

# WORKING CAPITAL MANAGEMENT IN FOOD BASED INDUSTRIES IN BAGALKOT DISTRICT

<sup>1</sup>DR. SUNANDA S RATHOD, <sup>2</sup>DR R HIREMANI NAIK

<sup>1</sup>Professor of Commerce Department, <sup>2</sup>Associate professor MBA Department  
<sup>1</sup>PG Centre, <sup>2</sup>Kuvempu University

**Abstract:** The food processing industry (FPI) in India is one of the largest in terms of production, consumption, exports and growth prospects. In Karnataka state, Bagalkot district, economy is basically agriculture area in nature. This is evident from fact that nearly 70 percent of the population is involved in agriculture and related activities. To examine the nature and extent of Food Based Industrial activity in Bagalkot district. To explore the existing problems of the food and agro based industry in Bagalkot district. To explore opportunities for industrial units in this field. To suggest suitable measures necessary for improvement in the industry. For the analysis, information about industrial estate, a well-structured questionnaires has prepared which consisting of 100 questions, which cover all the field of infrastructure problems. Bagalkot district is dominated by agriculture but the industries are scattered throughout the district particularly Food and Agro – based Industries. Data Analysis on various factors of Working Capital Management in Food Based Industries in Bagalkot District and conclusion.

**Keywords:** Working Capital Management, Food Based Industries.

## INTRODUCTION

The first and foremost question in organizing a small scale industry is that of ownership, which is represented by the right of an individual or group of individuals to acquire legal title to assets for the purpose of controlling an industrial operation and enjoying the gains or profits flowing from such activities.

Small industrial units are, by and large, started by person who value independence and are desirous of obtaining the highest rewards for their initiative, innovation, technical skills, business acumen and experience. As Nihal apthy observer, “The owner of the small scale industry values his undertaking for the job it provides as well as for any return it may make on his invested capital”.

## Data Analysis on Working Capital Management in Food Based Industries in Bagalkot District:

### 1: Nature of Organization :

Nature of Organization is basic framework within which the manager’s decision-making takes place. Nature of Organization is the pattern of relationship among various components of the organization. These relationships are among various activities and positions. Since various persons hold these positions, the nature is crucial for the relationship among people in the organization.

Nature of Organization is capable of serving many functions at the same time but cannot serve all functions equally well due to the limited time. Therefore, it is important for managers to determine the outcomes desired from the nature of organization and match of the organization with changing needs. It is mechanism through which management directs, coordinates of nature of organization activities.

**Table No. 1: Nature of Organization**

| Taluka’s            | Hunagund  | Mudhol    | Jamakhandi | Badami    | Bagalkot  | Bilagi    | No. of Units |
|---------------------|-----------|-----------|------------|-----------|-----------|-----------|--------------|
| Sole proprietorship | 07        | 06        | 05         | 07        | 10        | 05        | 40           |
| Joint Hindu Family  | 06        | 05        | 07         | 10        | 05        | 07        | 40           |
| Partnership Firm    | 01        | 02        | 02         | 01        | 03        | 01        | 10           |
| Private limited Co. | 01        | 01        | 03         | 02        | 02        | 01        | 10           |
| Any other           | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| <b>Total</b>        | <b>15</b> | <b>14</b> | <b>17</b>  | <b>20</b> | <b>20</b> | <b>14</b> | <b>100</b>   |

(Source: Survey data)

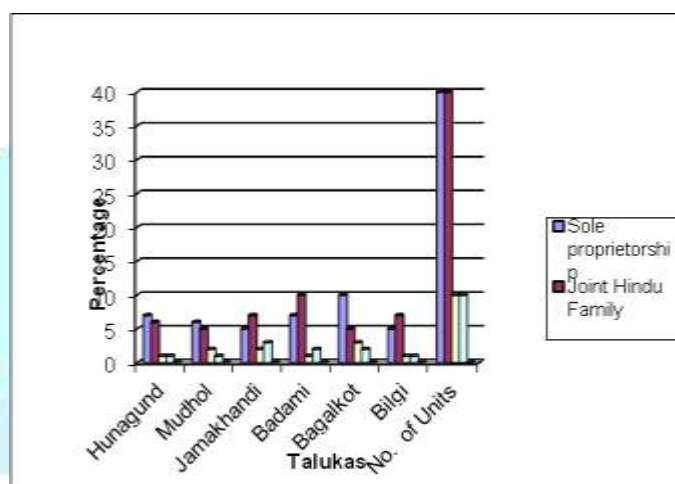
Above table shows that there were a total of 40 units of sole proprietorship, out of these units, Hungund and Badami having 7 units each and Bagalkot Taluk having maximum of 10 units and Mudhol taluk had 6 units rest of the Jamakhandi and Bilagi are having lowest sole proprietorship of 5 units each.

There are 40 Joint Hindu Family total units, out of these units Jamakhandi and Bilagi have 7 units each, Badami 10 units, Hungund 6 units, Mudhol and Bagalkot are having 5 units each.

Compared to Sole proprietorship, Joint Hindu Family partnership firms in Bagalkot District, were 10 units. Bagalkot Taluk itself having 3 units, Mudhol and Jamakhandi are having 2 units each and very less partnership was found in Bilagi, Badami, Hungund having one unit each.

Private limited companies also co-ordinate with small-scale industries in Bagalkot District. With 10 private limited companies. Of the 10 units the highest is in Jamakhandi i.e. 3 units and Badami and Bagalkot are having 2 units each. Apart from that Bilagi, Mudhol and Hungund running the single units together.

**Graph No. 1: Nature of Organization**



As shown in the above table 40percent of Food and Agro based units are organized as Sole proprietorship firms, while 40 percent of the units are organized in the form of Joint Hindu Family. 10 percent of the units are organized in form of partnership firms 10 percent of the units are organized in form of private limited companies.

There is much scope for farther development of partnership firm and private limited companies for organizing on large scale.

## 2: Maintenance of Records and Bills

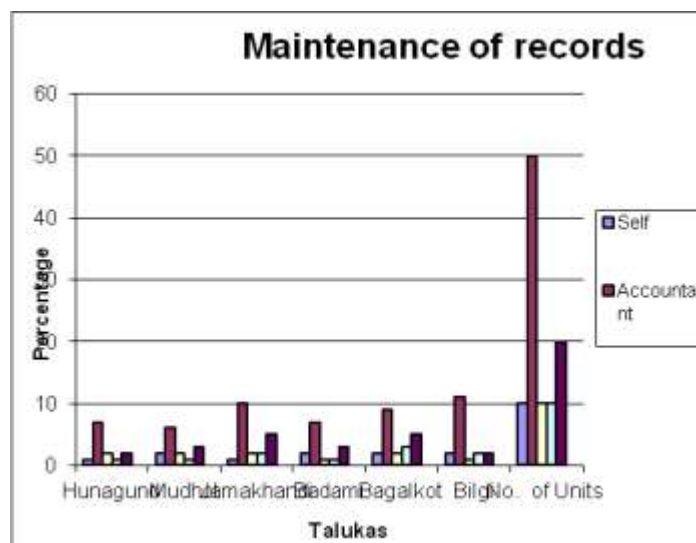
The study covering 100 food-based units, reveal some facts relating to maintenance of records and bills. In case of the largest number of 50 units accountants looks after the work while the entrepreneur himself does the function in case of 10 units. The manager of the firm in case of 10 units does their work of maintenance of records and bills and outside party is entrusted with the work in another 10 units. The rest of the 20 units covered by the study have other arrangements in performing this function.

**Table No.2: Maintenance of Records**

| Taluka's        | Hunagund  | Mudhol    | Jamakhandi | Badami    | Bagalkot  | Bilagi    | No. of Units |
|-----------------|-----------|-----------|------------|-----------|-----------|-----------|--------------|
| Self            | 01        | 02        | 01         | 02        | 02        | 02        | 10           |
| Accountant      | 07        | 06        | 10         | 07        | 09        | 11        | 50           |
| Manager         | 02        | 02        | 02         | 01        | 02        | 01        | 10           |
| Outside Parties | 01        | 01        | 02         | 01        | 03        | 02        | 10           |
| Any other       | 02        | 03        | 05         | 03        | 05        | 02        | 20           |
| Not Applicable  | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| <b>Total</b>    | <b>13</b> | <b>14</b> | <b>20</b>  | <b>14</b> | <b>21</b> | <b>18</b> | <b>100</b>   |

(Source: Survey data)

Graph No. 2: Maintenance of Records



Records and Bills were maintained by “self” by Small Scale Industries 1 each in Hungund and amakhandi, 2 units each in Mudhol, Badami.

Records and Bills were maintained by 50 Accountants Small Scale Units of which 7 units at Hungund, 6 in Mudhol, 10 in Jamkhandi, 7 in Badami, 9 in Bagalkot, and 11 in Bilagi talukas.

Records and Bills were maintained by ‘manager’ in 10 SSI units Bagalkot District of which 2 units each at Hungund, Mudhol, Jamkhandi, and Bagalkot 1 at Badami, and 1 Bilagi talukas.

Records and Bills were maintained by the outside persons, in 10 units of which 1 each in Hungund, Mudhol, and Badami. 2 in Jamkhandi, Bilagi and 3 in Bagalkot.

Records and Bills were maintained by other persons, in 20 units of which 2 in Hungund and 2 in Bilagi, 3 each in Mudhol and Badami, and 5 each in Jamkhandi and Bagalkot 5.

### 3: Auditing of the Units:

Professional auditors are entrusted with the task of auditing the accounts in case of 60 out of the 100 units covered by the study area while accountants of the firms perform the task in case of 20 units, the response from another 20 units is not available in this directions.

Table No.3: Auditing of Accounts

| Taluka's        | Hunagund  | Mudhol    | Jamakhandi | Badami    | Bagalkot  | Bilagi    | No. of Units |
|-----------------|-----------|-----------|------------|-----------|-----------|-----------|--------------|
| Self            | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| Accountant      | 02        | 04        | 04         | 02        | 06        | 02        | 20           |
| Manager         | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| Outside Parties | 08        | 09        | 11         | 07        | 13        | 12        | 60           |
| Not Applicable  | 02        | 02        | 04         | 04        | 06        | 02        | 20           |
| <b>Total</b>    | <b>12</b> | <b>15</b> | <b>19</b>  | <b>13</b> | <b>25</b> | <b>16</b> | <b>100</b>   |

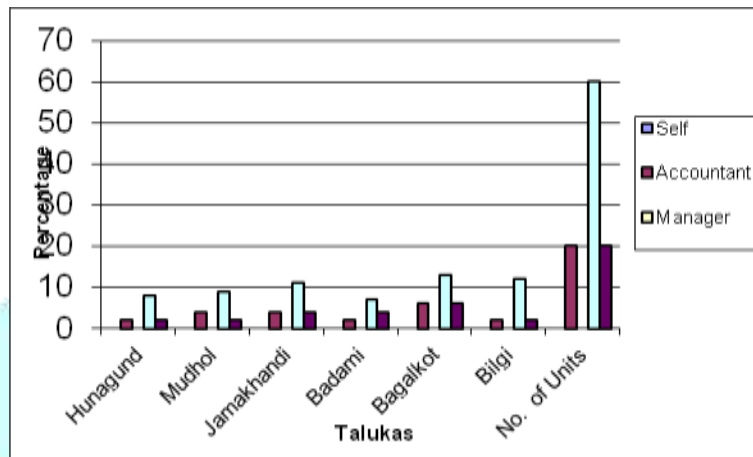
(Source: Survey data)

Auditing of Accounts shows Auditing of Accounts of the Small Scale Industries selected in the study area. In Bagalkot District, out of 100 units, 20 units Accounts are Audited by Accountant and the 60 units are Audited by outside parties and in case of 20 units Auditing was not Applicable.

Out of 100 units 60 units are audited by out side parties. Of there 13 in Bagalkot, 12 units, in Bilagi, 11 in Jamakhandi, 9 in Mudhol, 8 in Hungund, 7 in Badami, these units yearly audited by outside parties. 20 units audited by accountants Bagalkot had 6 units, Jamakhandi and Mudhol each 4 units, Hungund, Badami, and Bilagi 2 units each. These units were audited by of accountants.

Of the 20 units each, 6 units in Bagalkot, 4 units in Jamakhandi and Badami and 2 units each in Hungund, Mudhol and Bilagi come under “not applicable” category.

**Graph No.3 Auditing of Accounts**



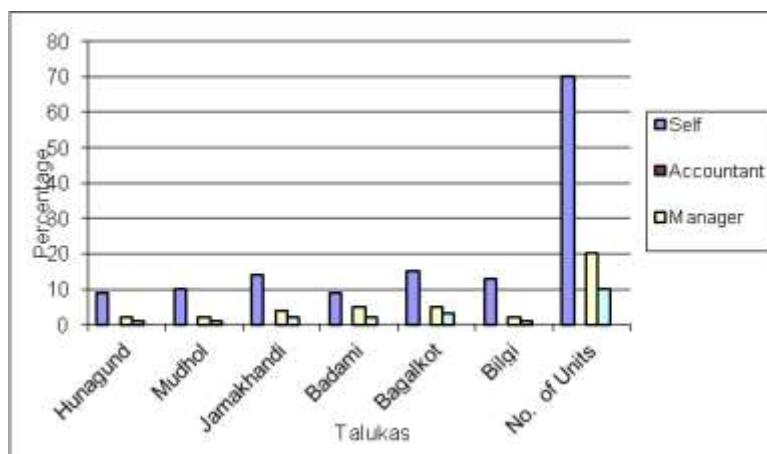
**4: Borrowing Decisions**

Owner’s/entrepreneur himself takes borrowing decisions in majority cases of 70 out of the 100 units, while managers of the firms do the function in case of 20 units, outside parties are entrusted with this function in case of 10 units.

**Table No.4: Borrowing Decisions**

| Taluka’s        | Hunagund  | Mudhol    | Jamakhandi | Badami    | Bagalkot  | Bilagi    | No. of Units |
|-----------------|-----------|-----------|------------|-----------|-----------|-----------|--------------|
| Self            | 09        | 10        | 14         | 09        | 15        | 13        | 70           |
| Accountant      | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| Manager         | 02        | 02        | 04         | 05        | 05        | 02        | 20           |
| Outside Parties | 01        | 01        | 02         | 02        | 03        | 01        | 10           |
| Not Applicable  | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| <b>Total</b>    | <b>12</b> | <b>13</b> | <b>20</b>  | <b>16</b> | <b>23</b> | <b>16</b> | <b>100</b>   |

(Source: Survey data)

**Graph No. 4: Borrowing Decisions**

Of 70 units, 9 are taking borrowing decision by owners/ entrepreneurs in Hungund, 10 in Mudhol, 14 in Jamakhandi, 9 in Badami, 15 in Bagalkot, and 13 in Bilagi. Bagalkot taluk having highest compared to other talukas.

Borrowing Decision taken by manager, in case of 20 units, 2 are in Hungund, 2 in Mudhol, 4 in Jamakhandi, 5 in Badami, 5 in Bagalkot, 2 in Bilagi.

Outside parties also take the decisions in case of 10 units. Of three 1 is Hungund, 1 in Mudhol, 2 in Jamakhandi, 2 in Badami, 3 in Bagalkot and 1 in Bilagi.

Majority of Small Scale industries take borrowing themselves.

## 5: Need for Funds

Owner or entrepreneur himself estimate the need for funds in majority cases of 70, of 100 units, while managers of the firm do the function in cases of 20 units and outside parties are entrusted with this function in case of 10 units.

The need for funds include the funds required for the acquisition of fixed assets and to meet the working capital requirements. As sole proprietorship and Joint Hindu Family firm are predominant, which is 40 out of the 100 units respectively. So the owner or Karta will usually make the estimation. In case of the partnership firm which 10 out of 100 units who may be one of the partner or appointed manager will estimate the funds. And in case of private limited co. which is 10 units out of 100 units outside party i.e. directions, managing director promoters, Etc., while estimate the requirement of funds. As the estimation of the required fund is the main decision, which is to be decided before the commencement of the firm. So the owner or Karta managing partner or promoter will decide along with the plan of commencement of business.

**Table No.5: Need for Funds**

| Taluka's        | Hunagund  | Mudhol    | Jamakhandi | Badami    | Bagalkot  | Bilagi    | No. of Units |
|-----------------|-----------|-----------|------------|-----------|-----------|-----------|--------------|
| Self            | 09        | 09        | 14         | 09        | 16        | 13        | 70           |
| Accountant      | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| Manager         | 02        | 04        | 04         | 02        | 06        | 02        | 20           |
| Outside Parties | 01        | 02        | 02         | 01        | 02        | 02        | 10           |
| Not Applicable  | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| <b>Total</b>    | <b>12</b> | <b>15</b> | <b>20</b>  | <b>12</b> | <b>24</b> | <b>17</b> | <b>100</b>   |

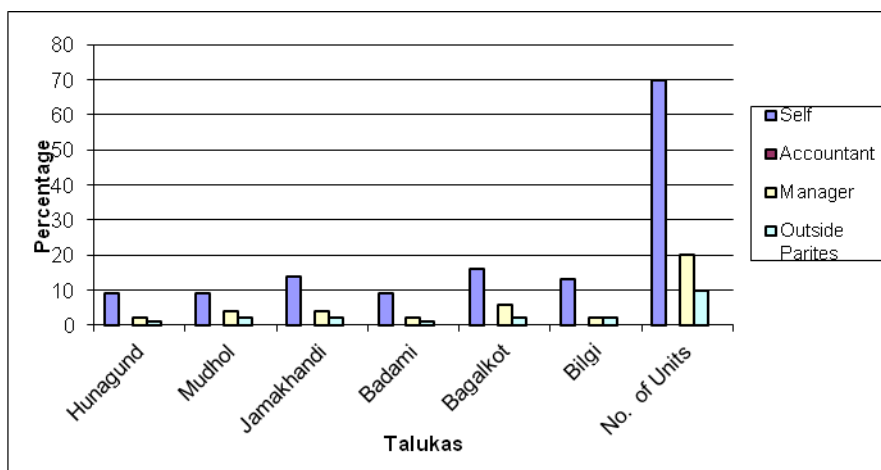
(Source: Survey data)

Above table shows that, out of 100 units, 70 units take self decisions for the purpose of estimating need for funds to run the units, Of the 70 units 16 comes under Bagalkot, 14 in Jamakhandi, 13 in Bilagi, and 9 each in Hungund, Mudhol and Badami.

20 units are depending upon manager for the purpose of estimating need for the funds. Of the 20 units, 6 are in Bagalkot, 4 each units are in Mudhol and Jamakhandi, 2 units each are in Hungund, Badami and Bilagi.

Of the 10 units, 2 units each in Mudhol, Jamakhandi, Bagalkot, Bilagi and 1 unit each in Hungund and Badami, depend upon outside parties for the purpose of estimating need for the funds.

**Graph No. 5: Need for Funds**



## 6: Management of Working Capital

The firm should maintain a sound working capital position. There should be optimum utilization of the funds. There are many aspects of working capital which is an important function of the financial manager. The procedure for management of various components of working capital is discussed briefly in subsequent pages.

In 60 units owner/entrepreneur himself manages the working capital. In other words, self-management of working capital is predominant, as it accounts 60percent of the industries.

In no unit the task has been entrusted to accountant or any after outsiders. Most of the units are managing without the accountant even if they appoint accountant they entrust him only maintenance of accounts.

But in some of the sole trading concern and partnership firm, and limited companies, manager is assigned the task of management of working capital. In 20 units, out 100 manager will look after the working capital management.

The following table indicates the management of working capital by different persons:

**Table No. 6: Working Capital Management**

| Taluka's        | Hunagund  | Mudhol    | Jamakhandi | Badami    | Bagalkot  | Bilagi    | No. Units of |
|-----------------|-----------|-----------|------------|-----------|-----------|-----------|--------------|
| Self            | 08        | 09        | 11         | 07        | 13        | 12        | 60           |
| Accountant      | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| Manager         | 02        | 02        | 04         | 05        | 05        | 02        | 20           |
| Outside Parties | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| Any Other       | 02        | 04        | 04         | 02        | 06        | 02        | 20           |
| Not Applicable  | 00        | 00        | 00         | 00        | 00        | 00        | 00           |
| <b>Total</b>    | <b>12</b> | <b>15</b> | <b>19</b>  | <b>14</b> | <b>24</b> | <b>16</b> | <b>100</b>   |

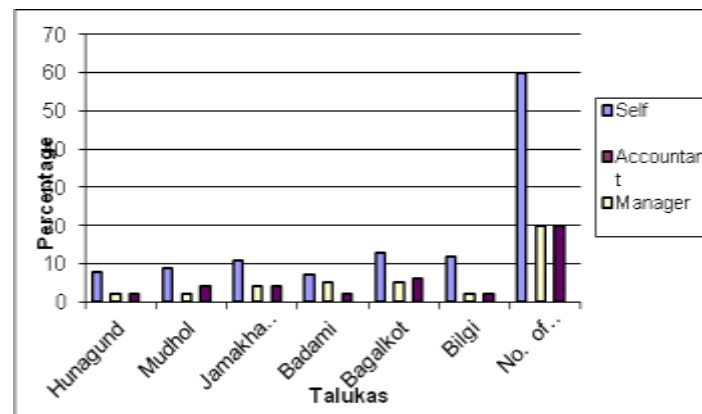
(Source: Survey data)

Above table shows that out of the 100 units, 60 units manage working capital themselves, of which, Bagalkot accounts for 13 units, Bilagi 12 units, Jamakhandi 11 units, Mudhol have 9 units, Hungund 8 units, and Badami 7 units respectively.

Of the 20 units where working capital management is done by accountant, Badami and Bagalkot account for 5 units each, Jamakhandi have 4 units, Hungund, Mudhol and Bilagi 2 units each.

Working capital management by "any other sources" is reported by 20 units of which Bagalkot 6 units, Mudhol and Jamakhandi 4 units each, Hungund, Badami and Bilagi 2 units each respectively.

Graph No. 6: Working Capital Management



## Conclusion

This dynamic role played by the Small Scale Sector of Industry, many studies have been undertaken to assess the role of Small Scale Industries in the economy and to evaluate its performance, problems and prospects. Most of these studies have pointed out that finance is one of the major problems faced by the Small Scale Industry. The study undertaken is entitled as Food and Agro based industry in Bagalkot district. Food based industry can also be used as an instrument for improving food supplies through prevention of past harvest losses of 15 percent to 20 percent of durable foods and 20 percent to 30 percent of perishable food and generating employment specially the rural area. Establishment of food processing industry can trigger improvement in productivity in agricultural and improve income of farmers. To explore the existing problems of the food and agro based industry in Bagalkot district. To explore opportunities for industrial units in this field. To suggest suitable measures necessary for improvement in the industry. It has been found that in the absence of any restraint on bank credit, industry used to avail bank credit much more than justified by their production performance. An excessive dependence of industry on bank credit for working capital requirements is undesirable and industry must find alternative means particularly long-term sources capital market for meeting a large portion of working capital.

## References

- [1] Vasant Desai., "Small Scale Industry and Entrepreneurship", Himalaya Publications, Pp-139-140.
- [2] **Working Capital Management and Practice** "Annual Report Small Scale Industry Development Commission Small Industries" Government of India. Nirman Bhavan, New Delhi. Pp-7-8.
- [3] Nwankwo, O. and G. S. Osho, 2010. An Empirical Analysis of Corporate Survival and Growth: Evidence from Efficient Working Capital Management. International Journal of Scholarly Academic Intellectual Diversity, 12(1): 1-13.
- [4] Deshpande, R., J. Farley and F. Webster, 1993. Corporate culture, customer orientation and Innovativeness. Journal of Marketing, 57(1): 23-37.
- [5] Singh, R. K., S. K. Garg and S. G. Deshmukh, 2008. Strategy development by SMEs for Competitiveness: A review of Benchmarking. An Intl. J., 15(5): 525-547.
- [6] Arthur, J., 1992. Basic financial management (pp: 649). New Jersey: Prentice Hall Publishers.
- [7] Rafuse, M.E., 1996. Working Capital Management: An Urgent Need to Refocus. Journal of Management Decision, 34(2): 59-63.
- [8] Deloof, M., 2003. Does Working Capital Management Affects Profitability of Belgian Firms? Journal of Business Finance and Accounting, 30(3): 573-587.
- [9] Pandey, J. M., 2006. Financial management (pp: 1225). New Dethi: Vikas Publishing Company Ltd.
- [10] Butt, B. Z., A. I. Hunjra and K. U. Rehman, 2010. Financial Management Practices and their Impact on Organization Performance. World Appl. Sci. J., 9(9): 997-1002.
- [11] Ibenta, S. N., 2005. Investment analysis and financial management strategy (pp: 45). Enugu: Institute for Development Studies.
- [12] M.Y.Khan / P.K Jain, Financial Management Text, Problem's Cases, 5TH Edition, Tata McGraw –Hill Publishing Company Limited, New Delhi, 2007.
- [13] Prasanna Chandra, Financial Management Theory and Practice, 5<sup>TH</sup> Edition, Tata McGraw –Hill Publishing Company Limited, New Delhi, 2001.
- [14] Lazaridis, I. and D. Tryfonidis, (2006). Relationship between Working Capital Management and Profitability of Listed Companies in the Athens Stock Exchange. Journal of Financial Management and Analysis. 19 (1), 26 – 35.
- [15] Van Horne, J. C. and J. M. Wachowicz, (2000). Fundamentals of Financial Management. Eleventh edition, Prentice Hall Inc.
- [16] Horne Van, J.C. , & Wachowicz Jr., J.M. (2000). Fundamentals of Financial Management (11th edn), Prentice Hall .