
ANALYSIS OF FINANCIAL PLANNING PRACTICES OF SMALL MILK PROCESSING PLANTS IN AHMEDNAGAR DISTRICT

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ABSTRACT

This paper aims at analyzing the financial planning practices of the small milk processing plants with an objective to understand the level of its application and the challenges faced by the financial executives. The researcher used descriptive research design. Questionnaire survey plus interview method used to collect the data from the owner/manager responsible for financial planning in the milk processing plant. The simple random sampling method used to select sample and the sample size of 30 milk processing plants which is 60 per cent of the total small milk processing plants in Ahmednagar district taken for the study. The researcher used simple percentage and rank analysis. The MS Excel statistical tools used for further analysis and to reach at reliable conclusion. On the basis of findings, researcher concluded that there is low level of financial planning application in the small milk processing plants. The study recommended the financial knowledge and skills are imparted to improve the competency of the person handling financial aspects of milk processing operations.

Key words: Financial planning practices, milk processing plants, financial challenges, financial management, financial planning efficiency

1.0 Introduction

The dairy is a low margin high turnover industry. It plays pivotal role in generating rural employment and act as a source of income for the rural population. Healthy and effective performance of dairy enterprises is crucial for the rural development. Milk processing sector suffers from intensified competition, technological changes, rising customer expectations and squeezing profit margin. For the healthy and successful growth of the milk processing plants, it is important that they should remain financially viable and healthy.

SME Chamber of India in their report on SMEs sighted acquiring funds from the market at low cost as major financial challenges in front of Indian SMEs which hampers the investment and growth of the sector. The Banks are reluctant to lend to SMEs for a number of reasons. Some of them are like high failure rates, low capitalization, high risk owing to limited assets and vulnerability to market risks.

The financial manager in a small business is a key decision maker, often the second most important decision maker in the organization besides the owner. He makes daily decisions that affect the company's cash position and its overall financial health including the company's ability to grow and expand.

The decision-making process in a small organization is highly complex. The most important factor influencing decision making is the strategy or systematic process behind decision-making. This highlights the importance of financial planning and its effect on the performance of organization. In the highly volatile, uncertain, risky and dynamic environment, the ability to respond depends upon quality of financial planning. Now ever than before, the financial planning acquires significance as it pressurizes the financial executives to make better financial decisions and contribute positively in profitability and organizational growth. Milk processing sector which acts as a link between the dairy farmer and end user plays crucial role in rural economy. Efficient financial management is necessary for the healthy and profitable growth of milk processing sector.

2.0 Literature Review

In According to the **Walker and Boughn** the financial planning pertains only to the function of finance and includes the determination of the firm's financial objectives, formulating and promulgating the financial policies and developing financial procedures. Whereas the **Bourneville** refers financial plan to the capital structure of the corporation and financial policies which the corporation has adopted or intends to adopt. Financial Plan is the statement estimating the amount of capital required, determination of finance mix and formulation of policies for effective administration of the financial plan. The financial planning broken into six steps such as projection of financial statements, determination of funds required, forecasting of the available funds, establishing the system of control, developing procedures and establishing the performance based management compensation system. Ensuring the availability of sufficient funds, balancing

risks and cost, ensuring liquidity and optimum use of resources are considered to be the prime objectives of the financial plan. Financial plan may be short term and long term or the combination of both. The time horizon of the long term planning span from 2-10 years and short term financial plan generally covers a period of 1-2 years. Short term financial planning begins with sales forecast which helps to develop production plan. This helps in estimating the operating expenses, factory overheads, labor requirements etc. The next step of the same is preparing the financial statements which include proforma income statement and balance sheet. Changing customers taste and preferences, technological changes, difficulty in accurate forecasting, absence of co-ordination and rigidity etc. are sighted as the major limitations of the financial planning.

Hilton and Gordon (1988) defined financial planning as the adaption of the broad objectives, strategies and other plans of an organizations into financial terms. **Gibson and Cessar (2002)** revealed that the smaller firms have little or no understanding of the financial management. Hence in smaller firms where there is Lower education level are less likely to have financial plan. According to Arnold and **Chapman (2004)** financial planning is understanding past performance and translating that insight into forward-looking targets to align business results with corporate strategy to drive shareholder value. **Horngreen, Datar and Foster (2006)** reveals that the better financial planning have a positive effect on the profitability of the firm. **Waweru (2007)** identified lack of budgeting and financial discipline led to failure or poor performance of **SMEs**. **Byrne et.al (2007)** examined financial management practices of Irish Dairy firms. They observed a linkages between financial management practices and farm financial performance. Similar observation was made by **Brent A et. al. (2003)**. **Masurel & Smit (2000)** conducted research on small firms in Vietnam and found that the firms with a formal planning system appeared to be profitable than those without. **Kathryn, Jennings and Allen (2002)** discovered that the financial planning helps in setting business priorities and helping in making better and timely financial decisions. **Kenneth (2010)** Effective financial planning encourages manager to generate new knowledge and ideas which is essential for the growth and success of business. **Yang Xuhui Zhang Ruoxi (2013)** showed poor planning of financial management and lack of detailed financial system are the major reasons for high cost of capital, cash flow difficulty, lack of clarity in authority and responsibility and lack of accurate prediction of funds demand in financial management of **SMEs** in China. **Kuwame (2010)** sighted lack of financial management knowledge as a main cause of failure of business enterprises in Ghana. **Das A.K and Dey N.B. (2000)** conducted exploratory research on small businesses in north western state of India. The researcher observed a wide gap between the theory of financial management and the actual financial management practices followed in small businesses. They observed the less usefulness of the financial management theory and tools. Further, they expressed need to develop management theory and tools which are suitable for small businesses

From the literature reviewed related to financial planning in **SMEs** it can be observed that the financial planning is core of financial management and crucial for the successful growth and

development of the SMEs. Financial planning refined the knowledge of financial manager by testing the marketplace assumptions on continuous basis and improves the quality of decision making. Systemic learning and its application in practice prevents firm failure and reduces firefighting approach in solving business problems. Many researchers tried to explore the relationship between the financial planning and its effect on the financial performance by studying different variables. The researches on financial planning in SMEs are carried out in different industries and countries by focusing on different areas of financial planning. But the specific studies in a particular industry based on financial planning are missing.

3.0 Objectives of the study

- 1.To identify the Financial Planning Practices applied in the Small Milk Processing Plants
- 2.To analyze the perception and attitude towards financial planning practices
- 3.To suggest appropriate measures to improve the financial planning practices

4.0 Data Methodology & Research Methods

The researcher used descriptive research design.Questionnaire survey plus interview method used to collect the data from the owner/manager responsible for financial planning in the milk processing plant.The simple random sampling method used to select sample and the sample size of 30 milk processing plantswhich is 60 per cent of the total small milk processing plants in Ahmednagar district taken for the study. The researcher used simple percentage and rank analysis. The '5' point Likert scale used to measure the opinions and attitude of the financial executives.The MS Excel statistical tools used for further analysis and to reach at reliable conclusion.

5.0 Data Analysis and Findings

The researcher gathered data from 30 small milk processing plants, edited, coded and tabulated the data according to the requirements.

Sr		No. of Plants	Percentage
1	Yes	3	10.00
2	No	2	6.67
3	Partially	25	83.33
4	Total	30	100.00

Table No.1.0 reports the status about the preparation of the financial plan the small milk processing plants.The table shows that 83.33% of the milk processing plants partially prepares the financial plan whereas only 10% of the plants prepares the financial plan.

Sr		No. of Plants	Percentage
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1	Yes	30	100.00
2	No	0	100.00
	Total	30	100

Table No.1.1 shows that all the sampled milk processing plants set financial objectives. The Table

Sr.	Type of Financial Objective	No of Plants	Percentage
1	Sales growth	25	83.33
2	Liquidity	27	90.00
3	Return on Sales	20	66.67
4	Return on Investment	12	40.00
5	Others	4	13.33

No.1.2 shows the priority given to financial objectives by the milk processing plants. Majority of the small milk processing plants give top priority to liquidity (90%) and the Sales growth (83.33%) followed return on sales (66.67%).

Sr	Kind of Financial policy	Yes	Percentage	No	Percentage
1	Capital expenditure policy	1	3.33	29	96.67
2	Customer selection policy	0	0.00	30	100.00
3	Customer credit policy	5	16.67	25	83.33
4	Supplier payment policy	2	6.67	28	93.33
5	Minimum cash balance policy	4	13.33	26	86.67
6	Financing policy	2	6.67	28	93.33

Table No.1.3 presented information regards to the formal financial policy set by the small milk processing plant. From the table, it is observed that majority of the milk processing plant has not set any formal financial policy which is one of the important aspects of effective financial planning.

Sr	Types of Budget Prepared	No. of Plants	Percentage
1	Budgeted profit and loss account	4	13.33

2	Budgeted balance sheet	4	13.33
3	Sales budget	21	70.00
4	Production Budget	10	33.33
5	Cash Budget	25	83.33
6	Purchase budget	20	66.67
7	Labour budget	6	20.00
8	Overhead Budget	4	13.33

Table 1.4 reported information about the types of budget normally prepared by the small milk processing plant. It shows that 83.33% of the milk processing plants prepares cash budget, 70% prepares sales budget and 66.67% involved in preparing purchase budget. The sample surveyed milk processing plants also reveals that only 13.33% milk processing plants prepare budgeted profit & loss and budgeted balance sheet.

Sr	Frequency of preparing and reviewing financial budgets	No. of Plants	Percentage
1	Always	3	10.00
2	Sometimes	15	50.00
3	Rarely	7	23.33
4	Never	5	16.67
	Total	30	100.00

From table No.1.5 it is observed that 50% of the small milk processing units in the sample 'sometimes' prepare and review budget whereas 23.33% rarely prepare and review budget. Only 10% of the sample milk processing plants 'always' prepare and review budget.

Sr	Responsibility for preparing financial budgets	No. of Plants	Percentage
1	Owner-Manager	6	20.00
2	Finance/Account Manager	17	56.67
3	Account Executive	7	23.33
4	External Accountant	0	0.00
		30	100.00

From Table No.1.6 it is discovered that in 56.67% of the milk processing plant, the responsibility of preparing financial budget is shouldered by Finance/Account Manager whereas in 23.33% sampled milk processing plants, the account executive prepares financial budget followed by owner-manager in 20% of the milk processing plants.

Table No.1.7 Frequency of comparing between budgeted and actual results			
Sr	Frequency of comparing between budgeted and actual results	No. of Plants	Percentage
1	Always	3	10.00
2	Sometimes	10	33.33
3	Rarely	13	43.33
4	Never	4	13.33
	Total	30	100.00

Table No.1.7 reveals that in 43.33% milk processing units, the budget and actual results are ‘rarely’ compared whereas in 33.33% plants results are ‘sometimes’ compared. Only in 10% of the sampled milk processing plants, the budgeted and actual figures are ‘always’ compared.

Table No. 1.8 Period of budgeted and actual comparison			
Sr	Period of budgeted and actual comparison	No. of Plants	Percentage
1	Weekly	3	10.00
2	Monthly	7	23.33
3	Quarterly	18	60.00
4	Semiannually	2	6.67
5	Annually	0	0.00
		30	100.00

From Table No.1.8 it is observed that 60% of the milk processing plants compares the budgeted vs actual figures on ‘quarterly basis’ whereas in 23.33% milk processing plants its carried on ‘monthly basis’ and in 10% plants on ‘weekly basis’.

Table No.1.9 Overall Perception of Owner/Manager towards Financial Planning		
Sr	Financial Planning Statements	Avg Score
1.	Financial planning is highly useful in making financial decisions	1.13
2.	Business regularly analyze sales, cost and profit trends	1.2
3.	Resource allocation is taken on the basis of budget objectives and goals	1.43
4.	Plant gives a very high level of importance to financial planning	1.46
5.	Qualified competent and skillful manpower is available in plant for financial planning	1.7
6.	There is high level of computerization in financial planning and reporting practices in our plant	1.83
7.	Owners/Managers are highly involved in preparing and evaluating the financial planning activities	1.9
8.	Financial planning techniques are reasonably applied in financial analysis and reporting	1.93
9.	Forecasting accuracy plays crucial role in Financial Planning	3.1

10.	Financial Planning is highly beneficial in improving the profitability of the Plant	3.7
11.	Financial planning helps in setting financial objectives	4.46
	Total Average Score	2.16

The Table No.1.9 present the overall perception of owner/manager towards financial planning practices applied in small milk processing plants measured on '5' point Likert scale for 11 items and their average score recorded in the table. From the table it is observed that owner/managers perception for the majority i.e. 8 item statements founds to be below average score of '3'.The overall average score for 11 items scale of the sample milk processing plants is 2.16.This is an indication of low level adoption of financial planning practices in the sampled milk processing unit.

Table No.2.0 If your plant does not use some/any form of financial planning or budgeting which of the reasons best explains the Why Not?			
Sr	Reasons for not Using financial planning	No of Plants	Percentage
1	donot know the benefits	19	63.33
2	Lack of personnel	14	46.67
3	Lack of Knowledge & competency	23	76.67
4	Time Constraints	7	23.33
5	Costly to Implement	10	33.33
6	Others	5	16.67

The Table No.2.0 shows the reasons for not using some/any form of financial planning and budgeting practices in the milk processing plant. Majority of i.e. 76.67% of the sampled milk processing plants reasoned 'lack of knowledge and competency' related to financial management is the major reason for the lack of application of financial planning practices in the plants followed by 'unawareness of the benefits' related to it.

6.0 Conclusions and Recommendations

Financial planning is core of financial management. It is crucial for setting financial standards and effective control of financial resources. In this highly dynamic and competitive business environment,the financial executives are pressurized to make positive contribution in the profitability of the milk processing plants. Hence making better financial management decisions on the basis of scientific financial tools and knowledge has become the need of the hour. Through the literature survey it has been observed that the effective financial planning has positive effect on the financial performance. But which financial management factors contribute financial performance remains inconclusive. In this context, the specific industry and firm size level study is important. From that perspective, the cooperative, private and government milk processing plants which operate at small, medium and large levels have their own financial management challenges. Managing cash flow, liquidity, growth and profitability considers being the major

financial challenges in front of the financial executives. The milk processing is high turnover low margin industry primarily depends on quality milk production and effective demand supply management. Intensified competition in the milk processing industry put pressure on financial manager to effectively plan and manage each and every dairy operations which has a financial implications. Healthy growth of the milk processing sector depends upon one of the crucial factor that is productivity. Improving productivity and level of profitability largely depends upon aligning the milk processing operations to ever changing dynamic environmental and market trends to seize the opportunities.

A majority of the small milk processing plants in the sample sometimes prepares financial plan and budget in the process of business operations. Very few plants prepare the budgeted profit and loss statements and balance sheet. Majority of the milk processing plants prepare the sales, cash budget and purchase budget. In majority of the small milk processing plant, the account/financial manager are engaged in preparing the financial budget. Less than 50 percent milk processing plants frequently prepares budget and actual results on monthly basis.

On the basis of the study it can be concluded that there is low level of comprehensiveness and adoption of financial planning practices in the milk processing plants. The lack of knowledge and competency in financial management is one of the major reasons behind low application of the financial planning practices in the milk processing units. Critical events in milk processing plant act as a great learning tool through which the refinement in decision making comes. But it is reactive rather than proactive approach.

The study recommended the financial knowledge and skills be imparted to improve the competency of the person handling financial aspects of milk processing operations. It is also recommended that the culture of financial planning needs to be encouraged by the top management to set up formal financial and control system to improve financial decisions on the basis of scientific approach rather than firefighting approach. The study also recommends the use of technology in financial management to ease process and financial decision making.

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