

**Chapter - 1**  
**EMERGING DIMENSIONS OF CASH MANAGEMENT IN INDUSTRY**  
**WITH SPECIAL REFERENCE TO INDUSTRIAL UNITS LOCATED**  
**IN NORTH BENGAL**

**1.0: EMERGING DIMENSIONS OF CASH MANAGEMENT**

“Cash management is an indispensable element in the success and continuity of the business (Reider and Heyler, 2003)”. It indicates that cash management is of paramount importance for the systematic running of all operational activities and the survival of a business firm. This is a function of a treasurer consisting of planning, mobilizing, and utilizing cash and currency stocks of a corporate body aimed at operational success without any interruption or bottleneck. The objective targeted to achieve in this process, in general, is to maximize the shareholders’ wealth.

Over time cash management has undergone a widespread change. In the 1960s, led by the waves of the Quantitative Approach to Management, the academicians’ focus was confined to designing an OR-based quantitative model to match inflows and outflows, with a priori assumption that excess cash is a burden because the excessive cash holdings push up the carrying costs of idle cash holdings, which in turn adversely affects the profits and the value of the firm.

In the 1990s, the era of the Strategic Approach to Management, cash began to be treated as a strategic asset enabling management to spend cash on strategic uses to fight product-market competition. Contrary to quantitative school, finance managers subscribed to the view that cash holdings can create synergies and enhance the value of a firm. Hence, contrary to the arguments of the quantitative school, very recently the implications of cash holdings began to be analyzed with a renewed perspective.

Newer dimensions of cash management began to emerge with the minting of digital currency and the introduction of electronic modes of payments, which are instant and without a float or lag, cost-saving and efficient. Every country is heading towards further digitization of cash transactions and cash holdings, which gradually renders physical currencies obsolete. Some countries like **Belgium, France, Canada, the UK, etc.** have already reached near to hundred per cent electronic and online transactions. This reduces the social costs of cash holdings and cash transactions (See Table 1.1). Innovations and changes in the banking system and financial services are going to add a further dimension to cash management, which needs to be explored. How these emerging dimensions are going to affect the cash management of corporate houses

is the focus of this research. This thesis is prepared for the unfolding of the emerging scenario of cash management based on primary data collected from field surveys.

**Table 1.1: Growth of E-currency and Digital Transaction**

Rank	Country	The proportion of Digital Payments	Percentage of the population using digital mode
1	Belgium	93	86
2	France	92	69
3	Canada	90	88
4	United Kingdom	89	88
5	Sweden	89	96
6	Australia	86	79
7	Netherlands	85	98
8	United States	80	72

Source: [https:// lessonstartup.com/digitization-of-Indian-economy/](https://lessonstartup.com/digitization-of-Indian-economy/)

To prepare the background of the research, the definition of Cash, the importance of Cash Management, and the dimensions of Cash Management have been provided in the following paragraphs. Besides, the definitions, a note on the Industrial scenario in North Bengal along with the issues relating to MSMEs have been discussed.

## 1.1 THE CONCEPT OF CASH

Cash is a component of current assets, which is highly liquid and cent per cent negotiable without any costs or delay. It is easily measurable, absolute, and tangible. At the very outset, it refers to the stock of currency notes, coins, and cheques, which can be quickly converted into cash on demand without any costs.

In the components of working capital, cash is counted as the element of the highest importance and liquidity. Physical currency notes, coins, and cheques held by a firm constitute total cash held by a firm. Sometimes near-cash items are also included (Banerjee, 1982).

Cash has been defined in different ways by researchers based on the objectives of their studies. From the financial point of view, cash refers to all negotiable instruments that are immediately available to pay the organization's bills and liabilities. In this context, it seems appropriate to take a quick look at the definition of money as per the guidelines of the Reserve Bank of India (RBI). The RBI, in its monetary policy announcements, uses the notion of narrow money ( $M_1$ )

and broad money ( $M_3$ ).  $M_1$  is the very conservative definition of money, which denotes the stock of currency in hand and the non-interest-bearing cash balance lying with the bank. However, long-term deposits and investments in marketable securities are near cash components.

When these near cash components are added to  $M_1$  (the narrow money), the aggregate represents the measure of broad money  $M_3$ . In some empirical works, the concept of cash is equivalent to  $M_3$ . However, in the majority of cash management models, as presented by Baumol, W. (1952), Miller and Orr (1967), and Opler, et al (1999), the word cash is presumed to mean the stock of currency notes and coins in hand. These scholars designed their models fundamentally based on selling (or buying) marketable securities (a part of  $M_3$ ) and restoring the currency holdings (or cash balance).

The ground reality is that cash is acting as the silver lining. All activities of a business are connected with receipts or payments of cash. Cash constitutes the store of value, a reservoir wherefrom money can be spent to meet all emergencies whether it is operative, investing, or financing. In this study, the word cash is used to mean the stock of currency notes and coins in hand plus the cheques and cash balances in the bank account of the firm.

## **1.2: CASH MANAGEMENT: MEANING AND IMPORTANCE**

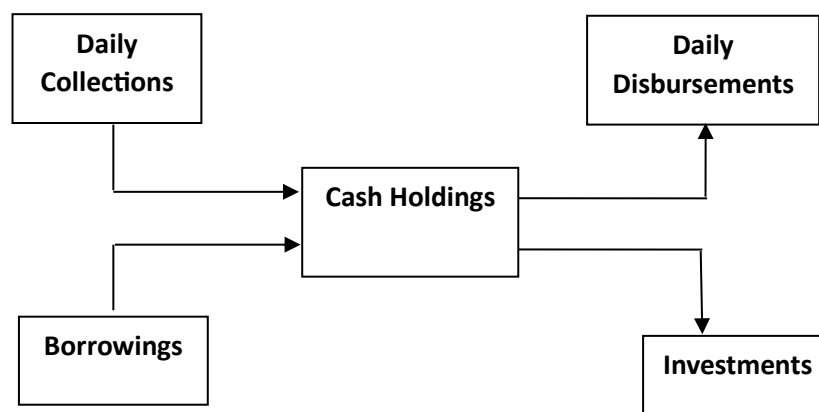
The activities associated with planning, budgeting, collecting, and handling of cash are referred to as cash management. The purpose of cash management is to ensure that the operational activities of the firm are implemented without any interruption or bottleneck. Intuitively, the objective is the maximization of shareholders' wealth.

Cash management is treated as synonymous with Treasury Management. It concentrates on matching the cash receipts with cash payments so that there should be neither an excessive cash holding nor a shortage that causes a payment failure. It establishes the relationship with administrative techniques to optimize the cash holdings of a firm (Myers & Majluf 1984; Harford, 1999).

Cash management consists of assessing the amount needed for that particular activity, and planning the timing of collections and payments. In the case, there is a net inflow, the focus gets shifted to parking excess cash holdings in various investment avenues. Therefore, the functions of cash management consist of planning and budgeting cash flow, controlling cash flow, optimizing cash holdings, and investing idle cash.

A discrepancy between receipts and payments reflects the weakness of cash management, which must be corrected by undertaking necessary financing or investing programmes. While inflows exceed payments, the net inflows are parked in short-term investments, which are highly liquid and easy to convert into cash at a very low transactional cost. (Kamath, et al., 1985, Srinivasan & Kim, 1986)

In cash management, a critical task is to project the future cash flows and make its correct estimate. A forecast is necessary about the sources and uses of cash to reduce the uncertainty about the upcoming days. (Stone 1972).. The process of cash management has been explained in **Fig.1**



**Fig.1: Cash Management Process**

**Fig. 1** reflects that daily cash collections and financing activities like borrowings (or IPOs) generate cash inflows, which together increase cash holdings. Daily disbursements are made from accumulated balance. These are mainly to pay for the wages, rents, and raw materials and other expenses for services consumed. While a positive balance is still left after making payment of the bills, the excess cash is usually parked in marketable securities [investments]. Contrary to this, when cash holdings fall short of the payments and bills are still due for payment, the firm must borrow to meet the deficiency or sell the investment to the gather required cash. It is desirable to reduce the time needed for cash collection; on the other hand, the firm should bargain for increased payment periods, and minimize the unused cash balance.

However, maintaining a respected cash balance is necessary to (a) maintain the firm’s credit ratings (b) receive a discount, and (c) meet contingencies. A good cash balance is an index of liquidity. A high level of liquidity usually leads to a lower level of profitability because the cash balance remains idle in the iron safe and does not earn anything but it could earn something if the business invests this portion of money in the market. On the other hand, the liquidity of a business plays a vital role in the valuation of the firm.

The overall objective of cash management is to effectively control the liquid assets thereby optimizing the utilization of corporate funds at a given moment (Karl, Wundisch, 1973). Planning cash flow, optimizing the cash level, and investing the idle cash are regular recurring activities of cash management. However, how much liquid cash should be held by a firm is a question.

### **1.3: CASH MANAGEMENT: PAST, PRESENT AND FUTURE**

Compared to the practice of cash management prevalent in the 1960s, corporate houses now witness a different scenario. Corporate houses have increased their dependence on credit compared to cash. Depending on credits for supplies coupled with a longer payment period enables a firm to do business without a big investment in liquid cash and currency. Hence, there is a scope for examining the relationship between aggregate creditors and aggregate cash balance.

Technological innovations and the launching of electronic payment systems have radically changed the landscape of cash management. The use of electronic payment options like Google Pay, credit cards, debit cards, net banking, and NEFT is gradually replacing the use of coins and currency notes. It is amazing that from the balance sheet of many companies, the cash in hand has vanished. All transactions get routed through a bank account. This new system is cost-effective, efficient, reliable, and socially beneficial. It is presumed that these changes are very likely to change the methodologies of cash management. Adequate research initiatives are needed to explore the effects of the e-payments on cash management.

In 2016, the Government of India used the demonetization route to curb the menace of black money. The sudden withdrawal of high-denomination currency notes dramatically reduced the currency in circulation. How did firms adjust and adopt policies to fight the adverse effects of demonetization? This is an issue in the field of cash management.

Given the contemporary scenario of banking and payment mechanisms, there is a need to examine the relevance of the quantitative models of cash management deduced in the 1960s and 1970s. Most of the models were deduced under restrictive assumptions, which rarely fit numerous undertakings working in different industries. Most models presumed the existence of a gap between requesting cash and receiving cash. In the days of electronic payments, swiping a credit card or debit card transfers cash to the credit of the firm instantly; now as the gap or slack is not relevant, there is a need to review the validity of the models.

One emerging dimension is the maintenance of a compensating balance with a bank. This is the minimum balance a firm must keep in its bank account as a precondition to receiving services from the bank. Table 1.2 shows the compensating balance requirements as stipulated by various banks in India.

**Table 2: Current Account Balance Requirements of Banks**

Name of the Bank	Average Balance Requirements (Rs.)
HDFC Bank	75,000 monthly
ICICI Bank	25,000 monthly
AXIS Bank	10,000 monthly
IndusInd Bank	10,000 monthly
Canara Bank	1 Lakh quarterly
Yes Bank	1 Lakh quarterly
Punjab National Bank	1 Lakh quarterly

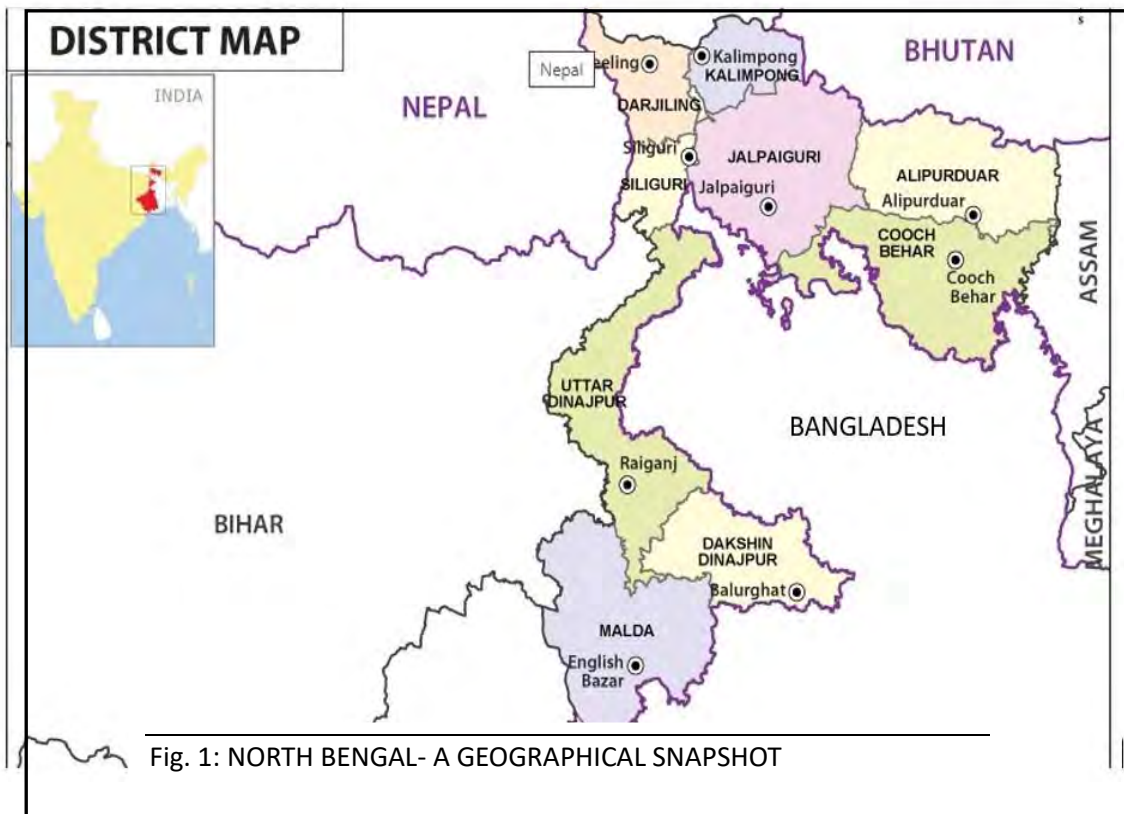
Source: <https://www.bankbazaar.com/current-account.html>

It means that the aggregate cash balance to be maintained by a firm can be obtained by adding the compensating balance with the optimum balance computed based on a cash management model.

With financial sector reforms, the holding costs of cash have witnessed a gradual decline. Given the economics of cash management, do the firms tend to hold more cash? In addition to this, there are many issues such as a) Do the firms use cash holdings as a strategic asset to fight competition? b) Do the cash holdings have a positive effect on the valuation of a firm? Many issues are gradually coming up with time. Hence a research study in the field of cash management is considered highly interesting as well as challenging.

#### **1.4: INDUSTRIAL SCENARIO IN NORTH BENGAL: A QUICK LOOK**

The cluster of eight districts of West Bengal located in the northern part of the state is conventionally called North Bengal. This is neither a political nor an administrative nomenclature. Of the eight districts, six districts such as Cooch Behar, Darjeeling, Jalpaiguri, Uttar-Dinajpur, Dakshin-Dinajpur, and Malda are listed as the industrially backward districts as per the list uploaded by the Income Tax Department, Government of India. The remaining two districts, Kalimpong and Alipurduar, are newly formed for administrative reasons. District Kalimpong is carved out from Darjeeling district and Alipurduar from the former original Jalpaiguri district. It is intuitively understood that as the parent districts were industrially backward, the two new districts will be industrially backward. It is just a matter of time before the Income Tax Department of the Union Government of India officially declares them industrially backwards.



North Bengal constitutes around 18.5% of the geographical area of West Bengal. It shares its international borders with three South Asian Countries- Nepal, Bhutan, and Bangladesh. It also connects the north-eastern states with the larger part of the sub-continent of India. Sikkim and Bihar are the adjacent states; while Sikkim is located to the north of North Bengal, Bihar is in the West. In the context of communication and trade, North Bengal is counted to have a strategic location. However, it contributed nothing to the speedy development of this area because the entrepreneurial culture and industrial infrastructure are in a poor state.

North Bengal is popular for Darjeeling Tea, which is famous across the world. Traditionally, tea plantation remains one of the core areas of its economic strengths accounting for more than one-fifth of tea produced in India and adding to foreign exchange reserves through export.

In North Bengal, the industrial units are predominantly operating in industries like Tea, Timber, and Tourism. Very recently business units in a wide variety of industries are getting incorporated. The emerging sectors are construction, real estate, information technology, healthcare, education, and fast-moving consumer goods. Farmers of North Bengal produce a wide range of vegetables and fruits, particularly mangoes in Malda, pineapples in Uttara Dinajpur, Darjeeling and Jalpaiguri, and Oranges in Darjeeling and Jalpaiguri districts.

The most striking feature is that no heavy industry is there in North Bengal. Only Micro, Small and Medium scale Enterprises run all manufacturing and trading activities in this region. The services sector is gradually picking up in this region.

### **1.5: MICRO, SMALL, & MEDIUM ENTERPRISES: FEATURES AND CHALLENGES**

In a developing country, Medium, Small, and Micro Enterprises (MSMEs) can play an important role by providing employment, promoting entrepreneurship, and accelerating economic growth. In short, MSMEs act as the key driving force in shaping the economic growth of the country. Keeping this point in mind, the Government of India has created a new ministry to ensure the supervision, management, and growth of these enterprises. As a matter of coincidence, all industrial units in North Bengal, characteristically belong to MSMEs categories. In this context, especially to build a background for this research work, it seems reasonable to have a glimpse at the features of the MSMEs and understand their problems and potential. To meet this objective, this paragraph has been planned.

Though MSMEs are endowed with limited financial resources and expertise, they are circumstanced to fight competition in a market dominated by multinational enterprises (MNCs). Hence, the imperatives for gaining expertise in best management principles should be appreciated.

*Weak management expertise* is susceptible to making many MSMEs financially weak and industrially sick. Mostly young entrepreneurs, who incorporate MSMEs, usually lack experience and foresight. With an unrealistic idea, they borrow funds at high-interest rates. High overhead costs along with borrowing costs quickly erode the resource base and render these enterprises sick.

Operating losses in the beginning create a serious liquidity problem. A poor internal ability to fight difficult times, unfavourable business scenarios, and poor marketing knowledge renders the MSMEs weak in fighting competition with large manufacturing firms. Naidu and Sri (2020) noted that ninety-five per cent of MSMEs get liquidated soon after incorporation, and only five per cent of MSMEs succeed in staying in business. Young entrepreneurs incorporating MSMEs must learn the art of cash management, otherwise mismatch of income and expenditure can derail them and render them sick. To them, the knowledge of cash management is immensely important because the resource base with which they start a business is helplessly limited and coupled with liabilities to repay the lenders.

Studying any management activity and providing academic guidance and recommendations are thought important to guide the industries operating here. With this objective in mind, this research proposal has been undertaken.