CHAPTER - 9

SUMMARY OF FINDINGS, CONCLUSIONS
RECOMMENDATIONS

9.1 MAJOR FINDINGS

9.1.1 Production and Sales Performance

Since finance is a function of production and sales in the business, the present exercise calls for a study of the performance of the selected societies in production and sales. Among the four societies producing silk goods, only two societies, namely Tirubuvanam and Deerar Sathiyamoorthy have recorded continuous growth in production and sales. Though Deerar Sathiyamoorthy Society is smaller than Arignar Anna Society, it recorded better performance in production and sales. Arignar Anna Society, though a large institution like Tirubuvanam, suffered negative growth rate in sales. Kalaivanar Society had negative growth in production and sales during the period under study. The size of the society is not as crucial as vigorous management as evident in the dynamic growth of Deerar Sathiyamoorthy Society. Delay in receipt of sales rebate from Government and production of some unsaleable varieties weakened the finances of Kalaivanar Society and Arignar Anna Society which deprived them of the loyal of their weavers. The study reveals the need for more vigorous participation of Co-optex in market research and consumer research enabling the societies to skip unsaleable varieties and avoid mounting stocks.

In the case of four societies producing pure cotton goods, production and sales fluctuated sharply in all the four societies.
Thottiapatty Society, thanks to adoption of modern varieties of production like chudithar and fashion items, could overtake other societies in production and sales during the study period. Woraiyur Society, the largest of the four, lost its place of prominence during the period under study because of its persistence in producing traditional nine-yard long Woraiyur cotton sarees. Balaji Society and Trichy Society could achieve meagre growth in production and sales because of lack of cohesion and discipline in management and failure to adopt innovative designs to satisfy the market requirements.

The four societies producing furnishing goods suffered fluctuations in production and sales at constant prices. Chenkumar Society alone performed effectively in production and sales. Chennimalai Society suffered fall in production and sales despite the availability of modern designing facilities like computer aided designing systems. Inability of the society to tap these facilities fully, competition from private master weavers, and, migration of weavers were considerably responsible for the inability of the society to sustain its performance. Veerappan Chatram Society producing mainly towels could achieve higher growth rate than the larger Chennimalai Society. Production and sales in Surampatty Society declined due to diversion of funds for housing and misappropriation of funds. Changes in product design and lines of output, especially adoption of production of bedsheets, would help to improve the performance of the societies in this category.

Competition from the mill sector and poweiioom sector is the most severe for societies producing blended goods. Therefore, the four societies in this category registered either low or negative growth in production and sales. New avenues of output like acrylic based goods and blended goods of higher unit value like kora silk
varieties can strengthen these societies. Introduction of handloom design equipment like Dobbies and Jacquards with innovative designs would be another promising line of remedial action for revival of the blended goods producing societies. In most of the societies the production and sales performance exhibited cubic form of relationship in trend analysis confirming the cyclic nature of tire variables under study without any consistency of operations/

The performance of the sixteen societies in four categories highlight the constraints afflicting these societies, such as lack of financial discipline, inadequate managerial capabilities, persistence of old designs, lack of loyalty of weavers and absence of market driven decision making ability in respect of the choice of products to be made, and, lack of quality control in preloom and postloom activities are the reasons for lack-lustre performance of many arriong the societies under study. Revival strategies along these lines are necessary for rejuvenation of production and sales.

Analysis of the trends in production and sales largely confirms the hypothesis that, competition from the mill sector and the powerloom sector keeps down the growth rates of these societies. However growth rates are low or negative even in three of the four societies producing silk goods which are free from competition from the mills and powerlooms. It is basically the quality of the management that determines the fortunes of the societies as demonstrated by the consistent growth in Tirubuvanam, Deerar Sathiamurthy and Chenkumar Societies.

©.1.2 Value Added by Manufacture

Analysis of the value addition in the four silk societies shows that profitability depends on generation of substantial quantum of value addition and efficient management of production costs and control over overheads. That was why Tirubuvanam Society and
Arignar Anna Society could be far ahead of the other societies in respect of value addition.

In the case of societies producing pure cotton goods, fluctuations in value addition were due to internal factors like managerial efficiency and productivity of workers, not due to external factors like market conditions. Woraiyur Society and Thottiapatty Society alone could report surplus VAM over wages and fixed expenses in eight out of eleven years. Trichy Society had negative value of surplus per Re of VAM during the entire period under study calling for control over costs and prices.

Among the four societies producing furnishing goods, Chenkumar Society alone registered continuous increase in VAM while the other three societies witnessed fluctuations in VAM. Despite homogeneity of output for the four societies lack of dynamism on the part of the management kept Surampatty Society and Veerappan Chatram Society at low levels of operations. These two societies suffer from the vicious circle of low production, low credit facilities and again low volume of production. Diversion of funds to construction work besides misappropriation affected the performance of the two societies. Though unit value of furnishing goods is lower than that of silk goods the share of VAM in the value of production was higher especially in Chenkumar Society and Chennimalai Society than in the silk societies because of the ability of these societies to export 30 to 40 per cent of their annual production. Absence of uniform norms for the share of trade charges, wages and overheads in VAM caused fluctuations in surplus over VAM weakening the profitability.

Among the four societies producing blended goods, Srimurugan Society and Gandhiji Society alone achieved steady progress in VAM whereas migration of workers and inadequate management of diversification caused fluctuations and decline in
the VAM in the other two societies. Diversion of funds for housing was another factor responsible for the low levels of the VAM.

The analysis of VAM disproves the hypothesis of value addition being a function of the unit value of output and size of the society, since pure cotton goods and furnishing goods have accounted for higher value addition than silk goods and since some small societies have produced higher value added by manufacture than some large ones. In each of the four categories, the two larger societies performed better than the two smaller societies because of efficient management and prudent utilisation of resources. The efficient societies devoted their resources for expansion of production and sales generating VAM and profits. Innovative management also participated in the export drive securing higher unit price and large profits. The poor performance of the remaining two societies was due to managerial inadequacies, diversion of funds for construction of housing and office building and financial bungling. Revamping of the management, adherence to financial discipline and prudence would be necessary for the revival of the sagging societies in respect of value added by manufacture.

9.1.3 Profitability Analysis

Gross profit ratios in many of the societies were low because of the uncontrolled rise in price of yam and other inputs. Especially small societies could not manage costs and prices profitably because of the uneconomic scale of operations. Fluctuations in production and sales often eroded the profitability of the societies. Unproductive diversion of funds and financial irregularities also were responsible for poor profitability. The large societies could make huge fixed deposits out of accumulated profits earning considerable income in the form of interest. At least in one society net profit exceeded gross profit thanks to the interest earnings from fixed deposits.
Since handloom industry is capital saving in nature, the low capital, low technology based investments produced high rate of Return On Investments (ROI). However net profit ratio is very modest because of the competition from the mills and powerlooms. Large societies are found to be more profitable than small societies especially in pure silk category and furnishing goods category. Societies with modern facilities for production and marketing strategies earned more profit than those societies, which are saddled with unproductive investments and financial irregularities. The societies should have freedom to procure yarn according to the prevailing market prices and this will improve gross margin of the societies. Control over overheads should be strengthened for management of costs. These measures coupled with adoption of profitable lines of output would strengthen the profitability of the societies.

9.1.4 Fund Flow Analysis

Fund Flow Analysis of sixteen handloom societies under four categories reveals that only four societies producing silk and furnishing materials could generate substantial resources through retained earnings. Even relatively successful large societies producing pure cotton goods and blended goods could not rely on ploughback for additional funds. As a result most of the societies depend on capital expenditure loan and working capital loan for long term funds and short term funds respectively. The fund flow analysis has largely proved the hypothesis that these societies have very little of ploughback and largely rely on loan funds for additional resources. Even large societies depend on loan funds as much as small societies. Reliance on external funds was due to stagnation/sharp fluctuations/continuous fall in production and sales in most of the societies resulting in fall in profits. Also unproductive and unprofitable investments in powerlooms which
could not be operated successfully imposed burden of interest on these societies, thus affecting their financial health. Disposal of these investments and withdrawal of funds will be necessary for rejuvenation of the societies under study. Further, adoption of profitable lines of output and vigorous marketing will improve the profitability of the societies.

With regard to use of funds, a small part of the additional funds were utilised for fixed assets for building and modernisation of production facilities. Six societies used additional funds for repayment of capital expenditure loan and working capital loan since the eligibility of such societies for such loans decreased with fall in production and sales. Most of the societies used additional funds for financing stocks and paying debtors and for making advances to weavers. Thus, many societies have large stocks and debtors, which should be brought down for augmenting cash resources. The analysis reveals the effects of sagging sales and meagre profitability of the handloom industry. Identification of profitable lines of output and re-orientation of marketing strategies focussing on customerisation alone can improve the financial condition of the societies.

9.1.5 Management of Working Capital

Analysis of the operating cycle reveals the varying levels of efficiency in the management of working capital in the selected societies. Because of the seasonality of marketing and competition from the mill sector and the decentralised powerloom sector, the societies have to tackle the problem of long storage cycle and collection cycles. The hypothesis that the operating cycle will be long due to long storage cycle has been confirmed by the findings. However some small societies achieved shorter operating cycles than the large societies because of their managerial competencies. The inadequacy of cash resources resulting from the
long operating cycle has led to higher duration of trade credit and negative net raw material cycles. Societies producing furnishing goods enjoy relatively longer marketing seasons as the furnishing goods are sold throughout the year and the competition for these goods is very low. In the remaining three categories of societies the storage and collection cycles have been very long. Adoption of those varieties of production enjoying longer market seasons besides festival seasons and vigorous collection of clues can bring down the storage cycles and collection cycles. Adoption of marketing information system with the use of computers can also improve the marketability of the goods. Such a package of measures will enhance the turnover of working capital and profitability of the handloom societies under study.

9.1.6 Prediction of Financial Status

The present exercise examined the financial status of the selected handloom societies with the help of Altaian's Z scores, used for prediction of bankruptcy. Among the sixteen societies under study four societies, Tirubuvanam Society, Arignar Anna Society in silk category and Chenkumar Society and Veerappan Chatram Society producing furnishing goods have recorded high Z scores exceeding 2.63 indicating comfortable financial status. Also these four societies performed better than the others in respect of liquidity, turnover of assets, production, sales and profitability. However, even these four societies have idle assets, indicating scope for expansion of operations and improvement of profitability. Other societies suffer from low Z scores because of inadequate scale of operations. And these societies have remained liquid thanks to the prudent use of working capital loan. Thus, the hypothesis that the financial health of these societies would be very weak has been confirmed by the findings. However it is the quality of management rather than the size of the societies, which is
crucial for the fortunes of the society, as demonstrated by the successful performance of small Veerappan Chatram Society and the poor performance of large societies like Woraiyur Society and Gandhiji Society. Thus, Altman's Z score highlights the need for improvement in production, market driven strategies in sales and generation of adequate cash resources.

9.2 RECOMMENDATIONS

1. The handloom societies enjoy autonomy with regard to plan of activities for diversification and expansion. In the absence of adequate information about consumer preferences, tastes and market trends, the uninformed freedom often lands handloom societies in problems arising out of adoption of inappropriate tools like powerloom, unsuitable varieties and designs of output like nine-yard 'Woraiyur sarees'. A District Level Advisory Committee can guide these societies in the assessment of market conditions and identification of suitable tools and designs and saleable lines of output. It is, therefore, necessary to constitute a five-member committee in each district consisting of a textile technologist, a textile merchant, an economist, a management consultant and the Assistant Director of Handlooms and Textiles, who can be the convenor of the committee. The committee should study the market conditions and periodically advise the societies about the promising lines of output keeping in mind the fashion changes. The committee should advise the societies on modernisation and renovation of looms with Dobbies and Jacquards and on upgradation of dye house facilities considering their merits in production and sales.

2. Directorate of Handlooms and Textiles should periodically publish information about the availability of stocks in the societies for the benefit of the private traders who can order the supply
directly from the societies concerned. This measure will help to reduce the unsold stocks lying with the societies.

3. At present societies use their own funds besides loan funds for construction of houses, expansion of facilities and infrastructure in anticipation of reimbursement from the appropriate agencies. This practice deprives the commercial operations of the required funds. Consequently commercial operations decline and the societies have to pay interest charges for the funds which have been diverted from commercial operations. Quite a few societies had to encounter decline in their operations because of this unauthorised diversion in anticipation of reimbursement. Therefore, these projects like expansion of facilities and construction of housing can be considered only on the receipt of the funds from appropriate agencies. Investigation of irregularities and initiation of disciplinary proceedings should be made prompt enough to deter recurrence of such misdeeds.

4. In the case of societies, which have become sick or dormant because of diversion of funds to the other projects a one-time bail-out package can be introduced for the rejuvenation of the societies. The package should consist of waiving of the interest on the existing loans, grant of new working capital loan and appointment of a Special Officer in the place of the elected board. After completion of the process of recovery, the societies may be handed over to the elected Board of Management.

5. Export drive is one promising avenue for the rejuvenation of the sagging fortunes of the handloom co-operatives. The share of Co-optex in total export of handloom goods is very meagre, at 0.25 per cent of the total exports. Therefore, major players in export trade like Chenkumar Society and Chennimalai Society do not depend on Co-optex but on their own efforts for exports and they have posted reasonable success. There are many small societies
which are incapable of such self-reliance in export drive. Therefore, Co-optex should intensify its efforts in export drive and pass the benefits of export orders to the small handloom societies to sustain their operations profitably. Alternatively, the Ministry of Textiles, Government of India may establish a scheme called ‘Export Development Fund’ (EDF) to sanction adequate credit facilities for the smaller societies to upgrade their production facilities in their handlooms, impart training to weavers in quality production of handloom goods that meet international requirements and interest free working capital loan for those who volunteer for export drive on their own.

6. The present system of quota based handloom export will expire by the end of 2004 AD. Thereafter, the exports of handloom goods will have to compete with cost effective mill made textile goods in the international markets. For participating in such export in the open market, the exporters will have to obtain ISO 9000 certification. It is, therefore, necessary for the handloom societies to obtain the ISO 9002 certification facilitating their exports. Large societies may have to obtain the certificate first and the small ones can follow the lead in course of time. Co-optex may have to obtain ISO 9003 certification, which will enable them to inspect and certify the quality of the outputs of these handloom societies, thereby clearing them for exports.

Handloom industry is considered to be the core of the rural industrial activity in India. It has passed through several millennia and survived the onslaughts of foreign powers. The period after 2000 AD will be very crucial for the survival of handloom industries as India had become a member of the World Trade Organisation. The trade barriers will be disappearing from 2004 AD and handlooms will face a triangular competition from the powerlooms and the mills in India and cost-effective high quality goods from
foreign countries. The post-GATT era calls for thorough introspection by the management of handloom units and new product, strategies. It is high time that handloom units thought of major strategic decisions in the light of the globalisation process. Hence the findings and policy implications of the present research work may give an impetus in this direction to review the present management practices and plan for the sustenance of future activities in the new economic scenario.

9.3 AREAS IDENTIFIED FOR FURTHER STUDY

The study has not covered such areas as materials management, production planning, marketing and management of cash. Studies of inventory control, production control and management of sundry debtors promise to be rewarding exercises benefiting the future of the handloom industry.