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“WORKING CAPITAL MANAGEMENT IN SMALL SCALE INDUSTRIES A STUDY WITH REFERENCE TO INVENTORY MANAGEMENT PROBLEMS”

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ABSTRACT :

In India, the production was carried out with the help of human and animal labour and that too on a very tiny scale. Later, Small units of textiles, oil, metal works, pottery, wood work, jewellery, ornaments, etc. were established on a very small scale. The new technology which resulted in large scale industrial units threw over the small scale tiny units spread over the rural India. After attaining freedom in 1947, India had to decide its industrial policy. This resulted in Industrial Policy Resolution of 1948, 1956, 1971 and Licensing Policy of 1977.

KEYWORDS : Working Capital Management , Small Scale Industries , Inventory Management Problems.

INTRODUCTION:

During the Five Year Plans, various schemes were launched for protection of small scale industrial units, tiny industries and Khadi and Village industries. This continued till the New Economic Policy under the new era of liberalization, privatization and globalization was adopted in 1991 in India. This brought new challenges for small scale industries.

The evolution of the Indian small-scale industry can be traced back to even as early as Rigveda. There are a number of institutions and agencies engaged in the areas of credit lending, technology support services, infrastructural services and a host of marketing and support related services such as District Industries Centre (DIC), Maharashtra State Finance Corporation (MSFC), Maharashtra Centre for Entrepreneurial Development (MCED), Maharashtra State Small Industries Development Corporation (MSSIDC), Small Industries Corporation of Maharashtra (SICOM), Khadi & Village Industries Corporation (KVIC) etc.

Small scale industries had been one of the significant instruments of economic growth and development. India was already having a good network of small and tiny industries in the field of textile, jute, sugar & Gur, edible oil, gems & jewellery and so on. These industries were particularly suitable because of various advantages such as

- | | |
|---------------------------------------|---------------------------|
| 1. Labour intensive manufacturing | 5. Low capital investment |
| 2. Use of conventional energy sources | 6. Low capital investment |
| 3. Use of unskilled labour | 7. Local market |
| 4. Simple manufacturing process | |

OBJECTIVE:

The objective of this paper is to study the problem of Inventory Management as a part of Working Capital Management of Small Scale Industries.

Limitation:

This study is limited to a sample of 100 SSI units in Thane District.

Hypothesis:

The hypothesis of this study is that small scale industries in Thane district are facing a severe Problem of Inventory Management. Among this the percentage of proprietor and partnership units is higher as compared to private ltd. and public ltd. companies.

WORKING CAPITAL MANAGEMENT:

The term working capital refers to short term funds required for financing the duration of the operating cycle in a business often known as "Accounting year". These funds are used for carrying out the routine or regular business operations consisting of purchase of raw materials, payment of direct and indirect expenses, carrying out of production, investment in stocks and stores and amount to be maintained in the form of cash.

It represents funds with which business is carried on. It can also be regarded as that proportion of the company total capital, which is employed in short term operations. It is not necessary that the amount is always available in the form of cash. It can take the form of near cash assets or even assets a little further from cash, but yet in the process of moving towards the cash form in a short period.

The study of working capital management occupies an important place in financial management. It has never received so much attention as in recent years. Working capital management is an integral part of overall financial management. The sphere of working capital throws a welcome challenge and opportunity to a financial manager. "Working capital management has been looked upon as the driving seat of financial manager". The management of working capital is synonymous with the management of short term financial liquidity.

Inventory Management Problem

Inventory management and control system is utilized by Small-Scale Industries to avoid product overstock and outages. There are several components of an inventory management tool such as order management, asset tracking, product identification, etc. The main purpose within the inventory management system is to reduce the overall costs of carrying. An inventory management tool helps in:

- + Sustain a balance between too less and too much inventory.
- + Track inventory between locations.
- + Track inventory been received at warehouse.
- + Track product sales and finished goods inventory.

The main advantage of an inventory management tool is cost savings, increased efficiency, warehouse management, etc.

Problem of Inventory Management are significant with reference to working capital management in Small Scale Industries (SSI). The researcher has analyzed these problems from the following aspects:

1. Problem of Inventory Levels
2. Problem of Inventory Space
3. Problem of Bulk Purchases
4. Problem of Ordering Levels

The survey is being made from sample size of 100 Small-Scale Industries in Thane District. The respondents are Sole Proprietors, Partnership Firms, Private Limited and Public Limited Units.

The results are shown in the following table:

Table No. 01
Summary of Problem of Inventory Management

Sr. No.	Response (Problem Severity)	Proprietor/ Partnership Units	Pvt. Ltd. / Public Ltd. Units	Total
1	Very Severe	13	05	18
2	Severe	15	09	24
3	Medium	09	13	22
4	Average	08	21	29
5	Below Average	02	05	07
	Total	47	53	100

Source: Survey.

Table Value: 14.43, Degree of Freedom – 4, Level of Significance 0.05% Critical Value – 9.488

On the basis of above calculation of Chi-Square value, the hypothesis is stated as follows –

Null Hypothesis (H_0):

There is no significant difference between the opinions of sample respondent groups from Proprietor/Partnership Unit's Owners and Private Ltd. & Public Ltd. Companies regarding the Problem of Inventory Management i.e. Problem of Inventory Levels, Problem of Inventory Space, Problem of Bulk Purchases and Problem of Ordering Levels.

Alternative Hypothesis (H_1):

There is significant difference between the opinions of sample respondent groups from Proprietor/Partnership Unit's Owners and Private Ltd. & Public Ltd. Companies regarding the Problem of Inventory Management i.e. Problem of Inventory Levels, Problem of Inventory Space, Problem of Bulk Purchases and Problem of Ordering Levels.

As it is observed from the Chi-Square calculation that the calculated value of Chi-square at 0.05% level of significance and 4 degree of freedom is 14.43 and the Table Value is 9.488.

As the calculated value of Chi-square is greater than the table value ($14.43 > 9.488$). Therefore, the Null hypothesis is rejected and alternative hypothesis is accepted.

CONCLUSION:

It is concluded that, there is significant difference between the opinions of sample respondent groups from Proprietor/Partnership Unit's Owners and Private Ltd. & Public Ltd. Companies regarding the Problem of Inventory Management i.e. Problem of Inventory Levels, Problem of Inventory Space, Problem of Bulk Purchases and Problem of Ordering Levels.

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