

CHAPTER-I

I N T R O D U C T I O N

Co-operation in India was initiated with the object of protecting the agricultural community from exploitation by unscrupulous moneylenders and traders. The basis of such an organisation is an economic activity-production of goods or services carried on for the protection and promotion of interest of members. The ownership of such a unit rests with the members collectively. The unit works on democratic lines. The co-operative movement got a big push with the launching of the Five Year Plans. This period has been described as the "seed period" of the co-operative movement.

Finance is the fuel of management, without adequate financing, no business enterprise can reach

its full potentials for growth and success. It is the dynamic power which keeps the enterprise going, keeps men and machine at work, encourages management to make production plans and creates wealth in the form of goods and services. Finance is the life blood of all socio-economic organisation. The co-operative institutions, too, like other types of business organisation, need finances to establish, operate, expand and maintain their production, distribution and other allied functions. Their financial needs can be met by capital provided through internal and external sources.

By 'financial management' we mean "financial requirements and the sources that make up the requirements". The financial management is concerned with obtaining funds and using them profitably. In our study, It means calculating the cost of sugar, Evaluating market and controlling costs. Like any other industrial organisation, the co-operative Sugar Factories also need sound business financing. In modern economy, finance plays the most vital and significant role in practically all fields of business.

The financing in a large scale co-operative unit is a unique one. From the view of management of finance, the following salient features of such large scale co-operative unit are important,

- (a) Promotion and financing both are influenced by the State.
- (b) Since the surplus can be utilised for development and expansion, there is a great scope for internal financing.
- (c) The organisation centres round the economic interests of members, therefore resource utilisation has to be done very carefully and on the basis of democratic management.
- (d) There are many tax concessions and exemptions available to co-operatives. Due care has to be taken to safeguard legal aspect of these concessions.

The finance function in a co-operative unit is most sensitive area of management. The financial planning and control is largely influenced by State policy. Efficient use of finance involves more accountability and democratic control. Cost of finance is also an essential consideration. The

co-operative unit can prove its merit by developing and maintaining the high standards at financial management efficiency.

The sugar industry is the largest among the processing industries in the country next only to textiles. Co-operative sugar factories in India are Post Independence phenomenon. An effective starting point for the co-operative sector in the sugar industry was provided by the establishment of the Pravara Co-operative Sugar factory at Pravaranagar in Shrirampur taluka of Ahmadnagar District in 1950-51.

Maharashtra is considered as one of the leading States in India in the co-operative sugar industry and in Maharashtra, Ahmadnagar district is recognised as the most important centre of successful co-operative sugar industry or factory. There are 77 (Co-operative- 67 and private 10 as on 1982-83) sugar factories in the State of Maharashtra. There are 17 (Co-operative-12 and Private-5) factories located in Ahmadnagar district (by 1982-83)

The study, its nature, objectives and scope:

The management consists in the accomplishment of accepted objectives of the units by establishing an environment favourable for performance of the essential business functions. The favourable environment is established by planning, organising, directing and controlling the business functions. The co-operative sugar factories organised on modern lines has come to stay and can ill afford to overlook developments in the field of management.

This is a study of one of management one of the business functions of viz., finance in sugar co-operatives. Sugar co-operative is a large scale industrial unit which has come into existence with State sponsorship. The financing is both individual and institutional. For the purpose of this study, the sugar factories located in Ahmadnagar District-Maharashtra State have been selected.

Nature of Co-operative finance:

Organisationally, there are many common things between a co-operative and corporate finance. Both have got a body of shareholders. The Managing Director

or the General Manager, who is the chief official serves as a link between the Board and the management in both the types of organisation. A co-operative unit is also set up by individuals or their federating units for securing services at cost and for improving income of the constituents. The co-operatives receive finance from those who benefit from it. All this fits in with a private enterprise system.

A co-operative finance thus may appear lesser private than other similar forms of business finance. A co-operative organisation lays stress on direct participation in operation by its members performing exploratory directional function and supplying capital. Obviously a co-operative enterprise is not formed to distribute financial benefits along the same lines as other forms of co-operative enterprises. The financial benefits are distributed among those who are served by the co-operative unit in proportion to their use of its services not in proportion to their investment in that enterprise.

The principle of co-operative finance is "Mutual Aid". Capital is collected from the members of co-operative units in the form of shares. The Government

also provides help to co-operatives by subscribing to the capital by giving them loans.

The other types of financial help from Government are-

1. Subsidies.
2. Guarantees.
3. Contribution to risk fund.
4. Tax concessions.
5. Help to the banking organisations.

As the protector of the public interest, the Government is vitally connected with the co-operative sugar factories. The State Government is intimately interested in the success of co-operative sugar factories because on it depends validity of its policy of rural development.

The financial requirements of the co-operative sugar factories are as under:

Long term finance to meet the cost of fixed assets such as plant and machinery, land and buildings etc. This capital is collected in the form of shares and the contribution of the State Government.

Medium and short term finance to meet the cost of sugarcane and other inputs, wages, salaries, repairs and maintenance etc. This amount is borrowed from outside sources like the Industrial Finance Corporation of India or the State or the District Central Co-operative Banks or Nationalised Banks.

The present cost of setting up a co-operative sugar factory on economic lines is Rs. 20 crores of which the factory collects 20% from the producer members, 20% from State Government and 60% from co-operative Banks and financial institutions.

Objects of the Study:

This study of financial management of all the co-operative sugar factories in Ahmadnagar District is undertaken with the main object of identifying the uniquences of co-operative finance, and finding out as to how the funds have been raised and utilised by the sugar co-operatives. The period selected is 3 years from 1980-81 to 82-83.

With this main object in view, the study is attempted to achieve following purposes-

1. An analysis and interpretation of financial statements of the selected co-operative sugar factories.
2. A critical survey of financial structure of the these factories.
3. An examination and assessment of organisational set up created for financial planning and decision making.

4. Analysis of the problems being faced by these factories specially from the point of view of finance.

Thus, the nature of the study is both emperical and analytical. The study seeks to provide a factual foundation for further analysis of how the sugar factory's activity in the co-operative sector is organised and developed.

Importance of the Study:

In the view of growing importance of the co-operative sugar factories in our economy, the study may prove to be useful and timely one. The factories are also in the process of development. There is an urgent need for new literature that will influence coming developments in the co-operative movement. There is also diversity of conditions prevailing in different sub-sectors of the movement. Studies are few in these fields and are not significantly related to functional areas of management specially to problems of financial management. In this field again co-operative sugar factories must be placed against a background of research directed towards developing and intergrated sugar policy for the

entire industry. Further the findings of this research work has considerable relevance in the present period when important policy decisions are being taken on the national level in the field of co-operative sugar factories. It is, therefore felt that the present research work would be an addition to the existing knowledge on the subject of the co-operative finance and the management of co-operatives.

Methodology:

In the management field a researcher has to follow necessarily the methodology of social science research. This study is based on the information collected by free use of secondary and primary sources. These are as follows-

1. Primary statistical data is collected from Annual Reports of the factories and publications of Maharashtra State of Co-operative Sugar Factories Federation and other parallel studies. (Both published & unpublished)

Other unpublished information and data are collected from various circulars issued by the Factories, National and State level

Federations, State Government Reports, press clippings etc.

2. The other first-hand information is collected through the following ways: Personal Interviews - A Questionnaire (please refer to the appendix No. 4) was mailed to the factories and was followed by personal visits. Personal interviews and informal talks were held with the officers, selected members and some office bearers of the factories. Few Annual General meetings held of these factories during the period of study were also attended.

Limitations :

There are some limitations of the study due to information thus collected as well as its use. These are as follows:

1. In this study, financial aspect is considered but the other functions of management having bearing on finance such as purchasing, store-keeping and selling are excluded from the perview of the study.
2. The study is confined to only 12 co-operative sugar factories in Ahmadnagar District. (They were in operation during 1980-81)

3. The period selected for analysis of the financial statements is 3 years as from 1980 to 1983.

Contents of the Thesis:

A logical arrangement in the presentation is followed this can be seen from the chapter-wise contents of the thesis as given below:

1. Chapter I : Introduction.
2. Chapter II : Finance function and the management of co-operatives- Feature of co-operative management- Role of sugar Co-operative factories in the Institutional structure of modern business in India.
3. Chapter III : Growth of Sugar Industry- Introduction- Historical- Beginning of sugar industry in India- Position in Maharashtra- Ahmadnagar District- Factors responsible for growth.
4. Chapter IV : Requirements & sources of finance for sugar co-operatives-

Introduction- financial needs- special features due to co-operative character-sources of funds- Long term financial requirements and their sources- Changes in the sources- working capital requirements and their sources- Trend analysis Internal sources Vs. external sources.

5. Chapter V : Organisation and information system for finance function-
Introduction- Account system. Stores management and control- Annual statement of accounts- conclusion

6. Chapter VI : Financial control and Audit-
Introduction- methods of control- Internal check and Audit- Budget and Budgetary control- control by Directors- Control by Shareholders (Members)-control by State Government- Audit-conclusion.

7. Chapter VII : Problems of sugar co-operatives-
Expansion-sickness- Area develop-
ment activities- concluding
remarks.
8. Chapter VIII : Summary and conclusion.

Thus, this is both an empirical as well as experimental study. It is for the first time that the analysis and evaluation of managerial performance on the finance front of sugar co-operatives has been brought to light. The study of extended further may guide the polices relating to sugar industry in general.

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