

Chapter - 2

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Introduction

Review of the programmes of rural development in the third world have highlighted two important reasons for the large scale failure of these programmes. These causes relate to contents of the programmes and the delivery system implementing the programmes.

Benefits of many of these development programmes were captured by the rural elite with the connivance of the bureaucracy and the existing rural inequalities further worsened. Green revolution that benefited medium and large farmers bypassing small farmers, especially in dry lands is, a case in point. Therefore, rural development should concentrate on those resources which rural elite are less likely or able to capture and to which poor have realistic chance of establishing their rights¹. Dairy development is one of the activities in which the poor have the realistic chance of establishing themselves as demonstrated by Anand.

Another cause for the lacklustre performance in rural development was the delivery system i.e, the traditional bureaucracy which was found to

be status-quo oriented. Hence the need for a new agency for implementation. The three tier co-operative organisation of Anand type with its dual accountability, both upward to government and downward to the members, has been found to be an appropriate machinery for the dairy development.

Thus, development of dairy industry through the three tier co-operative organisation of Anand model was accepted by the Government of India as an instrument of socio-economic change for the benefit of the poor. Programmes of the dairy development have been implemented under the guidance of NDDB and IDC in 3 phases viz. Operation Flood I, II and III since 1972. Though per capita availability of milk has gone up from 172 grams in 1972 to 192 grams in 1994-94 it is still below the world average of 285 grams. Also the share of co-operative sector in the total production of milk is only 14 per cent. Rejuvenation of the co-operative sector requires evaluation of the performance of the dairy co-operatives, diagnosis of the problems and handicaps which inhibit the work of the dairy co-operatives and identification of remedial measures for strengthening the dairy co-operatives. The first step in such an exercise is to survey the literature on dairy co-operatives and find out areas which require further investigation.

Review of Literature

Many erudite studies have been conducted on the relevance of dairy co-operatives to rural development, their performance in raising production and productivity in dairy industry and the impact of the co-operative dairies on the socio-economic conditions of the villages.

Hart H.C.(1970)², Higginbotham. S. (1975)³ and Sussman G.E.(1980)⁴ were among the vwriters who pinpointed causes For the unimpressive performance of rural development in the Third World. Unsuitability of the centrally - planned schemes to the local conditions of the rural areas, continuation of the existing inequality aud inequity in rural areas and dominance of the local elite with the support of the bureaucracy and inadequacy of the delivery system were among the causes cited by them. They argued for local level planning by the people and impleintation of plans by an agency accountable to the people and government.

Rajani Kothari (1986)⁵ recommended empowerment and rights to the people for effective rural development. Chambers R.(1984)⁶ suggests development of those resources and activities which rural eiite will not be able to Lisurp and in which the poor can establish their rights.

Esman M.J (1978)⁷ advocated the adoption of a constituency organisation with dual accountability to both government and its own

members, as agency for implementation of the programmes of rural development. Bonus Molger (1986)⁸ highlighted the suitability of milk co-operatives for rural development. Mascernhas (1988)⁹ advocated adoption of Anand type of three tier co-operative for rural development and illustrated the achievements of the dairy co-operatives under Operation Flood I and II.

Vyas.V.S. and Chaudhari K.M (1971)¹⁰ examined the impact of Dudhsagar Dairy of Mehsana district of Gujrat on the production of milk, cost of production and employment. The study confirmed improvements in production, yield, income and employment as a result of the Dudhsagar Dairy. Further they compared the economics of co-operative and non-cooperative dairies and brought out the superiority of the co-operative sector.

Desai D.K. and Narayanan A.V.S.(1967)^M sought to measure the impact of modernisation of the dairy industry on the economy of Kheda district in terms of investments, value-addition, employment and infrastructure facilities. The authors could ascertain positive developments in all the above parameters. Srivatsava R.K. (1970)¹² compared the impact of cattle development programmes between villages with dairy co-operatives (control group) and villages without dairy co-operatives. Though the control group performed better, the contribution of the co-operatives to the success could not be measured and similarly the role of the co-operatives in helping the weaker - sections could not be convincingly established.

Narayanan B.K.(1971)¹³ examined backwash effects and spread effects of the sample village dairy co-operatives of Anand. The study highlighted the spread effects of Ainal like external economies, demonstration effects and creation of demand for dairy products. But the benefits of employment were not adequately dealt with. Patel S.M. (1975)¹⁴ studied the impact of the dairy co-operatives in terms of production and procurement of milk and transfer of benefits from the co-operatives to the society, especially for the weaker sections. The study covered a sample of 750 milk-producers from Kbeda. Mehsana and Banaskantha districts with advanced, middle and initially developed milk-unions. The study found a positive relation between land - ownership and yield of milk. Weaker sections had a larger share of wet milch animals than others and could report better marketable surplus.

Mascehas.R.C (1988)¹⁵ studied the effectiveness of dairy development in India and Karnataka state in particular under Operation Flood I and II. He highlighted the success of Anand type in increasing milk production and productivity and contradictions between the goals of dairy development and of animal husbandry. In Karnataka. according to him, there was no causal relationship between land-ownership and exotic and improved breeds per unit. In fact landless producers did better than landowners in respect of yield of milk.

Some studies examined socio - economic changes resulting from the dairy co-operatives. Somjee and Geeta Somjee (1978)¹⁶ focused on the growth of rational economic perceptions and priorities and managerial shift. Nalini Singh (1976)¹⁷ have showd unsatisfactory participation of women in the membership and management of the co-operatives. Shah D.R. (1992)¹⁸ in his study of dairy co-operatives in Surat concluded that inspite of positive correlation betvveen land-holding and milk-production the landless producers of milk could produce more inilk with dairy co-operative than without it and Anand type could not help tribals in milk-production without production-enhancement schemes.

Shanthi George (1985)¹⁹ stated that Anand. at the beginning. did not pay iniich attention to the landless labourers. It stressed profltabiitiy and viability at the expense of social justice. It rceived about Rs.40 million as grants and therefore its success in business was not a useful model for dairy units. Without any scheme of financial assistance for the poor producers it helped the affluent sections rather than the poor.

Jawana Ram (1987)²⁰ sought to evaluate the programmes of dairy development in Rajasthan under Operation Flood I and II. He concentrated on the problems of management in respect of collection and marketing. According to him, excessive centralisation of authority in the state level federation with control over personnel and fixation of price. eroded the

authority and effectiveness of the board of directors in the crucial district level unions. Empowerment of the board of directors at the district level, according to liim, is necessary for the revitalisation of the unions.

Niimal Singh (1991)²¹ and Subbiah (1995)²² evalnted irnplementation of the programmes of dairy development in Tam il nadu under Cooperation Flood I, II and III in terms of targels and achievements in respect of expendilure. production, productivity sales and number of co-operative societies and unions.

Narayanasamy N. (1992)²¹ advocated adoption of Management Accounting System (MAS) in the co-operative and explained the spade-work needed for ushering in the MAS. Abani A.S. (1992)²¹ evaluated the Unifonn Accounting System (UAS) adopted by the milk unions, founded Operation Flood I. According to liim the system could not succeed due to lack of expertise, guidance and supervision.

Review of literature is found to fail in three groups. Authors like Rajani Kothari, Bonus Molger and Mascemhas reviewing failures of the programmes of rural development advocateed adoption of dairy co-operatives as au instrument for iniproving the socio-economic conditions of the rural poor. Scholars like Vyas Narayanaii and Shah studied the impact of the three - tier dairy co-operatives on theeconomy in terms of upgr;

of cattle, improvement in production and productivity of the dairy industry and changes in the income of the milk producers. Researchers like Geeta Somjee and Nalini Singh dealt with the socio - economic effects of the dairy co-operatives like benefits to the landless and participation of women in dairy-management. In addition, scholars like Jawana Ram have covered problems of management in the three- tier co-operative structure and organization of collection and sale of milk and milk products. Authors like Narayanasamy and Abani dealt with adoption of accounting systems in the dairy co-operatives.

Statement of the Problem

Sound management of finance is an essential pre-requisite of growth and expansion of a business and serious failure in this front can jeopardise the very survival of the business. Diagnosis of the financial status of the dairy co-operatives will greatly help the further growth of this sector and improvement of managerial efficiency. However, finances of the dairy co-operatives have received little attention except a few unpublished papers on adoption of management accounting system and uniform accounting system as cited in the review of literature. Therefore the present study aims at evaluating the financial conditions of the dairy co-operatives.

In the three tier co-operative structure of Anand type the state level apex federation looks after formulation of policies and strategies, planning, personnel and fixation of prices. Primary co-operative societies at village level implement development programmes at village level. collect milk from milk producers and transfer surplus milk over and above the local sales to the district level union. It is the district level union in the middle tier that plays a crucial role in the three - tier organisation. It channels assistance from the state level federation to the village level societies and is responsible for the implementation of the programmes within the district. It maintains chilling and processing facilities. It collects milk from the societies. Surplus milk is converted to powder, butter, ghee etc. The union undertakes distribution of liquid milk and milk products in urban centers in the district and transmits the surplus milk and milk-products to the other unions and federation. Therefore an evaluation of the finances of the district - level unions will greatly benefit the functioning of the dairy co-operative sector. Such a study will have to cover factors influencing in the financial performance of the unions. assessment of financial status as well as impact of financial management on the financial conditions of the unions.

Objectives of the study

The present study aims at evaluating the financial conditions of the co-operative milk unions in Tamilnadu. A study of the financial health of a

business. in order to be complete, should examine factors which have a bearing on the finances of the business and also the manifestations of the financial strength of the business. Steady improvement in the scale of operations in the collection of milk, diversification and sales are essential for profitability of these unions. Similarly, a profitable business is able to generate a substantial part of the funds needed for expansion of the business in the form of retained earnings. A growing and profitable business will deploy a substantial part of its long-term funds in fixed - capital for expansion of capacity of production/processing and growth of sales guarding against over - capitalisation and excessive capital - intensity. Therefore. the specific objectives of the present study are to

- 1) examine the growth in collection, diversification and sales in the milk unions.
- 2) assess the efficiency in utilization and management of the long-term capital in terms of capital - intensity in the unions.
- 3) measure the profitability of the unions.
- 4) study the pattern of mobilization and deployment of funds in the unions and
- 5) recommend remedial measures, if they are found necessary, for rejuvenation of the financial health of the unions.

Scope of the Study

The study covers growth rates in the collection of milk, net value - addition and sales in the dairy unions as they influence the capital-intensity of the unions and profitability. The exercise encompasses assesment of capital - intensity and profitability as well as analysis of factors governing inter-temporal variations in capital-intensity and probiftabilty. Further the pattern of mobilization anu deployment of funds which are the measures of the effeciency of the financial management have been analysed in this exercise.

Methodology

In the absence of any bench-niark study on finances of the cooperative unions, the present study has to largely rely on comparison of the findings among the unions under study as well as comparision of intertemporal rates of changes in each union for purpose of evaluation. The present study is an interdisciplinary exercise employing analytical tools pertaining to Statistics, Economics and Management. Mean growth rates and linear equations have been used for the measurement of intertemporal changes in quantity of collection and sale of milk. Diversificatioii achieved by the dairy cooperative unions has been estimated in the form of net value added by manufacture (NVAM). For computation of real changes and removal of inflationary

effects data in current prices have been deflated to constant prices and for this purpose All India whole sale price index with base year of 1981-82 has been used. Capital intensity and effectiveness of utilization of capital have been gauged with the help of capital-output ratios. Rates of return on investment have been calculated after incorporation of the analysis of time value for assessment of the profitability. The technique of fund flow statement has been used for the analysis of sources and uses of funds. Rupee is the unit of Indian currency and it is rupees in plural. One U.S. dollars is equal to Rs.42 as in May 1 998.

Sample

Tamil Nadu state has 17 district level unions. The study covers about a 25 percent sample i.e. 4 unions. The sample was chosen on the basis of scale of operations of the unions with the help of random sampling technique. For this purpose the average of quantity of collection of milk was computed for all the unions for the period between 1987-88 and 1992-93. The average annual collection of milk per union was 30 million liters. There were 8 unions with collection above the average and 9 unions below the average,²¹ From each group 2 unions were chosen through drawing of lot. Thus the study covers Coimbatore District Co-operative Milk Producers' Union Ltd at Coimbatore, (CMU) and Salem District Co-operative Milk Producers' Union at Salem (SMU) from the first group having above the state average

and Dindigul District Co-operative Milk Producers' Union at Dindigul (DMU) and Tiruchirapalli District Co-operative Milk Producers" Union Ltd at Tiruchirapalli (TMU) with below state average. Even though T.M.U. belonged to the second group it raised the quantity of collection beyond the level of C.M.U. (in the first group) by 1994-95.

Of the four unions under review CMU and SMU were started under Operation Flood-II and the other two- DMU and TMU under Operation Flood-III. Therefore, the period of study starts from 1981-82 for CMU and SMU and from 1987-88 for TMU and 1988-89 for DMU. After the political changes in Tamil Nadu in 1996. co-operative milk unions along with many other semi - autonomous bodies were subjected to intensive investigation on various charges of misdeeds and therefore the sample unions could not furnish latest audited statements of final accounts. As a result tenninal year of the present study is not the same for all the four unions.

Chapterisation

The study has 7 chapters.

Chapter-1: introduces the subject of dairy farming. highlighting its relevance to and importance in rural development and the roie of co-operative sector in dairy development.

Chapter-2: presents review of literature, selection of topic, scope and objectives of the study and methodology.

Chapter-3: deals with growth in collection, diversification and sales of the selected unions.

Chapter-4: is devoted to the perusal of capital - intensity of the unions in terms of capital-output ratios.

Chapter-5: carries evaluation of the profitability of the four unions in the form of rates of return on investment.

Chapter-6: covers fund flow analysis showing the pattern of mobilization and deployment of funds in the four unions.

Chapter-7: is the summary of findings and conclusions of the study.

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