CHAPTER - VIII

Economic Implications of Industrial units using Sandal wood as the raw material.

Introduction

Sandal wood is an important raw material raised in forest. Karnataka State holds a prominent position in the production of sandal wood and in the extraction of oil from it in the entire country. But the handling of the raw material is a state monopoly. It is not like any other raw material available in the market. Its supply is regulated by the cutting by the forest department of the Government.

In this chapter, we have tried to analyse the economics of those units which are manufacturing various articles out of the sandal heart wood, dust and oil. For this purpose, we have chosen 10 units only in Bangalore following the clustered sampling. Arbitarily, we chose 10 units only because the method of manufacturing the articles, marketing, use of labour show room etc, are all similar. There is not much to choose as they are all standard units. Besides, these units have to rely on Govt. depots for the supply of sandal wood for their purpose at a fixed price only.

I. Organisation and Management of Industrial units using sandalwood

The ten units surveyed by us, revealed the following form of organisation.
Table No. VIII-1.

Form of organisation of Sandal wood units.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Form of organisation</th>
<th>No.of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>Proprietary.</td>
<td>8</td>
</tr>
<tr>
<td>2)</td>
<td>Partnership.</td>
<td>2</td>
</tr>
<tr>
<td>3)</td>
<td>Private Limited</td>
<td>-Nil-</td>
</tr>
<tr>
<td>4)</td>
<td>Limited Co.</td>
<td>-Nil-</td>
</tr>
</tbody>
</table>

The above table reveals that 8 units were proprietary firms and only 2 units were partnership firms. The proprietary units could as well be known as family units.

The main reasons for opting the proprietary form of organisation are:

(i) independent control.
(ii) Small size of the unit and
(iii) nature of industry.

Instead of taking partners, they proprietors preferred taking loan as well as hire more personnel to expand the working hands. The partnership form of organisation is preferred to minimise tax burden and to establish the business on comparatively bigger scale by taking financial and technical assistance from the partners. Our survey revealed that the two units preferred such partners only who had both technical expertise as well as business connections for marketing purposes.
The age of the units:

The analysis of the age of the unit reveals the maturity of the firm, older the firm, greater its maturity having withstood the economic storm of depression as well as boom or any other calamities peculiar to the unit.

Table No. VIII-2

Table showing the age of the Sandal wood units:

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Age of the unit</th>
<th>No.of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>5 - 10 years</td>
<td>3</td>
</tr>
<tr>
<td>2)</td>
<td>11 - 15 years</td>
<td>3</td>
</tr>
<tr>
<td>3)</td>
<td>16 and above</td>
<td>4</td>
</tr>
</tbody>
</table>

Total: 10

None of the sandal wood units were established recently. They were established, even the earliest ones, 6 years ago. 7 units were in the age group of 11 and 16 and above. That shows majority of the units were well established and had weathered the economic storm successfully.

Management of the units: The units being proprietary, were managed by the family members only. The family members were holding all the key positions in the organisation. In the case of 3 units only, paid managers were appointed to look after the office, and its routine including the correspondence.
Managers were appointed mostly from their own family members, who exhibited enthusiasm for administrative duties. The three paid managers were all graduates, trained in the routine course of administration.

The duties of the manager were to maintain the account books, to attend to the correspondence, to book the orders and attend to bank transactions, they had to look to the payment of the wages and maintain to the day-to-day administration.

Family background of the units:

The family background of the unit holders indicate the general trends in that industry and sandal wood industry is no exception to it. In fact, in sandal wood industry, we find, a particular community dominating throughout the state. They all belong to business community or baniyas. The 10 units surveyed by us revealed that the industry is fully controlled by the baniyas. We have avoided here to mention the name of the community and generally called them baniyas or business community as opposed to other communities whose occupation is agriculture, service or any other.

Location of the units:

Location of the units is not very important as the units will not be requiring large area and will not reap the locational benefits on a large scale, since the industry is not weight losing one. However, the historical fact of the location in their own place of residence may or may not have all the benefits of location that are usually associated even with smaller units, such as marketing, display of finished products, easy transport facility and attraction to labour. The important question in respect of the location
is whether the workshop is separated from the office or whether office and workshop are both combined. This analysis will have its effect on the production and marketing out of the 10 units surveyed by us. 6 units had their workshop and office combined and 4 units had separate workshop and independent offices. The units with independent workshops had a better production than the units where office as well as workshops were combined.

All the ten units expressed satisfaction over their location. They had their own advantages to be happy with the location of the units. However, the proprietors of 3 units desired a change in the location as the area did not attract much tourists.

Considering the types of articles produced by the units, it is desirable that the location of the units should be "at an attractive place" where a large number of "floating population" is possible.

Management of the sandalwood units:

The 10 units surveyed by us has revealed some interesting aspects of management. 6 units have proprietors as managers, and 4 units have paid managers. Of this again, in case of two units, the partner is acting as a manager. It may be noted here that in respect of sandalwood units, the proprietor is not only a manager, managing the entire affairs of the unit, but also a master craftsman. He is providing the risk capital, acting as a marketing man, a financial expert, as well as a production manager. All these functions are combined in one man. That is why his role in managing the small unit is considered not only unique but outstanding. The success or otherwise of the unit depend on this man.
Qualifications of a manager:

Whether it is the proprietor, or a partner or a full time paid manager he has to discharge his functions in the management of the firm. We have examined the qualifications of the manager and all the ten units of sandalwood have qualified managers who are graduated in the faculty of arts or science. They are conversant with English language fluently and are equally conversant with management principles.

The managers are knowing the pulse of the market and introduce such items which are selling well in the market. Every item introduced by them is with a view to marketing it effectively.

As in the case of forest based industrial units, the sandal wood units have revealed that the higher the education of the manager, the better managed in this unit since all the problems of personnel, finance and marketing are tackled well.

Financial Management of Sandal wood units:

Sandal wood units are catering to the aesthetic sense of a man and as such are mainly luxury items. They are not selling fast yet the profit margin is high. It involves capital investment as the liquidity ratio is low. Hence, risk capital is necessary for all the sandal wood units.

The ten units surveyed by us have relied on their own capital, borrowings from friend and relatives and also borrowings from the financial institutions. The financial institutions have shown greater interest in lending the funds for sandal wood units.
All the 10 units have bank accounts having loan facilities besides borrowing by pleading the stock-cum-trade. Thus, the sandal wood units are in a comfortable position as regard the financial requirements are concerned.

Cash requirement:

Cash is required for purchase of raw material from Govt. depots. Sandalwood is sold to these units at 25% of the fixed price of the sandal-wood. However, this stock is not adequate hence the units have to buy from the open market from the smugglers.

Cash is required for payment of wages. The wages paid to the craftsmen varies from Rs. 20 to Rs. 40 a day depending upon the skill of the worker. Each unit on an average is employing 5/6 craftsmen and this number increases when the unit gets a special order for large number of articles. Cash is also required for " outstanding bills " such as the purchase made rent to be paid, electric charges, etc. Thus, cash is required for various purposes but the units have not experienced any difficulty in getting the cash.

The cash inflow is regular through daily sales as well as through discount sales arranged often on festivals. The margin of profit being very wide the units have not experienced any difficulty in getting the inflow of cash.

The volume of sales per month per unit is between 10 to 12 thousand. This is only pertaining to sandal wood products. The units manufacture other carvings made of rose wood and white wood. We have not taken into consideration the other products manufactured by the sandal wood units. Only those products made from the sandal wood alone is considered by us.
Financial problems faced by the sandalwood units:

The financial needs of the sandalwood units may be classified into

(i) Long term financial needs and

(ii) Short term or working capital needs.

The long term financial need of the units are met mostly from their own resources since their requirement of fixed capital nature is limited to the sharp tools only. The raw material is supplied by the Govt. forest department at subsidized price. The units are all labour oriented, each worker being a master craftsman. The Small Industries Service Institute, District Industries Centre and the State Finance Corporation, make available the required long term capital. However all the units have not taken full advantage from the financial institutions.

2. The turnover of these units is less. During some months the sales will be more particularly during October and November. In the rest of the months sales is limited. This uncertainty causes considerable worry to the units. Since labour has got to be kept on the pay roll, otherwise once the labour is relieved, it would be very difficult to get the skilled craftsmen.

3. Trade Credit:

Goods have to be sold on credit ranging from 1 month to 3 months. This creates recovery problem as well as locking up of the funds, the goods are sent outside the state and hence it has to be sold on credit.
Production Management of Sandalwood units:

The sandalwood units have to undertake production planning. The unit has to decide first what is to be produced, when is it to be produced, how it is to be produced and how long does it take to produce. In short, production has to keep an eye on the marketing of the produce and the cost of the product.

Raw material for production:

As noted earlier, Sandal heartwood is supplied to the units at 25 percent of the price fixed by the Government forest depots. This is a concession given to sandalwood carving units by the Govt. The 75 percent of the remaining cost is borne by the Department of Industries. However, some of the units complained that the supply is not regular and depends upon the sweet will of the Govt. officials. They also expressed a view that they are forced to buy the sandalwood from the smugglers at the market rate which is prohibitory.

Sandalwood raw material in any form is used by the units for manufacturing various useful articles. There is no wastage of sandalwood whatsoever. This is the greatest advantage in the use of sandalwood. Even the dust is also used in the manufacturing of agarbatti.

The units do not have separate godowns to store the raw material. Sandalwood is so costly that the units guard it jealously for fear of theft or pilferage by the workers.

Actual production in terms of value per year is very difficult to estimate as none of the units surveyed were willing to furnish the yearly sales.
Utilisation of production capacity:

The term "utilisation of production capacity" loses its meaning when applied to sandalwood units. The capacity is limited by the number of craftsmen employed and the raw material made available by the Govt. depots. There is no install productive capacity of the machinery. In fact, it is only the skill and dexterity of the craftsmen which turns out into production of various carvings or articles.

However, the units have complained against the shortage of raw material restricting the production.

Adoption of production technology:

The management of the sandalwood units have all adopted both innovation and imitation production technology. The traditional type of products are manufactured in addition to new products every year. There are hundred of items manufactured by the sandalwood units ranging from cigarette holder to artistic articles of high price. A craftsman with imagination is always planning for designing a new product which would sell well in the market for a high price. Cost has no relation to the price at which the article is sold. The margin of profit is very wide. The management of the unit is always undertaking diversification of the products.

Quality control: Quality control is an important function of production in case of sandalwood units. The product has to be a good combination of shape, workmanship, finish, good heartwood etc. It is the quality and nice design sharply carved product which alone creates a market. The management will be continuously assessing the customers needs, their habits buying capacity etc. through market research. Thus, the consumer's behavior in the market is watched by the management in order to plan the production.