qualitative goods at fair prices and correct weighment to the consumers, discouraging and avoiding the adulterated goods. The consumer co-operatives are getting direct and indirect financial support of the Government of India for this purpose. Government has taken various measures to extend its financial as well as physical support to the consumer co-operatives for their entire development. The Commercial Banks have also been extending financial support in various stages.

To check the unlawful activities of black marketers and private traders consumer co-operatives are attached to the large public distribution system. So that they can intervene in the market operations by distributing essential goods to influence open market price and to run fair price shops. Gradually they became powerful competitors to Private businessmen who are prone to consumer exploitation. The Government also supported and encouraged the consumer
co-operatives by providing considerable share of fair price outlets to involve themselves actively in the service of the public. Thus the consumer co-operatives have occupied commendable place in the public distribution network.

In addition to its support to the public distribution system in the country consumer co-operatives have been given another role to promote a strong consumer protection movement. These consumer co-operatives are expected to provide qualitative goods at reasonable prices to the consumers particularly in urban areas, whereas in rural areas the primary agricultural credit co-operatives and primary marketing societies are involved in the distribution system to meet the consumer needs in the villages. To strengthen the consumer co-operatives in serving both urban and rural consumers, two schemes have been adopted by the Government of India. They are (1) Centrally sponsored scheme. (2) Central sector scheme. The centrally sponsored scheme extends financial support for the development of consumer co-operatives in urban areas and the central sector scheme extends financial support for the distribution of consumer articles in rural areas, there by strengthening the National co-operative consumers federation of India limited and the development of super bazaars.

Despite the help received from government, many co-operatives are not functioning well. There are plethora of reasons for this pathetic situation. Problems of purchases, sales, Inventory, personnel and problems of working funds management which adversely affect their operational efficiency have been formidable. Their poor performance is largely due to their lack of operational efficiencies. Owing to lack of sound marketing policies, imprudent financial management in general and working capital management in particular, many of the societies are not able to make profits. Of these major hurdles faced by consumer co-operatives, improper financial management is the most important. It is also observed that many of them suffer from scanty working funds, which of course are managed inefficiently. Prudent financial management particularly in the management of working capital would have helped the consumer co-operatives to succeed.

In view of this, it is assumed that there is a correlation between working capital management and performance of an organisation. Against this background a study has been undertaken to know the working capital management of selected co-operative superbazaars in Andhra Pradesh.
Review of Literature:

The problems of consumer co-operatives are well studied on research basis. The National cooperative development and warehousing board conducted a survey in 1961 on the existing situation of the consumer co-operative movement and it gave a report related to organization structure, finance, business techniques and operations, democratic control and management and government assistance. On behalf of the Government of India, Schubert brought out a report on the development of consumer co-operatives, which focused on the operational problems and emphasized the need for central purchasing agencies. It also argued for better sales management, gross profit margin and effective control of expenditure.

Satyamoorthy Wally–Dima made a study (2008)1 on working capital management in listed retail domestic companies particularly in Botswana.

Kesavan Padachi, Narasimham, Durbassy and Howorth (2008)2 in their study analysed the working capital structure and financing pattern of Mauritian small manufacturing firms.


Amar Bhide and Lawrence Glaubinger (2007)5 in their study emphasized working capital requirements in the Indian context. They opined that Indian entrepreneurs have high working capital requirements.

Anita Agarwal study (2007)6 focused on cash management practices of Indian multinational companies and their foreign affiliates and suggested suitable cash management practices for Indian MNC's.

Assaf Eisdorfer (2007)7 made a study on cash flow pattern. His study concentrated on the importance of cash-flow news for financially distressed firms.

5 Amar Bhide and Lawrence D. Glaubinger., Indian Entrepreneurs have high Working Capital Requirements, Indian Management, Vol.46,Issue No.11, November 2007
Afza and Nazir (2007) in their study investigated the relationship between the aggressive/conservative working capital policies for 17 industrial groups and a large sample of 263 public limited companies for the period of 1998-2003. They found significant differences among their working capital requirements and financing policies across different industries.

Hitesh Shukla (2007) studied receivables management. It covered Indian pharmaceutical industry. He stressed the importance of maintaining appropriate level of receivables which are suitable to the needs of the firm.

Manoj Anand and Kesav Malhotra (2007) made an empirical study on working capital performance of corporate India. He discussed the importance of cash and other Current assets.

Janaki Ramudu and Durga Rao. (2007) studied receivables management in the commercial vehicles industry of India. They also studied inventory management of Indian commercial vehicles industry.

Kannadhasan study (2007) focused on working capital management in a public limited company. He found that the working capital had not been utilized efficiently. Stock of inventory and size of cash balances were more than the operational requirements.


Krishna Kumar (2007) study focused on financial modelling from a narrow scope to a broader perspective.


Vijay Rustogi (2006) made a study on Total solution concept - an innovative tool for purchase managers. He emphasized the role of purchase managers in identifying the quality of goods, reliability of suppliers, and price of goods.

Chiou and Cheng (2006) made a study on the determinants of working capital management from a different angle. Their study examined how working capital management of a firm is influenced by different variables. The study provided consistent results of leverage and operating cash flow for both net liquid balance and working capital requirement.

Amir Jafar and Debasish Sur (2006) made a study on efficiency of working capital management in Indian public enterprises during post liberalization era- a case study of NTPC. He focused on profitability goal of working capital management.

Sudipta Ghosh study (2005) observed the performance appraisal through inventory management. A case study of Stewarts and Lloyds of India Limited.

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Filbeck Krueger (2005) in their study analysed the working capital management policies of 32 non-financial industries. They opined that significant differences exist among industries in working capital practices over time.

Teruel and Solan (2005) made a study on the effects of working capital management of SME profitability. They suggested that managers can create value by reducing the firms' outstanding receivables and inventories. Similarly shortening the cash conversion cycle also improves the firm's profitability.

Ghosh and Maji (2004) focused on working capital management efficiency. They studied the impact of different variables of working capital management, including average collection period, inventory turnover in days, average payment period and CCC on the net operating profitability of firms. Similar studies on working capital and profitability were done by Eljelly (2004), Howorth and Westhead (2003), Deloof (2003) in his study analysed a sample of large Belgian firms for the period 1992-96 and the results confirmed that Belgian firms can improve their profitability by reducing the inventories and the outstanding period of accounts receivables.

Ramarapasad (2002) made a study on materials management in the context of cost control and reduction. His study covered the methods of material issues and the re-order level for purchasing materials.

Dhiraj Mishra (2002) made a study on product inventory and economies of scale—a study of Indian industries. He emphasized the relation between inventory levels and cost of production. Satish Chandra Varshney Study (2001) focused on trade credit and company liquidity. He observed the level of firm’s liquid assets.

Surender, Yadav, Ashishis Rastogi (2001) made a study on working capital management particularly in oil industry in India. He emphasized that the job of financial manager is to achieve trade off between profitability and liquidity.

Murali, and Himachalam (2000) made a study on consumer co-operatives in India. They studied participative democracy in consumer co-operatives.


Bishnu Priya and Kar (1994) made a study towards better measure of working capital performance during liberalized era.

Narasimhan and Vijayalakshmi (1999) made a careful study on inter industry analysis, Working capital management on components, efficiency and financing pattern. He stated that receivables and inventory are independent on each other.

Max well C E, Gitman L J and Smith S A M (1998) studied working capital management and financial service consumption preferences of US and foreign firms. They found that working capital practices change significantly within the industries over time.

Weinraub H J and visscher S (1998) examined the relative relationship between aggressive/conservative working capital policies of US firms. They opined that the industries had distinctive and significantly different working capital management policies.

Vijay Kumar A., study (1996) focused on the transactions demand for working capital in Indian public sector enterprises.

Vijay Kumar A/ Venkatachalam A (1996) studied working capital management. Their study focused on working capital and profitability.

Jose M L, Lancaster C and Stevens J L., (1996) the relationship between aggressive working capital management and profitability of US firms, using the cash conversion cycle as a measure of working capital management. Their study revealed that a significant negative relationship between the cash conversion cycle and profitability.

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Lamberson M (1995) 40 in his study observed how small firms respond to changes in economic activities by changing their working capital requirements and the level of current assets and current liabilities. He found that there is very little relationship between changes in economic conditions and changes in working capital.


Himachalam D., Narendra Kumar D (1995) 42 made a study on consumer co-operatives in India.

Soenan L.A (1993) 43, "made a study on cash conversion cycle and corporate profitability. He opined that reducing the level of current assets to a reasonable extent increases the firms' profitability.

All the above studies are on different aspects of working capital management in various industries. They have not considered consumer co-operatives. In the trading concerns like co-operative organisations, working capital management has great significance for the smooth functioning of their business operations. So, it is necessary to find out the problems of working capital management in co-operatives. But there are no standard practices of working capital in co-operatives. Owing to lack of proper working capital management practices and policies, the co-operative super bazaars have been experiencing losses and so are unable to meet the day-to-day obligations of the business.

It is indispensable to study the problems of working capital management in detail so as to have an insight into them to fill the gaps in working capital management in consumer co-operatives. The present study of consumer co-operatives has been undertaken to pursue that goal. The study is conducted keeping in view the problems of co-operative super bazaars in general and working capital management in particular. It aims to identify the problems as well as to suggest the feasible ways and means to overcome the problems and to tone up their operational efficiency.

39 IBID 37


42 Himachalam D., and Narendra Kumar D., consumers' Co-operatives in India, Banking Finance, April, 1995.

Present Status

Consumer Co-operatives have spread throughout the country both in rural and urban areas and are working with a large network of branches (Table No. 1.1). There were 1156 wholesale central stores with as many branches as 5676 by the end of March 2006. Out of these only 39.70 percent were running on profit and the remaining on losses with a volume of sales of 20897.50 millions. There were 26426 primary stores. Of them 59.70 percent of stores were running on losses and the remaining functioning with meagre profits with a sales volume of Rs. 17417.7 millions. There were 28 State Consumer's Co-operative Federations/ State Marketing cum - State Consumer's Federations at the state level, the National Consumer's Co-operative Federation of India Ltd. at the apex level. Half of them were operating on profit with a sales volume of Rs. 15201.60 millions. In rural areas the distribution of consumer goods is effected by about 57,355 societies and the number includes primary Agricultural Credit Societies, large sized multipurpose societies and Farmers' Service societies. The public distribution system has added a new dimension to the consumer co-operative sector in the country.

The NCCF at the national level has been working as an Apex organisation. Consumer Co-operatives are service - oriented. Their focus is mainly on safeguarding the interests of consumers from all kinds of exploiters. To derive the consumers' satisfaction they must have good management. But at present the performance of consumer co-operatives has not been encouraging as many have been sustaining losses, whatever the reasons be. It has been so since 1960. This fact was revealed by the committee in 1966 appointed by the National Co-operative Department and Warehousing Board and the committee focused on the following:

1. Lack of financial resources
2. Lack of efficient management
3. Lack of loyalty on the part of members and their involvement
4. Heavy overhead expenses
5. Lack of regular and diversified supply of products and
6. Lack of scientific inventory management, cash management and receivable management.

Table No.1.1

<table>
<thead>
<tr>
<th>Table No.1.1</th>
<th>Present status of Consumer Co-operatives in India as on 31-03.2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary Stores</td>
</tr>
<tr>
<td>No. of Stores</td>
<td>26426</td>
</tr>
<tr>
<td>Branches</td>
<td>10305</td>
</tr>
<tr>
<td>Membership (million)</td>
<td>9.149814</td>
</tr>
<tr>
<td>Share Capital (Rs. million)</td>
<td>957.2</td>
</tr>
<tr>
<td>Govt. Participation</td>
<td>35.6%</td>
</tr>
<tr>
<td>Working Capital (Rs. million)</td>
<td>2895.1</td>
</tr>
<tr>
<td>Assets (as on 1998-99) (Rs.million)</td>
<td>3655.0</td>
</tr>
<tr>
<td>Sales (Rs.million)</td>
<td>17417.7</td>
</tr>
</tbody>
</table>

### Table No. 1.2
Statistical Information About Consumer co-operatives in Andhra Pradesh (Rs in lakhs)

<table>
<thead>
<tr>
<th>Sl NO</th>
<th>Name of the District</th>
<th>No. of Societies Registered</th>
<th>Membership</th>
<th>Govt. Share Capital</th>
<th>Turnover</th>
<th>No. of Societies Making Profit</th>
<th>Status</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Srikakulam</td>
<td>11</td>
<td>21,559</td>
<td>9.08</td>
<td>2066.06</td>
<td>-</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Vizianagaram</td>
<td>5</td>
<td>7,760</td>
<td>8.59</td>
<td>135.12</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3.</td>
<td>Visakhapatnam</td>
<td>72</td>
<td>50,304</td>
<td>65.78</td>
<td>3,600.00</td>
<td>11</td>
<td>42</td>
<td>19</td>
</tr>
<tr>
<td>4.</td>
<td>East Godavari</td>
<td>30</td>
<td>38,562</td>
<td>28.19</td>
<td>1,209.35</td>
<td>1</td>
<td>23</td>
<td>6</td>
</tr>
<tr>
<td>5.</td>
<td>West Godavari</td>
<td>14</td>
<td>21,165</td>
<td>7.03</td>
<td>661.65</td>
<td>7</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>6.</td>
<td>Krishna</td>
<td>40</td>
<td>43,873</td>
<td>41.22</td>
<td>1,706.51</td>
<td>9</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>7.</td>
<td>Guntur</td>
<td>64</td>
<td>22,716</td>
<td>22.46</td>
<td>374.59</td>
<td>6</td>
<td>32</td>
<td>26</td>
</tr>
<tr>
<td>8.</td>
<td>Nellore</td>
<td>18</td>
<td>12,590</td>
<td>11.64</td>
<td>5.38</td>
<td>-</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>9.</td>
<td>Ongole</td>
<td>62</td>
<td>17,126</td>
<td>14.28</td>
<td>481.59</td>
<td>9</td>
<td>45</td>
<td>54</td>
</tr>
<tr>
<td>10.</td>
<td>Chittoor</td>
<td>34</td>
<td>31,646</td>
<td>9.31</td>
<td>646.22</td>
<td>13</td>
<td>18</td>
<td>31</td>
</tr>
<tr>
<td>11.</td>
<td>Cuddapah</td>
<td>8</td>
<td>7,566</td>
<td>1.01</td>
<td>77.85</td>
<td>1</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>12.</td>
<td>Kurnool</td>
<td>50</td>
<td>26,221</td>
<td>7.51</td>
<td>724.18</td>
<td>5</td>
<td>36</td>
<td>41</td>
</tr>
<tr>
<td>13.</td>
<td>Anantapur</td>
<td>15</td>
<td>19,013</td>
<td>12.87</td>
<td>510.22</td>
<td>4</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>14.</td>
<td>Medak</td>
<td>24</td>
<td>12,844</td>
<td>3.97</td>
<td>33.74</td>
<td>3</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>15.</td>
<td>Khammam</td>
<td>15</td>
<td>85,734</td>
<td>4.61</td>
<td>197.06</td>
<td>-</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>16.</td>
<td>Mahabub Nagar</td>
<td>17</td>
<td>7,866</td>
<td>0.59</td>
<td>6.92</td>
<td>-</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>17.</td>
<td>Nizamabad</td>
<td>11</td>
<td>11,617</td>
<td>8.87</td>
<td>116.22</td>
<td>6</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>18.</td>
<td>Adilabad</td>
<td>6</td>
<td>5,724</td>
<td>4.07</td>
<td>90.47</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>19.</td>
<td>Karimnagar</td>
<td>10</td>
<td>12,579</td>
<td>4.78</td>
<td>152.17</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>20.</td>
<td>Ranga Reddy</td>
<td>88</td>
<td>13,387</td>
<td>2.50</td>
<td>72.60</td>
<td>7</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td>21.</td>
<td>Hyderabad</td>
<td>345</td>
<td>3,64,520</td>
<td>21.87</td>
<td>954.98</td>
<td>42</td>
<td>54</td>
<td>96</td>
</tr>
<tr>
<td>22.</td>
<td>Nalgonda</td>
<td>18</td>
<td>22,655</td>
<td>7.89</td>
<td>252.43</td>
<td>3</td>
<td>2</td>
<td>5</td>
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<tr>
<td>23.</td>
<td>Warangal</td>
<td>6</td>
<td>27,876</td>
<td>12.30</td>
<td>281.18</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
</tbody>
</table>

Total 963 133 368 501 462

Table No. 1.2 shows that in Andhra Pradesh 963 Consumer societies are registered, fifty percent of which are in function in different stages of performance. Of these 133 societies are running on profit, 368 on loss and 462 are either dormant or liquidated. The Andhra pradesh state consumer co-operative federation is running 14 departmental stores and has 23 branch offices. There are 1869 fair price shops running under the co-operative fold. Of these 1288 are in the rural and 581 in the urban co-operative sector.

The consumer co-operatives in India in general and in Andhra Pradesh in particular, have a number of problems and are unable to deliver the goods. The following are the problems affecting the performance of co-operatives. (1) Weak organisational structure (2) Small and uneconomic size of units (3) Wrong location of the societies, (4) Scanty financial resources, (5) Lack of scientific approach to management, (6) Lack of required quantity of the goods and their proper procurement and warehousing, (7) Lack of properly trained and competent staff and inadequate supervision over personnel, (8) Lack of loyalty on the part of members, (9) Lack of commitment and devotion on the part of workers. Out of all these problems, improper management is the most serious problem of almost all consumer co-operatives. It shows an adverse impact on the store's profitability. To avoid this, special care and efficient financial management in general and working capital management in particular are required in all the co-operative super bazaars.

The Problem

The basic principles to govern the consumer co-operative societies in India are same as to any other co-operative society. The consumer co-operative stores aims to attain the economic objectives through mutual aid and self-help. Consumers get together voluntarily to procure essential goods and services on most reasonable terms and to distribute them equitably at fair prices. The important objective of consumer co-operatives is to supply unadulterated and quality goods in
correct weighment at reasonable prices. In India the importance of the consumer co-operatives to national economy was realised decades ago and a centrally sponsored scheme was introduced for their development in 1962 and it was transferred to state in 1969. Moreover, in 1971 a central sector scheme also evolved to accelerate the development of consumer co-operatives and attempts were also made to provide legal as well as financial protection to them. Since then both central and state governments have been providing direct financial assistance to them in the form of capital contributions, loans and subsidies. In addition to direct assistance the central government has been providing indirect assistance through the guarantee scheme facilitating bank borrowings for working capital requirements. Arrangements were made for earmarking certain items of products, which are in short supply for production, by the consumer co-operatives themselves. Further they are also allowed to manufacture and distribute controlled cloth to consumers.

In order to assure fair supply to the consumers, the public distribution of essential items is also attached to consumer co-operatives. Efforts have been made to strengthen the consumer co-operative movement by developing a strong public distribution system and to check the unlawful and wicked activities of private traders. Though the government has taken several measures to develop the co-operatives, all those are in vain. Most of the super bazaars are incurring heavy losses. They are either dormant or sick. The present statistics reveals that 54 percent of the state federations of co-operatives are suffering from loss and the remaining are earning low amount of profits or managed to survive at no loss and no profit situation. In case of primary societies 63 percent are suffering from losses and rest are in break even point. Regarding the wholesale stores 86.42 percent are suffering from loss and only 13.5 percent are at neither
Finance is described as the life blood of any organisation. It is just like a circulatory system of human body. If this system works on sound lines the human body keeps healthy. Likewise as long as funds of the organisation flow smoothly and efficiently from one end to another, the organisation can keep its functioning healthy. Any interruption in the free flow of funds leads to financial crisis. Hence it is absolutely necessary to manage the funds in general and working capital in particular.

The management of working capital has a definite effect on the profitability and the solvency of a business. With proper planning of working capital requirements, any business can flourish in the business world, otherwise, the profitable business runs to a close. So proper attention should be paid to management of working capital. For the success of the enterprises, prudent management of working capital is very essential. Proper and efficient utilization of working capital resources will take care of liquidity and profitability. So that there would be fruitful growth of an enterprise.

Every enterprise requires funds for establishment and operations. These funds can be classified into two categories namely fixed capital and working capital. Funds invested in fixed form of assets such as plant & Machinery, land & buildings etc., are fixed capital where as funds invested in current assets to meet the day to day expenses are working capital. Current assets will be in the movement and gets transformed into various stages of inventory, debtors and back to cash. This is a process known as operating cycle or cash cycle. The main objective of working capital management is to ensure smooth and rapid flow of funds over the operating cycle. The working capital management efficiency and profitability of the firm would be increased by it. And hence the concept of operating cycle or cash cycle is useful to estimate the working capital requirements of a firm.

The profitability of a firm is influenced by the ratio of working capital to fixed capital. Therefore the management should maintain the correct ratio between working capital and fixed capital. Management of working capital is very delicate area in the field of financial management.

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2 Srinivasan S., cash and working capital management, Vikas Publishing House, New Delhi, 1998 P-2
profit nor loss level. More than 50% of federations and primary stores are not economically viable and a small percent of wholesale stores are running on meagre profits. It is clear from the above analysis, majority of the super bazaars in all categories are not functioning well, though they are provided with government help. Problems concerned to purchases, sales, inventory, personnel and poor management of working capital funds are the main reasons for this pathetic situation. Lack of operational efficiency is the main reason for their poor performance. Many of the societies are not able to make profits due to lack of sound marketing policies, imprudent financial management in general and working capital management in particular, lack of cost control practices. Out of these, the imprudent financial management is most important reason for the failure of co-operative societies. They have failed to earn profits because they do not have any scientific approach to manage the funds. Their inefficiency in managing the funds leads to the problem of scanty working funds. Therefore efficient financial management particularly in the management of working capital would have helped the consumer co-operatives to succeed.

Hence it is imperative to probe into the practices of financial management in general and working capital in particular of consumer co-operatives. In fact, there are few studies assessing the financial performance of consumer co-operatives, particularly management of working capital. Such studies are very essential to identify the factors responsible for their poor performance in managing working capital and to suggest viable measures to overcome the obstructions. The present study on working capital management in the selected super bazaars in Andhra Pradesh
is an attempt to identify the factors responsible for their poor performance in managing working capital, and to suggest viable measures to overcome the obstructions. It goes without saying that in general the state of affairs of the consumer co-operatives in its working capital management cannot be different from their counter parts in the other states in India. But the fact that not more than one third of the total societies in Andhra Pradesh are able to make some profits, is ground enough for a detailed study of the "Working capital management in the selected super bazaars in Andhra Pradesh."

Objectives of The Study

The study has the following specific objectives.

1. To assess the overall performance of consumer co-operatives in terms of utilisation of funds;

2. To analyse the cash management practices and their efficiency in managing the cash balances in the selected super bazaars;

3. To assess the receivable management practices and their efficiency in the selected superbazzars.

4. To analyse the management of inventory and its efficiency in selected superbazaars.

5. To examine the overall management of working capital and its efficiency in maximisation of overall performance.

6. To assess the problems of working capital and to suggest feasible ways and means to overcome the problems confronting the working capital management in order to tone up the overall performance of consumer co-operatives in Andhra pradesh.

7. To focus on the different issues in the areas of working capital management.
Methodology

In the present investigation of "working capital management in consumer co-operatives" in general and consumer co-operative super bazaars in particular in Andhra Pradesh in managing working funds and the various problems they confront in working capital management, both primary and secondary data have been used for analysis. The study uses a one-way approach, focussing its attention on the selected super bazaars in the state. The data pertaining to current funds like cash, receivables, inventory and sales are collected for analysis from the official records of the chosen consumer co-operative super bazaars. Further the study also makes use of other related data published from various institutions. The data ascertained through the annual reports as well as the records of the societies are analysed scientifically to measure the efficiency of working funds.

Primary Data

To collect the data, structured and unstructured interviews have been conducted with experts on the subject and also those who are involved directly or indirectly in the functioning of consumer co-operative super bazaars in Andhra Pradesh.

Secondary Data

Secondary data is collected from the records of the super bazaars and their annual reports both audited and unaudited in all the super bazaars selected for investigation. Relevant information relating to the working capital management, theoretical as well as empirical is also collected from various journals, reports and periodicals. Further, data from the published and unpublished records and reports of various institutions has also been collected for supplementing the information on the subject.
Sample Design

A multi-stage sampling design has been used to collect the data. Andhra Pradesh has three natural regions namely Rayalaseema, Coastal Andhra, and Telangana. To have representative samples from the whole state, 50 per cent of the districts in each region of the state have been selected, eliminating those districts, which do not have any society. From among the remaining 50 per cent of the districts in the state, some districts have been selected in view of the working status of the consumer societies in them for an in-depth study. Thus three districts in Rayalaseema, five districts in Coastal Andhra, and three districts in Telangana have been selected for the study. There are 67 wholesale stores/super bazaars spread over the 23 districts of Andhra Pradesh. Of these only a few have been running on profit lines. Only 15 super bazaars are able to earn some profits, 50 are on losses, and the rest have become defunct. The defunct stores are eliminated at the first stage, from among the remaining wholesale stores/super bazaars in all the districts, those which are running on profit lines, are selected at random. In the second stage, the super bazaars, which are working on profit continuously, are selected at random. Thus, fifteen super bazaars in the state 5 from each of the three regions, Rayalaseema, Coastal Andhra and Telangana form the total sample for the investigation on the management of working capital. These super bazaars include Mamatha Mahila Co-operative Super Bazaar, Tirupati, Balaji Co-operative Super Bazaar, Palamaner (Chittoor District), The Kadhiri Co-operative Super Bazaar (Central Store), Kadhiri, The Anantapur Co-operative Super Bazaar (Central Store), Anantapur (Anantapur District), The Proddatur Co-operative Super Bazaar, Proddatur (Cuddapah District) in Rayalaseema region, The Kalpavalli Co-operative Super Bazaar, (Guntur), The Srikakulam

Tools of analysis

To analyse the data scientifically various financial tools and techniques have been applied. In addition to the financial techniques some of the statistical techniques are also used to analyse the quantitative data so as to arrive at logical conclusions viz.,

Current Ratio

This ratio expresses the relationship between current assets and current liabilities. It is a measure of general liquidity and used to make the analysis of a short term financial position of a firm. It is calculated by dividing the total of current assets by total of current liabilities.

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}
\]

Current assets include cash and those assets which can be easily converted into cash within a short period of time generally, one year, such as cash, bank, marketable securities (short term), Bills receivables, debtors, stock, prepaid expenses and accrued incomes.

Current liabilities are those obligations which are payable within a short period of time, generally one year. Those are creditors, bills payable, bank over draft, provision for tax, incomes received in advance etc.,
Liquid Ratio

This ratio is to measure the ability of the firm to meet its short term obligations in time without relying upon the realisation of stock. The quick ratio can be calculated by dividing the total of quick assets by total current liabilities. Liquid assets mean all current assets except stock. Current liabilities are expressed as above.

Liquid ratio = quick or liquid assets / current liabilities

Working Capital Turnover Ratio

This ratio indicates the velocity of the utilisation of networking capital. This ratio indicates the number of times the working capital is turned over in the course of a year. This measures the efficiency with which the working capital is utilised.

Working capital turnover ratio = Net sales / Net working capital

Ratio of Current Assets to Total Assets

This ratio is useful to know the proportion of current assets in the total of fixed assets. This can be calculated by using the following formula.

\[
\frac{\text{Current assets}}{\text{Total assets}} \times 100
\]

Ratio of Current Assets to Fixed Assets

This ratio is used to measure the level of current assets in relation to the fixed assets. It is calculated by dividing the current assets by fixed assets.

\[
\frac{\text{Current assets}}{\text{Fixed assets}} \times 100
\]

Debtors Turnover Ratio

This ratio indicates the velocity of debt collection of a firm. It indicates the number of times the receivables are turned during a year.

Debtors (Receivables) Turnover ratio = Net sales / Average debtors
Debtors' to Current Assets Ratio

This ratio is used to know the percentage of debtors to current assets. This ratio is very useful to analyse the share of working capital blocked in debtors.

Debtors to current assets ratio = \[ \text{Debtors} / \text{current assets} \] \times 100

Debtors to Total Assets Ratio

This ratio explains the percentage of investment made in total assets of a concern.

Debtors to total assets = \[ \text{Debtors} / \text{Total assets} \] \times 100

Inventory Turnover Ratio

Inventory turnover ratio measures the velocity of conversion of stock into sales. It indicates the number of times the stock has been turned over during a period and evaluate the efficiency with which a firm is able to manage its inventory.

Inventory Turnover ratio = \frac{\text{Cost of Goods sold}}{\text{Average Inventory}}

Ratio of Inventories to Current Assets

This ratio indicates the proportion of inventory to current assets. It is measured by the following formula.

\[ \frac{\text{Inventories}}{\text{Current assets}} \times 100 \]

Ratio of Inventories to Total Assets

The percentage of investment made in total assets is known by using this ratio. This can be calculated as follows.

\[ \frac{\text{Inventories}}{\text{Total assets}} \]

Cash Turnover Ratio

This ratio indicates the proportion of cash balances held in relation to sales volume. Higher cash turnover in sales indicates efficient utilisation of cash resources.

\[ \frac{\text{Net sales}}{\text{cash}} \]
Funds Flow Statement

The funds flow statement shows the movement of funds and is a report of the financial operations in the business undertaking. This statement describes the sources from which the additional funds are derived and the uses to which these sources are put i.e. it is a statement showing sources and applications of funds for a period of time. It helps the financial analyst to have a detailed analysis and understanding of the changes in the distribution of resources between two balance sheet dates. The statement may be prepared in the following form.

In addition to the above financial techniques, that are used to analyse the data, some of the following statistical techniques are also used. The description of these statistical techniques are here as under.

Arithmetic Mean

Arithmetic mean (A.M.) is the single representative figure that gives an idea about the entire data. It can be obtained by dividing the sum of all the observations by the total number of observations. Simply it is also called as average.

\[
\text{Arithmetic mean } \overline{X} = \frac{\sum_{i=1}^{n} X_i}{n}
\]

Where \( x_i = \) with observation of the data
\( n = \) number of observations.
Standard Deviation

This measure of dispersion estimates the average variation (deviation or scatteredness) of the observations from the mean. It is denoted by $\sigma$ and is calculated as

$$S.D. = \sigma = \sqrt{\frac{1}{n} \sum_{i=1}^{n} (x_i - \bar{x})^2}$$

Coefficient of variation (C.V.)

This measure was given by Karl Pearson which can be calculated with the help of both standard deviation as well as arithmetic mean. It is expressed in terms of percentage. It is used to compare different data to find out the most consistent data. Here the data with the least coefficient of variation is said to be more consistent than any other one. It can be calculated.

$$C. V = \frac{\sigma}{\bar{x}} \times 100$$

Coefficient of Correlation ($r$)

The coefficient of correlation is a numerical measure which is used to find out the linear relationship (if it exists between two variables) of a given data. If the change in one variable can create any change in the other variable, then the variables are said to be correlated and the measure to find out their relationship is as follows.

$$Karl \ Pearson's \ coefficient \ of \ correlation \ (r) = \frac{1}{n} \sum xy - \frac{\sum x \sum y}{n}$$

$$\sqrt{\frac{1}{n} \sum x^2 - \frac{\sum x^2}{n} \frac{1}{n} \sum y^2 - \frac{\sum y^2}{n}}$$

here $n$ is number of pairs of $x$ and $y$ values. The limits for correlation coefficient are -1 and +1. If co-variance between $X$, $Y = 0$ then $X$ and $Y$ are said to be uncorrelated. A high degree of correlation indicates a close relationship between them. To avoid the variation due to
chance factor the coefficient of determination \((r^2)\) is also measured. It explains the variation in dependent variable caused by independent variable.

In addition to \(r^2\), the students team test statistic is also calculated to measure the significance of correlation between the two variables through the following procedure.

The null hypothesis is that the sample correlation coefficient \((r)\) of population is not significant, i.e., the population values of the two variables are not linearly correlated. It can be tested against Alternative hypothesis, i.e., \((r)\) is significant. For this, student's test statistic is used.

\[
t = \frac{r}{\sqrt{\frac{1}{r^2} / n - 2}}
\]

The \(t_{cal}\) is compared with the \(t_{tab}\) at 5% L.O.S. for \(n-2\) degrees of freedom. If \(t_{cal}\) is less than \(t_{tab}\), null hypothesis is accepted and concluded that the population variables are uncorrelated. Otherwise, the null hypothesis is rejected.

**Linear Regression**

Regression means stepping back towards the average. The value of one variable can be found at a fixed value of another variable. The variable which creates change in the other variable is called independent variable or explanator or regressor and the variable which is being effected with respect to the other variable is called dependent variable or explained variable or regressed variable. There are always two types of regressions i.e.,
y on x as \( y = a + bx \), which is used to project the value of \( y \) for a given value of \( x \) and x on y as \( x = a + by \), which helps to estimate the value of \( x \) for a given value of \( y \). The two normal equations to fit regression line of \( y \) on \( x \) are:

\[
\sum y = na + b \sum x
\]

\[
\sum xy = a \sum x + b \sum x^2
\]

Here \( n \) is number of years of data given for variables \( x \) and \( y \).

ANOVA

Analysis of variance (ANOVA) is a powerful statistical tool for the test of significance which is used to draw the inference relating to significant differences of several population means. It was propounded by Fisher to deal with problems in the analysis of agronomical data. This test is to make Null hypothesis as all the population means are equal or there exists no significant difference among several population means.

Eg: The three means of the current assets of all the three regions are equal. It is tested against the alternative hypothesis the means are not equal.

Here F-test statistic is compared with corresponding \( F_{\text{tab}} \) at required L.O.S. and relevant degrees of freedom. If \( F_{\text{cal}} \) is less than \( F_{\text{tab}} \), accept the Null hypothesis other wise reject the Null hypothesis.

Diagrammatic Representation of Data

Diagrammatic representation is useful to present the data in the form of diagrams and graphs which is generally more attractive, fascinating and gives a birds eye view of the given data. It presents the data in simple readily comprehensible form.
The commonly used diagrams are mentioned hereunder.

One dimensional diagrams - line diagrams, bar diagrams, two dimensional diagrams - rectangles, piecharts, three dimensional diagrams - cubes, blocks etc. and Pictograms. Here in this work bar diagrams and line diagrams are taken.

Bar diagrams are one of the easiest and the most commonly used devices of presenting most of the business and economic data. These are especially satisfactory for categorical data or series. They consist of a group of equidistant rectangles, one for each group or category of the data in which the values or the magnitudes are represented by the length or height of the rectangles, the width of the rectangles being arbitrary and immaterial. These diagrams are called one-dimensional because in such diagrams only one dimension viz., height (or length) of the rectangles is taken into account to present the given values. The height (length) of the rectangles or bars are taken proportional to magnitude of the observations.

Significance of The Present Study

The management of working capital has a definite effect on the profitability and the continued existence of a business. Only with proper planning of working capital requirement any business organisation can flourish in the business world. Otherwise the business runs to a close. So proper attention should be paid to management of working capital. Now-a-days the efficient management of working capital has acquired a greater significance in view of the tight credit money policy followed by Reserve bank of India.
As each component of working funds involves some specific cost, it should be so utilised as to ensure that no capital can get blocked in any form in the current assets. All the components of current assets have to be managed in such a way as to generate maximum returns. Cash should be so managed that there is neither excess nor shortage in running a business activity. Dues have to be collected promptly and made sure that overdues would not convert into bad debts. Likewise inventory should be properly maintained and managed without excess or shortage levels as it has a harmful impact on the business of consumer co-operatives.

As consumer co-operatives contribute their mite to the welfare of consumers and protection of their interests, proper management of funds is very essential. This goal can be achieved only when they succeed in their business operations. Further they can in their own way strengthen the base of the economy and act as model in the business environment. Then only they can serve their avowed objectives of provision of essential items of good quality at reasonable price and with correct weighment. Thus they protect the consumers from the exploitation of the business community. Further, those who are connected with merchandise have to be not only prevented from indulging in exploiting trade practices but also made aware of their responsibilities and obligations to the society to which they belong and in whose well-being their own prosperity depends. It is also necessary to educate the consumer about the responsibility and rights by which one can protect oneself. In fact, it is possible only when the consumer co-operatives follow efficient management of their financial resources. It can be stated that studies on various aspects of co-operative societies particularly in working capital management are valuable in view
of the significant role of the consumer co-operative super bazaars. Such studies will aid the consumer co-operatives to improve their overall performance and help them to contribute their mite for the welfare of consumers.

The present study of working capital management in the selected super bazaars in Andhra pradesh can surely be relevant to the needs of the society for more than one reason. First of all, such a detailed study as this has not been conducted so far in this state. Secondly the financial management in consumer co-operatives shows their plight in this regard is very pathetic as many of them are running on loses. By improving the financial performance and their efficiency, they can protect the interests of consumers.

The present study, by making an objective assessment of their financial performance in managing working capital, can pinpoint the aspects of their failure and suggest possible solutions to plug the loop holes inorder to tone up their overall performance. In view of the importance of the present study, it would be a useful contribution for improving the financial performance of consumer co-operatives in Andhra Pradesh. It helps them serve consumers better and protect their interests from the exploiting businessmen.

**Scope and Limitations of The Study**

The sphere of working capital management in any field covers three important aspects - Determining the level of current assets, Computing the financing mix of current assets, Interrelationship among current assets and current liabilities.
The management can adopt either a conservative policy or aggressive policy depending on the attitude towards risk, so as to make it responsive to the changing needs. The liquidity implications of the policy require a careful analysis in order to assess the effectiveness of working capital management. In the present study an attempt has been made to identify the trends in the working capital management pattern in the selected super bazaars and evaluate them in terms of efficient management.

The profitability analysis of the superbazaars is not taken up as the majority of superbazaars made only a meagre amount of profits and others are running on losses. Further the working capital financing pattern, norms of working capital financing of these societies are also excluded.

The study has thrown light on the management of various components of current assets and current liabilities, utilization aspect of working capital, gross working capital and net working capital. Further various financial ratios are computed to assess their financial performance and also some measures are suggested for improving the performance of the societies. The study has its own limitations in terms of coverage. It has confined itself basically to working capital management and excluded other areas of finance. The data collected covers only a period of 10 years, the reason being that the data from the inception of the selected cooperatives could not be obtained. Therefore, on the basis of the available data, which covers a period of 10 years from 1997-98 to 2006-07, the study has been carried out.

Plan of The Thesis

The entire thesis is organised into 8 chapters

Chapter-I Deals with introduction and Research Methodology. It gives a brief account of Consumer Co-operatives and their Problems from the view point of financial management, and reviews relevant literature, and explaining the research Methodology adopted in the inquiry.
Chapter II - Covers the Co-operative movement and the origin of consumer co-operative societies in India.

Chapter III - analyses the aspect of Working Capital - A theoretical back drop elaborating the theoretical concepts developed on the subject till to-date.

Chapter IV - evinces Cash Management in consumer Co-operatives. It touches upon the various aspects of the cash management and its efficiency in running business operations. Further various ratios relating to the component of cash are also analyzed.

Chapter V - focuses light on with Receivable management in the selected superbazaars. It covers various aspects of receivables, their impact on sales and their effectiveness in the consumer Co-operative super bazaars.

Chapter VI - comprises Inventory Management in the selected super bazaars. It attempts to give a clear and detailed picture of the inventory management Practices and their impact on sales in the consumer Co-operative super bazaars.

Chapter VII - Illustrates with Efficiency of Working Capital Management in the selected super bazaars. It covers the impact of Gross Working Capital, Net Working Capital and Current Liabilities on Sales Volume. It also assesses the Efficiency of working funds in augmenting the financial performance of the super bazaars selected for the study.

Chapter VIII - Presents A Summary of the Conclusions and suggestions. It putsforth the conclusions drawn on the basis of the study from various angles pertaining to the financial aspects of the super bazaars and suggests various feasible ways and means to surmount the problems and also to tone-up the financial performance of the co-operative super bazaars in Andhra Pradesh.