CHAPTER - VIII

SUMMARY OF FINDINGS AND SUGGESTIONS

Food processing has a tremendous potential of changing the scene on agricultural and other fronts. What India has failed to achieve through all these years, it can do through food processing sector. The sector provides value addition to agricultural products and brings remunerative prices and higher incomes to the rural people. The sector can make agriculture more scientific with improved seeds availability, planning of crop pattern and rotation, advance planning of crops to be produced, control of wastes, etc. The sector can also give value to the money spent by buyers, who most of the time happens to be urban dwellers.

Due to this importance the various state governments have initiated special schemes and packages to develop the sector on organised lines. The agriculture being a State subject, each State in India is vying with each other to make food processing sector a development oriented. Karnataka State has brought out an independent policy on food processing sector.

Through these conscious efforts and actions, the sector is poised for phenomenal success in future and has already recorded noticeable achievements in some pockets. The liberalisation policies have injected enough impetus into the sector. The government has allowed
100 per cent FDI flow in some areas, has announced tax holidays and incentives, etc., to make the sector highly attractive and profitable. The sector has contributed to the national development in terms of exports, generation of employment, contribution to GDP, improved availability of food in processed form, etc.

The FP sector involves establishment of organisations, which after purchasing raw inputs from farmers, converts them into products of high value. The industries that are established in various avenues have to really work exemplary well to generate both agricultural development and economic development. The units in various fields like sugar, dairying, oil-seeds, rice mills, jams and other confectioneries, bread and atta making factories, etc., should work efficiently and effectively to reward both the farmers and consumers and contribute to the national development. Policies and strategies must be formulated which contribute to the sector’s overall development. The development of the sector assures availability of ready made outlet for farmer to sell his output and assures consumer the availability of products throughout the year. The working of units should be good both operationally and financially. Operational working could be defined as the earning of adequate rate of return on total funds invested in the business. This is possible when the operating activities are managed and controlled in a proper manner. On the other hand, financial performance is concerned with the ways the business is financed. A well thought out financial policy can bring rich
dividends to owners of FPI units with lower investment, while an unprudent one can waste the resources. This assumes paramount significance if the unit happens to be a co-operative one, where limited funds are contributed to achieve higher goals. A sound financial policy can contribute to the overall capital formation and value addition.

A unit needs to be good both in operational and financial terms. A poor result of one can affect the other. Poor operational performance may kill the opportunity of using favourable financial policy, while a defective financial policy can nullify the better operating performance. Such a policy, which involves use of only debt, can consume all resources for debt obligations only. A good of both is highly desirable. The FPI units being pioneers of agricultural development should also equally be good in these two parameters. A successful unit can provide the advantages of assured market and prices, value addition to inputs, regular availability of products, etc.

With these objectives in mind, the present study was undertaken to evaluate the financial performance of selected FPI units in Karnataka State. The selected four FPI units are in different sectors, namely, dairying, sugar, fisheries and seed processing. The units include both government established organisations and co-operative units. The dissimilar units have been selected with an objective of comparing performance over the dissimilar units and arriving at some conclusions. Similar units would throw less light than dissimilar one. FPI, for its overall development, depends on all segments than on individual units.
A failure on dairying side and a success in sugar sector does not augur well. To evaluate how far different segment units are performing on similar counts, the present study has selected four different units.

Over and above the factors mentioned above, the policies pursued by the management with regard to pricing, cost control, financing mix, investment policy, inventory control, credit and collection, leverage policy, etc., also directly influence the organisations' profitability and performance. The present study has made an attempt to identify all these factors responsible for low or high profitability.

A study period of 9 years has been used. The data were basically collected from published financial accounts and also from primary sources like interview, etc. The data so collected were properly classified and analysed to arrive at some conclusions. The study has analysed total performance, operating and financial management performance of the selected units. A brief summary of important findings is presented below.

Summary of Findings

Total Management Performance

Total management performance means top management performance because the top management performance is responsible for overall activities. The ratio of NP after taxes to NW can be taken as an indicator of overall performance. A positive return indicates that
the firm has met all senior obligations and has reported some earnings for shareholders. However, mere positive return is not enough. The return should be higher enough to pay adequate dividends and finance future requirements.

The top management performance is a product of operating management and financial management performance. The former one is concerned with day-to-day activities, like sales, purchase, production, personnel and latter is concerned with financing and investment decisions. A high of both is very much essential. A company good in operating performance can affect total performance with defective financing policy. Such a policy can convert a positive EBIT into a negative NP.

The ratio of EBIT to capital employed is used as an index of operating management performance, i.e., ROCE is a better indicator of operating performance. The product of financial operations ratio and financial leverage ratio is an indicator of financial management performance.

In this study an attempt was made to analyse as to how far these three management performance was effective. The analysis reveals the following.

► The DAMUL, KOF and KFDC have earned nothing on equity investment, while Ranisugar has reported a small rate of return ranging from 0.19 to 0.48 per cent, i.e., less than even half a per cent.
Further, it can be said that the ratio has become negative because of negative NP as well as negative NW.

The ratio of EBIT to capital employed has been positive for all the years of the study in case of Ranisugar and KOF, while it has been negative for all the years of the study except one year for KFDC and for the last four years in case of DAMUL.

The analysis also reflects that operating profitability has been converted into negative overall management performance because of the defective financial policy adopted by all the sample units except Ranisugar.

Performance of financial management has been found negative for DAMUL, KOF and KFDC, while it is positive for all the years of the study period in case of Ranisugar. Though it is positive for Ranisugar, it has shown fluctuating trend during the period under reference.

Further, it is pointed that the NP of DAMUL has been negative for 8 out of 9 years of the study, while EBIT has been negative for first 5 years. This indicates that the firm borrowed debt even when it has no ability to pay interest obligations. In the subsequent years its debt policy is responsible for converting positive EBIT into negative NP, i.e., net losses. For KFDC and KOF, EBIT has been positive for all the years but its NP found negative. Ranisugar has positive NP which is very negligible.
The study also reflects that KOF and KFDC’s financing policy has been to depend fully on debt capital because of negative NW. Ranisugar is also not free from such a financing policy.

The revelations of this study are perplexing. The negative return is a common thing among all units, i.e., FPI is bleeding. One thinks profitability in one area is affected by losses in another area. However, here all the units are incurring losses. The question is why for business should be conducted? The negative ROI speaks of gross inefficiency. The co-operative, the government and the private management entities, all in one go have reported losses. Such a uniform performance may indicate that external environment is not conducive for all units put together or all units internally lack sound management strategies. A dose of both seems to be responsible.

The negative ROI will have the following consequences:

- The initial investment, which is hard earned, especially in co-operative sector, is converted into negative, i.e. is lost in operating activities.

- This negative return and loss of capital demotivates owners from further investment of share capital, that is what State government is doing. It is not putting any share capital in units managed by it.

- The negative returns and lack of owners’ funds make businesses to depend only on debt sources. So much so debt alternative is the only
way to finance all requirements. The owner himself would lend rather than invest as shareholders. The Government of Karnataka has done the same thing. It has lent and not invested. Since interest is payable compulsorily, the government is content with receipt of interest than dividend.

- For co-operative and government sector, the government loans are the only means, i.e., the government is the only lender. The government controlled FIs would lend to some extent but budgetary allocations seem to be the only alternative.

- The lack of resources, especially internal funds forces the entities to shelve all the avenues of expansion, diversification, modernisation, etc. Such sacrifice will erode whatever little advantage the firm enjoys in the initial stages. The loss of competitive advantage in the form of quality, performance, innovation, cost, etc., will add to the woes again. A small problem initially becomes in the end a mountain hill. The sample units are suffering from this particular syndrome. Such a situation does not augur well for the future of FPI units, which are established, with the objective of converting agriculture farmer into an industrialist through FPI sector.

**Operating Management Performance (OPM)**

As said above OPM is that part of TM which is concerned with day-to-day activities. The ROCE, which is a product of EBIT divided by capital employed, is an indicator of the efficiency or otherwise of
operating management. The ROCE needs to be positive and increasing. A higher ROCE is a guarantee that the firm would meet its financial obligations and dividend requirements.

The ROCE is again bifurcated into capital employed turnover and sales profitability ratios for better management and control. A detailed analysis of all the factors affecting ROCE is "sine quo non" for its improvement. In this study an attempt was made to find out how far ROCE has contributed or deteriorated the ROE. The analysis reveals the following:

► The study reveals that the operating profit margin ratio was found to be negative for DAMUL reflecting gross inefficiency in operating activity side. OPM ratio of Ranisugar was found to be fluctuating and has improved since 1997-98. The analysis of capital employed turnover ratio shows a mixed trend for all the years and for all the sample units, this ratio was negative for 5 years in KFDC on account of negative capital employed and also because of negative net working capital.

► The COGS to sales ratio was the highest in all the sample units and it has fluctuated every year.

► Analysis of operating expenses ratio shows an increasing trend in case of DAMUL and fluctuating trend in KOF. Ranisugar also has a fluctuating ratio and KFDC has comparatively spent more on administration than the other sample units.
FAs turnover ratio of all the sample units has shown a mixed result. The ratio tended to be very high for Ranisugar than for other sample units reflecting better assets and sales management. For KFDC and KOF the ratio has fluctuated, while for DAMUL it has shown an increasing trend since 1996-97.

The CAs turnover ratio was very high for DAMUL when compared to other sample units. This ratio was very low in case of Ranisugar, while it has fluctuated for KOF and KFDC.

The debtors turnover ratio reflects some increasing trend in DAMUL, while in Ranisugar a decreasing trend. The KFDC and KOF experienced both increasing and decreasing trends during the study period.

Inventory turnover ratio was found to be very unsatisfactory. Ranisugar has very low turnover ratio as compared to other sample units, indicating poor efficiency in the management of inventory.

Creditors turnover ratio has been analysed as a part of operating management and this ratio was very low for Ranisugar as compared to other sample units, which indicates higher dependence on creditors. For KOF and KFDC the ratio has tended to be very high for majority of years, while in DAMUL it has fluctuated.

The ROCE is a better indicator of OPM. A firm has to use all the means available to boost up ROCE. A higher ROCE enables to report a
higher ROE. The ROCE can be increased by increasing operating profit margin ratio and capital turnover ratio. The former can be done by improving sales or reducing cost or by both, while the latter by increasing sales or by reducing various assets or by both. The sample units have a very precarious position. Though different in terms of product-market characteristics, all the units are sailing in the same boat, though Ranisugar has to some extent different picture. For all units material cost is the predominant. Assets turnover is very poor or negligible indicating improper assets deployment. An asset generates sales only when investment is in right line of activity. A high growth sector would generate more sales than investment, while a declining sector would have lower turnover ratio. Lower turnover speaks of idle assets, higher costs and lower profits. The sample units are bogged by this syndrome. The investment is much higher than the sales generating capacity. This higher investment could be attributed to defective project planning. This could also be due to inefficient performance of sales activities. The DAMUL has worst thing. The same is also true for KOF and KFDC. The declining sales are an indicator of ineffective utilisation of investment. But this indication has gone unnoticed. The Ranisugar has better position though its CAs’ proportion is much higher than the FAs.

The defective sales management, higher material cost, higher administrative cost, higher labour cost, etc., have all added to woes of operating management of sample units.
Financial Structure Analysis

The ROE, which is a measure of overall productivity, is a product of ROCE and financial management performance. The way a company finance its needs matter very much. The financing policy influences ROE in two ways, i.e., through balance sheet and profit and loss account. The balance sheets' liabilities structure will undergo a change in terms of debt-equity composition. The profit and loss account will have an item of expense called interest, which is deducted from EBIT. Poor EBIT and higher interest burden means NP will be small or negative. Small or negative NP will make ROE negligible or negative. Due to this significance, an attempt has been made in this chapter to analyse the financing policies of sample FPI units. The analysis of operating profitability shows that there exist no cushion to take financial risks, in the form of debt capital. However, ROE has been negative as indicated by Chapter IV. It is significant to note the trend in the amount of debt and reasons for employing debt in the capital structure. The analysis reveals the following:

- Analysis of financial structure of sample units reflects that except Ranisugar, for other sample units the capital employed has increased only marginally.

- A large percentage of increase in total capital is financed by the increase in long-term debt for all the four units including Ranisugar.
This increase in the amount of debt definitely indicates that debt continues to be the single largest source of finance.

- The study also shows that there is no increase in the share capital for KOF for all the years of the study and a marginal decrease in case of Ranisugar.

- Debt-equity ratio has been negative for all the years for DAMUL, KOF and KFDC and was positive for Ranisugar. The negative and increasing ratio indicates that the debt is the only source of finance employed by the sample units. This blind policy of using only debt without making any efforts to improve operating performance and also to increase shareholders' capital would definitely cause serious strain on the working of the sample FPI units.

- The quotient of per cent of change in total debt to per cent of change in total assets reflects that all the sample FPI units have used debt capital less than the per cent of increase in total assets.

- The analysis of financial structure also reflects that except Ranisugar the other three units do not possess even minimum amount of EBIT to recover the amount of interest payable on debt capital. The Ranisugar has a capacity to pay interest on borrowings hardly by one time.

- As far as borrowings are concerned, all the sample units pursued the policy of borrowing resources discarding the cardinal principles of
Debt can be employed only when EBIT is higher than the interest burden and is increasing. Further, the increase in EBIT in terms of per cent and amount should always be higher than the increase in interest cost in terms of per cent and amount.

A dig at reasons for pursuing such suicidal policies reveals the following:

► The agriculture and its extension FPI is highly risky venture.

► The corporate form of agriculture and FPI is yet to see the light of the day in India.

► The individual or group of investors is not rich enough to finance majority needs of the FPI. They look at the government help.

► As a result, the entire burden of FPI has fallen on the shoulders of respective State governments. The FPI units are run as government offices rather than as corporate offices. The principles of sound financial management are seldom heard or followed.

► The FDI, FII, institutional investment, and commercial banking lending seldom exist, as there is no proper management of units or past history of wastage of resources. The government continues to be both owner as well as lender.

► Karnataka State is first in India to announce a separate policy of incentives and packages to develop FPI on corporate lines and get rid
of itself from the burden of developing of FPI sector in the State. The policy is new and yet to make impeachable impact on the FPI scene. Unless this happens, the government sway over FPI would continue and method of financing would still continue to be the traditional, i.e., low equity and high debt.

- Mismanagement, low productivity of labour, excess human workforce, poor project formulation and implementation, lack of professional touch in functional areas, etc., can all be attributed to poor ROCE and its consequent effect on both NP and NW.

Analysis of Investment Policies

A business entity needs to deploy as much as it raises. The efficiency further lies in what form the investment has been made. A proper mix is always profitable and durable. Improper allocation can endanger the profitability and solvency. An enterprise needs both fixed and current assets and must be used in a proper manner. The ROE and ROCE are very much affected by the manner of investment and utilisation of funds.

In this respect an attempt has been made to analyse how far the sample FPI units have been able to invest their funds and in what form. A brief summary of major findings is given below:

- Except Ranisugar, other three sample units have failed to deploy the funds mobilised, because of the accumulated balance of losses
DAMUL, KOF and KFDC have lost much of their funds mobilised in operating losses. The investment range of DAMUL varies from a low of 62 per cent to a high of 80 per cent. The KOF's funds investment ranges from 52 per cent to 77 per cent, while KFDC has investment ranging from 30 per cent to 60 per cent. Only Ranisugar has 100 per cent of investment of funds mobilised.

The four selected sample units are basically processing units and they are expected to possess high amounts of FAs. However, for DAMUL the FAs constitute the most important asset, while for others CAs form the predominant assets. In case of KOF, the CAs investment has varied from a low of 38.5 per cent to a high of 82.5 per cent in 1995-96 and 1999-00 respectively. This was 63 per cent to 89.50 per cent in KFDC. The Ranisugar has similar story as in the case of KFDC where CAs constitute on an average 80 per cent of total assets.

The composition of CAs of DAMUL, KOF and KFDC has more of debtors and constitutes the most significant asset. In case of Ranisugar inventory is dominating constituting 77 per cent to 87 per cent during the period under reference.

The analysis also reveals that the ratio of FAs to NW has been negative or more than 100 per cent for all the units which indicates FAs have not been financed by proprietary funds or NW. In case of Ranisugar it is more than 100 per cent indicating the owners have contributed very little for financing FAs.
► The ratio of FAs to LT debt of KFDC shows negative indicating the long-term funds of the firm are negative, i.e., negative NW is more than long-term debt. In case of Ranisugar, the ratio of FAs to LT funds is less than 100 per cent indicating LT funds are used to finance even CAs. KOF has the same position as in case of KFDC.

► The ratio of WC to NW for DAMUL, KOF and KFDC was negative due to negative NW or negative WC.

► The analysis further reveals that all the sample FPI units have used only short-term debt to finance CAs indicating an aggressive financing policy.

► A glance at statistical tables reveals that Ranisugar has the higher Mean and SD value of CAs and current liabilities. However, its CV of CAs and CLs is less than other sample FPI units indicating its CAs and CLs are more consistent to CAs and CLs of other units.

► A comparison of FAs to WC, i.e., CAs reflect that except DAMUL, all the other three sample FPI units have this ratio a very low. In other words the KOF, KFDC and Ranisugar are more susceptible for WCL than DAMUL. Further, analysis of the WCL also reveals that an increase in WC by 25 per cent will mean Ranisugar will lose more in ROCE as it is more responsive to WC changes than other sample FPI units. The analysis also reflects that by reducing WC by 25 per cent, the ROCE of Ranisugar would increase by 10.51 per cent which reflects
that firms having a low ratio of FAs to WC are more responsive to WC management than those having a high FAs to WC ratio.

The asset structure analysis reveals that though units are dissimilar in nature of business and product market characteristics, they are similar in terms of funds deployment. Except Ranisugar, remaining units have lost a major portion in operating losses indicating lower availability of funds and erosion of capital funds. The asset mix is also lopsided with higher doses of CAs than FAs. The Ranisugar has exceptionally a high per cent of inventories.

The financing policies, due to operating losses and owners recalcitrant approach of providing more ownership funds, has tended to be lopsided. The debt, which carries a fixed obligation, has been the only source of financing. The following could be summarised as effects of such policies on ROCE and ROE.

► The lower percentage of FAs proportion would seriously affect the profitability, because it is FAs which are generally more profitable than CAs. Cash, which is a CA does not grow on its own. CAs are basically facilitators.

► The lower FAs lowers profits and lowers profitability. This lowers ROE and ROCE.
Since debt has been the major source, this has further reduced ROCE and EBIT. A positive of these two has become negative ROE and NP due to higher interest burden.

The consequent lower profit has made it very difficult for sample units to modernise and replace existing assets by new assets. The old and outdated assets have further boiled down to lower profits and ROE.

The expansion has been financed only by debt by majority of sample units, pushing the companies to the brink of collapse.

Summary of Suggestions

The FPI sector is a link between agricultural development on the one hand and economic development on the other hand. In other words, it is a link between rural areas and urban areas. Its emergence is a result of far cry from urbanites and others for value added products from agriculture. The FPI sector is a consequent to urbanisation, growth of nuclear families, employment to women, growing income level, impact of westernisation, liberalisation policies, etc. The FPI sector adds value to raw products and makes them more valuable and useful from user or consumer point of view.

The ownership of FPI units is not an important issue. Irrespective of ownership, the delivery of goods is all the more significant. The objective of FPI is to develop agriculture on scientific
The present study is an attempt to analyse how far this objective is accomplished by sample FPI units in Karnataka through financial performance. A financially well-performing unit can be expected to accomplish this objective of delivering value added products.

The analysis of financial performance of sample units reveals to the contrary. The sample units, except Ranisugar to some extent, have performed miserably. The Ranisugar, being the second largest co-operative sugar mill, the performance is far from satisfaction. For DAMUL, which is a co-operative dairy unit, the goings on are far from satisfactory. In the name of co-operative dairying, it is government dairying that is going on. The KOF and KFDC are totally under government control and their performance is not encouraging.

It becomes necessary to think in the context of liberalisation policies, as to what measures must be taken to improve the financial working of the sample units. If nothing is done, the units will die natural death and will be a drab on society’s scare resources. Even the reconstruction process will cost the society something. However, this cost looks to be lower than the cost of allowing the units to die natural death. In view of this, the study intends to provide some useful and thought-provoking measures to put the units of the study and other FPI units, especially in government control on recovery path. Though these
measures are not new, the very mention here is in continuation of current government's thinking on liberalisation and globalisation process.

1. **Disinvestment**

The units managed by government need to be divested and be exposed to market mechanism. The disinvestment can be done either by sale to individual investors or to a strategic partner. The strategic partner would be able to bring the required technology, professionalism, funds, human force, etc., and put the units back on rail. The sale of Modern Foods by the Central Government to H.L., the biggest FPI unit in the private sector, is a case in point. The fate of Modern Foods has undergone a change with this sale.

If the disinvestment is accomplished through the sale of shares to individual investors, the funds mobilised could be used by the government to augment financial resources of FPI units. The FPI units could use such resources for expansion, modernisation, R&D activities, etc. Moreover, the listing which follows suit of disinvestment process would bring market control to the FPI sector. The units would be governed on the basis of the market price movements.

This measure very much applies to government controlled FPI units, though even privately managed units could think of this as a best measure.
2. **Raising of Additional Resources**

The co-operative FPI units should augment financial resources through equity rather than through debt. The members should be asked to subscribe to the additional shares floated by the units. If the unit happens to be a government one, the government should understand the significance of ownership capital than a creditorship capital.

The available owners' funds should be used to redeem debt employed already. The reduction in debt reduces interest burden and increase EBIT. The increase in EBIT increases ROCE and ROE. The balance of funds may be employed for R&D, expansion, replacement, etc. Through this process, productivity of capital could be enhanced.

Though the measure seems to be very simple and easy to implement, the moot question is how far this is practicable. The modern governments are starved of funds. Could they be expected to generate resources and fund ailing FPI units, when they are running their functioning through fiscal deficits? In case of co-operatives, members are not rich enough to finance such huge accumulated losses and debt redemption. These are ticklish questions and need proper thinking. A positive and pro-active approach would solve the problems of ailing FPI units.
3. Debt Conversion

If the above measure of injecting fresh funds is difficult to implement, especially by government managed ones, the government at least could convert the owings by units into equity funds. This measure reduces interest burden and converts negative EBIT into positive EBIT. The positive EBIT improves ROCE and ROE.

However, what happens if government or lenders are unwilling to sacrifice or agree to this measure. A serious consideration of this measure must be made.

4. Debt Reconstruction Plan

Besides the above, the following can be suggested to reduce interest burden and debt obligations:

- waiver of interest outstanding by lenders,
- reduction in interest rates,
- extension of moratorium period, i.e., conversion of debt of short-term duration into debt of long-term duration, and
- conversion of outstanding interest amount into equity portion or original debt into equity amount and interest payable into debt capital.

All these measures reduce suffocating position prevailing in the sample units.
5. **Leasing and Hire Purchase**

The sample units could buy the required assets for expansion and modernisation through lease or hire basis. The modern assets would improve the quality levels, capacity utilisation, morale of employees, etc. The improved earnings may be used to redeem existing debt obligations. The government or government managed financial institutions could be asked to stand or provide guarantee on behalf of ailing FPI units.

6. **Induction of Professionals**

The modern business requires professionals because of complexities involved in its operation. The fluid environment, competitive forces, ever changing demands of customers, etc., all make it necessary on the part of business to have strategic orientation. The strategic thrust can be imbibed through professional or highly qualified executives or functional heads. The sample FPI units are not an exception to this requirement.

This does not mean that the existing management system is not professional in the sample units. The Ranisugar has qualified executives at the helm of affairs. On the other hand, the remaining three units are bureaucrats managed units. This could be one reason for the difference in performance. The performance of Ranisugar is much better than the remaining three sample units.
7. **Strong Research and Development**

FPI is a highly customer-oriented and technology-oriented. The ever-discriminating customer wants highly innovative and creative products. Both products and process research are required for the survival of FPI units. The product innovation meets customer requirements, while the process innovation is technological one which reduces the input needs and improves quality.

The Ranisugar being a sugar producer need not innovate new brand of sugar. However, process innovation is very much necessary. For DAMUL, for sale of liquid milk no innovation is required. For milk products, there is definitely a need for strong R&D content. Similar for KOF and KFDC sample units. Though R&D involves huge investment, but savings and competitive edge it creates in the long run would much outweigh the costs involved.

8. **Adoption of Cost Management Tools**

The modern enterprises compete on cost lines rather than on price front. To be competitive, the unit should be the low-cost producer with high quality product. This calls for adoption of cost management approach. It is a system which looks into cost-savings areas or identifying non-value adding attributes in products, processes, technology, etc. for cost-reduction. The modern cost management tools like ABC costing, life-cycle costing, JIT system of purchasing and production, flexible manufacturing technologies, target costing, kaizen
costing, etc., should be given a chance to work wonders for the units. The use of all these techniques call for the services of cost accountant. The FPI sample units need to recruit or hire the private practising consultants.

9. Revising Investment Policies

The units should be highly selective in investment policy. The cost-benefit-analysis should be the only guide in future investment policies. An investment should be accepted only when it proves or shows its clear profitability. This kind of approach reduces the investment in non-worthwhile areas and reduces losses on account of such projects.

10. Working Capital Investment and Financing Policies

The WC should be adequate enough. A unit should tread cautiously and avoid the dangers of excessive and inadequate WC amount. Moreover, even the composition should be optimum. An optimum balance of cash, inventories and debtors are very much needed. This calls for scientific approach.

The sample units, except DAMUL, have relatively more CA investment than FAs investment. Such excessive investment adds to the cost of the unit and reduces EBIT, ROCE and ROE. The units need to adopt need-based WC investment policies. Though this is easier said than done, a go at this approach is need of the hour. The Ranisugar has
to maintain 20 months sugar production as stock as per government policy. Such a policy imposes severe financial strains on the units and needs to be reviewed.

The financing policy should also be highly liquid and profitable. Most of the units have used aggressive policies in financing CA\textsubscript{s} requirements. As a result of this, the current ratio of DAMUL, KOF and KFDC is less than 1, while for Ranisugar it is just equal or little higher than one. This aggressiveness nullifies the advantages of liquid asset structure with illiquid financial structure. For better overall balance sheet position the required WC funds should be financed by LT sources and short-term sources. The LT sources should preferably include owners’ funds also.

11. HRM Policies

India in general and Karnataka State in particular are at a lower side of human development index. The same thing applies even for FPI units. The units being government controlled rarely adopt modern practices of human resources management. This has resulted in having bloated and inefficient workforce, thus contributing towards higher labour costs and other related costs.
The following measures can be suggested:

- A VRS scheme may be adopted to reduce excessive human force.
- Retraining and redeployment of existing workforce to meet growing business challenges,
- Use of employee stock option schemes to encourage and motivate talented individuals to join and remain with the units,
- Labour participation in decision-making process,
- Recognising human capital and its proper depiction in the balance sheet, and
- A highly objective, transparent, merit based, performance-based promotion, transfer, reward, etc., policies should be formulated.

All these measures would definitely motivate the existing workforce to work for the betterment of the units.

12. Restructuring Board Rooms

The management restructuring is one thing which is urgently called for. In addition to professional managers, the age, composition, experience, educational levels, the number, etc., of the Board should be restructured. A highly devoted, foresighted, transparent, efficient and dedicated Board is a sure bet against the future challenges and complexities.
13. Modern Methods of Procurement of Material

The FPI being agro-oriented in nature requires raw material for continuous production activities. They need to develop and nourish the sources of material. All the four units need to do this so as to procure right kind of material of right quality at the right price and in right quantities.

The Ranisugar is assured of sugar-cane because of its wide area coverage and being a co-operative unit.

The DAMUL procures milk from its village level dairy co-operatives. The supply is always assured with little variation in summer season. The members are bound to sell to co-operatives. However, the piercing competition and the recent abandonment of milk shed areas by Central Government throwing wide open the milk procurement. Any unit can procure from anywhere. This calls for modern methods of milk procurement through contracting, etc.

The KOF processes oil-seeds and manufactures oil. The procurement is again done through co-operatives.

The KFDC is fisheries one and heavily concentrates on sea-fish. The modern boats and other material must be made available to fishermen to catch the fish and marine products. The selective policy of fish catching will at the same time save the marine biology also.
14. Write off of Accumulated Losses

The sample units, especially, the DAMUL, KOF and KFDC have huge accumulated losses. The loss amount is big enough to reduce NW into negative. In case of KOF and KFDC the negative NW is so large that the entire LT capital employed has become negative. In other words, the LT debt is much lower than the negative NW. This means that the capital employed itself is negative and instead of owing to owners and society, the business units own so much amount from owners and society. This is something ridiculous and highly undesirable. No entity can survive with negative NW and capital employed. The position of Ranisugar is quite good but it is not very sound.

Due to excessive losses, there is a need to write off such huge losses. The question is how to write off. Simple journal entries approach cannot be followed because the assets would be reduced to negative or zero. The burden of losses should be borne by somebody. Again who is rich enough to take this burden on their shoulders? Neither government, nor individual members are rich enough to refinance losses. The State governments are running short of finance and cannot be expected to finance white elephants. The poor cooperative members cannot also be expected to do the same because of their own miserable conditions. The only two options available are to liquidate such business or improve their performance in such a manner that the accumulated losses are recovered in the long run. Though the
first measure can affect the growth of FPI units, the second measure seems to be highly practicable and time consuming. It is the most tedious and horrendous task of doing this turnaround task. The turnaround strategy is a gamble and expensive. If it pays off; the unit would recover all the accumulated losses as well as the cost of turnaround. On the other hand, if the strategy fails it entails more burden on the society. However, turnaround strategy is worth trying in the interest of FPI units, agriculture and national economy.

15. Cost Audit Should be Introduced

All the sample units except Ranisugar under the study have been suffering with maximum amount of accumulated operating losses, because of the lack of proper check and control in respect of various component of cost. Control over all the components of cost is the only solution to increase operating profit/EBIT. Hence, sample FPI units are suggested to establish an effective cell to undertake cost audit by the qualified cost accountant.

16. Adoption of Modern Advertising Media

The sale of an organisation's name should precede the sale of its product. The absence of a well designed advertising policy may be a contributing factor for the poor marketing performance of FPI units. A mere increase in the size of the advertisement cost over the years will not deliver the goods. It is high time for the FPI to construct an effective advertisement policy based on modern advertising media.
This will certainly help in improving not only the volume of sale but also in getting higher prices for the products.

17. Scanning of Global Environment

New developments are constantly taking place with respect to the production technology and marketing philosophy of the FP industry at the global level. When the horizons are widening rapidly and the competition is growing, it becomes essential for the FPI to keep themselves abreast of these developments. By subscribing to international journals and magazines they should acquire up to date information and prepare themselves for the big opportunities which may knock their doors in future.

18. Management Audit Programme

Efficiency at both operating level and managerial level is quite essential for the success of any manufacturing units. If the cost audit aims at improving the operating health, the management audit aims at improving the managerial health. Management audit is the medium for improving the managerial health. To ensure such a healthy state of affairs at managerial levels, a periodical, exhaustive, constructive and critical evaluation of the managerial actions in respect of different functional areas of management may be undertaken. Such a programme will definitely improve the managerial efficiency which in turn improves operating efficiency level, level of EBIT, etc., of the units.
All these measures are highly pragmatic, relevant, pro-active and curative in nature. If these measures are accepted, adopted and followed, one would definitely hope for a highly developed FPI sector in Karnataka State in particular and in India in general.
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