CHAPTER - 7
SUMMARY AND CONCLUSIONS

The study on the Financial Performance of khadi and village industrial institutions in Tamilnadu has aimed at:

a) measurement of progress in production, sales and employment,
b) study of changes in capital intensity and rate of utilisation of productive assets,
c) gauging of the profitability
d) assessment of the efficiency in the management of working capital and
e) study of the approach and strategies in the mobilisation and application of funds.

The sample institutions have been grouped into village industries dominated A group, balanced B group and khadi dominated C group in order to study the impact of the composition of the activities on the performance of the institutions. Pursuit of the above objectives yielded following findings.
Production, Sales And Employment

It was tentatively assumed that institutions with village industries as major programme would have achieved higher growth rate in production, sales and employment than institutions with khadi as main programme because of the competition faced by khadi from textile mill and handloom industry and also because of the short marketing season for khadi products. The study, however shows that the institutions with large village industrial programmes (A group) achieved the lowest growth rates in production N.V.A.M. and sales whereas khadi dominated C group recorded the highest growth rates thus contradicting the initial hypothesis regarding production and sales.

However the share of N.V.A.M. in the value of output increased in village industries dominated A group and balanced B group but decreased in C group in a period of 10 years. Thus the khadi dominated C group could achieve higher growth rates in production and sales at the cost of N.V.A.M. Since the level of employment is determined more by N.V.A.M. than by ex-factory value of output or value of sales A group achieved highest growth rate in the level of employment followed by B group. While C group had lowest growth rate in employment in conformity with the hypothesis in respect of employment. In respect of percapita, N.V.A.M. A group ranked first followed by
C and B groups. Capital cost of employment rose faster in khadi than in village industries. With regard to wages B group with balanced programmes had the highest amount of percapita wages and also highest rate therein followed by A and C groups eventhough percapita earning by workers was more stable in C group than in A and B. The correlation between variations in percapita N.V.A.M. and percapita wages though positive was insignificant but the correlation was more significant in C group than in others because of the adoption of certification rates of wages in khadi activities.

**Capital Output Ratio**

With regard to variations in the capital intensity of khadi and village industries in the wake of adoption of new technology the analysis has shown that the induction of new technology has not raised capital-intensity of any of the 3 groups of institutions understudy. However, fall in the rate of utilisation of fixed assets caused increase in capital output ratios in all the 3 groups of institutions.

**Profitability**

In view of the constraints of certified costs and prices as prescribed to khadi activities and because of the freedom of village industries in determining the costs and
prices it was assumed at the beginning that institutions with village industries as major programmes would be more profitable than khadi dominated institutions. The analysis has employed two profitability - ratios viz., profit to capital fund and profit to sales and N.V.A.M. With regard to profit in relation to capital fund and N.V.A.M. the B group with balanced khadi and village industrial programmes is found to be the most profitable of all the three groups of organisations while khadi dominated C group earned highest rate of net profit in relation to sales. Also B group alone was consistent throughout the period of 10 years in earning net profit over and above the notional cost of capital. Thus the hypothesis regarding profitability has been disproved by the analysis. Therefore it may be stated the composition of the activities does not determine the profitability of the organisation and that variations in the profitability may have to be attributed largely to the levels of managerial efficiency. However in all the 3 groups profitability was very meagre inspite of improved technology because the aim of improved technology is not to make the activities more profitable but reduce dependence on state support, minimise fatigue and tedium of workers, reduce cost of production and improve the earning of workers.
Working Capital

Because of competition and thin marketing season, suffered by khadi it was suggested that the village industries dominated A group and balanced B group would perform better than the khadi dominated C group in the sphere of management of working capital. The analysis has however shown that the C group has reported better performance in terms of duration of operating cycle than A and B group because of its ability to dispose of a sizable part of its output in bulk sales, especially to the northern India. Thus the initial hypothesis has been disproved. However it must be pointed out that operating cycle of working capital in all the 3 groups of institutions is found to be very high by the norms, as implied in the pattern of assistance of working capital from Khadi and Village Industries Commission. The analysis has further shown scope for improvement in the management of working capital through scientific management of inventories and sound production planning.

Fund Flow Statement

The analysis employed the technique of fund flow statement for studying the approach and strategy of the sample institutions in mobilisation and application of funds. It is found that all the 3 groups of the
institutions have remained dependent on external sources of funds since the contribution of retained profit has been insignificant factor. It is external short-term sources, which contributed more than 50% of the additional funds to the sample institutions. Working capital loan from Khadi and Village Industries Commission and nationalised banks at an annual interest of 4% is found to be the largest source of funds. With regard to uses, financing of current assets especially the expansion of stocks, debtors and receivables received the lion's share of the additional funds. All the 3 groups of sample institutions were careful in maintaining the cushion of net working capital by setting aside a sizable part of long-term funds for the financing of current assets.

Conclusion

The study reveals that the development of khadi and village industries has to encounter many problems in improving their performance because of the unequal competition from the organised sectors of manufacturing activities. Introduction of new technologies and tools is yet to strengthen them sufficiently to face this competition. Consequently production, sales and employment suffer many fluctuations as noted in the
record of 10 years between 1980-81 and 1989-90.
The introduction of new technologies has inevitably raised their capital cost of workplace especially in khadi but capital cost per work place, inspite of its increase, is still very modest at less than Rs. 3400 per work place in the prices of 1980-81. As a result of induction of improved technology in these activities percapita N.V.A.M. and percapita remuneration of labour have increased during the 10 year period between 1980-81 and 1989-90.

Inspite of improved technologies, capital-intensity of khadi and village industries-intens amount of fixed capital, required for increasing 1 unit of output has not increased because the new technology though more expensive than the traditional one, is more productive than the latter. However because of the competition from the organised sector volume of production fluctuated resulting in the variations in the rate of utilisation of fixed assets.

The improved technology has not strengthened the profitability of these activities because the main objective of the upgraded technologies is to benefit consumers and workers rather than to improve profitability.
Consequently these institutions earned very meagre profit. Analysis of the management of working capital shows the need for improvement in the management of inventories and planning of production. Because of the meagre profitability these industries have to depend on external sources of finance. However in the application of funds they are cautious in maintaining sufficient working capital thereby strengthening their liquidity.

Quite a few pieces of the preceding analysis, especially on profitability and operating cycle, may be disconcerting to those who are familiar with managerial studies of the organised industries. It must be acknowledged that the tools of analysis which have been employed in the present study were originally developed for the study of problems in the organised sector of industries. For want of more appropriate techniques of analysis these tools have now been applied to the study of khadi and village industries which are on different footing from the modern industries. Inspite of modernisation in khadi and village industries, their capital-intensity, capital cost per work place and profitability are found to be very meagre. Unlike
factory sector these industries do not enjoy the services of stockists and distributors for accelerating the marketing of their output. Therefore it will not be appropriate to pronounce and scathing verdict on the performance or potential of khadi and village industries in a country, characterised by massive rural unemployment, underemployment and poverty. It must be remembered that as in 1989-90 the institutions under study used fixed assets worth Rs. 590.52 lakhs for employing 18754 workers for producing Rs. 518.01 lakhs in the form of net value added by manufacture paying Rs. 437.60 lakhs as wages, all values being in the price level of 1980-81. Thus these institutions provided employment for 18754 workers at a capital cost of Rs. 3148 per head and these workers generated percapita income of Rs. 2762 per head a year and claimed Rs. 2333 as remuneration. Hence the need for khadi and village industries in a country which is tall in labour and short in capital. However khadi and village industrial institutions will have to continuously improve their performance especially in inventory management and production planning.