

CONCEPTUAL REALITIES OF PROFITABILITY OF WOMEN ENTERPRISE AND BANK FINANCE

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Abstract : In fact, there exists the ambiguity about the definition of profit. Whether the definition of profit adopted by the accountants is to be followed or the one given by the economists! However it is not clear; further there are other controversies about the definition of profit such as: should it be gross / net of interest and taxes or should it be gross / net of depreciation, interest and taxes? Thus, the definition of profit keeps on changing according to the purpose for which it is used.

Keywords: Conceptual Realities , Profitability , Women Enterprise , Bank Finance .

INTRODUCTION

To the financial management, profits are the test of efficiency and a measure of control, to the owners a measure of the worth of their investment, to the creditors, the margin of safety, to the employees a source of fringe benefits, to the Government a measure of taxable capacity and the basis of legislative action, to the country profits are an index of economic progress, national income generated and rise in the standard of living. The business of woman by dint of its prudent use of given resources must result in profit; in the business world, the return on capital employed is used to measure the profitability. Comparison among business units it is difficult due to the dissimilarity of their operations, outcome and final aims.

Rationale for Profits

It is ubiquitously true in broader perspective that the value -not profit – realized or added and by any enterprise irrespective of profit is assumed as a measure of efficiency. Suppose for example, an annual profit is only Rs. 100000 or hardly 0.30% over and above the investment as realized by the women enterprise is least significant when that enterprise is a cause to serves the food needs of thousands of people in hunger, or when such women enterprise provides employment to many, or infrastructure that is created for production is going to appreciate ten or twenty ...times! Or more in next year, or it is a pedestal for further takeoff etc. Under this situation the value added by the enterprise and not profit becomes a test of efficiency. The Value – added by product constitutes the revenue from which all the operating expenses of the business firm must be paid after making provision for the purchase of raw materials and other external purchases and worth of product from social, economic and business point of view is created. In other words, value added is the sum of money backed by output useful to owner society & economy remaining after all outside purchases (viz. materials and services) has been deducted from sales. It indicates the net income wealth created by the production of goods or services during the specified period. An enterprise may exist without making profit but cannot survive without adding value. The enterprise not making profit shall become sick but not adding value may cause its social death over a period of time. 4 This suggests that if the bank or business unit of women entrepreneur is in the zone of losses is sustainable proposition till there is a value addition either of product, service or both and useful to society.

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The women enterprise Sector is facing a competitive market since inception of New Economic Policy (NEP) and LPG, where profitability will play a decisive role in the working of any enterprise. Profit is the simplest and the most convenient measuring rod for appraising the performance and efficiency of the business enterprise especially to enterprise run by the woman. Therefore, the attainment of economic stability through profitability becomes essential feature of any woman managed enterprise. Profitability in, a nutshell, reflects the overall efficiency of a business enterprise in making profit over the investment and net value addition by product and services produced. Profit basically is an important yardstick for a measuring performance of enterprise. The term profitability connotes surplus of income over expenditure divided by the proportionate value of input used in business for earning such profits. Profitability is profit – making ability of the enterprise may be bank or may be business unit of women entrepreneur! While profit is an absolute term, profitability is a relative term read in context of invested and managerial efforts used in eking such profit. The profitability of a business enterprise depends upon its allocation of funds over the factors of production subject to attributed priorities (timely repayments, non loan diversification, employment generation, social and economic development etc) of financiers or Govt. In case of the thesis subject it refers to Banks loans and Govt schemes empowering woman enterprises. Allocation efficiency refers to the efficient and profitable use of own funds, bank loans and Govt. Assistance and their deployment by a woman entrepreneur among various competing demands. Fund or input Operational efficiency refers to the difference between the cost of funds raised and size of profits accrued after the deployment of inputs.

Bank's performance in the respect of loaning to woman entrepreneurs is determined by the magnitude of profit earned by bank in loaning, profit accrued to woman entrepreneur, Net value addition by woman enterprise by her product (Goods and services), employment generation as a result of loans to woman business and acceleration to economy

Bank and woman entrepreneur Borrowing from bank

Like wise bank the Profit is the soul of women entrepreneur's business. With the funds available, mostly from banks the women entrepreneurs has to meet various competitive demand from its creditors for meeting dues, suppliers for bills, workers for wages, borrowed capital for interest, land or building owner for rent, labour for wages Govt. or local bodies for taxes, remuneration for employed managerial skill and many others from the gross earnings to arrive at ultimate profit.

Profitability is a measure of efficiency for both bank also to women entrepreneurs financed by bank. Profit is the primary reason for the continued existence of every commercial organization including bank and business of women entrepreneur. The survival and sustained growth are possible only when there is regular and increasing profit margin which alone provides a strong financial base for the organization for continued internal growth and stability towards the fulfillment of assigned objectives. Only strong and viable bank or women entrepreneur be effective in playing their defined role. Improving profitability of banking sector has been an area of great concern to R.B.I., GOI and others. While for women entrepreneur it is a great concern to bank and also to women in business.³

Banks especially nationalized are not business firm like any other trade / commerce but whose sole objective is not to make profit but, as said already value addition through product, service or both. Despite this profit cannot be neglected under enfold of "Social Service". Dr. I. G. Patel has rightly remarked that no society can survive if it gets into the habit of thinking that banks are charitable institutions that they are not in commercial business. Profit is must for survival and growth of any business enterprise including banks. They must earn profit as a result of its successful working as in other business concerns. It is, therefore, appropriate that one should know the factors determining the profitability in bank and any business includes business run by the women entrepreneur.⁵

Banker Vs Bank Financed Women Entrepreneur's Plea for Cost, Profit and Scale of Operation⁸

Banker Side

While supplying financial products or services, the bank incurs costs comprising of interest on borrowings and public deposit, establishment expenses, dividend on share, bad debts etc. The scale of marketing services has to keep the relation with cost. So also the bank, besides profit has many other preferences. The question is that what should be the scale of banking services or production so that it could earn sufficient profit either for growth or survival

The Bank has to accord his preference of marketing its services to priority sector in the interest of economic development and in the interest of public good at large. While engaging to priority sector lending and other services the Bank has to face the problem of overdues and some times adverse situation develop

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making a plea to liquidate the entire banking business. The liquidation of co-operative banking business is no way good remedy to problem since this business is benefiting in number of ways.

Any Bank facilitates, directly or indirectly employment creation, reduction in the geographical imbalances in wealth, boosting of economic activities, democratic base, effective link with the Government and with the financing institutions etc. In view of importance of Bank in economy and its capacity to generate economic linkage effects it is imperative to understand that under what scale of services or marketing operations the Bank may function? In other words, what should be the scale of service/marketing operation and ROI?

In order to answer this, a technique of Break Even Analysis is made use of. Break Even point refers to that tip at which the total costs and total revenue are equivalent and it is barely, after the accomplishment of this tip that bank can anticipate to earn profit. The modus operandi of Break Even Chart was introduced by Walter Rautenstrauch at the commencement of the last century. Viewed in standpoint of this, the bank costs are to be alienated into to the categories of fixed (FC) and variable cost (VC) and summation of these costs (FC + VC) will give total cost (TC). Besides, the scale of marketing operation is also to be well thought-out. While using these variables convinced postulation are made.

With these assumptions, the FC, VC and marketing operation will produce the logic explaining the scale of marketing against cost and profit scale. This logic will be inherent in the chart No. 1.

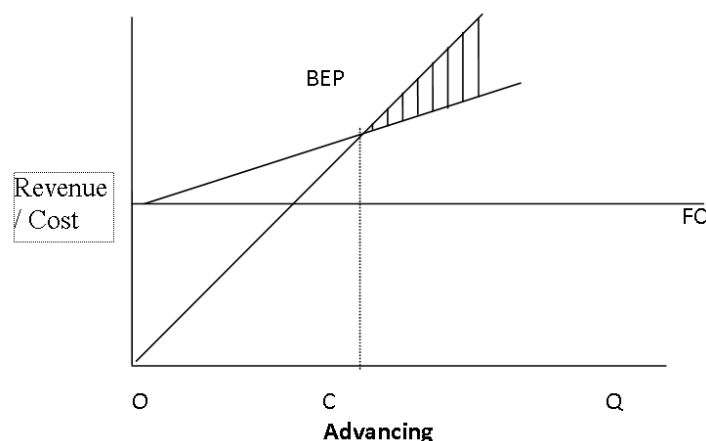
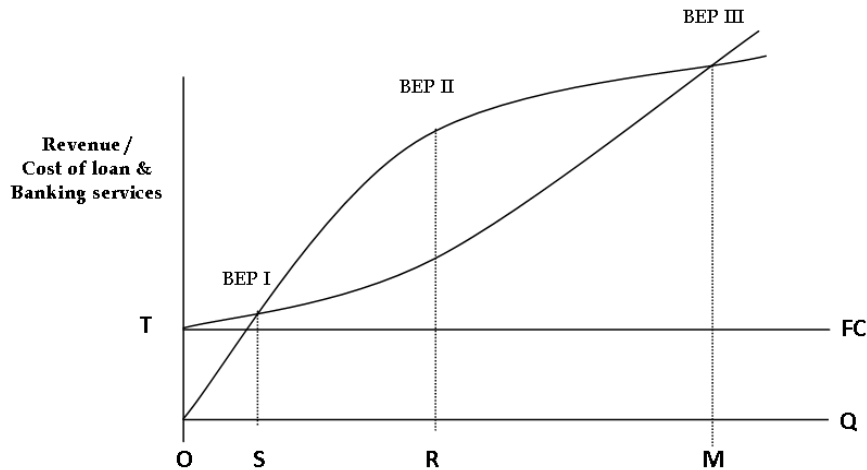


Diagram suggests that when the total advancing was OC, the BEP-I will be secured. At this stage of functioning there would be situation of “No Profit No Loss” or in other words, the total cost will be recovered by selling input or marketing the services.

After BEP-I, profit will accrue to the bank. In subsequent functioning there would be the phase of earning profits more and more but the same are against public interest and hence they are not to be considered.

However, at this stage i.e. phases of earning profit more and more, the traditional Break Even Analysis has to be suspended by reconditioning the traditional logic involved in such analysis. In such analysis, the cost accounts straight line total cost curve and economist's pincers shaped vary not in proportion to scale of marketing due to large scale dis-economics (i.e. increasing scale of overdues, management cost etc.) They are more than for what they were for particular scale of operation. Consequently the large scale of operation could be attained with costlier efforts. This brings new shapes to total cost curve as shown in diagram.) Total costs curve are incorporated at appropriate places where both linear tendencies of long run are considered for the purpose of marketing operation.

The result of such combination is presented in diagram No. 2 by way of Pincers shaped total cost and total revenue (loan operation) curve.



This diagram shows the following three phases of functioning -

(i) BEP-I is the primary Break Even Point where total cost and total revenue curve intersects for the first time; losses are incurred up-to-this point and profit is occur after this point. The scale of marketing operation is 'OS'.

(ii) BEP -II is the secondary break Even Point, where gap between total cost and total revenue curve is maximum which suggests the maximum scale of profit. Scale of marketing is 'OR' which is greater than 'OS' effected under BEP-I.

(iii) As said already, at OR scale of marketing operation, maximum profits are earned as the slopes of two total cost and revenue curves are the same and the difference in between them is the largest. Beyond this level of marketing, the difference gradually narrows down till it becomes "Zero" at BEP-III point, a second intersection between the two total curves i.e. cost and revenue. This tertiary Break Even Point is the second 'absolute' "No Profit No Loss" point at maximum possible scale of marketing. This scale of marketing is 'OM' which is greater than 'OR' or 'OS'.

The private Banker or money-lender will try to obtain 'OR' scale of marketing of services, the optimum scale of marketing where maximum profits could be earned, and if Bank functions with "No Profit No Loss" aim and with maximum scale of marketing, the tertiary Break even point at OM output (loan disbursement) should be criterion of the productive efficiency. When a new bank starts functioning and just in Zone of making losses, it should try to achieve primary Break Even. As against this a matured bank , when making profits on increasing scale, it should try to achieve the position just near to tertiary Break Even Point so as to attain the maximum scale of marketing. A position just near to tertiary Break Even Point is recommended so as to facilitate a bank to earn reasonable profit yielding at least ROI equivalent to Bank Rate.

Women Entrepreneur Side

The bank financing women entrepreneur has to think in different ways; it means it shall not be profit oriented while empowering the woman in business by finances and by necessary guidance. Many cases the bank may release the finance to some women even by incurring the losses, technically as referred to in above diagram, shall cross the tertiary breakeven point by releasing the loans even by incurring the losses under the plea that the particular women entrepreneur is going to do needful for society say employment generation, producing at lower cost and selling at reasonable prices etc. The women entrepreneur however has to assume that she must earn profit for survival and also for growth. To start with she may indulge in monopolistic competition and if possible she may try for monopoly

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