An Analysis on the Cash Management Practices at BPOS

Dr.B.R Celia
Vel Tech High Tech Dr.Rangarajan Dr.Sakunthala Engineering College
Avadi, Chennai

P. Raja
Vel Tech High Tech Dr.Rangarajan Dr.Sakunthala Engineering College
Avadi, Chennai

ABSTRACT
Cash, a current asset of any organization needs to be efficiently managed inorder to bring out a smooth running of the business. The availability of cash should neither be in surplus or deficit. An optimal cash balance need to be maintained inorder to have control over the cash flows in business during the course of it’s business. A study on the cash management practices was found indispensable, especially in the BPO sector as they are one of the major contributors to the nation’s income, employment opportunities and growth. Hence a study on the levels of cash flow and an anticipation of the future cash flows have been done in the study to plan out the changes required in the cash management strategies that these companies adopt. The cash management process has been found efficient and both in the present scenario as well as in the future. BPO’s could strive to maintain this situation in the forthcoming years and perform even better for the upliftment of the industry and the economy simultaneously.

1. INTRODUCTION
Cash management is a broad term that covers a number of functions that help individuals and businesses process receipts and payments in an organized and efficient manner. Administering cash assets today often makes use of a number of automated support services offered by banks and other financial institutions. Successful cash management involves not only avoiding insolvency (and therefore bankruptcy), but also reducing days in account receivables, increasing collection rates, selecting appropriate short-term investment vehicles, and increasing days cash on hand all in order to improve a company's overall financial profitability. Cash being a current asset need to be maintained efficiently for the functioning of the business. Improper handling of cash could lead to major problems in the business entity, thus even resulting in closure of and concern. Cash management mainly revolves around the two major concepts of inflow and outflow of cash.

1.1 Definition
“Cash management refers to a broad area of finance involving the collection, handling, and usage of cash. It involves assessing market liquidity, cash flow, and investments”
“Cash management is a set of strategies or techniques a company uses to collect, track and invest money.”
“The corporate process of collecting, managing and (short-term) investing cash. A key component of ensuring a company's financial stability and solvency.”

2. BUSINESS PROCESS OUTSOURCING
Business process outsourcing (BPO) is defined by the department of Trade and Industry (DTI) as the “delegation of service type business processes to a third party service provider”. BPO is the process of hiring another company to handle business activities for you. BPO usually consisted of outsourcing processes such as payroll. Then it grew to include employee benefits management. Now it encompasses a number of functions that are considered "non-core" to the primary business strategy. It is common for organizations to outsource financial and administration (F&A) processes, human resources (HR) functions, call center and customer service activities and accounting and payroll. BPO is also referred to as ITES -- information technology-enabled services. Since most business processes include some form of automation, IT "enables" these services to be performed.
3. IMPORTANCE OF BPOS

BPO’s role in the India’s economy has been tremendous, especially in the last few decades. The role played by BPOs in boosting India’s economy shows that the IT and the ITes sectors have been contributing largely to the economic growth of India. The growth in the contribution of BPOs to the Gross Domestic Product has shown a steady rise. Hence it is evident that the BPO industry is making an impact on the Indian Economy. Since BPO is an effective cost cutting measure practiced around Globe and India to be the destination of Outsourcing, BPO’s Role in India’s economic growth is set towards making a significant impact in the time to come as well. The driving forces that account for the increase in foreign investments through the BPOs in India are:

- Emphasis on quality services
- Skilled sets and workers
- Cost effectiveness
- Quality products
- English speaking manpower

These features of the Indian BPO industry attract long-term contracts and as a result, there are high earnings which in turn result in major contribution to economic growth. As a matter of fact, the Indian BPO industry is leading in the market and is improving in the area of training professionals in learning foreign languages and increasing the number of skilled workers. This will give India the ability to sustain its global leadership and probably generate export revenues.

4. STATEMENT OF THE PROBLEM

The Indian economy has been witnessing an enormous growth as its income has been increasing. One of the major factors that contributed to it’s development is the BPO sector. it is evident that the BPO industry is making an impact on the Indian Economy. Since BPO is an effective cost cutting measure practiced around Globe and India to be the destination of Outsourcing, BPO’s Role in India’s economic growth is set towards making a significant impact in the time to come as well. Being a major contributor to the economy’s income it is necessary to have an eye on the smooth functioning of BPO’s. this could be achieved by an efficient cash management strategy that would ensure a steady flow of cash and better utilization of funds in times of excess or deficiency.

Under the present inflationary condition, management of Cash is perhaps more important than even management of profit and this requires greatest attention and efforts of the finance manager. It needs vigilant attention as each of its components require different types of treatment and it throws constant attention on exercise of skill and judgment, awareness of economic trend etc. Hence a study to analyse the cash management in BPO’s were found essential to identify the crucial factors of cash management which require a remedial measure.

5. RESEARCH METHODOLOGY

The nature of research undertaken for the study is analytical study. The basic purpose of the study is to find out the liquidity position, the growth of BPO’s in terms of cash flow and ascertain the future financial requirements and profitability in this sector Future cash requirement of the company is predicted by analyzing the past five years annual report of the company. The data required for the analysis has been obtained from various annual reports of BPO’s for a period of 5 years. The data collected from these secondary sources are analysed with certain tools such as Ratio analysis, Standard deviation, Cash flow statement, Comparative balance sheet, least square method.
6. DATA ANALYSIS AND INTERPRETATION

An analysis of data has been made to identify the efficiency of cash management in the BPO sector, further an anticipated approach on cash flows has also been made to analyse it’s future cash positions.

6.1 Current And Liquid Ratio

There is a decreasing trend in the current ratio level. In the year 2009 the ratio was 6.41 and it has been decreased to 1.75 by the year 2013, a decrease of 4.66 over five years. The main reason was due to sharp increase in the current liabilities over the 5 years period but the current asset remained at the same level. The liquidity ratio also shows decreasing trend. In the year 2009 the ratio was 6.32 and it decreased suddenly to 1.64 by the year 2013, a decrease of 4.68 over five years. The main reason is due to sharp increase in the current liabilities over the 5 years period but the liquid asset remained at the same level.

6.2 Operating Cash Flow Ratio

This analysis indicates the level of current liabilities and the cash from operations in this sector.

![Chart 6.1 Operating Cash Flow Ratio](source: Annual Report)

**Interpretation**

The above chart indicates that there is a decreasing trend in the cash flows from operation. In the year 2009 the ratio was 1.32 and it decreased to 0.25 by the year 2012 i.e a decrease of 1.07 over four years. The cash from operations is much below the level of current liabilities.

6.3 Predicted Cash and Bank Balances

A forecast of the future cash and bank balances have been made to test the financial viability of the BPO’s in the future. This analysis could make these companies plan out their cash management strategies in a much better manner.
Interpretation:
The above figure describes that the estimated earnings of cash and bank balance for the next 5 years has a slight decline and then revives back gradually. The cash flows indicate that there would be a gradual increase in the cash and bank balances in the future.

7. FINDINGS AND RECOMMENDATIONS
The study on cash management in BPO’s has revealed that the liquidity position of this sector has been maintained at an approximately constant level even with a rise in the current liability. Though the current liabilities have increased there was a proportionate in the liquid assets also that made it possible to maintain the balance. The prediction on the cash and bank balances also indicate a positive result as it reveals a growth.

As the study has given out a positive image of the BPO sector on the whole in aspects of the cash management strategies followed by them. It shows that a proper follow up of these existing strategies would enable them to maintain this smooth flow of cash as well as provide much better results as far as cash management is concerned.

8. CONCLUSION
Cash being the core area of any successful business, it should be maintained with utmost concern and only aim at productive usage of cash. As this study has rightly portrayed an effective and efficient utilization of cash and bank balances, BPO’s could maintain such efficiency all through by proper planning and implementation of competent strategies on cash management that would bring out more benefits in the future. These measures could at large benefit in economic development as BPO’s play a vital role in economic development and are major contributors to the national income.

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