

Production Management of Mizoram Food and Allied Industries Corporation Limited (MIFCO)

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Abstract: *This study looks into the production management, with respect to the state owned enterprises in Mizoram, with reference to MIFCO. MIFCO is the only SOE that is involved in the production of products and therefore, this study deals exclusively with the said enterprise. The scope and functions of production management is briefly mentioned followed by an analytical study into the application or non-application of such concepts in the state enterprise as practiced by MIFCO.*

Keyword: *Production management, state enterprise, productivity, efficiency*

Date of Submission: 02-06-2021

Date of Acceptance: 15-06-2021

I. Introduction:

Production and marketing of goods and services are the fundamental objectives of an organisation. Public enterprises have been suffering from high costs of production and low capacity utilisation and over capitalisation. Though one may argue that the public enterprise units will have higher costs due to their social obligations, one finds little justification in areas of competitive industries where both public and private units function side by side (Bhatia & Batra, 2000).

Mizoram lies in the border-tip of India's North-east. It is one of the most industrially backward States in the country. Consistent with this, the Government of Mizoram set up five SOEs which are government companies registered under the Companies Act, 1956. These SOEs have failed to achieve the objectives for which they have been incorporated. Recommendation for improvement of performance or closure of the enterprises has been given by the Comptroller and Auditor General of India (CAG) in the year 2000 and again in 2005. The SOEs suffer from poor managerial efficiency which has an adverse impact on the financial and operational performance.

The concept of a Food and Allied Industries Corporation had emerged from the aspiration of the Government of Mizoram to harness the limited resources endowment of the State, and nurture its potential for the welfare and well-being of its people. MIFCO was established on the 19th December 1989, the authorised share capital is Rs. 20 crores. The Board of Directors comprises 12 members and the Registered Head Office is located at Thanzauva Building, Canteen Square, Aizawl.

II. Literature Review:

Mathur (1999) puts forward a need for effective public enterprise management, posing the major challenges of running public enterprises in today's world of globalisation and liberalisation where competition is the new mantra. The study advocates shifting away from the doctrine approach and adopting a policy which suits India's vital economic interests.

Goel (2001) conducted a study on the working of financial management of selected central government undertakings in the manufacturing sector, a number of criteria such as procurement of funds, allocation of these funds, management and distribution of earnings and disinvestment policy have been used to analyse the financial management of these corporations.

Kabra (2008) attempts to examine the role of business and industry in the economic growth of the state of Mizoram. Tracing the factors that led to the development of business and industry in the state, he analysed the role of government in the promotion and regulation of business and industry.

Bhatia, B.S. and Batra, G.S. (2000) attempts to highlight the issues in management of public enterprises with special reference to privatisation and restructuring strategies.

OBJECTIVE: An analytical study to look into the application or non-application of production management concepts in the state enterprise MIFCO is the objective of the study.

Scope of the STUDY : This study looks into the production management, with respect to the state owned enterprises in Mizoram, with reference to MIFCO. MIFCO is the only SOE that is involved in the production of products and therefore, this study deals exclusively with the said enterprise.

Data sources: The study is based on primary as well as secondary sources of information. First, an intensive review of literature was undertaken to familiarise with the various aspects of the public sector philosophy and management, to identify the research problem, to evolve appropriate methodology and to formulate a conceptual framework for the study. The secondary data is also collected by consulting the annual published documents, companies' archives, publications of the concerned directorates and the websites of the department of public enterprises (Government of India) and the concerned SOEs etc. The reports of the Comptroller and Auditor General of India (CAG) formed an important source of data for analysing the financial health of the SOEs. In addition to observation, the study used structured schedules and direct interviews to solicit the primary information from the Board of Directors, top and middle level management.

III. Results And Discussions:

PRODUCTION MANAGEMENT IN MIFCO: The production function is undertaken by only one state enterprise, namely, MIFCO (Mizoram Food and Allied Industries Corporation Limited), the production aspect of functional management will thus be studied with respect to the said enterprise. MIFCO was incorporated to optimally utilise the available business opportunity and create facilities by infusing proper technology in processing of agro-products. Its objective is to develop, promote and improve processing and preservation of food, milk, fish, fruits, vegetables and all food materials of animal, poultry agriculture and pisci-culture. The enterprise also aims to buy, stock, sell, import and export and generally to deal in such processed foods. The production units under MIFCO have changed hands quite a number of times. In the initial period of incorporation three production units were transferred from the Industries Department, namely, Fruit Preservation Factory, Vairengte; Ginger Oil and Oleoresin Plant, Sairang and , Maize Milling Plant, Khawzawl .

Ginger oil and Oleoresin Plant had in fact been originally a pilot project of ZIDCO which had been handed over to the parent department due to the negative performance and unfeasibility of the project. A project on Mushroom Cultivations and Processing Plant in Chhingchhip was initiated but abandoned due to lack of capital. As of now, the following production units are in operation :

- (i) Fruit Juice Concentrate Plant, Chhingchhip.
- (ii) Pork and Poultry Processing Plant, Zemabawk
- (iii) Fruit Processing Plant, Sairang

Implementation of Food Park, Chhingchhip is yet to be commissioned. The Fruit Processing Plant in Vairengte is closed down for the time being. The production units in operation at present have been engaged in manufacturing various products which are :

Pork Products : Smoked pork, ham, sausage and other by-products.

Fruit & Food Products : Passion fruit juice, orange juice, pineapple juice, passion squash, orange squash, pineapple squash, passion ready to serve (RTS), orange (RTS), pineapple (RTS),baibing and bamboo shoots. The pork products were made available for the first time in 2008-2009 which amounted to 13,378.50 kg in quantity .

Table 1 shows the production of the fruit and food products during 2004-05 to 2009-10.

Production performance of MIFCO during 2004-05 to 2009-10						
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Juice Concentrate (in liters)	7335	17325	30883	123362	na	84080
2. Squash (in bottles-700ml)	29427	31502	33249	29347	na	17332
3. Ready to serve (in bottles-200ml)	1927	12364	2151	5477	na	4454
4. Baibing & Bamboo shoots (in cans)	5986	10865	14335	6137	na	14947

Source - Compiled from relevant annual reports, MIFCO.

IMPLICATIONS: The previous section has outlined the various activities that is the primary concern of the production management. On the basis of the said activities, the production management activities of MIFCO is analysed as follows:

Design and Development of product: As often is the case in state enterprises, the top management as defined in the general business sense are not generally the policy makers. In reality, it is often the promoters and the Board of Directors who lay down the foundational objectives. Such is also the case in MIFCO with the Board of Directors comprising government top officials that had a hand at the product design, or the final authority of

selecting the product to be undertaken. Accordingly the present offerings of MIFCO have decided upon by those in the higher hierarchy, which consist of a variety of processed fruit and food products and a new addition of pork products. MIFCO processes three varieties of fruits- passion fruit, orange and pineapple, which are sold as juice concentrate, squash, ready to serve beverages and tidbits. There are two varieties of vegetables processed namely bamboo shoots and baibing which comes in the form of can and pickles. Pork products comes in five varieties. The passion fruit concentrate is highly demanded and a contract has been secured with a 100% buy back of products with Shimla Hills Offerings Pvt. Limited (SHOP). The management has informed the fact that all their products are highly demanded and it is the reverse of the typical problem that they are facing, which is that there is a huge demand but an inability to supply to meet the demand due to shortages in production. Hence, development stage is unmentionable as the problem is still the inability to supply to meet the demand. The action plan is required to address this problem as this has been the case for a number of years. Product design that enables the corporation to concentrate on a single demand at a larger quantity such as the demand for fruit concentrate, which has a ready market could capacitate the SOE to cut cost on running the various production centers.

Design of production system: MIFCO undertakes production more in the likeness of process production with different products being produced depending on the process that it undergoes. For instance, the pork and poultry that was commissioned in 2008 has been functioning at its initial stage but already has 7 varieties of pork products such as smoked pork, ham and sausage, and the fruits undergo the process production to be reproduced as juice concentrate, squash and ready to serve beverages. Process production may be highly sophisticated in large manufacturing enterprises, however as far as MIFCO is concerned, the production is much below capacity, reasons stated being short supply of raw materials, faulty machineries, financial and technical constraints and so on. The production system thus, imitates the process production but do not measure up to the process production as defined by experts. In fact, if properly planned, cautiously and systematically implemented the production system can ultimately lower cost of production.

Major activities have been undertaken to upgrade the plant in Chhingchhip to facilitate a mega food park with opportunities for private entrepreneurs desiring to set up food processing industries given allotment. Within the park, the processing facilities will be made available for these private entrepreneurs, a part of the plot has been utilised for fruit plantation as well. There are various common facilities such as processing machineries, cold storage, warehouses, conference hall and quality control centre. There has been questionable delay in the implementation of the projects, a major problem is the inability to make matching state contribution for central government funds by the government of Mizoram.

Production planning and control: The annual reports of 2005 & 2006 have stated they have a severe set back in production due to the non-availability of sufficient raw materials especially orange and passion fruit, the most demanded products of the enterprise. There has been contradicting report from farmers stating that their products have been not bought by the SOE and that on those that have been bought, payments are due on certain cases. The case was cited in the largest circulated newspaper in the State, *Vanglaini* (19 December 2009) as “Government owes passion fruit growers money”, the article said that MIFCO had taken 3,869.61 quintals of passion fruit from 22 villages amounting to ` 44,23,958 and has been unable to pay the same. The very reason for the setting up of the corporation had been to utilise the availability of raw materials that could benefit the farmers. There has been, in fact, a guarantee of payment of raw materials supplied by the central government scheme through Ministry of Food Processing Industries (MOFPI), which has been not taken advantage of, as reported by the CAG (2007). The CAG also reported that there has been no preparation of production targets, and cost estimations have neglected and ineffective. Production planning and control as to coordinate supply and movement of materials and labour, ensuring economic and balanced utilisation of machines and equipment as well as other activities related with production to achieve the desired manufacturing results in terms of quantity, quality, time and place, have not been so far practiced as desired in the enterprise.

Selection of location : The various MIFCO plants have been placed at strategic places. The Chhingchhip plant has been planned so as to remain near the farmers so that the raw materials are conveniently available at short distances. Pork and Poultry plant has been located at Zemabawk which is an outskirt but easily accessible to the main part of the city, and the Sairang plant is quite convenient as it is a short distance from Aizawl. MIFCO has had a definite advantage in location as it is a government undertaking which enables easy access to suitable locations. However, the major manufacturing of fruit products is done in Chhingchhip which is transported to the Sairang plant for canning and bottling. If this could be integrated into a common location, there could be cost reduction to a great extent. In addition, a point for criticism arises with respect to the multiple locations of its various plants which necessitates additional manpower costs.

Plant layout: The plant layout of the state enterprises has been satisfactory in terms of the arrangement of machines and facilities, attempts to accommodate the efficient flow of productive processes has been taken into account. Often, failure lies with effective utilisation of facilities and the adherence to standards. Moreover, the final processing of the fruit products are done in another location i.e., from Chhingchhip to Sairang which gives

unnecessary maintenance and transportation cost as well as time wastage. The plant layout should be efficient to achieve economy and efficiency in operations enabling materials to move through the necessary operations rapidly and in the most direct way possible.

Selection of plant and equipment: The state enterprise have had a series of problems with regard to the operation system due to faulty machineries and equipment. The pork and poultry processing plant which was finally opened in 2008 was delayed for over five years due to various limitations, chief among which was the problem faced due to the late delivery of equipment and then the defaults in the equipment so purchased. There has also been unplanned freeze in operations due to managerial and financial constraints. These are obvious consequences of lack of proper selection of plant and equipment. The annual report (2006) stated that there has been replacement of plants and machineries (bowl chopper, meat mincer and sausage filler) supplied by M/s Swadeshi Constructions, Bhopal which were found to be defective. Some machineries and equipment that could be procured indigenously could have been fabricated and built in the state itself. The delay in commissioning and supply of plant and equipment has been often the bottleneck in the production department of this enterprise. The management has also stated political intervention has been a serious setback. However, the point required to be stressed here is the overcoming of limitations through the corrective measures of past mistakes which seems to be not adhered to with the problem recurring again and again.

Research and Development : The enterprise at the moment has suffered severe financial constraints and as such have not given much activity to Research and Development (R&D). Nevertheless, the management is conscious of the massive opportunity for growth and development the fruit processing industry has in Mizoram especially with respect to passion fruit, which is of the highest and rarest quality. There has indeed been much demand for the juice concentrate by the leading multinationals but inability to produce in large quantity has stagnated any possibilities of such contracts. The SOE has employed the expertise of the Italian government and has an on going project for the food park. However, the effort for further R & D is required as the present attempts are much too less for any worthwhile outcome to be made.

EFFICIENCY MANAGEMENT IN PRODUCTION

The production management of MIFCO is given further treatment in this section with its performance being primarily looked into with the commonly used measures of production efficiency, namely, Capacity Utilisation; Productivity of Labour; Inventory Control and Cost control.

Capacity Utilisation: Capacity utilisation as a measure of efficiency of production is highly commended as it ultimately determines the overall efficiency level of the production unit. There is a clear relationship between output and unit cost in a plant of fixed capacity (Mathur, 1999). Capital costs and other fixed costs of that plant will continue to fall per unit of output until full unit of output is reached. Thus, an economy will suffer a disadvantage in terms of unit costs of production if there is underutilisation of capacity.

The SOE was designated (July 1992) by the State Government as 'Nodal Agency' for Food Processing Industries (FPI) and to implement the Plan schemes of the Union Ministry of Food Processing Industries (MOFPI). The designation of nodal agency has however been removed (2008). MIFCO had set up Fruit Juice Concentrate Plant (FJCP), Chhingchhip for processing of fruits like passion, pineapple, orange and other fruits with a view to generate gainful self-employment for rural growers and to provide assured market for their produce. The installed capacity of the plant was 1400 MT. The plant, however, had facilities for extraction of juice (140 MT), preparation of squashes (558 MT), canning (126 MT) and fruit concentrate (8 MT). Thus, the total available capacity worked out to 832 MT (say 830 MT-59.43 per cent) only (CAG Report 2007). MIFCO had not fixed any target or benchmark or breakeven point for utilisation of the installed capacity of the plant. Consequently, its achievement vis-à-vis the capacity cannot be analysed. Moreover, the enterprise has not maintained the daily production records such as log book register for recording the working of plant and machinery, utilisation of raw materials, other inputs, manpower and total quantity of items produced per shift/day. As such, verification cannot be done for the daily raw materials, other inputs, manpower, etc. utilised for daily production as well as details of direct over-heads and the quantity produced vis-à-vis cost effectiveness of the individual products.

Capacity utilisation has not improved much over the years and has consistently been below 10% and the enterprise incurred production loss of Rs.1.64 crore during 2002-03 to 2006-07. In this regard, the SOE had neither formulated any action plan to reduce the production cost, nor taken any step to increase the level of production to achieve the breakeven point. Thus, the SOE was bound to make losses. It was also unable to recover even its variable cost during 2002-03 to 2006-07. This resulted in cash loss of Rs.16.17 lakh. Audit scrutiny by the CAG (2007) revealed that, as against the standard norm fixed for recovery of juice from passion fruit, pineapple and orange at 20, 30 and 40% respectively the extraction of juice was less than the standard norms. This resulted in a loss of Rs.3.24 lakh due to excess consumption of fruits. The management, while admitting the facts, stated that the project had been undergoing upgradation during the period and owing to the pressure of the growers, the plant has been working as a promotional measure. However the indications are that

the main reason for losses were under-utilisation of installed capacity. There are a number of factors that results in low capacity utilisation such as lack of demand for the product; problem arising out of technological transfer and lack of appropriate development of technological capacity and adaptation; difficulty in procurement of raw materials and infrastructural inadequacies including power failures and shortages (Mathur, 1999). As far as MIFCO is concerned, the first factor does not apply as the demand for the product is established even though there has been minimal promotional activities. There are, however, serious setbacks as far as technological development and adaptation is concerned, the management has relayed the problem it has repeatedly faced on grounds of defective equipment and machineries being supplied that has delayed and halted the production, the reason has often been primarily due to the involvement of political power in the ordering and delivery of machineries (Interview, May 2011). Difficulty in procurement of raw materials and infrastructural inadequacies have been due to financial constraints. As a matter of fact, production was halted recently for a month or so in May 2011 as electric power had to be shut down due to lack of capital. As stated in the previous sections, the problems faced by the SOEs are manifold and severe, but of all these problems, the most vital is the low capacity utilisation which has rendered all manufacturing activities redundant as the cost has far outrun the meagre revenue procured through sales.

Productivity of Labour: Productivity of labour means, production per man. It is concerned with the relationship between output and the effort required to achieve it or expressed in another way with the quantity of output per unit of input. Even without further analysis, the analysis so far given in the study can easily point out the low productivity level of the SOEs and particularly MIFCO. MIFCO, in fact, has been stated as overstaffed as it is and with the quantity of output per unit of input criteria, the cost far outweighs any effort whatsoever given by the manpower employed. Some of the factors responsible for low productivity in SOEs are: absenteeism; lack of motivation; lack of effective supervision; general industrial unrest; inter-union rivalries; over staffing, lack of training for improvement of skills (Mathur, 1999). All these factors responsible for low productivity in general are applicable to MIFCO excepting for inter-union rivalry which does not come up simply due to the non-existence of multi unions.

Inventory Control: The primary objective of inventory control is to minimise idle time caused by shortages of raw materials and spare parts and to maximise customer service, and to keep down capital investment in inventories, inventory carrying cost and obsolescence losses. Inventories provide the business with flexibility of meeting varying demands of customers at reasonable costs by absorbing fluctuations in demand. The major problem with regard to control of inventories arises from the failure to recognise all costs associated with it. MIFCO has often had bottlenecks with suppliers of raw materials, i.e, the farmers on account of non payment. There has also been mentions of the high procurement cost of raw materials by the management which has hampered the procurement process. In addition, lower production rate has been accounted for lack of raw materials. Another disturbing information was the agitation of the farmers due to non-compliance of MIFCO of their prior commitment to buy their produce. On the other hand, there has been incidence where the raw materials has been reported as damaged due to prolonged storage. All such problems are due to lack of proper inventory control.

An instance to point out the problem is highlighted by the CAG report which had caused a loss of benefits to MIFCO that had been made available by the central government. The MOFPI launched the Backward Linkage Scheme under Plan Scheme during the Tenth Plan (2002-07) for a regular supply of processable variety of farm produce, to minimise wastage, make value addition, to avoid distress sale and to provide remunerative income to the farmers. According to the scheme, the processor was eligible for reimbursement from the MOFPI at 10 per cent of the total purchases made by him from the farmers in a year subject to maximum of Rs.10 lakh per annum for a maximum period of three years, subject to the condition that the processor should enter into a formal agreement with the farmers. MIFCO purchased during the period 2002 to 2007, raw material of fruits valuing Rs. 40.90 lakh under the scheme without entering into any formal agreement with farmers and therefore, failed to avail benefits under the scheme. The management stated that FJCP, Chhingchhip, being ongoing project, had been engaged in trial production only and as such the financial assistance from MOFPI was not availed of. The reply is not tenable as the SOE was entitled to benefits (Rs.4.09 lakh being 10 per cent of total purchases of Rs. 40.09 lakh) under the scheme since it was procuring fruits for production in its plant from the farmers.

Cost control: MIFCO had not adopted any rational policy for costing. It had not maintained proper daily production records of individual items which is essential for costing. The CAG audit scrutiny revealed that the prices were fixed below the cost of production. The management stated (March 2007) that prices are fixed after adding 10 to 20 per cent margin to the production cost. The reply is not tenable as the actual cost of production of various products during the period of review was much higher than the actual production value. Further, it is also not clear as to how the company arrived at production cost in the absence of proper daily production records of individual items. One of the most important aspects of production management is cutting down cost

of production. The objective of cost control is to economise effort and inputs in the production process, MIFCO thus requires an effective cost control system to achieve any measure of success.

IV. Conclusion

The CAG audit report on the review of the performance of MIFCO in 2007 had concluded that enterprise did not comply with the assurance given to COPU (Committee on Public Undertakings) for maximum utilisation of the plant and run its operations on sound financial principles. Abnormal low utilisation of capacity, poor performance in production and sales coupled with excess cost of products, manpower, absence of internal control, etc. characterize the functioning of the enterprise. There has been delay in completion of ongoing projects and it had not formulated marketing strategy for promotion of sales despite receipt of required funds from the GOI and State government. Being the Nodal Agency for the State, the company could not implement the Five Year Plan schemes of GOI for Food Processing Industries and also failed to promote development of private sector.

MIFCO as the only manufacturing unit amongst the State enterprises have indeed undergone a whole lot of scrutiny and it is unfortunate that the enterprise has been found to be highly ineffective and inefficient in its functioning in almost all aspects of its activities. The very fact that all projects ever undertaken have been either abandoned or delayed for long period with discrepancies in the utilisation of funds has made it clear that there are innate managerial inefficiencies. However, the reality that political intervention, government failure to release funds on time and negligence of parent department are some factors that has negatively impacted the state enterprises. A total makeover in every aspect is necessary to bring it to the level that it has been envisioned by its promoters and to serve its primary goal of benefiting the government and the agricultural community.

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Dr. Lalbiakzuali. "Production Management of Mizoram Food and Allied Industries Corporation Limited (MIFCO)." *IOSR Journal of Business and Management (IOSR-JBM)*, 23(06), 2021, pp. 22-27.