CHAPTER-II

II

FINANCE FUNCTION AND THE MANAGEMENT OF CO-OPERATIVES:

Management of Finance is a vital area of management in any business organisation. It is the key variable which determines the success or failure of an organisation. The basic business objectives depend on the efficient management of finance. Finance can be considered as a lubricant for smooth business functioning.

Objectives of financial management:

The nature of business undertaken by an organisation will also decide its financial management e.g.

the finance management in a private business will have maximisation of profits as its chief objective. While a public enterprise will accept a system of financial management under which it can fulfil the objectives for the state and will not be guided by considerations of profit. In a co-operative business service motive is a primary objective. Profit for shareholders is secondary. The service to shareholders and to the society is an integral part of the present day co-operative organisation. This applies to sugar co-operatives as well.

The objectives of financial management are to improve the economic condition of the agricultural producers mainly through co-operative processing and marketing of their produce.

Every business transaction takes place in an organisation with some view to achieve its goals. It involves direct or indirect financial implications. So the management of finance within the business largely affects the operational results. If the finance functions are not performed properly, mismanagement takes place in this particular activity of the business. Maximum achievement of the business objectives at minimum of cost is the essence of any system of financial management.

Financial management is the art and technique of obtaining funds and its effective utilisation. The cost of funds is the amount paid to investors who expect sufficient returns on their investment in the business. Therefore, it would be necessary to have a correct estimate of funds required to run the business. For this, sound financial planning is essential for different aspects of the business.

Financial Planning:

System of financial management would differ from business to business. A sound system of financial management must take into account following aspects.

(a) Decision of the financial resources required to run the business.

(b) Decision of owned funds outside borrowings to meet the requirement assets (a) above.

(c) Finding out the sources to attract outside borrowings.

(d) Unfolding a system of financial control for allocation of funds.

(e) Unfolding programme for man-power requirement to run the business.

The scope of financial management has undergone considerable changes in recent years. Accordingly, the focus on the meaning and importance of the finance functions has widened. The finance functions are broadly classified as under:

1. Executive finance functions.
2. Routine finance functions.

These functions in general and with reference to sugar co-operatives can be deseribed as follows:

(1) <u>Executive Finance Functions:</u>

These functions relate to important decision making in the finance.

The main functions under this can be stated as follows:

(a) To decide about that capitalization.
How much funds should be raised to finance the business activity is a key decision. The finance is essential for fixed capital investment, working capital, short term capital etc.

(b) To decide about the form of financing:
The total funds are raised from owned resources and borrowings. What should be

the ideal mixture of owned and borrowed funds is decided by the top management. Generally, the Board of Directors of Sugar Co-operative prescribes the optimum capital structure in the long run. The subsequent fund raising is directed towards such as an ideal mixture of owned and borrowed funds. The Board of Directors of Sugar Co-operative also decides its target debt limit.

(c) Management policies to establish assets:

The available funds are invested in fixed assets and current assets. Various alternative courses are available to decide management policies regarding investment in fixed assets such as, the Board of Directors can decide to get the assets on lease instead of owning plant and machinery, as it requirs least investment in fixed assets. Thus the decisions regarding the asset management policies are important executive decisions.

(d) To estimate and control the cash flow:

Maintenance of the liquidity of the business is also an important consideration in financial management. Through cash budgeting, the cash inflows and outflows are controlled and shortages and surpluses are managed. The top management decides the minimum level of cash balance to be maintained at all times.

(2) Routine Functions:

There are certain routine functions which are generally delegated to the staff in the finance department. Following is a broad classification of routine functions:-

(a) To control cash :

The first important function of the finance department is to control cash resources and maintain the minimum cash balances.

(b) Record keeping:

Secondly, the Accounts Department maintains proper record of business transactions. This function follows within broad area of financial management.

(c) Reporting to Management:

The management i.e. Board of Directors is keenly interested in knowing the key factors as early as possible so that it can take strategic decisions in proper perspective.

Finance function would also include determining the size and volume of operations to be undertaken by the business and composition of its liabilities and assets required for the achievement of the most efficient and economic business operations. This can be possible when the finance section of the business is consulted on all matters relating to the running of business by the various departments.

Finance function may be described mainly as the management of liabilities and assets of the business in an efficient and effective manner consistent with the objectives of the business. The universe of liabilities and of assets have a direct bearing on the financial position of a business concern and the main function of the Finance Manager or Chief Accountant is to ensure a sound financial position for the concern after meeting its business obligations. The finance function also includes management of expenses and operating costs which vitally affect the overall performance of the undertaking, finance function is thus highly technical and requires proper expertise. The well balanced and well planned approach towards procuring finances at right time, in right quantity and utilising them for the best possible advantages of the organisation is the function of financial management.

FEATURES OF CO-OPERATIVE MANAGEMENT:

Co-operation is a form of organisation where in persons, irrespective of caste, creed and religion, voluntarily associate together as human beings, on the basis of equality, for the promotion or furtherance of their common economic interests.

The principles of co-operation are the set of rules which govern the life and activity of co-operative organisations. They are the guidelines and ground rules for co-operative enterprises. It is largely on their application that the success of co-operatives depends. A principle is a governing law of conduct. It describes and defines the basic and essential characteristics of a particular system or type of organisation. Co-operative principles are the high ideals of the co-operative movement. These principles are as follows:

(1) Open and voluntary membership:

The membership in a co-operative organisation is open to all. They are free to join, continue and leave their membership. Membership is available without artificial restriction or without any social, political, religious or racial discrimination to all persons who can make use of its services. It is observed that the membership in sugar co-operatives is of two types-

(a) Producer members i.e. 'A' Class

(b) Non-producer members i.e. 'B' Class.

(2) <u>Democratic Principle</u> :

The co-operative sugar organisations are democratic in the sense that every member is equal and every member has ownership right in the co-operative organisation. But since all members cannot participate in every activity, management through their representatives, becomes necessary and indirect or representatives democracy comes into existance. The members or the general body elect a board of directors. The managing Director (M.D.) or General Manager, the Secretary and the Chief Accountant are the other responsible office bearers. Democracy in a co-operative organisation has weight because irrespective of the interest in share capital, all members have equal rights of voting.

(3) Limited interest on Capital :

Capital in co-operative sector cannot dominate but has to serve in return for limited interest. Sugar co-operatives do not give dividend to share-holders. It was observed that the total income earned by sugar co-operative was distributed among the producer members by way of sugarcane payment by deducting different costs incurred by a sugar factory. In addition to that members of the factory were given 5 Kg.sugar per month per share at controlled rate. In addition to that they were granted subsidies for different purposes.

(4) Independent Status :

Every co-operative society is registered under the Co-operative Societies Act. It is subject to the provisions and privileges under the Act. It has a legal status and can deal with third party independently. Though co-operatives enjoy independent status, it is expected that they would not act as competiting bodies.

(5) Co-operative Education & Training:

A co-operative activity is basically an educational activity. Sugar co-operatives have understood the importance of education. They organise seminars and group discussion for understanding different aspects of agriculture. The education tours are organised by sugar factories. They visit Agricultural Universities and Sugar-cane Research Centres which provide up-to-date knowledge regarding research in agriculture. The education and training is essential for developing a co-operative attitude among people.

(6) Distribution of surplus:

The co-operatives are established primarily with service motive and so the prices of commodities and services offered by the co-operative organisation are kept at reasonable level. The co-operative society may still have a surplus due to reduction in costs or economies in large scale purchases. This amount cannot be called profit because basically profit motive is absent in a co-operative organisation. It is an amount left with organisation after meeting all its costs and not obtained due to deliberate efforts to earn.

Raising of finances :

Finance is the oxygen of industry. Without sufficient and in time finance made available at reasonable terms, it would not be possible for any industry to develop. Sugar industry needs two types of finance i.e. fixed capital for building, machinery etc. and working capital for purchasing raw materials, to pay salaries and wages etc. Following important methods of raising long term and working capital for sugar co-operative are -

1. Raising owned capital &
2. Raising borrowed capital.

Owned capital collected from (a) share capital and (b) internal sources i.e. Reserve and other various funds, deposits etc.

Borrowed capital collected from various financial institutions and Government.

(1) Share Capital:

This is an important source of long term finance. In the co-operative sugar factory 10% capital out of total capital is collected from shareholders in the form of share capital. The sugar factory issues preference shares to their shareholders. The value of share is minimum of Rs. 500 and maximum Rs. 2000/-.

(2) Reserve Fund :

One of the best ways of raising long term finance for a running concern is ploughing back of profit. This fund can be utilized to -

(a) Seasonal changes in demand.

(b) Expansion and modernisation of the machinery.

This fund has played an important role in the rapid development of the co-operative sugar factory.

(3) Other Funds:

At the time of sugarcane payment to the members various funds i.e. area development funds, Chief Ministers relief fund, construction of houses, sugar cane development, fund, and various deposits etc. are deducted from the sugarcane payment. This category of other deductions differs from one factory to another. The co-operative sugar factory uses this amount for working capital.

(2) ~~(1)~~ Borrowed Capital :

In the co-operative sugar factory 50% capital out of total capital is collected from central financing institutions i.e. IDBI, IFCI, ICICI, LIC etc. in the form of term loan. These institutions provide huge amount of finances for setting up of sugar factory, for meeting their several needs and in several forms.

(2) Loan from Banks:

Co-operative Banks i.e. District Co-operative and State Co-operative Bank can and do provide funds for working capital to co-operative sugar factory. Loans are given against guarantee of securities and stocks. Loans are advanced in the form of overdraft and cash.

(3) Loan from State Government:

In 1954, the All India Rural Credit Survey Committee observed that Indian co-operatives were over administered and under financed. Since then, the Government started subscribing to the co-operatives on a much larger scale.

The financial assistance of the Government of to co-operative sugar factories may take the following forms-

(a) Out of total share capital 30% of shares are purchased by State Government it provides a strong financial base.

(b) Provision of loans and advances to the apex bodies of co-operative sugar factories for the maintenance and promotion of their activities.

(c) Guaranteeing the loans sanctioned to the factory by various financial institutions.

(d) Contributing certain fixed amounts to the risk fund maintained by the factory organisations to assist them in tiding over their financial difficulties successfully, if and when they arise.

(e) Announcing tax concessions to the factories in the form of either complete exemption from the payment of sugarcane purchase tax for a certain number of years in the initial stages or a reduction in the tax rate for a specific period of time.

The State Government through direct or indirect schemes of assistance under the Government of India policy started to play a big role in the management and provision of finance to the sugar co-operatives.

Conclusion:

From above discussion it can be concluded that finance is the life blood of business. Management of finance function is a vital area of mana-gement in any organisation profit oriented or not. Finance functions would include determining the size and volume of operations to be undertaken by the business. In sugar co-operatives management of finance functions is to be considered in the context of co-operative principles. The Government of India adopted the policy to develop co-operative sector for encouraging agricultural processing. This has resulted in the various packages and financial help by the Government for the sugar co-operatives.