SUMMARY AND CONCLUSIONS

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CHAPTER VIII

SUMMARY AND CONCLUSIONS

The regional economy of Kerala is internationally popular for its unique development experience, which is often known as the Kerala model development. In the paradoxical development pattern of Kerala's economy, a very high standard of living, even comparable to some developed economies co-exists with a very low per capita State Domestic Product (SDP). The most important reason for the low level of per capita State Domestic Product in state is the poor performance of commodity producing sectors like Industry and Agriculture. The studies made on industrialization in Kerala re-assured the state’s industrial backwardness and put forward different hypotheses for this lag. Kerala with a share of 3.43 per cent of the total population, accounted for only 2.19 per cent of the Gross Output and Gross Value Added (GVA) in the factory sector of Indian industry. Kerala’s share in the fixed capital of the all India factory sector was still lower at 1.69 per cent. This evidence makes it clear that Kerala is still an industrially backward state in the country.

What is wrong with Kerala’s Industrialization is that in Kerala, planners framed the strategy of industrial development emphasizing large investments in the capital goods sector to maximize the long run growth of the economy as a whole. Over the years, the industrial strategy of Kerala failed to bring desirable results on employment and poverty fronts. The pace of industrialization has not been and is still inadequate to meet the needs of growing population. As capital goods industries have limited scope, it is better to depend on consumer goods industries to elevate industrial efficiency in Kerala. As a consumer good industry the toilet soap industry has much scope to prosper in Kerala, as Keralites give
more importance to cleanliness. The demand for soaps become inexhaustible in Kerala, due to the spread of education, high standards of living and increased. But production of soaps is lagging behind. This mismatch between demand and supply leads to the uneconomic operations of many of the production units. To revive the industry and to tackle its problems effectively, knowledge of the present structure is indispensable. Hence this study is an attempt to examine the performance (economic and financial) of the toilet soap production units in Kerala with the following objectives.

To examine the economics of toilet soap production in Kerala.

To evaluate the financial performance of toilet soap production in Kerala.

To identify the major problems and constraints confronted by the toilet soap production units in Kerala.

In order to study the stated objectives, data are collected with the help of pre tested schedule from 10 units from small scale sector which spread over 4 groups namely (1) large (2) Medium (3) Small and (4) very small units, on the basis of investment in land and building, plant and machinery are drawn from across the state, for a ten year period (1995-2004). The methodology adopted for the study is both descriptive and analytical. The economics of the toilet soap production is studied in detail with the examination of capital structure, inputs used including labour, value of output, profit, and value added. Structural ratios and productivity indices are also computed. In order to check factor use efficiency and factor contributions, Cobb Douglas and Translog production functions are also fitted to the sample data. Financial performance is evaluated with the help of financial ratios.

In order to fill the research gap a review of literature of the studies on Industrialization was made in the second chapter.
As a prelude to examine the objectives of the study, the industrial development in Kerala and the growth performance of soap industry at the global, national, and state levels are discussed in the third and fourth chapters respectively. The discussion assured the industrial backwardness of the state and also claimed that as a consumer goods industry, soap industry has to play a significant role in the industrial development of the state aiming at speedy industrialization, in the era of liberalization.

Findings

8.1 Units

Out of the total 10 units surveyed, 80 per cent were set up before 1980. The majority of sample units are currently under individual proprietorship, and very few under partnership.

8.2 Capital Structure

Among the sample units we may infer that the capital structure of large and medium units is significant.

Significant changes have not taken place in the composition of fixed capital in small and very small units.

An increasing tendency for the units to store materials and stock of goods has been observed.

The productive capital of large and medium units is better than the small and very small units. The decrease in the productive capital of other units strengthens the view that once established, they do not incur much expenditure for any of the fixed capital items.
8.3 Employment

Regarding employment, the rate of growth has been slow and fluctuating. The employment pattern shows that there exists permanent and temporary employment.

8.4 Cost of Production

The cost of production consists of raw materials and stores, wages and salaries, other operating cost and power and fuel cost. There is significant escalation in the cost of toilet soap production over the years which is consistent with other industries also. In the entire sample units the cost of raw materials constitutes the major share. The cost of raw materials which forms more than fifty per cent on an average of the total cost is mainly responsible for the increase in total cost. Among the units raw material cost is maximum in large units (72 per cent). Next to raw material cost, labour is yet another crucial problem. Cost of labour has increased in absolute terms over the years due to the provision of social security measures. Decline in the shares of labour cost in medium units is mainly due to labour displacement and female labour absorption. The role of fuel cost is nominal in the entire sample units of toilet soap production in Kerala.

8.5 Value of Output

The value of Output shows some notable increase over the period of time. Among the sample units, the growth in value of output of large unit is more significant. It may be due to the operation of economies of large scale production. But as the information on output is exclusively in value terms, precise inference can not be drawn as it may happen due to price escalation.

8.6 Profit

The prosperity of the industry depends on the margin of profit earned. There are fluctuations in the behaviour of gross profit over the reference period. Among the sample units, large unit is more profitable. Generally profitability of
units is reducing due to price variations of raw materials, reduction in sales or increase in cost of production. The selling price is determined in the market considering the local factors and the cost of production.

8.7 Value Added

The trends in value added are significant in recent years in the context of liberalization. Across the units, the value addition except the large is very marginal in nature. Gross value added decreases due to underutilization of capacity, inputs supply bottlenecks, market fluctuations etc.

8.8 Structural Ratios

The structure of sample units was examined with the help of selected ratios and the findings emerged are:

1. Fixed capital to invested capital ratio and fixed capital to productive capital ratio show that the capital intensity was high in the earlier years, but gradually declined for the medium, small and very small units over the years. But high ratio of large units in the later years show that capital intensity is high in large units. This was due to certain attempts for modernization. Fixed capital output ratio declining for all units except large also further illustrated the fall in the capital intensity of the units.

2. The continuous increase in the cost of inputs was revealed by the input output ratio. Input output ratio indicates high turnover for unit of input used. Rise in input output ratio shows a rise in the cost of output. The ratio shows that cost of inputs has risen.

3. Value added input ratio and value added output ratio declined over the years indicating low input use efficiency. The ratio fluctuated over the years also.

4. The declining value added output ratio in the medium, small and very small units shows the low contribution made by these units. For the large units alone there was a substantial increase in contribution.
5. Input per worker, increased over the years. It is only part of the economic changes that have taken place in the country over the years.

From the structural ratio analysis, we can infer that among the sample units, the large unit of toilet soap production is performing better than the medium, small and very small units. And its behaviour is different from the behaviour of other units also.

8.9 Trends in Productivity

The term productivity is broadly meant to cannot the input use efficiency of a production process or economic activity. Total Factor Productivity (TFP) for the entire sample units using direct method shows an increasing trend. The Kendrick indices on the other hand revealing that TFP for the entire units increasing up to 2001.

TFP is greater in large and very small units than in the medium and small units. The large unit has a higher growth rate of (0.22) than the whole sample (0.18)

Increase in productivity is not because of mere labour and capital input efficiency but due to other factors like size of the establishment, rate of growth of industry, absence of trade unionism, self employed nature of production etc. which are left unaccounted for. On the basis of empirical results of the present study, we can conclude that trend in productivity of toilet soap production units in Kerala is increasing.

8.10 Production Function Approach

The significant inputs influencing the output of the toilet soap production are examined with the help of Cobb Douglas and Translog production function ,treating value of output as dependent variable, and working capital, wages and salaries, and raw material cost as independent variables. The respective coefficients being $\beta_1$, $\beta_2$, and $\beta_3$. For medium and
small units the raw materials cost is significant in influencing the output. All the three factors have positive influence on the output. The major contributor is raw material, closely followed by labour. For the very small units, labour was the only significant factor influencing the output. On the basis of Cobb Douglas production function approach, we can conclude that units producing toilet soap in Kerala are subjected to decreasing returns to scale except the large one. Considering the sample units, the better performing unit is the large unit – which is operating under increasing returns as per both production functions.

8.11 Financial Performance

Financial performance of the toilet soap production was evaluated with the help of financial ratios.

8.12 Source and uses of funds

Major source of funds identified in the toilet soap production units is current liabilities. There is large increase in the current liabilities of large units, and only marginal increase in the current liabilities of medium, small and very small units over the years.

In the case of large and very small units, the share of bank loans in the total current liabilities decreases and that of sundry creditors increases from 1995-2004. On the other hand the share of bank loans of medium and small units increases and that of sundry creditors and other loans decreases over the period of ten years.

In the case of all units current assets constitute the major form of use of funds. Major share of investment of the sample units is in current assets than fixed assets. Of the current assets, inventory occupies a major share.
8.13 Ratio Analysis

Ratio analysis is done to evaluate efficiency with respect to liquidity management, inventory management, cash management, operational performance and asset utilization.

8.13.1 Liquidity Management

Firm's liquidity is measured in terms of working capital. The larger the working capital, the greater the ability of the firm to meet the current obligation. The working capital of sample units show fluctuations throughout the reference period.

In all the toilet soap production units the current ratio is above the standard level of 2:1. This shows the sufficiency in the resources available to satisfy current liabilities. Current assets are increasing more than proportionately than the increase in liabilities. Too higher ratio shows excessive liquidity.

Among the sample units, the current ratio is the highest (12.00) and the lowest (1.63) in the large unit, in the year 2001, and 2003 respectively. This may be due to the take over of the large unit by Vipro 2001 onwards.

Generally a quick asset ratio of 1:1 is considered to represent a satisfactory current financial condition. The ratio is the highest in large unit (8.36:1) in 2001 and the lowest (less than one) in small and very small units.

The turnover of current assets ratio showed sign of improvement in the utilization of assets in recent years. A high turn over ratio reflects better management of assets and larger amount of sales. The ratio was very high in large and small and low in medium and very small units. The liquidity position as a whole was found to be more favourable in large unit than in the medium, small and very small units.
8.13.2 Inventory Management

Efficiency in the management of inventories leads to minimisation of cost of production. Effectiveness of inventory management can be measured by the ratio of inventory to current assets. High ratio is an indicative of good inventory management and lower inventory turnover suggests an inefficient inventory management. Low inventory reflects dull business and over investment in inventory. High ratio shows unfavourable liquidity position. The ratio is high in the case of very small units. It is not due to the over stock of goods but due to the low investment in current assets which leads to an unfavourable liquidity position.

8.13.3 Cash Management

A high cash balance ensures prompt payment, but adversely affects profitability. Ratio of cash to current assets is high in all sample units except in the large unit.

8.13.4 Operational Performance

The total health of a firm and also its capacity to undertake day today transactions and make profit is revealed in terms of gross profit ratio, operating profit ratio and the bifurcated operating profit ratio.

Gross profit ratio shows the efficiency of the firm in producing and selling its products. The greater the profitability the more will be the efficiency. (25 to 30 per cent being the margin). The ratio shows a favourable position of large unit compared to the other. The ratio is high in medium units (1999), it is very low in small units during 2003 (0.17). In the case of very small units the ratio is high in earlier years and very low (0.37) in 2004, due to the higher cost of production and severe competition.

Operating ratio shows operating profit earned by the firm per rupee of sales – i.e. relationship between cost of goods sold and other operating expenses to sales. Operating ratio is expected to touch a level of 75 per cent to 85 per cent.
Higher operating ratio shows less favourable situation because it would leave a smaller margin to meet the other needs of the units. Among the sample units, the operating efficiency of the large unit and very small units is better than others.

Bifurcated operating ratio shows disaggregate analysis of various components of the cost of production of the sample units. It shows the influence of raw material cost on output. In the case of large unit raw material cost increased from 38 per cent in 1995 to 55 per cent in 1997, then decreased to 44 percent in 2004. In the case of medium units the raw material cost is high in 1997 46 per cent. The raw material cost in small and very small units is in between 31 to 43, and 20 to 36 over the years respectively. Next to raw material cost, labour cost, and other establishment cost, indicating its influence on sales. The operational performance does not suggest a favourable position.

8.13.5 Assets Utilization

The extent of asset utilization is examined with the help of activity ratios, like assets turnover ratio, fixed capital turnover ratio and working capital turn over ratio. These three conventional ratios show the balance between sales and assets.

Asset turnover ratio shows efficiency with which the firm utilizes its assets. High ratio reflects better use of tangible assets. In the case of large units the ratio ranges between 3.51 to 7.91. The low assets turnover ratio in other sample units shows a symptom of idle capacity or excessive investments.

Fixed capital turnover ratio reflects the efficiency of fixed capital utilization. The ratio is very high in the large unit (around 30). The ratio is very low in small units. The fixed capital investment is low in all the units except the large.

Working capital turnover ratio shows the efficiency with which net working capital is utilized. Higher ratio indicates better utilization of working capital. In the case of large units the working capital turnover ratio has increased
over the years from 3.98 to 12.55. In the case of medium units the ratio declined after 2002. The high working capital turnover ratio in the large unit reflects an inadequacy of net working capital accompanied by low turnover of inventories. In the case of small and very small units, the working capital turnover ratio is fluctuating as a result of undercapitalisation.

On the basis of computation of different financial ratios, we can conclude that the overall financial position of large unit is better compared to the medium, small and very small units of toilet soap production units in Kerala.

The empirical evidence of the survey (both economic and financial) validates our hypothesis that the toilet soap production in Kerala is productive and profitable.

8.14. PROBLEMS IDENTIFIED

The analysis of the problems and constraints faced by industry in general and in particular among the different sample units on the light of the survey evidences revealed that each unit is hit by some problem or the other.

8.14.1 General Problems

a. Financial Problem

The progress of toilet soap production units is hindered by the shortage of finance. The large, medium, small and very small units largely depend on borrowed capital. It is evident from the fact that the supply of credit has not been commensurated with their needs associated with the fixed and working capital. Owing to the problems of security, delay in sanction, high rate of interest and cumbersome procedures, the sample units suffered from financial inadequacy. The financial situation was further aggravated by the increased investment on inventory. The non availability of adequate finance hindered the process of modernization.
b. Production and Technical Problems

The toilet soap production sample units especially, the medium, small and very small units suffered from the technological obsolescence and scarcity of raw materials. The low capital investment in plant and machinery led to the frequent breakdowns of the machines and this was intensified because of the lack of timely repairs. The method of production, in 90 per cent of the sample units surveyed, is old and inefficient. The result is low productivity, poor quality of products and high costs. Most of the units suffered from raw material problem. They have to meet high raw material cost and inordinate delay in the supply. This forced the entrepreneurs to go for bulk orders. This increased inventory led to the financial contingencies also. This was further aggravated by the fluctuations in the price of raw materials.

c. Labour Problems

The problem of high labour cost, which is stated as a major problem in the state hindering the progress of industries, is not seen to be empirically significant in the toilet soap production units. But the labour productivity trends reveal that the productivity is reasonably low in the state. The scope of employment for skilled persons is low because of the nature of the process of production. Since the number of permanent workers is small, the labour absorption capacity of the sample units is limited.

d. Organizational Problems

The organizational structure is an important factor for the success of any industry. Effective planning, efficient supervision, and coordination is difficult in the toilet soap production unit as they are mostly of proprietorship type. Insufficient and unscientific management practices are reflected in the choice of technology, faulty and inadequate maintenance of plant, delay in the supply of raw materials, high input prices and shut downs.
e. Infrastructural Problems

There is absence of sufficient infrastructure facilities. The low productivity and high production cost seen in the toilet soap production units are mainly due to lack of infrastructure within the state. The inadequate and inefficient power supply lead to the increased capacity underutilization in soap producing units. The defective transportation system also leads to the delay in supply of raw materials. In the absence of communication facilities, the small producers of toilet soaps, are unable to get the realistic scenario of market prices, the taste, the preference, domestic demand, export potentials etc.

f. Marketing Problems

The problem of marketing is likely to be a serious handicap for the toilet soap production units in Kerala. The bottle necks identified in the marketing of toilet soaps are lack of demand because of low scale of production, inferior quality, poor product standardization, stiff competition from technically more efficient units, lack of finance for marketing research and advertising, lack of market information, quality variation, and delays involved in getting payments and high inventory cost.

g. Legal Problems

Legal institutions, which support the economic activity in Kerala, are inefficient, due to the political instability. So in many matters, the toilet soap manufacturers in Kerala, face legal hurdles in the way of smooth running of their business.

h. Government Policy

The problems faced by the toilet soap industry are further aggravated by the lopsided industrial policy of the state government. There is high rate of dormancy and sickness, due to the lack of incentives and support provided by the
government. In the case of toilet soap manufactures, the role of government is no more “an enabler” – in the production and distribution of toilet soaps.

8.14.2 Specific problems of soap industry

The specific problems identified are large amount of borrowed capital, delay in getting payments from customers, high inventory cost, inadequate investment in plant and machinery, break down of machinery, fluctuation in the price of raw materials, legal hurdles, stiff competitions etc.

Conclusions

From the analysis of both Economic and financial performance of toilet soap production in Kerala, we conclude that the performance of toilet soap production as a whole is satisfactory. On the basis of economic performance in terms of productivity analysis by Direct and Kendrick methods we conclude that TFP of sample units in toilet soap production is increasing. The production function also shows that the returns to scale, according to Cobb Douglas production function, is increasing for the large unit and decreasing in all other-medium, small and very small units. The translog production function have an increasing returns to scale in the case of large (1.81) and medium (1.61)units. Financial performance of the sample units by using financial ratios established that most of the units satisfied the ratios above the standard levels. The proposed hypotheses is accepted and we concluded that soap production units are economically and financially sound in most of the units. The large unit is the better performing unit than medium, small and very small units. Thus the empirical evidence of the survey (both economic and financial) validates our hypotheses that the toilet soap production in Kerala is productive, toilet soap production in Kerala is profitable.
Suggestions

In the light of problems highlighted in the study, it is understood that there are cumulative factors stand in the way of toilet soap production in Kerala. In order to tackle these problems and so as to strengthen the units the following suggestions are recommended.

1. From our study it is clear that the soap industry is totally neglected by the government. There exist no effective units of soap production in the government sector. The owners of the sample units opined that the government’s attitude towards them is not supportive. The Government must provide supporting policy measures to promote the toilet soap production units.

2. In our study it is found that the economics of soap production was adversely affected by the raw material problem. Raw material cost being the most important cost in the soap production, government can wisely think of giving subsidy or other concessions to raw material. So that the cost of production can be curtailed.

3. It is high time to modernize and update the technology of soap production units. This requires finance and also the will and dedication from the part of the unit owners. So provisions should be made for skill upgradation and for the use of modern techniques.

4. The study highlighted the financial commitments of the soap manufacturers in Kerala. Hence the government and commercial banks may resort to various policy measures to extent sufficient finance at reasonable cost.

5. A prerequisite for industrial and total development of the state is a well developed infrastructure. Infrastructural facilities are inadequate for the development of soap production units. Improvement in these facilities should be done in time. Hence investment may be diverted towards infrastructure development.
6. The unit owners reported that the tax rate is high in the state. An appropriate measure to strengthen the soap production will be to bring down the tax rate and also to declare tax holiday.

7. In recent years, the state government is interested in starting vocational education. More courses useful to the soap manufacturers in Kerala is to be started to improve the quality of their products.

8. Production is determined by the market. Adequate marketing facility should be provided for the successful working of the units. Provisions should be made for market information. In order to improve the marketing of soap products in Kerala organized market should be set up by removing intermediaries.

9. The soap producers in Kerala has to face stiff competition in these days of globalisation. So adequate measures should be made to withstand the impact of globalization by improving technology and quality of the soaps in Kerala.

10. The soap manufacturers of Kerala mainly meet local demand. This is mainly due to their poor publicity. Thus publicity through media and exhibition can be used to popularize their products.

11. Research and development can be used for reducing the cost of production and improving the quality of the soap. Innovative R&D should be introduced for raw materials and finished products, attractive packing materials, high speed packing machines so as to enhance productivity and thereby to reduce the cost.

Areas for Future Research

No research is complete in all aspects. But a dedicated and serious research will help to identify further research gaps which can be persuaded by the future researchers. This researcher also could identify a few gaps and they are listed below for the benefit of future researchers.
a) During the course of the survey the researcher experienced considerable difficulties in getting information. Further the quality of data was also doubtful. To overcome this problem researchers can resort to cross section studies covering very large sample instead of using time series information used in the present study. Cross section studies will throw further light on the problem.

b) The present study relates to the economics of toilet soap production in Kerala only. There is scope for more detailed study of soap industry comparing with the multinational units.

c) There are chances for conducting studies on various aspects of soap industry – in terms of demand analysis, market analysis and competition etc.

d) In these days of globalization, we can also make study of the impact of globalization on soap production in Kerala.