

## FINANCIAL MANAGEMENT PRACTICES AT SELECTED TEXTILE UNITS

**R.Kannan**

*Ph.D research Scholar, Madurai Kamaraj University, Madurai*

**Dr.B.Anbazhagan**

*Dean (Academic Affairs) Sourashtra College, Madurai-4*

*Dr.R.R. Balaji, Associate Professor of Commerce, Sourashtra College, Madurai-4*

### **Indian Textile Industry**

Indian textile history is very old. India was famous in the 16th century for its textile exports, especially export from Gujarat. During the British period, the East India Company took control over foreign trade. The first Indian cotton cloth mill was established in 1818 at Fort Gloaster, near Kolkata. This mill failed to cater to the demands of the country and the second mill established in 1854 and KGN Daber had laid the foundation for modern cotton industry. It had been named as Bombay Spinning and Weaving Company. This Industry can be basically categorized into two segments: Organized and Unorganized. Unorganized textile industry is the largest in terms of numbers and it utilizes the traditional practices (Weaving and Spinning) in cloth production and hence is labour intensive in nature. Unorganized industry is characterized by the production of clothes either through weaving or spinning with the help of hands. Further, another important feature is that this industry is naturally considered as a decentralized one. It comprises three major segments viz., power loom, handloom, and hosiery. Apart from this, there are readymade garments, khadi, as well as carpet manufacturing units in the decentralized sector. Organized sector constitutes another half of the Indian textile industry with the immense importance given to capital intensive production process. This represents spinning/composite mills like spinning and weaving and processing facilities carried out under the same roof. This sector is characterized by sophisticated mills where technologically advanced machineries are utilized for mass production of textile products.

### **Importance of Indian Textile Industry**

Indian textile industry is the second largest industry in the world after China and it is self reliant and independent industry and has greater diversification and versatility. One of the main objectives of the Eleventh Five Year Plan was to accelerate GDP growth from 8 to 10 per cent and then maintain it at 10 per cent as well as to increase the energy efficiency by 20 per cent points in the Twelfth Five Year Plan in order to double the export income by 2016-17. As per AEPC, currently this industry contributes nearly 3 to 4 percentages to GDP; Next to agricultural sector, it generates employment for more than 35

million people and excise collections nearly 9 per cent and it contributes to 16 per cent share of the country's export. About 27 per cent of the country's foreign exchange comes from the textile exports. It contributes to nearly 14 percentage of the total industrial production of the country.

#### Review of Previous Studies

Vivek (2013)<sup>i</sup> stated that the efficient management of finance is very important for the success of an enterprise. The performance of Tata Steel Ltd. is better than the SAIL because of its efficient management of inventory in Tata Steel Ltd. than that at SAIL.

Elijah et al., (2013)<sup>ii</sup> indicated that the major problems arising from the government financial regulations include lack of monitoring and evaluation of units on financial usage, long procurement precedents, lack of financial management training, late disbursement of funds and lack of audit personnel. These problems hinder good financial management practices in public secondary schools.

Ben (2011)<sup>iii</sup> noticed that three most influential factors in pursuing sound financial management practices are pressure from bankers, external accountants and providers of capital. The three most preventing factor for the adoption of financial management practices are expensive to maintain qualified accounts, difficult to understand and lack of internal accounting staffs.

Kawane (2010)<sup>iv</sup> mentioned that careless financial management practices are the main cause of failure for business enterprises in Ghana.

Olawale et al., (2010)<sup>v</sup> found out that the use of sophisticated investment appraisal techniques such as NPV and IRR methods have a positive impact on the profitability of the firm.

Kieu (2004)<sup>vi</sup> found that the effective implementation of financial management practices such as accounting information system, financial reporting and analysis, working capital management, fixed assets management and financial planning and good performance in financial characteristics such as liquidity and business activity have a significant positive impact on profitability.

Polpi and Rao (2009)<sup>vii</sup> noticed the financial support to the Indian textile SME units, and the assistance in the technological up gradation by the Government of India produce a positive impact on its performance.

Marimuthu (2014)<sup>viii</sup> found that the management outlook in the highest impact factor on the performance of textile companies from the investment factors. It is also found that the competitors' risk has a significant impact on performance of the companies. The advised remedial measures to improve the performance are up gradation to new

technology; generate quality products with less cost, and maximum utilization of resources.

Yadav and Jain (2005)<sup>ix</sup> used an index of professionalism to measure the financial management practices in public enterprises. They identified eight financial areas, namely capital budgeting, capital structure, dividend payment, working capital management, financial control, political risk, exchange risk and information system. They concluded that the public enterprises follow sound financial management practices by and large. However, for certain financial activities there is considerable scope for improving professionalism.

Hoang and Tran (2009)<sup>x</sup> studied the awareness on financial management practices and its antecedents. They found that the level of awareness on the financial management practices is very poor in small scale industries. The important reasons for their poor awareness on financial management practices are their poor education level and lack of interest in enterprising.

Singh et al., (2010)<sup>xi</sup> identified the usages of financial factors for the financial upliftment of the SSI units. They mentioned that the recent past 10 years records of the financial transactions are the good predictors of the financial performance of the units.

#### **Objectives of the Study**

The objectives of the present study are confined

- (i) To reveal the profile of sampled textile units;
- (ii) To measure the implementation of financial management practices at the textile units;

#### **Hypotheses of the Study**

Based on the objectives of the study, the following hypotheses are formulated.

- 1) There is no significant difference among the composite and spinning mills regarding the implementation of financial management practices and the financial ratios;

#### **Research Design of the Study**

It is a conceptual structure within which the research is conducted. In the present study, the predetermined objectives have been focused. The methodology to collect the data and process the data have been done in a systematic manner. Hence, the applied research design of the study is descriptive in nature.

#### **Sampling**

The population of the present study is the total textile units in Tamilnadu. The number of composite and spinning mills in Tamilnadu is 46 Composite mills and 923 spinning

mills. 10 percentages of Units in Tamilnadu have been included as sample units in Tamilnadu. 5 Composite mills and 92 spinning mills are considered for this study.

#### **Data Collection**

The important source of data for the present study is primary data. The primary data was collected with the help of structured questionnaire. The questionnaire consists of two important parts. The first part consists of profile of the units. The rate of implementation of financial management practices at the units is covered in the second part.

#### **Applied tool: 'T' test**

The 't' test has been applied to test the significant difference among the composite and spinning mills regarding Level of implementation of financial management practices.

#### **Limitations of the Study**

The present study is completely based on the financial data disclosed by the units in the filled-in questionnaire.

#### **Findings:**

##### **Descriptive Statistics**

The textile units are classified into composite and spinning mills. The important years of establishment among the units are above 20 years. The composite mills are having more years of experience than the spinning mills. The dominant nature of ownership in the units, are partnership which is followed by proprietorship. The 'company' type of ownership is very dominant in composite mills whereas in spinning mills, it is partnership. The important number of employees working in the textile units is 401 to 500 employees. The number of employees working in composite mills is higher than that in spinning mills.

The dominant total investment in textile units is Rs.101 to 150 crores and above Rs.200 crores. The total investment in composite mills is higher when compared to spinning mills. The dominant sources of capital in the textile units are 'all possible sources'. The most important sources of capital in the composite mills are 'owned capital + bank finance' whereas in spinning mills, it is 'all possible sources'. Majority of the textile units are having a separate finance department. The dominant number of finance personnel working in the units is 'less than 10' and '20'. The number of finance personnel working per composite mills is higher than that in spinning mills.

### Financial Management (FM) Practices in Textile Units

The rate of implementation of FM practices in textile units are discussed under fifteen practices namely business analysis & control, financial accounting, reporting and analyzing, financial planning and control, investment analysis, capital acquisition, profitability analysis, debt management, capital management, investment management, cash management, inventory management, credit management, working capital management, fixed assets management and dividend management practices.

### Rate of Implementation of Financial Management Practices in Textile Units

The mean of the above said fifteen practices in composite and spinning mills have been computed separately in order to exhibit the rate of implementation of FM practices among the units. The 't' test has been executed to find out the significant difference among the composite and spinning mills regarding the implementation of each FM Practices. The results are shown in Table 1

**Table 1: Level of Implementation of Financial Management Practices (FMP) in Textile Mills**

Sl. No.	Variables in FMPs	Mean scores in units		't' statistics
		Composite Mill	Spinning Mill	
1.	Business Analysis & Control Practices	3.8969	3.2103	3.0996*
2.	Financial accounting, reporting and analysing practices	3.8138	3.6829	0.4311
3.	Financial planning and control practices	3.7680	3.7276	0.1785
4.	Investment analysis	3.7419	3.4857	0.6173
5.	Capital acquisition practices	3.8916	3.2162	3.1171*
6.	Profitability analysis	3.8471	3.3091	2.2789*
7.	Debt management practices	3.8723	3.3453	2.0173*
8.	Capital management practices	3.9016	3.2519	2.9696*
9.	Investment Management Practices	3.8622	3.2785	2.4032*
10.	Cash management practices	3.8609	3.2227	2.8242*
11.	Inventory management practices	3.7831	3.4594	1.0496
12.	Credit management practices	3.8561	3.2421	2.7017*
13.	Working capital management practices	3.8666	3.2489	2.7642*
14.	Fixed assets management practices	3.6748	3.2786	1.5411
15.	Dividend management practices	3.8156	3.2277	2.5919*

\*Significant at five per cent level.

The highly implemented FM practices in the composite mills are capital management practices and business analysis and control practices since their mean scores are 3.9016 and 3.8916 respectively. In the case of spinning mills these two FM practices are financial planning and control practices and financial accounting, reporting and analysing

practices since their mean scores are 3.7276 and 3.6829 respectively. The significant difference among the composite and spinning mills have been noticed in the implementation of ten FM practices out of 15 FM practices since their respective 't' statistics are significant at five per cent. In all FM practices, the rate of implementation is higher at the composite mills than that at spinning mills.

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