

Financial Management Practices in Village Industry: A Case Study of Rural Punjab

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Abstract

This paper has focussed upon exploring the financial management practices in village industry with special reference to the state of Punjab. This study has attempted how the owners of small and cottage village enterprises directly and indirectly using these practices in their non-farm unit. This paper has essentially stressed upon evaluating the cash management practices, account receivable practices, inventory management practices and financial account practices. The present study has randomly studied 300 small rural enterprises in 40 different villages in various districts of Punjab. A survey with a scheduled questionnaire has been done on such rural entrepreneurs who are running various units to earn their livelihood apart from agriculture as a primary occupation. A descriptive research design with non-probability style of sampling has been chosen for data collection. Descriptive statistics and ranking of various practices has been used to analyse the results. This study has concluded that these owners don't know much about managing their finances and other management practices. Government agencies must initiate such offline and online training programs to train these entrepreneurs about basic management skills and must be important part of policy programs for their rural development programs. NGOs and corporate houses should initiate some training sessions as a part of their corporate social responsibility. Academia, universities, must also develop some add on courses or diploma programs in this regard. This paper has also felt the need of further research to determine the role of investment behaviour by extending it to some more districts in Punjab.

Keywords. *Financial management, Punjab, Rural, Village industry*

1. Study of Rural Punjab

Punjab is one of the northern states in India. There is hardly anyone who has not heard about Punjab and Punjabis in this world. Punjab is known for its name from five rivers, its food and drinks, its spices, its bravery, helpful people, hospitality, festivals, celebration styles, beautiful attires, its dance forms, its music industry, its movies, its sports and many more. The land of Punjab is very fertile and is known as granary of

India. Punjab has two shades. One is agrarian Punjab, living in its villages and towns grow agri-products and fill the belly of whole world. Another is Industrial Punjab living in large cities and fulfils the demand of entire nation and many countries across the globe.

Punjab is a small state with 50,362 square kilometre area (19th area-wise in India) with 27.74 million population (as per census 2011) in 22 districts. In spite of being an agrarian

economy, the state of Punjab is the 15th largest state with Rs. 5.75 trillion in GDP of the country. This state produces almost 1/10th of national cotton, 1/5th wheat and 1/10th of rice as compared to overall production of country. Punjab is also a hub of very large manufacturing concerns comprising textiles, sewing machines, tractor manufacturing, sports material, hosiery, readymade garments, iron ores, cycle and its spare parts, FMCG, food processing units etc. but most of these units are concentrated to large cities like Ludhiana, Jalandhar, Amritsar, Bathinda, Patiala, Batala, Mohali etc.

The benefit of this industry remains restricted to these cities only and the rural population find themselves restricted to farm activities only. Rural Punjab is struggling hard for settling their population to other employment avenues apart from agriculture. Rising population pressure on land has resulted into huge disguised unemployment looking for settling abroad or in some other cities. Most of the rural population, who are not able to settle outside their villages, set up their own small and cottage enterprises in their own village. These village enterprises suffer a lot owing to no knowledge of managing business, marketing their produce, targeting their customers, segmenting the customer base, arranging funds for investment, expanding their business operations, competing with quite economical products available in their village from large metro based industrial corporates. These village industries don't bother about quality certification, branding their products, rationalising their strategies and any other such activity in which enterprises are bound to indulge. These enterprises cater only the local needs and produce accordingly.

The present investigation has mainly concentrated upon understanding only the financial management practices adopted by these village industries. This study will help in exploring those financial management activities in which these rural units are involved about which even they are not aware of. The study has proceeded ahead with review of existing literature in this regard, generating the gaps out of those published reviews, framing objectives of present investigation, designing research methodology for present investigation, analysing the raw information collected, analysing the results and interpreting the same in the light of exiting literature on village industry. The study will end up with managerial implication of the study and conclusion of the same.

2. Literature Review of the Village Industry

Singh & Madaan (2020) has discussed the economic status of land of five rivers i.e. Punjab state. The study has utilised Unit Root test and Granger Causality Test and proved that economic growth of the state has direct and positive relationship with the growth of India. Punjab state is mainly agrarian state where its most of the population lives in villages. Rising pressure of increasing population on agriculture land has tremendously shifted rural population to some other attractive livelihood options including cottage industry (Haider et al., 2015). It includes essentially the rural industries and services imparting avenues, rapid expansion of labour especially in disguised form, landless farmers, non-access of villagers to cities, less employment opportunities outside especially women (Singh & Goyal, 2019), non-existence of organised sector in villages has made a congenial

environment for village industry to flourish in Punjab (Goyal et al., 2014). The study has shown that production, output and sale has come down in the post liberalization period evaluated with the help of time series data. The major reason of poor growth is lack of credit facilities, marketing opportunities of the produce, competition from cities and big business houses, supply of raw material (Gupta, 2016), obsolescence of machineries, migration of youth from state, existence of tax etc. there are certain agro based industries (Kaur & Goyal, 2018) which are proving as a sunrise sector for the entire state. Among them is Atta Chaki. The author has collected data from Fatehgarh district of Punjab where a data of thirty three Attachaki owners have been collected from 40 villages. The study has shown that payback period of attachaki business is 6.08 years. In spite of having long payback period, this industry seems to be very lucrative for the villagers as it provides adequate livelihood. The landless labourers always tend to migrate to other states and cities for earning (Kainth, 2009). Brick kiln is one of another option in rural areas and village industry.

Gupta (2016) has viewed this village industry at small scale is contributing a lot toward the well being of local population. All this helps in essentially a better utilization of existing resources and promoting and bringing changes in them. Government is also taking active interest in this and taken many steps to motivate youth to set their enterprises in their areas. Poverty elimination is the major factor (Amjad et al., 2012) for setting of such institutions in farm sector. As the rural population is mainly struck in farm debts (Singh et al., 2017), they need to free and make the Punjab completely independent and developed state (Mellor, 1995). In order to

bring the state out of the trap of indebtedness and backwardness, there is a need to have full contribution of both gender in the employment generation (Singh & Goyal, 2019). Government also make strategies to have full employment potential utilization in non-farm activities as well in rural Punjab.

Hence the study has identified few gaps indicating that most preferred financial management practices in village industry in Punjab has not been identified so far in a systematic way. There is also a need to identify and suggest suitable measures to create awareness among village entrepreneurs regarding managing their finances. Keeping in the mind above objectives, the study has based its findings upon following objectives:

1. To determine the most preferred financial management practices in village industry in Punjab.
2. To suggest suitable measures to create awareness among village entrepreneurs regarding managing their finances.

3. Research Methodology

This study is entirely based on selected financial management practices in village industry in rural Punjab. These practices have been inspected to comprehend the reasons of maintaining or non-maintenance of accounts by these village enterprises. The study has adopted descriptive research design whereas the chosen sampling design is non probability technique. Target population of the study is the village enterprises which are earning their livelihood in villages by running some business apart from their primary agriculture actives. The sampling frame of the present investigation is randomly selected non-farm enterprises from the selected

population under consideration. The sampling units include potters, SHGs, carpenters, cobblers, mechanics etc. These entrepreneurs have been identified from the office of MSME development institute Ludhiana and other contacts offices in Punjab, and Department of rural development and Panchayat Mohali. Then these entrepreneurs were personally contacted by visiting at their place. A sample of 386 enterprises was originally collected, out of which 300 completely filled questionnaire were considered for the final phase of the study. At the primary data collection stage, a survey has been conducted through a self-structured and scheduled questionnaire which was explained to the respondents by explaining in their own language. Each question was explained to each respondent in their language so that accuracy and effectiveness of the responses can be enhanced. Secondary data has been collected from

published journals, articles, conference papers, reviews, books, reports, dissertation and master thesis on village industry. Most of the published data has been taken from journals from Punjab Agriculture University, Ludhiana as this academic institution is closely catering to the needs of rural Punjab. This survey has been followed by empirical analysis of responses through usage of statistical software SPSS and MS Excel. The statistical tools like ranking of various financial management practices, averages and percentages have been used to analyse the data.

4. Empirical Results and Discussion

The demographic profile of 300 village enterprises in Punjab under study has been tabulated as below in table 1.

Table 1: Demographic Profile of Respondents

Demographic Variable		Frequency	%	Demographic Variable		Frequency	%
Gender	Male	276	92	Marital status	Married	201	67
	Female	24	8		Female	99	33
Qualification	Matric	168	56	Age	20-25 years	75	25
	10+2 Pass	92	30.67		25-30 years	101	33.67
	Graduate	9	3		30-35 years	72	24
	Post Graduate	1	0.33		35-40 years	23	7.67
	Other Diploma	30	10		40-45 years	20	6.67
No. of Children	No Child	105	35		above 45 years	9	3
	Only 1	80	26.67		Occupation	Agriculture and allied activities	280
	Above 2	115	33.33	Non-Agriculture activities		20	6.67

In the present investigation of 300 village enterprises has included 92% males and 8% female entrepreneurs. The reason of being less number of female entrepreneurs is that the most of women are busy in managing their homes and also work in the fields. Out of these 300 respondents, 201 respondents are married and 99 are unmarried. These respondents have a lot of responsibility upon them to manage their families and children. The study have shown that 105 respondents (35%) don't have any children, only 26.67% have only one child and 33.33% respondents have more than two children. The study has observed that almost 25% respondents were in between the age of 20-25 years and least 3% respondents were above age 45 years.

The study has observed that most of the respondents are matric pass and only one of them was post graduate. Almost 56% population of the respondents was only matric and 3% respondents were graduate. Hence they don't find any lucrative jobs or business outside in the cities. There are 10% respondents who have diploma from ITI or Polytechnic colleges. All of them are using their skills are carpenters, plumber, electricians or welders etc. The study has shown that 92% respondents who are involved in non-farming activities apart from farming occupation are males and 8% female respondents who are part of the study are working in Self-Help Groups in their villages and involved in pottery, handicrafts, crocheting, weaving and embroidery activities. 93.33% respondents have told that their primary occupation is agriculture and apart from the farming activities, they are also doing some non-farming business to run their families and earn some livelihood for extra income.

An enquiry was made to enquire whether

they are keeping financial records of their enterprise, only 4% told that they are maintaining records but not as per double entry book keeping system. It is maintained to ensure the credit receipts and payments due with the entrepreneur. However 96% don't maintain any such records. As per the study, they only have single entry system where they just remember the basic figures of sales, purchase, dues, balances and receipts and payments. There is no system of financial accountancy with most of the enterprises. The reasons behind non-maintenance of accounts and keeping financial records are non-understanding and basic knowledge about accounts maintenance and its terminology (62%), fear of any tax penalties and avoidance of the same (22%), non-availability of any internal accounting team (28%), difficulty in understanding and interpreting accounting statements (62%), small size of business (82%) and qualified accountants are being costly (53%).

It has been observed that financial management in village industry is quite beyond the rules, regulations, policies, conventions and concepts. The study has observed that 86% enterprises use their parents, family and relative sponsored funds in their business. 53% own funds from their near and dears like friends and others. 41% are using their retained profits in their business, but most of the enterprises hardly left with any such reserves in their businesses. Only 23% enterprises are also using bank loans to finance their businesses.

It was very difficult from the enterprises to know the items of questionnaire. Hence they have been asked all the queries in the language they understand. However in order to make the study user friendly, the investigation has been put in words in actual terminology. Next section

deals with the techniques of financial management by these enterprises.

These enterprises have very small amount of investment which they expect to recover soon from the future turnovers and profitability. The study has shown that almost all the enterprises are highly concerned about the investment in their business and its payback period. On the enquiry about the capital budgeting techniques, The study has shown that 32% use Payback period method, 16% accounting rate of return, 21% accounting rate of return, 11% present value method, and remaining evaluate in terms of internal rate of return.

They also determine their working capital for their routine operation. The size of working capital is determined by their past experience (76%), rule of thumb (7%), depending upon the nature of business(2%),

manufacturing period (3%), volume of business (5%), credit terms (2%), seasonal variation (1% and growth and expansion policies (4%). Even these enterprises are making periodical evaluation of their working capital position. On the basis of the estimates, these enterprises are making their monthly (60%), quarterly (9%), bi-annually (1%), yearly (2%) and depending upon the need assessment and occasionally (28%). These enterprises are managing their working capital position through Cash Management (51%), Inventory Management (28%), Account Receivable management (12%) and other financial managements (9%).

First enquiry has been made with regard to cash management practices in the village industry in Punjab. These have been summed up in following table no. 2.

Table 2: Cash Management Practices in Village Industry in Punjab

S.N.	Cash Management Practices	S.A.	A	N	D	S.D.	Weighted Sum	Weighted Average	Rank
1	There is a proper system to maintain optimum level of cash in the firm	30	201	45	6	18	1119	3.73	III
2	There is a proper system to have proper planning and budgeting of cash	27	216	42	6	9	1146	3.82	I
3	A mechanism of cash collection and disbursement is available	15	90	189	6	0	1014	3.38	V
4	Good relations with banks to meet short term cash obligations	27	135	72	54	12	1011	3.37	VI
5	The firm make investment of excess funds as well	39	81	132	21	27	984	3.28	VII
6	Centralized Cash management supervision	27	168	57	30	18	1056	3.52	IV
7	No problem in making payments of accruals	42	162	78	12	6	1122	3.74	II

8	Stock of cash available for precautionary motives	0	87	129	78	6	897	2.99	X
9	There is proper understanding of cash requirement in near future	30	108	63	81	18	951	3.17	VIII
10	The firm prepares customized cash flow statement	33	66	93	90	18	906	3.02	IX

The study has shown that these firms are in some way making arrangement to manage their cash balances and flows. The system may differ from Accounting Standard -3. However the investigation has reported that there is a proper system to have proper planning and budgeting of cash (3.82) and standing at position one. These firms are not facing any problem in making payment of accruals (3.74) and standing at number two in overall ranking. These firms are not facing any problem in maintaining optimum level of cash in the firm (3.73) and stand at

number three. Cash management supervision (3.52) at rank four, proper mechanism of cash collection and disbursement (3.38) at rank five, good relation with banks (3.37) at rank six, investment of excessive funds (3.28) at rank seven, proper prediction of cash requirement (3.17) at rank eight and prepares customized cash flow statement (3.02) at rank nine. However stock of cash available for precautionary motives (2.99) stand at last number. The results have been shown in the following figure no. 1.

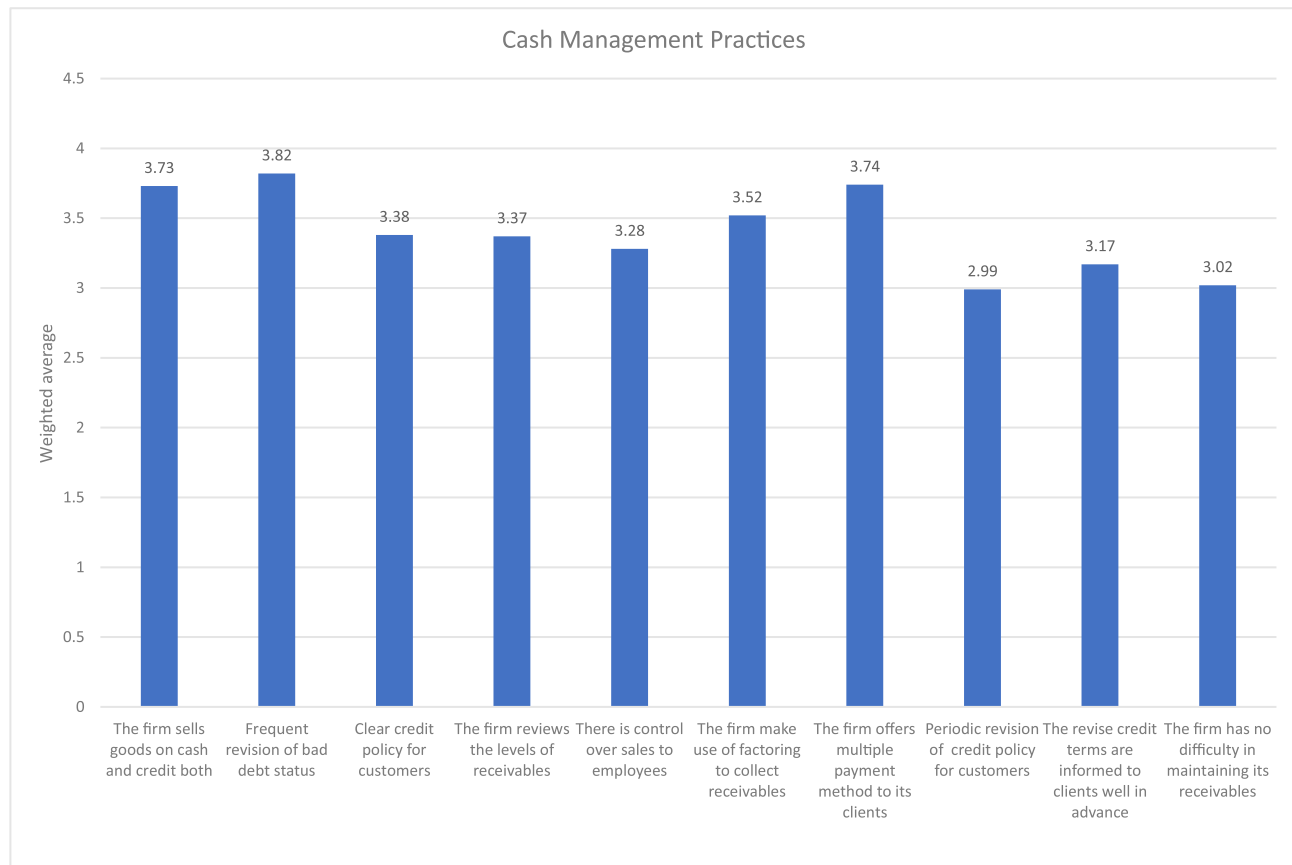


Figure 1: Variables Related to Cash Management in Village Industry

After understanding the cash management practices in the village industry in Punjab, next query has been made with regard to account receivable practices in the village industry in Punjab. These have been summed up in following table no.3.

Table 3: Account Receivable Practices in Village Industry in Punjab

S.N.	Account receivable practices	S.A	A	N	D	S.D	S.A	A	N	D	S.D	Weighted Sum	Weighted Average	Rank
1	The firm sells goods on cash and credit both	24	46	14	13	3	72	138	42	39	9	1125	3.75	I
2	Frequent revision of bad debt status	5	38	41	14	2	15	114	123	42	6	990	3.3	III
3	Clear credit policy for customers	6	37	43	30	4	18	111	129	90	12	1113	3.71	II
4	The firm reviews the levels of receivables	12	32	19	33	4	36	96	57	99	12	945	3.15	VI
5	There is control over sales to employees	9	30	30	17	4	27	90	90	51	12	879	2.93	X
6	The firm make use of factoring to collect receivables	10	36	23	21	0	30	108	69	63	0	915	3.05	IX
7	The firm offers multiple payment method to its clients	7	36	38	15	4	21	108	114	45	12	981	3.27	IV
8	Periodic revision of credit policy for customers	8	23	44	19	6	24	69	132	57	18	924	3.08	VIII
9	The revise credit terms are informed to clients well in advance	7	28	46	11	8	21	84	138	33	24	945	3.15	VI
10	The firm has no difficulty in maintaining its receivables	7	31	43	14	5	21	93	129	42	15	963	3.21	V

The study has shown that village industry in Punjab is selling its goods and services on both cash and credit terms (3.75) which stood at rank first in the list. These firms have clear credit policy (3.71)- rank two, and offers multiple payment options to their clients (3.27) standing at rank four in the list. These firms are making frequent revision of bad debt status (3.3) and facing no difficulty in maintaining its receivables (3.21) as they are continuously reviewing the

levels of receivables (3.15). The revise credit term are informed to clients well in advance (3.15) and makes continuous periodic revision of credit policy for customers (3.08). Only few firms are making use of factoring to collect receivables (3.05). However these firms have less control over sales to employees (2.93), that is why standing at last number in ranking. The results have been shown in the following figure no.2.

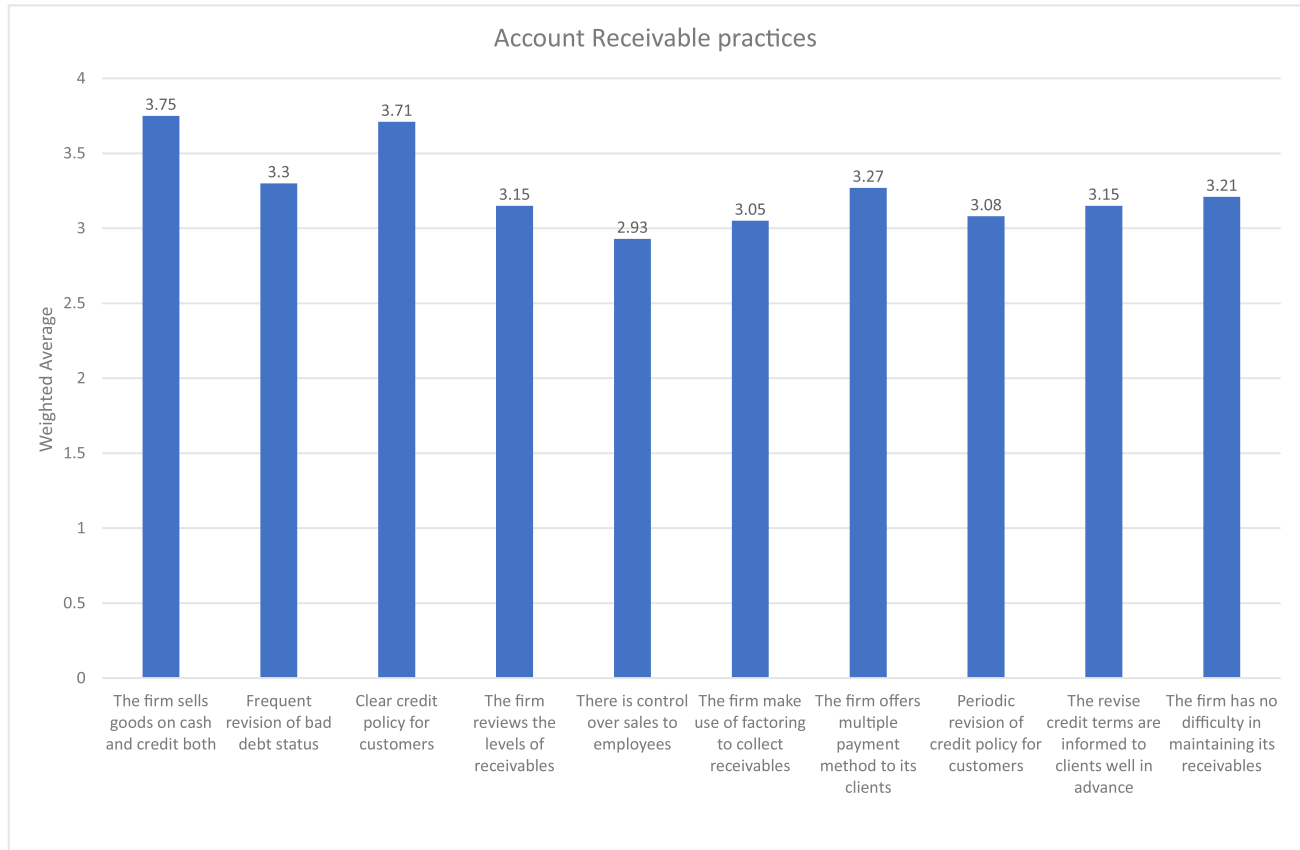


Figure 2: Variables Related to Account Receivable in Village Industry

After understanding the account receivable practices in the village industry in Punjab, next query has been made with regard to inventory management practices in the village industry in Punjab. These have been summed up in following table no. 4.

Table 4: Showing Inventory Management Practices in Village Industry in Punjab

S. N.	Inventory management practices	S.A	A	N	D	S.D	WeightedSum	Weighted Average	Rank
1	Demand and supply of goods determines the maintenance of inventory level in firm	54	96	90	42	18	1026	3.42	I
2	Periodic inventory budget is regular feature	15	111	99	63	12	954	3.18	IV
3	The firm regularly reviews the inventory levels	36	78	111	57	9	948	3.16	V
4	Inventory levels are determined on the basis of historical data	18	99	105	42	36	921	3.07	VIII
5	Proper precautionary and safety measures have been taken for inventory	33	114	96	36	21	1002	3.34	III
6	Firm determines standard and budgeted costs for its products	18	93	111	69	9	942	3.14	VI
7	Action against deviation between actual cost and standard cost is taken	12	120	81	66	21	936	3.12	VII
8	Raw material is easily available to the firm	30	129	81	45	15	1014	3.38	II

The study has shown that demand and supply of goods determines the maintenance of inventory level in firm (3.42) and stood at number one in ranking of inventory management practices in village industry in Punjab. All this depends and become feasible only as raw material is easily available (3.38) to these firms and stand at number two. These practices are followed by proper precautionary and safety measures for inventory (3.34), periodic inventory budget (3.18), regular review of the

inventory levels (3.16), determination of standard and budgeted costs for its products (3.14) and action against deviation between actual cost and standard cost (3.12) is taken. However only few firms are determining their inventory level at historical data (3.07) basis and depend upon the market price stand at last level in ranking in inventory management practices. The results have been shown in the following figure no. 3.

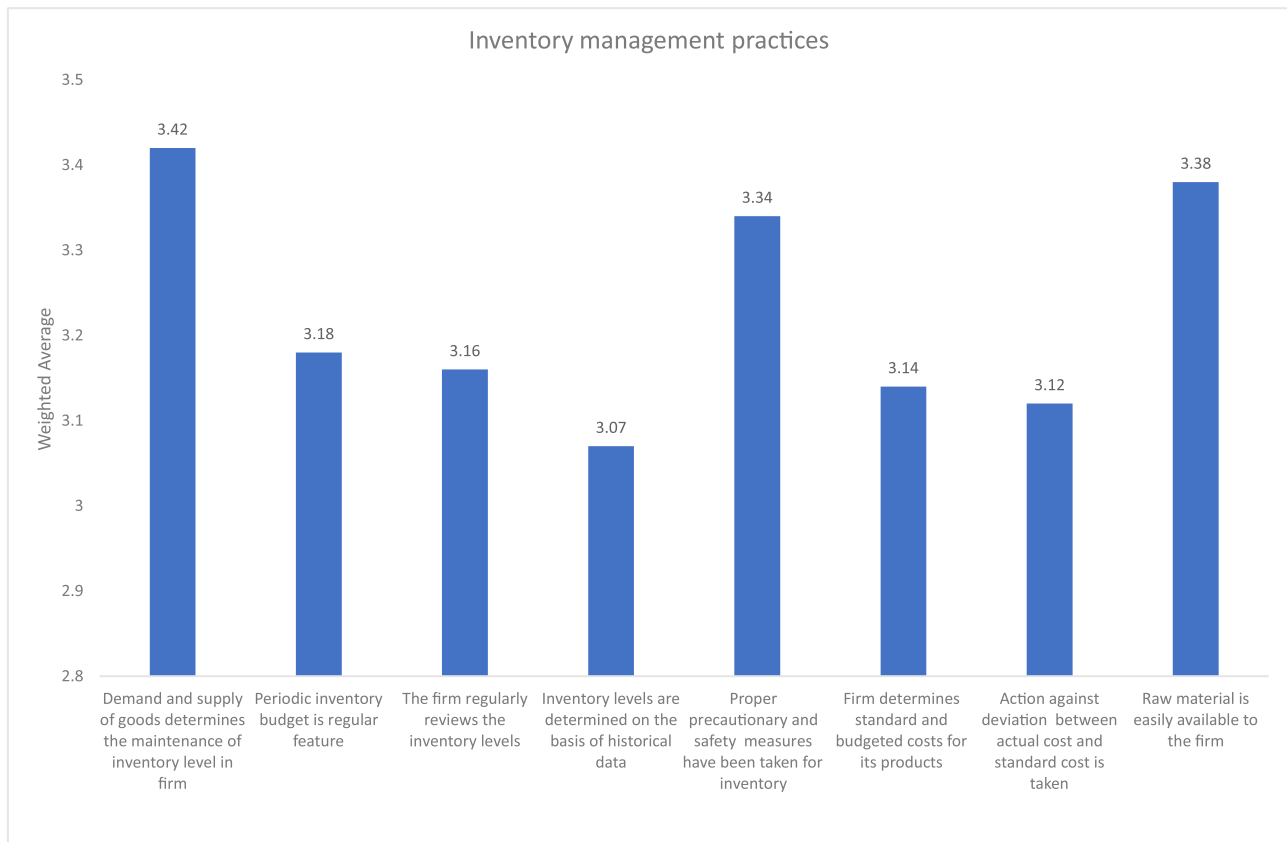


Figure 3: Variables Related to Inventory Management in Village Industry

After understanding the inventory management practices in the village industry in Punjab, next query has been made with regard to

Inventory management practices in the village industry in Punjab. These have been summed up in following table no. 5.

Table 5: Financial Accounting Practices in Village Industry in Punjab

S. N.	Financial accounting practices	S.A	A	N	D	S.D	Weighted Sum	Weighted Average	Rank
1	The proprietor himself prepares required financial statement	57	153	60	18	12	1125	3.75	I
2	Accounting principles to some extent are followed	24	105	123	33	15	990	3.3	III
3	A preplanned financial policies and procedures is made	18	75	117	66	24	897	2.99	VI
4	Periodically bank reconciliation statement is prepared	12	72	54	138	24	810	2.7	X
5	Firm regularly evaluates the cash flows	30	93	66	81	30	912	3.04	V
6	An annual assessment of financial record is made	27	108	114	39	12	999	3.33	II
7	To some extent Ratio analysis is made to assess profitability	30	90	99	57	24	945	3.15	IV
8	Income tax return is also filed by the entrepreneur	27	72	48	138	15	858	2.86	VIII
9	business taxes and other taxes are also filed by firm	3	93	36	108	30	741	2.47	XI
10	Compliance of government rules and registration requirement	24	90	39	126	21	870	2.9	VII
11	An audit of account is made by some certified accountant	6	81	60	126	27	813	2.71	IX

The study has shown that while following financial accounting practices, most of the proprietor themselves prepares required financial statement (3.75) and stand at number one in ranking. These firms, to some extent, are also making assessment of their financial records (3.33). In depth discussion with them has shown that accounting principles to some extent are followed (3.30), understanding of ratios to judge their profitability (3.15), evaluation of cash flows in and from the business (3.04), preplanning of financial policies and procedures

(2.99), compliance of government rules and regulations (2.90), filing of income tax returns (2.86), auditing and verifying accounts from some certified accountants (2.47) and periodically matching bank reconciliation statement (2.7) are other financial accounting practices followed by the village industry in Punjab. However filing other business taxes like GST and others (2.47), they have not shown any importance and negligence. The results have been shown in the following figure no. 4.

negligence. The results have been shown in the following figure no. 4.

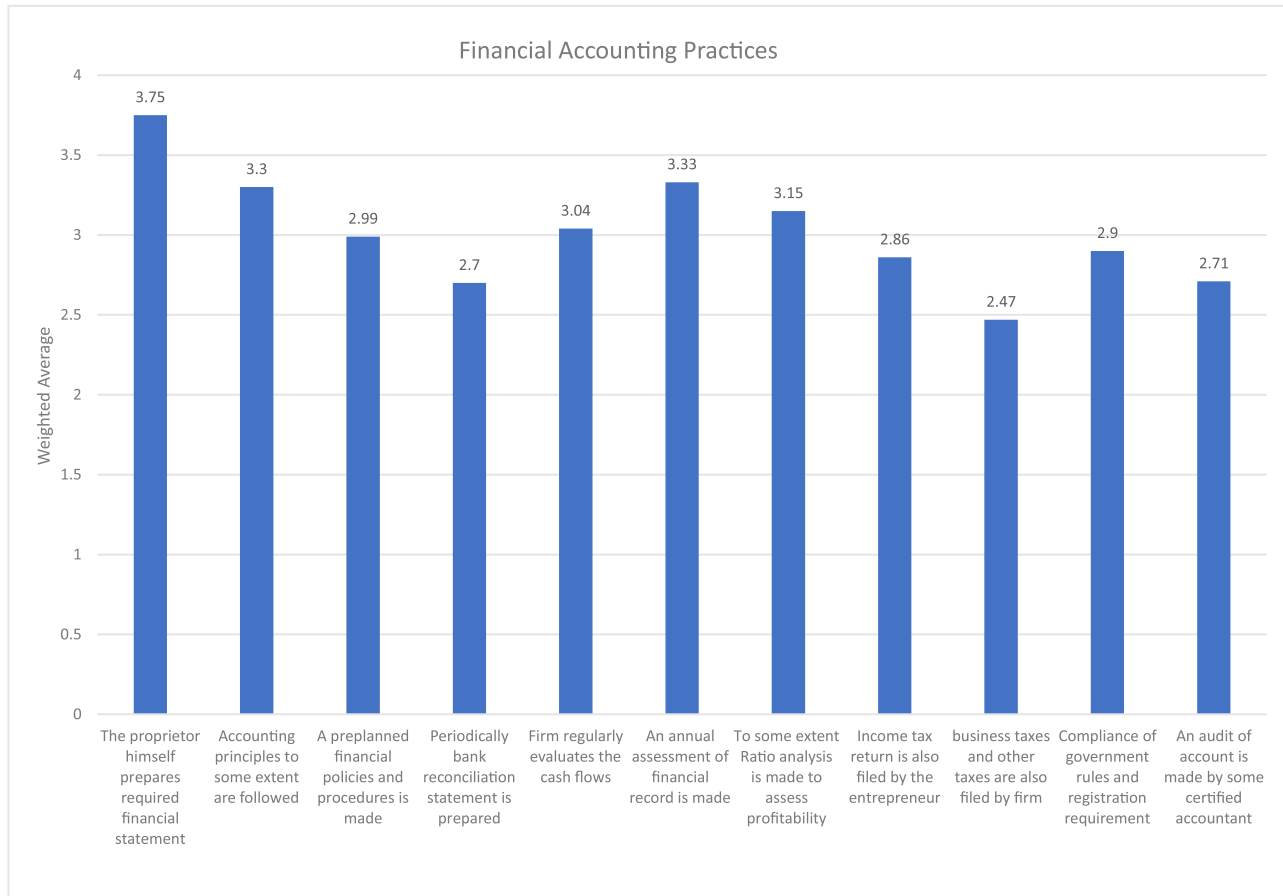


Figure 4: Financial Accounting Practices in Village Industry in Punjab

Hence the above discussion on various financial management practices in Punjab village industry has shown that these small cottage enterprise owners are not much aware about these practices. They are directly or indirectly doing all these but not in a structured manner.

5. Managerial Policy Implications and Suggestions

The study has shown that the villagers have agriculture as primary occupation. Most of the time, these villagers are busy in agriculture or its allied activities. They also go for some secondary occupations to fulfil their basic needs. Most of them perform these activities as per their

skills, learning and experience. But they are hardly aware of the fact that they can earn good amount of business from agriculture produce only. The theoretical implication of the study is that these villagers can be made trained entrepreneurs by starting some e-learning and practical classroom training sessions in their village only. These programs may be started by some corporate or NGOs or other academic institutions as a part of social responsibility. The practical implication of this investigation is to make village enterprises aware of managing their ventures along with financial management Practices. This is possible only with starting different sessions for these business owners though some applied gatherings. The managerial

implication is to make the rural masses ready for developing their own world of business activities proving supplementary to the metros and cities business hubs. The study has realised that these village enterprises is lacking due guidance to opt for modern era of agriculture allied businesses.

The study strongly suggests that the village enterprise programs should be started to influence their decision making pattern. Academia, universities, industry and corporate houses must start and increase frequency of rural enterprise knowledge programs to make villagers aware about possible modern rural and agriculture related business activities.

6. Conclusion and Future Scope of the Study

The study have shown that most of the villagers are directly and indirectly managing their finances in their rural enterprises but the accuracy, consistency, efficiency and effectiveness is completely lacking in managing cash, receivables, inventory and accounts. They need to be taught basic principles, concepts and rules of double entry system to make better books of accounts. This will help also help in better understanding the area of loss, expense management and dealing with obsolescence. This study can be further extended to some more villages and the number of respondents in various other regions of the Punjab to get more accurate results. A cross-state study may bring some more concrete results for the policymakers. Even the study can be further extended by deriving certain factors determining financial management practices in village industry.

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