Chapter VIII: FINDINGS AND SUGGESTIONS
CHAPTER - VIII

FINDINGS AND SUGGESTIONS

Since the independence, the public sector in India has grown phenomenally in terms of its number, investment, production, employment, export earnings, etc. With its wide network of goods produced, services rendered and opportunities created, the public sector in India is now considered to be the biggest single economic institution in the country, on whose development and prosperity, the entire process of economic growth can depend.

Despite its spectacular growth and achievements, there is a wide spread feeling that PEs in India are not being run efficiently. Everyone is expressing his anguish over its working and there is a doubt as to how long they would require to bear the cost of non-performance, while the performance of CLPEs are under constant scrutiny and efforts are being made for its improvement, the poor performance of a large number of SLPEs, particularly, from the financial standpoint, have remained until recently an unexplored field of study. These enterprises differ significantly from the CLPEs in matters of their size, internal administration, and interface, etc. Therefore, they need special attention of the researchers. An evaluation of the achievements of the SLPEs in Orissa revealed that in spite of huge investments, performances and profitability of the public enterprises are far from being satisfactory. The majority of them have either become totally sick or they are in the process of becoming so. In fact, these enterprises have proved to be a
big drain on the meagre resources of the state.

There can be both financial and non-financial factors, that are responsible for the present plight of the SLPEs in Orissa. Among the financial problems, experts are of opinion that it is the imprudent management of working capital which is mainly responsible for the unsatisfactory financial performances of the public enterprises in the state.

According to them, the lack of an efficient and effective utilisation of working capital either does not permit a public enterprise to earn an adequate rate of return on its investment or compels it to sustain perpetual losses.

As such, it was proposed in this study, to examine the degree of efficiency with which working capital, the most vital part of the capital employed, has been managed by the public enterprises in Orissa with special reference to the manufacturing organisations.

The study reveals, that the inefficient management of working capital is to a great extent responsible for the losses incurred by the selected public enterprises of Orissa, as turnover of their assets have been low and the profit earned on them has been negative. Hence, these enterprises have completely failed in managing their working capital, which happens to be the most important condition
for the running of a business enterprise successfully. It plays a dominant role in earning the maximum return on their investment. While an excessive/surplus working capital leads to unremunerative use of scarce resources, inadequate working capital interrupts the smooth flow of business activity and impairs profitability.

Besides the study made on the management of working capital in the seven selected public enterprises of Orissa, we have also surveyed the reports of the Comptroller and Auditor General (CAG) of India and the Public Undertakings Committee of (PUC) Orissa Legislative Assembly from time to time. The relevant findings of these reports about the management of cash, receivables, inventory and working finance have been kept/placed at the end of the concerned chapters. We thought, this would further expose the state of the management of working capital in the public enterprises of Orissa. It is worthwhile to mention that CAG/PUC has also noticed the same defects in all the components of working capital as well as of working finance and supports the hypothesis of this study.

**DESIGN OF THE STUDY**

The study on the management of working capital was intended to cover those public enterprises in Orissa which are engaged in the manufacturing activities, since the working capital cycle could be completed by having all the stages in respect of these enterprises only. The following
enterprises were selected for the study namely: (1) IDCOL, (2) SSML, (3) ECSACL (4) ECBDL (5) OSTCL (6) OTML & (7) KTVL.

The research work was exploratory as well as hypothesis testing in nature.

The data for this study have been collected from the annual reports of the concerned enterprises. Much useful information has also been collected from the reports of the Comptroller and Auditor General of India and the Public Undertakings Committee of the Orissa Legislative Assembly, reports of the R.B.I. Studygroups and earlier research works.

In order to conduct a survey on managerial problems of working capital, we had drawn up a questionnaire on the managerial functions related to working capital and also each of its components. It was administered to all the selected enterprises. The replies obtained to the questionnaire were supplemented with the informations collected by the researcher during his personal visits to the enterprises and discussions with the concerned executives.

We have mentioned it earlier, that the present study has revealed that the imprudent management of working capital has been greatly responsible to the losses borne by these enterprises. It has also brought to light a number of
policy issues, managerial practice and deficiencies in the area of working capital management of the public enterprises in Orissa. The working capital management was studied initially in the overall context and then the management of each of its major components, such as, inventories, receivables, cash and working finance. Conclusions were drawn from both the published financial data and survey results (though questionnaires and discussions), in each of the above areas of management. Suggestions were also offered for the efficient management of the working capital.

The views of some of the eminent authorities on financial management and experienced finance executives of the public enterprises were also incorporated while offering the suggestions for their remedy.

**MANAGEMENT OF CASH**

Cash is a key asset for any business enterprise. It is both the beginning and the end of the working capital cycle. Without cash, the working capital cycle can not start, move and function. Though, Cash is the smallest of the working capital component, still more importance is being given for its effective management on account of liberalisation of economy, higher costs of borrowing money, increasing rate of inflation, higher returns on investments, cut-throat competition, etc. In modern business, when cash, like any other asset, is a tool for earning profits, the emphasis lies on the right amount of cash, at the right time, at the right place and at the right cost.¹
Adequate flow of cash is essential to meet the needs of the business. Its shortage may degenerate an enterprise into a state of technical insolvency and even to liquidation. But the higher the amount of idle cash, the greater is the cost of holding it in the form of the loss of interest which could have been earned either by short-term investment or by reducing the burden of interest by repaying the loans. Hence, the crux of cash management is to balance the inflows/receipts and the outflows/payments of cash to achieve the optimum use of cash resources.

In the public enterprises of Orissa, cash management has presented serious problems in the field of working capital. The study has revealed, that the size of cash was inadequate in all public enterprises during the period of study. So the working capital cycle was suffering from under investment. The turnover ratio of current assets was very low, and the current and quick ratios were very high, excepting OTML during the period of study and OSTCL from 1986-87 onwards. Only IDCOL provides an overall satisfactory figure.

The enterprises were following the technique of cash budget for the purpose of cash planning. The period of cash budget ranges from quarterly to yearly. With regard to the preparation of cash flow reports, it was only in the case of IDCOL, these were prepared on daily basis and others
were preparing them on monthly or quarterly basis. The net cash flows were negative in many cases and funds from operation were inadequate to cover the working capital requirements. Major portion of the resources was financed by the loan funds available from State Government and other sources.

So far as the speeding up of the inflows are concerned, the enterprises were not using any scientific cash management techniques like, Electronic Fund Transfer System, Lock Box System or Concentration Banking. Even cash flow and funds flow statements were not prepared by the enterprises regularly.

From the actual liquidity study, we noticed, most of the enterprises remained least successful in exploiting the Cash discount opportunities offered to them. The efficiency of the management of Cash was further studied by finding out whether or not a business enterprise tries to maximise the availability of cash and invest the short term excess funds in short term securities. The public enterprises had paid little attention to this important aspect of cash management. Defective credit and collection policies of the public enterprises proved a further hinderance to an earlier receipt of cash by them. The lack of promptness of billing the customers also deprived the public enterprises of earlier cash receipt. It was found
that they take (7-10) days minimum in sending the bills to customers.

None of the enterprises could make sincere efforts to regularise its cash flows, determine optimum cash balances, maximise the availability of cash and investment of idle funds. That there is no system of effective cash planning is evident from the fact that there is no correct assessment of the cash requirements and in many cases, the enterprises were borrowing funds from the commercial banks even though, huge funds were lying in current accounts, resulting in the payment of substantial interest. Further, the numerous instances of misappropriation of cash, clearly shows the lack of a perfect system of cash management in these enterprises. The various reports of the CAG and PUC have highlighted these cases and were critical about the checking of such misappropriations.

**SUGGESTIONS**

The foregoing analysis clearly reveals that the efficient management of cash was an important problem of working capital for the public enterprises of Orissa. The following suggestions, if implemented, will definitely improve the cash management system in these enterprises.

First, the public enterprises of Orissa should improve their techniques concerning planning and control of cash. Efforts must be taken to regularise their cash flows
and to balance the inflows of cash with the outflows. Inflow of cash can be increased by expediting the process of collecting debts and cheque clearing and through the quick transfer of funds.

Second, the enterprises should fix the minimum and the maximum levels of cash to be held by them. In order to carry the optimal level of cash, they must forecast the cash flows accurately.

Third, to check the misappropriation of cash, the authority for payment should be vested with a specified number and categories of officers. In addition, cheques should usually be signed by two officers.

Fourth, it is desirable that the daily (or weekly) cash flow statements be prepared at the plant level and monthly, quarterly and yearly reports at the head-office level.

Fifth, the solvency position of these enterprises need to be strengthened either by raising its quick assets or by reducing the current liabilities. An additional mobilisation of cash is required to creat quick assets in some enterprises.

Sixth, the enterprises should invest their excess cash balances in the short term securities immediately.

Seventh, the billing to the customers should be made faster. From the present practice of (7-10) days after
purchase billing, it should be brought back to same day billing for expediting cash inflows.

Finally, for the proper implementation of the above suggestions, at the very outset "the Cash section" should be reorganised. The public enterprises should centralise the administration of their cash funds. All the strategic functions of cash management like cash budgeting, controlling of cash and investment of idle funds etc. must be entrusted to the cash section. In place of a cashier being in charge of cash section, one officer with professional qualification may be appointed with the authority to take necessary decisions regarding the management of cash balances.

MANAGEMENT OF RECEIVABLES

Receivables in the selected public enterprises of Orissa occupy the second major position of their working capital. These arise out of the delivery of goods or services which include book accounts, bills, notes and accrued receivables. It covers all claims held against others for the future receipt of goods, services and money prepayments. Loans and advances also come under the purview of receivables. In fact, the size of receivables in an enterprise depends on its credit and collection policies.

The study reveals that the management of receivables has been totally unsatisfactory in these
enterprises. There were many deficiencies in the formulation of credit policies, their implementation and collection of debts. The size of receivables in these enterprises were quite excessive. On an average, the "total" receivables in all the enterprises taken together turned out to be 37% of their "total" working capital between the year 1981-82 to 1988-89. It was surprising to note, that in some enterprises like SSML receivables have exceeded the investment in inventories.

An analysis of the size of receivables of the various public enterprises has shown that, contrary to the policy of making minimum investment in the loans and advances, these enterprises had invested much of the investments of working capital in this very constituent. The analysis of the status of accounts receivables turnover has revealed that unrealised debts for most of these enterprises had shown large outstanding amount for years together of which debts outstanding with Government and Government undertakings was a large proportion, where no sincere efforts are being made to quicken the payments.

On the otherhand, having to sell on credit and because of sticky realisation, they had to face untold rough weather. This is apart from the financial performances of these enterprises as shown in their annual reports. The difficulty arises from the fact that under accrual system of accounting, credit sales and margin there on are reflected
in the profit and loss accounts leading to the computation of accounting profit (or loss) on the basis of which dividends or bonus are declared. Accrued profit is not however the realised profit; with sticky debts for a considerable period, a major portion of the accounting profit is eaten away while extra costs are incurred for financing working capital requirements.

The rate of receivable turnover in each of the selected enterprises turned out much slower than planned. The slower accounts receivable turnover was the function of so many lapses on their part; the important of which were the generous credit granting, extra credit periods, failure in charging penal interest on late payments, non-receipt of credit securities, neglect of credit investigation, half-hearted follow up and lack of effective persuasion for collection of debts.

In the absence of a Bureau of public Enterprise (BPE) in Orissa, the enterprises were free to decide their own policy relating to the sale of products on credit basis. A survey of various credit and collection policies of these enterprises have revealed some interesting observations. While in some enterprises the management of credit comes under the periview of finance department, in case of others sales department was authorised to this job. None of the enterprises has a separate department to look after the credit and collection functions. The maximum time period
for which the credits were granted varied between 30 to 180 days.

The ageing receivables constitute a major percentage of total net debts. In some organisations like OTML in 1984-85 the ratio was 46.52% and IDCOL, during 1983-84 the ratio stands at 42.54%.

There is a large share of loans and advances in the composition of receivables though ideally they should be low. The study of receivables turnover speaks that it was very low for most of the enterprises careless credit granting, slower collection policy and no formal credit period have made the ageing receivables to grow to a significant amount.

In majority cases, the credit policy has been framed by the Finance Manager. But there are instances where top management was directly looking into this aspect. We find in many cases competition seems to influence the determination of credit rather than the formal policies of the enterprises.

**SUGGESTIONS**

The following suggestions are offered to tone-up the efficiency of the management of receivables in the public enterprises of Orissa.

First, the primary objective of receivables management is to attain maximum sales with a minimum cost of
credit and collections. So, at the outset, the selected public enterprises of Orissa should formulate a comprehensive credit and collection policy. The policy must determine the eventual magnitude of investment in receivables and its expected return. The enterprise may follow the credit and collection policy being adopted by other firms in the industry.

Second, an essential ingredient of credit policy is the evaluation of credit worthiness of a customer. To evaluate credit worthiness of a customer, the management needs to consider the five 'C's of credit, viz Character, Capacity, Capital, Collateral and Conditions. In fact proper credit investigation is a prerequisite for the successful operation of the receivables management. The informations regarding credit worthiness of a customer can be obtained from trade and bank references, financial statements, interviews and firms' own experiences. In advanced countries, there are institutions, who collect informations about the prospective customers and supply the same to banks and mercantile creditors. Besides this, the Dun and Brand Street References book is published six times a year which contains listing of firms in accordance with their credit ratings by town location. Some agencies like MARG. & FARGI in India are now engaged in this job of collection and interpretation of credit information. The use of these information reduces the possibility of judgement being influenced by irrelevant factors.
Third, in the public enterprises sales enjoy the status of a full time function with required authority and credit gets relegated as a part time job of an accountant (from Finance Department) or a Junior level executive (from Marketing Department). This upsets the balance of power between credit and sales. In order to make credit and collection function more responsive to the needs of business a separate department should be formed. This department will formulate the credit and collection policy. It will also carry out necessary investigations to ascertain credit worthiness of customers and to undertake follow up actions for expeditious collection of outstanding. This department can prepare monthly reports of overdues and submit it to the Board of directors, for framing the strategies to promote the collection efficiency.

Fourth, in case of enterprises engaged in seasonal business, they may offer credit on liberal terms during the slack season.

Fifth, the funds tied up in loan and advances need to be reduced by charging interest on advances and penal interest on overdues.

Sixth, Public enterprises should avail the services of the factoring companies/agencies. Factoring, today has assumed a quite different meaning springing up into a new financial service. It is a financial tool to releaf the
working capital tied up in credit to customers for more profitable use in expanding a client's business, thereby relieving its client from administrative and sales collection chores so that the enterprise can concentrate on other important jobs.

Finally, the State Government should issue necessary orders to their departments and Government undertakings for timely payment of their dues.

**MANAGEMENT OF INVENTORY**

Generally, inventories occupy the key position in the structure of working capital. In the case of a manufacturing concern, not only huge investment is involved in inventories but also its cost which forms a substantial portion of the cost of production. Any negligence in the management of inventories would jeopardise its profitability and in the long run, the business might collapse.

The inventory in the selected manufacturing enterprises comprised the stock of raw-materials, goods in-process/work-in-process, finished goods, stores and spares and miscellaneous goods. The "total" inventory for all the selected public enterprises taken together turned out to be approximately 39 per cent of the "total" working capital between the years 1981-82 to 1988-89.
The inventory in the public enterprises had been in excess of their operational requirements. The common determinants of the adequacy of inventory is the relation between inventory and output or value of production. The inventory turnover is given in Table INV-4.

An analysis of the relation between the output inventory and sales inventory, shows that the selected public enterprises to Orissa tended to hold excessive inventory. The structure of inventory has revealed that overstocking existed in each and every component of the inventory. However, the extent of overstocking was much more in case of raw materials, stores and spares than in the other component of the inventory. Although a number of internal as well as external causes contributed to the overstocking of the materials, still, the accumulation in inventory was mainly due to the unsound inventory management practices followed by the enterprises.

The study of organisational set up in the selected enterprises revealed that the different functions of the inventory management were widely scattered among the employees in various department which were independent of one another. No one was accountable to the other. None of the organisations had an integrated "Inventory Management Department".

The basic functions of the inventory management such as the planning and programming of materials, storage,
disposal of scrap & surplus material and the utilisation of
the by-products have not been taken care of. Even, none of
the enterprises had prepared comprehensive material forecast
on a yearly basis.

The success of any inventory programme mainly
depends on the purchase department of the enterprise.
Conversely, the purchasing functioning in the selected
enterprises had not been carried out efficiently. This may
be attributed to the factors like, lack of delegation of
authority, improper planning and scheduling of materials,
unsuitable methods for making purchases, absence of value
analysis and high administrative lead time. There were also
instances of purchases not related to the actual
requirements which has also contributed to the overstocking
of materials.

The practice of receiving and inspection of
materials were far from satisfactory. The system of
storage, care and custody of the materials was also not
conducive for an efficient & effective inventory management
in these undertakings. The study reveals many deficiencies
such as the absence of a scientific codification procedure,
improper laying out of the stores and irregular verification
of stores. Further, in some enterprises it was found that
many items were also not moving for several years. This
bears the testimony that the enterprises had not followed
continuous stock taking and the perpetual inventory control systems.

In this competitive environment, the profitability of any business enterprise, particularly for the manufacturing organisations, to a considerable extent depends on their successful application of the scientific inventory control techniques. This enables the enterprises not only to reduce their capital investment but also it reduces the inventory cost. It is believed that an enterprise can reduce its level of inventory to a considerable extent (ranging from 10 to 20%) without any adverse effect on the production and sales by using simple inventory control techniques. Although the enterprises have followed ABC method of classification, still the other methods like Vital, Essential and desirable (VED) Scarce, Difficult and Easy (SDE) and Seasonable and Off-Seasonal (SOS) are yet to be used. The enterprises had also not properly adopted the various inventory control techniques like PERT, CPM and Value engineering etc. It was indicated earlier that some enterprises did not even fix the Economic Order Quantity (EOQ) for placing the order for materials. All this had resulted for purchase of excess materials in the public enterprises of Orissa.

Another reason for higher raw material inventories in the public enterprises was the higher rate of mechanical trouble which had resulted in the higher rate of work
stoppage. If the production grinds to a halt, the rate of raw material consumption declines and there would be an unanticipated increase of the stock. Public enterprises in Orissa do in fact had a higher rate of mechanical trouble and poor capacity utilisation compared to private enterprises, mainly due to unskilled labour force coupled with high rate of absentism and shortage of power. Further the quality of inputs was also partially responsible for higher levels of raw materials inventories.

In the light of the above mentioned findings in respect of the management of inventory by the selected public enterprises of Orissa, the following are some of the suggestions offered for effective inventory management.

First, the existing organisational set-up of these public enterprises need to be restructured to bring about the required efficiency in the management of their inventory. The diverse activities of inventory management, hitherto, carried out by the unrelated departments should be integrated to a single department, namely "Inventory Management Department" under the direct control of a senior executive. Many CLPEs in India have the posts of controllers of purchase with all the functions of inventory management under their control. While reorganising the existing set-up, the enterprises may adopt the organisational structure of materials management suggested by the Bureau of Public Enterprises, Government of India.
Second, Inventory Management has become a highly specialised and technical job. The efficiency of the inventory management department will depend on the qualification and experience of the personnel recruited therein. Equally important is the staffing, training and development of the employees and their co-ordination with the functionaries of the other related departments. Therefore it is essential to conduct in-house training programmes in inventory management (or to send them to the professional training institutes) and to organise seminars, workshops etc. for exchange of ideas and information.

Third, an improvement in the procedure for procurement of materials should be adopted by the enterprises. Adequate delegation of authority among the officers of the enterprise should be made to empower them to perform their duties smoothly. A comprehensive purchase budget can be made in advance, taking into consideration the actual lead time and consumption. The budget should obtain the approval of the Finance Department, to avoid unnecessary reference at every stage of purchases to the Finance Department for their concurrence. The indentors should be asked to submit their complete purchase requisitions in time. Further, to reduce the administrative lead-time, limits should be fixed for each stage of purchasing, such as, calling of quotations, preparation of comparative statement and placement of the final order. A standing committee consisting of persons from Finance, Production, Research & Development and Inventory Management Departments need to be
constituted to facilitate as well as to control the purchases of high magnitude. The Committees should meet at least once a month.

Fourth, so far as the delivery lead time is concerned, efforts should be taken to reduce it by installing a regular and standard follow up procedure in regard to the purchase order placed with the suppliers. Suppliers, who failed to comply the agreed supply schedules should be charged a heavy penalty. Moreover, the delivery lead time can also be reduced, if it is ensured that the inspection of materials does not take undue time and the procedure of receiving the materials at the factory should not unnecessarily delay the reaching of materials to the stores.

Fifth, purchases in future should be based on the Economic order Quantity. The SLPEs should develop a system of automatic replacement of stocks based on the minimum, maximum and re-ordering levels. Bin Cards should be maintained perfectly on the bins or racks, as they can disclose the current position of materials.

Sixth, for reducing the overstocking of raw materials, norms for consumption and stocking of raw materials should be laid down on scientific basis and to be strictly followed. To reduce the overstocking of goods in process, efforts should be made to shorten the
manufacturing cycle of various products of the public enterprises. Further, raw materials or goods in process should not be allowed to increase due to under-utilisation of capacity and unhealthy management-labour relation.

For reducing the overstocking of the finished goods, the enterprises should develop their own marketing strategy. The sales personnel in particular should be activated to achieve their target. Overstocking of the stores and spares can be reduced, if the import substitution programme is encouraged and ancillary industries are established around the manufacturing units to cater their needs.

Moreover, an efficient management of inventory requires that a chart indicating the position of various components of inventory is maintained at each plant.

Seventh, another important structural change, relates to the adoption of various scientific inventory control techniques. It is essential for these enterprises to prepare a list of store items and then classify and codify them. PERT, CPM and other OR techniques have great significance in this regard. Some of the inventory problems
concerning, purchase planning, transportation, etc. can be effectively handled through these techniques. With the development of the capability on the part of designers to effect modernisation, value engineering or value analysis has come into a wider use. Many enterprises both in private and public sector have already initiated their efforts in this direction as a step to conserve the materials. The advent of Computers and their application for the inventory management has also crystalised the decision making process. Time has come for the state enterprises of Orissa to avail the benefit of computer services for making strategic decisions including inventory control.

Finally, each enterprise should prepare its own manual for material management. The manual must contain the relevant scientific concepts and prescribe the procedures relating to indenting, procurement and stocking of materials. This will minimise the delay by reducing the references that are now being made to finance or stores section, merely for the purpose of obtaining instructions.

**MANAGEMENT OF WORKING FINANCE**

Financing is an important issue in the management of working capital. The imprudent management of Inventory, Receivables and cash had caused the public enterprises of Orissa to face the problem of working finance. An analysis of the financial situation of the public enterprises of
Orissa indicates that many of them suffer from inadequate provisions of working finance. It was noticed that the creation of capacity and procurement of funds for capital expenditure are emphasised, but commensurate effort have not been made in planning the availability of working capital. The enterprises that have insufficient working capital have suffered from under utilisation of their capacity. The period of gestation has been lengthened and the break even point of viability recedes into the future.

With respect of the financing of working capital, the administrative departments of the selected public enterprises of Orissa have issued a number of circulars. In general, the Government have the view that the funds provided by the state should be utilised for the capital expenditure. The enterprises were asked to approach the commercial banks for their working capital requirements.

There are some interesting trends in the financing of working capital in these enterprises. In India, the various sources of working finance are bank loans in the grab of cash credit and over draft, accounts payable or trade credit, depreciations, tax provisions, public deposits and some other miscellaneous sources such as advance from customers, security from employees, employees contribution to provident funds and the like. But our study clearly indicates that bank loan form the major portion of working
capital in all the enterprises except IDCOL. Although
importance of bank credit as a source of working capital
finance are being diminished over the years, it was still in
excess of the optimal levels, as suggested by the various
study groups/committees appointed by the Reserve Bank of
India. The pattern of bank finance for the working capital
needs of the manufacturing organisations has undergone a sea
change in the last 15 years. Tondan committee Report (1975)
has been considered as a landmark in this regard.

Inspite of the fact that working capital finance is
provided by the commercial banks on the basis of the
recommendations of Tondon, Chore, Marathe and other
Committees, we could not find any major change in the
pattern of working capital finance in the public enterprises
of Orissa. The decline in bank credit has not been
substantial during the period under review. Bank credit
should be looked upon as a supplementary source and these
enterprises have to place greater reliance on long term
finance.

None of the enterprises have gone for public
deposit though the SLPEs in Andhra Pradesh were the first to
make use of public deposits as a source of funds, much
before even the CLPEs did.\(^6\)

The other important sources of working capital
finance was trade credit. This occurs when the business
units sell and buy from each other with the promise of future payment to be made at a later date rather than immediate payment in cash. Though it is easy and economical from the point of view of the cost, its excessive use eventually would prove to be risky and fatal to the existence. In fact, the excessive use of trade credit unaccompanied by a proportionate increase in trade debt only shows the unsound financial management and impairment of liquidity.\textsuperscript{7}

The study reveals that the size of working finance in these enterprises except OSTCL & OTML was very high. The cause of excessive size of working finance were not due to expansion of business activities, but the slow transmutation of working capital and the unfavourable terms of purchasing and selling were the real causes which had inflated the size of working finance.

The working finance has been very low in OSTL & OTML. Relatively, low working finance has been on account of rapid increase of the current liabilities. No doubt, the inventory and receivables components of current assets have also risen rapidly, but the rate of rise in current liabilities has been faster. This has been proved by the fact that the current assets (gross working capital) in terms of month's sales have been higher in these enterprises.
The slow transmutation of working finance reflected through disproportionately higher percentage of inventory and receivables makes it explicit that the quantum of current assets (gross working capital) has been quite high in these enterprises except OSTCL & OTML.

We have indicated it earlier that all the public enterprises have used the cash credit facility extended by the commercial banks to meet their working capital requirements. But these enterprises have not made full use of cash credit facility because of many constraints. First, the high rate of interest coupled with the cumbersome procedure for the grant of credit was a stumbling block. Secondly, irregular or poor sales and faulty production programming leave no moral booster with the enterprises to press the banks to release the amount of cash credit originally negotiated. Lastly, banks insistence to secure counter guarantee from the Government of Orissa in addition to the hypothecation of stores and spares etc. and the Government's unwillingness to do so have also been a hindrance in this regard. On account of inadequate supply of cash credit and short term loans by the Government, some enterprises have utilised their depreciation reserve or capital funds for meeting the urgent needs of the working capital which is against the policy of the Government.

The profitability which provides an internal base for financing of working capital has been very low in these
enterprises. Everyone knows profitability has direct and significant bearing on the growth of an enterprise. It makes possible to plough back substantial finances and also facilitates raising of funds on more favourable terms and conditions. An enterprise endeavours to maximise its profit in order to survive in this competitive environment and to achieve planned rate of growth over a period of time. Profitability of a firm depends to a great extent upon an effective and efficient management of its working capital. As we observed imprudent management of working capital does not only affect the profitability of the public enterprises of Orissa but also enhances its susceptibility to incur losses.

The main causes of low profitability are (a) higher cost of production, (b) under-utilisation of capacity, (c) over-capitalisation and (d) defective financial policy.

The low or negative profitability of these enterprises have weakened their internal base for financing and has compelled them to meet the urgent needs of working capital from other sources at a higher cost.

The lack of initiative to make the organisation profit oriented by the people in administration, the blocking of liquid finance in inventory, the high amount lying with creditors have made working finance availability a headache for the organisation.
The lack of governmental directive in the initial years, the over capitalization and undercapacity utilisation, the longer period for completion of various expansion projects, the inflationary contracts and non-comparison of actual production with the planned have resulted in lower earning and lower margin. So ploughing back of surplus for providing working finance became a distant dream for these enterprises.

**SUGGESTIONS**

The following suggestions can be offered to solve the various facts of the problems of working finance in the public enterprises of Orissa.

First, There is an urgent need to formulate the policy regarding management of inventory, cash and receivable of the public enterprises of Orissa. It would be better, like the BPE of Tamil Nadu and Karnataka, the newly created Public Enterprise Department of the Government of Orissa should take immediate measures for framing the necessary guidelines.

Second, So far as the financing of working capital is concerned, it would be inappropriate to think that the public enterprises should meet their total working capital needs from the commercial banks. The permanent part of their working capital requirements should be provided by the
Government of Orissa in the form of equity as per the recommendations of the Tandon and other Committees. Efforts can also be made by these enterprises to mobilise longterm funds through debentures, public deposits and disinvestment of shares to meet the permanent working capital needs. The public enterprises should be persuaded to use their resources to promote maximum utilisation of capacity before rushing for expansion of capacity. We hope like the SLPRs of other state commercial papers and factoring service will come to the rescue of the public enterprises of Orissa for solving their working capital problems.

Third, Sincere efforts are required to speed up the pace of the transmutation of working finance and to bring debtors creditors ratio to the enterprises advantage. The enterprises are required to adopt efficient techniques of cash flow analysis so that they could know well in advance when working capital will be short as well as the amounts by which it may be short of requirements. This would facilitate timely search for funds under non-panic conditions.

Fourth, The public enterprises should no more depend upon the civil servants and deputationist. In our interviews with the officers of these enterprises, we observed, some senior civil servants without rudimentary knowledge in accounts and finance are holding the posts of Financial Advisors, Members Finance or General Managers (Finance) etc.
This amounts to another serious weakness in their management. The civil servants are generally characterised by excessive caution, lack of administrative viability, negative will, desire to shirk responsibility, tendency to delay decisions, absence of adaptability and lack of drive which results in a superstructure of hierarchy, multiplication of committees and lengthening of the red-tape.\(^8\) No doubt, the very absence of professional management in the public enterprises of Orissa has hindered the promotions of a business culture in these enterprises and is squarely responsible for its poor performance.

Finally, to boost up their profitability the public enterprises should appoint such personnel who will have both technical and managerial competence. Besides, the problems of working capital must be considered in a broader context of overall efficiency and profitability of the enterprises and not in isolation.

REFERENCES

4. Quoted from the "Reports of the CAG".
