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diagram

**UNITED NATIONS INDUSTRIAL  
DEVELOPMENT ORGANISATION**

**INDUSTRIAL PRODUCTIVITY IMPROVEMENT**

SI/ SRL / 96 / 801

**RESTRUCTURING ASSISTANCE AND  
PRODUCTIVITY SURVEY  
SUBCONTRACT NO. 96 / 118P**

**DIAGNOSTIC REPORT  
UNI-TAG INDUSTRIES LIMITED**



**NATIONAL INSTITUTE OF BUSINESS  
MANAGEMENT  
120 / 5, WIJERAMA MAWATHA  
COLOMBO 7  
SRI LANKA**

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## **1.0 INTRODUCTION**

The National Institute of Business Management was selected by UNIDO to execute a subcontract on Enterprise Diagnostics for the enterprises participating in the Restructuring Assistance programme. The Restructuring Assistance programme is a part of the UNIDO project on Industrial Productivity Improvement SI/SRL/96/801.

This report was based on the findings of a team consultants who studied the important functions of this enterprise and its operating environment.

## 2.0 BACKGROUND

Uni-Tag Industries Limited was established as a private limited liability company in May 1979 to manufacture cloth woven labels to the garment industry. The company commenced production in 1980 with two shuttle looms of Japanese origin. The technology to operate the looms were obtained from the machine manufacturer who sent his personnel to Sri Lanka to train the local staff. In 1982 the company installed two more shuttle looms to meet the growing demand.

In 1984 the company changed over to advanced technology by introducing a needle loom. By 1993 it had installed 7 needle looms to meet the growing demand in the Sri Lankan market for woven labels.

In 1995 a Universal Labels (pvt.) Ltd. was formed as a company under the Board of Investment (BOI). It started production in April / May 1996. From the CEO's point of view the main propose to form this company as a BOI project was to take advantage of easy import procedures for raw materials. The main production facility of this company is the three "Rapier" electronic label making looms. These looms need's very little adjustments when changing over to different designs and also has a very high output since the knitting patterns are determined digitally by a CAD / CAM process and not by Jacquard as in the needle looms.

Mr. Bertie G. Kulatileke is the Managing Director and the CEO of these two companies. He started his carrier as an engineer and has worked in responsible positions in many prestigious enterprises.

Details of the Board of Directors are as follows:

NAME	STATUS	AREA OF ACTIVITY
KULATILEKE BERTIE G.	MANAGING DIRECTOR	ADMINISTRATION & FINACE
KULATILEKE MRS. I. D.	DIRECTOR (COMMERCIAL)	COMMERCIAL, MARKETING & PRODUCTION SCHEDULING
KULATILEKE R.	DIRECTOR	TRAINEE
DE SILVA A. N.	DIRECTOR	FACTORY MANAGEMNT

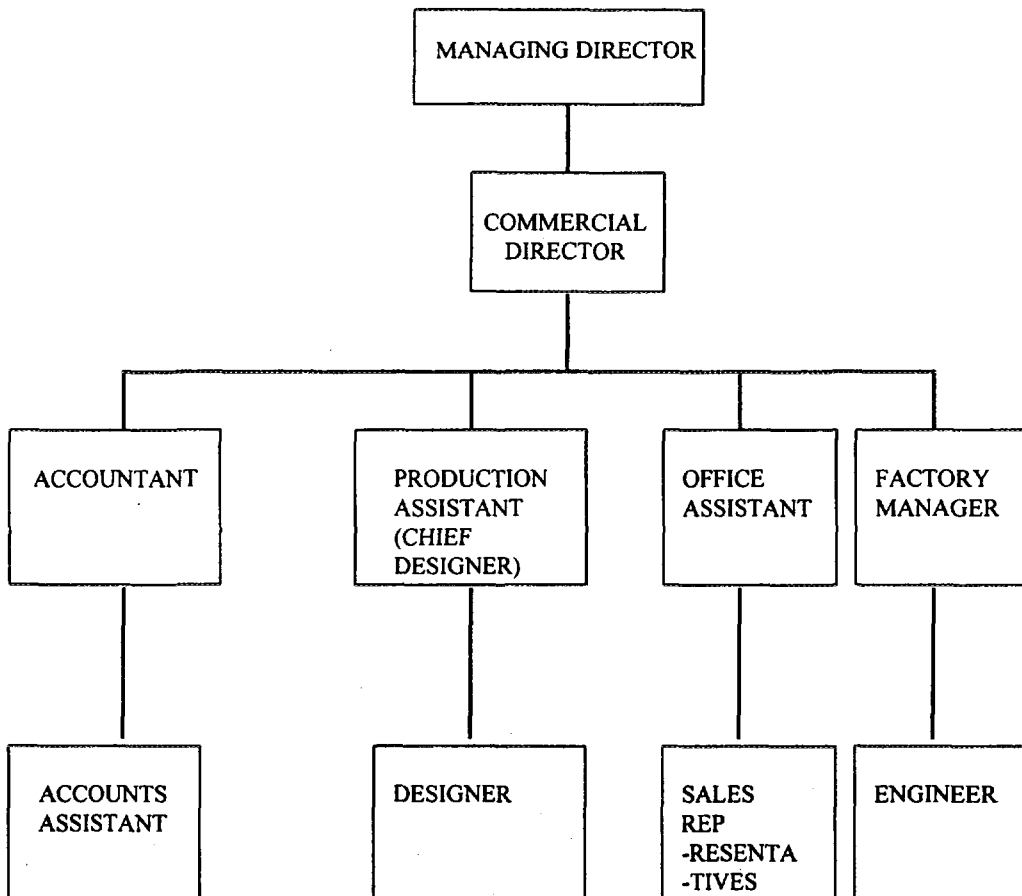
**DIAGNOSTIC REPORT - UNI-TAG INDUSTRIES LIMITED**  
**UNIDO SUBCONTRACT NO. 96 / 118P**

Past performance of Uni-Tag Industries Limited can be judged from the following data:

	1983	1990	1995
Approximate No. of Employees	7	25	45
Value of Sales (RS. MIL.)	1.19	2.52	6.64
Profits (RS. MIL.)	0.379	0.183	0.298
Total Capital Employed (RS. MIL.)	0.947	1.812	2.479

### 3.0 ORGANISATION STRUCTURE

The organisation structure of the enterprise is as follows:





#### 4.0 EMPLOYMENT DATA

#### 4.1 MANAGEMENT GRADES

A summary of the backgrounds of the management grades are as follows:

NAME	AGE	SEX	DESIGNATION	YRS. @ FIR M	OL	AL	DEGREE	OTHER ACADEMIC QUALIFICATIONS	TRAINING
A. N. DE SILVA	54	M	DIRECTOR / FACTORY MANAGER	3	6			CET. MEC. ENG.	METROLOGY & STANDARDISATION / REFREGIRATION
RANJAN FERNANDO	57	M	FINANCE MANAGER	>1	8			IFA (UK) FELLOW / CH. AC. INTER	ARTICLES
T. AMARASINGHE	26	M	PRODUCTIO N ASSISTAN T / CHIEF DESIGNER	5	8	4			LABLE MAKING HK.
N. DABARE	52	F	OFFICE ASSISTANT	>1	NA				STATE REGISTERED NURSE UK
MANJARI PERIS	32	F	ACCOUNTS ASSISTANT	1.5	8	4			AUDITING / COSTING / COMPUTING
A. BANDARANAYAKE	28	M	MAINTANAN CE ENGINEER	>1	8	4	BSc. ENG. MECH.		CIVIL BUILDINGS / MEC. WORKSHOP

This enterprise is a small in numbers employed and the background of the managers are in keeping with such enterprises.

#### 4.2 SKILLED, UNSKILLED AND CASUAL WORKERS

A breakdown of the above categories of workers are:

	Male	Female
Skilled Workers	5	15
Unskilled Workers	1	9
Casual Workers		
TOTAL	6	24

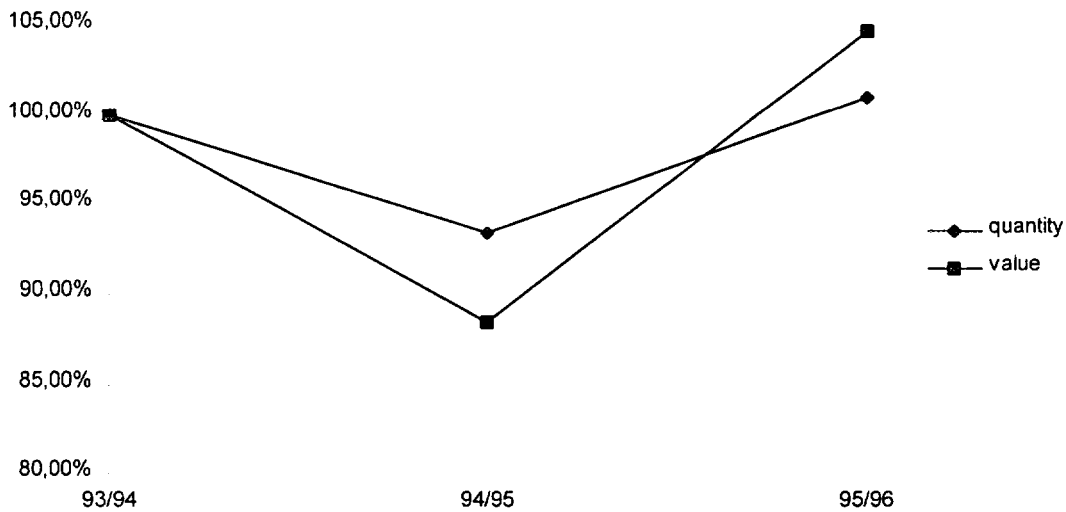
**5.0 PRODUCT AND PRODUCTION QUANTITIES**

The only product this enterprise manufacture is cloth woven labels for the garment industry. Two types of background materials taffeta and satin are used for the labels. This could be considered as the only major variation in the product.

Quantities and values of labels produced during the past three years are as follows:

1993 / 94		1994 / 95		1995 / 96	
Quantity	Value	Quantity	Value	Quantity	Value
9.434.200	Rs.7.519.828	8.811.900	Rs.6.645.127	9.528.750	Rs.7.869.950

**value and quantity as a % of 93/94**

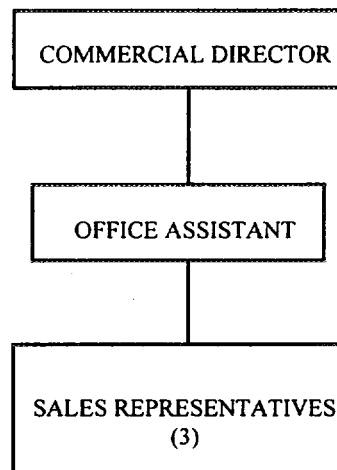


The changes in sales values, quantities and selling prices over the three years are not very significant. Production capacity of the recently installed machinery is not reflected in this figure.

## 6.0 MARKET, MARKETING ORGANISATION AND MARKET SHARE

### 6.1 MARKET AND MARKETING ORGANISATION

The demand for the products are mainly from the export oriented garment industries. The Director Commercial is responsible for the marketing function and the marketing organisation is as follows:



The above organisation is geared to canvas and execute orders from the local buying offices and factories. It has no capability to canvas orders directly from buyers. All significant buyers are located outside Sri Lanka.

Though the final user of the products are the garment factories the client who place the order for the label are often the buying offices which are the garment buyers agents in Sri Lanka. The initial specifications and design of the labels are done by the buyers. Sometimes the buying offices are given the authority to approve the label samples made by the manufacturer. Some buyers require the label to be sent to them for approval.

At any given time there are around 15 live orders out of a range of around 100 regular customers.

## 7.0 MARKET SHARE

There are eight factories that produce woven labels. Some of them are very small and their outputs are not very significant. Only 25% of the woven labels used by Sri Lankan exporters are produced locally and the rest are imported duty free from foreign suppliers. According to estimates of the Managing Director, Uni-Tag and Universal Labels have around 8% of the market share.

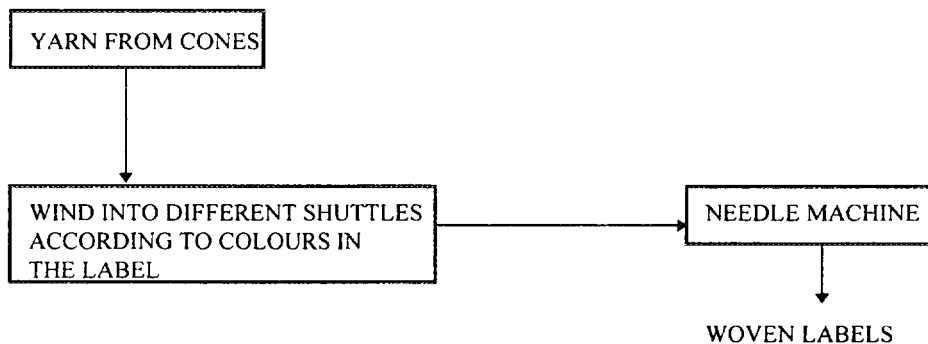
If the present capacity of the factory is to be fully utilised this enterprise will have to significantly expand their sales volumes.

## 7.0 PRODUCTION

### 7.1 PRODUCTION PROCESS

The shuttle type label looms are presently not in use. The four needle looms and the three newly installed electronic looms are used for production.

The outline of the production process of the single needle looms are as follows:



In the needle looms the design is punched into punch cards and these cards are used to obtain the design from the Jacquard mechanism.

In the case of the three computerised machines yarn is fed from cones straight into the machine and the required design on the labels are obtained. The designs are formatted digitally into a

diskette by using a Pentium with a special programme and a high RAM capacity. Then the design fed into the label making machine from the diskette via the digital reader attached to it.

## 7.2 COMPARISON OF SETTING TIMES AND PRODUCTION OUTPUT OF NEEDLE MACHINES AND "RAPIER" COMPUTERISED MACHINES

	SETTING TIME	PRODUCTION OUTPUT
NEEDLE MACHINE	1.5 Days to design, draw and punch the cards. 0.5 Days to set the machine Approximately two days to get a sample out	Approximately 2000 to 4000 standard labels per 7.5 Hr. shift. Depend on the loom type (Please refer capacity table)
"RAPIER" ELECTRONIC MACHINE	The design is done on a Pentium PC with a special programme. The design can be scanned into the computer by using digital scanner. The actual setting time of the label loom is 1 to 1.5 hours	Approximately 20,000 standard labels per 7.5 Hr. Shift.

The three electronic machines have low setting times and high outputs. In terms of technology they are considered to be the very latest in the market.

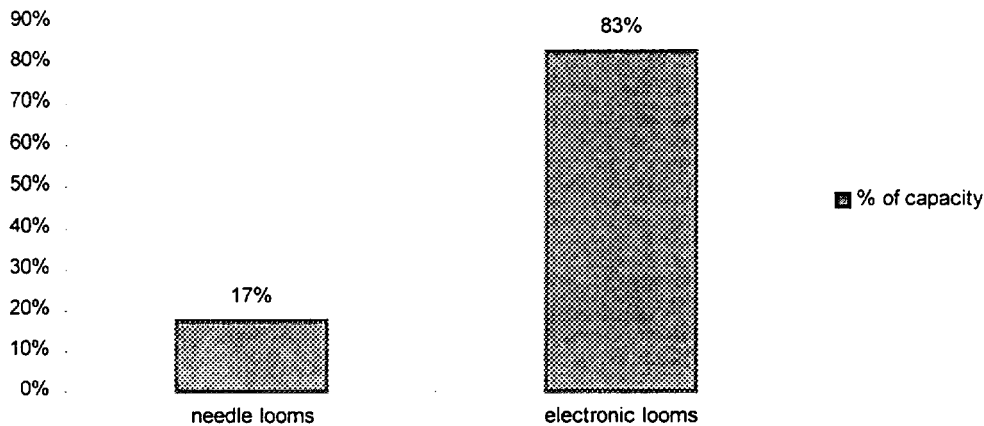
## 7.3 CAPACITY

The needle looms work an extended shift of twelve hours per day (6 a.m. to 6 p.m.). The electronic looms work two shifts.

The capacity data of the main production machinery are as follows:

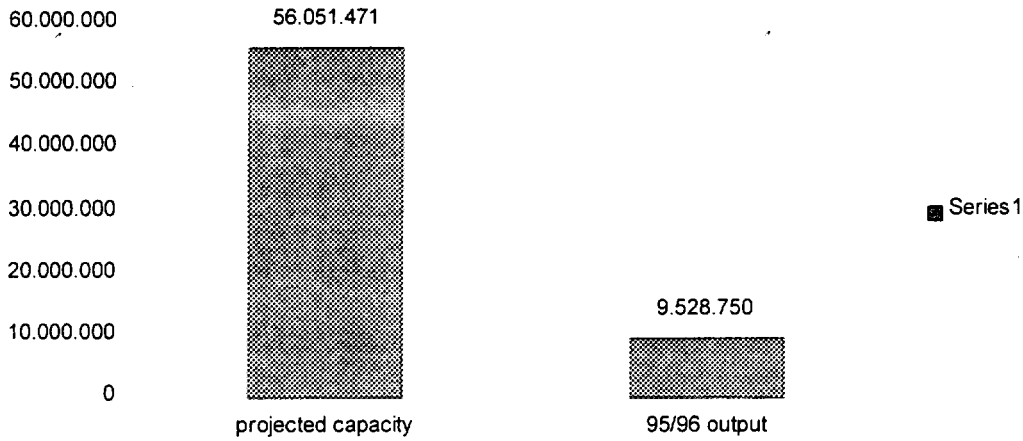
<b>MACHINE</b>	<b>RATED CAPACITY - PER 7.5 HR. SHIFT IN STANDARD LABELS</b>	<b>PLANNED CAPACITY</b>	<b>CURRENT UTILISATION AS A % OF RATED CAPACITY</b>
NEEDLE LOOM 8/34	3000	75%	>50%
NEEDLE LOOM 8/45	3500	75%	>50%
NEEDLE LOOM 12/30	4000	75%	>50%
NEEDLE LOOM 4/65	2000	75%	>50%
THREE "RAPIER" ELECTRONIC LOOMS	20.000	80%	80%

**capacity distribution between the loom types**



83% of the current capacity is from the three electronic looms. Approximating capacity figures to label outputs in 95/96 we can assume the current capacity to be 56,051,471 labels.

**comparison of 95/96 output with the current capacity**



Two out of the three electronic looms are loaded with taffeta warps and the other with a satin warp. The machine with the satin warp has less work than the taffeta warp.

**7.4 PRODUCTION PLANNING**

All labels produced by this enterprise is made to order. The Commercial Director decide on the production schedule based on customer requirements. Some times part orders are scheduled in order to optimise deliveries and avoid stock holding.

**7.5 RAW MATERIALS**

The main raw material is polyester yarn. Popular colours are kept in stock. The material quantities used in the past are as follows:

RAW MATERIAL	COST PER ANNUM	IMPORTED QTY IN KGS.	LOCAL QTY. IN KG.
POLYESTER YARN	Rs.1,200,000	4,225	525

## **7.6 STANDBY POWER GENERATING CAPACITY**

The standby generator is only capable of supplying power to the needle looms. Its capacity is not sufficient to meet the power needs of the computerised looms together with the support facilities required to operate these looms.



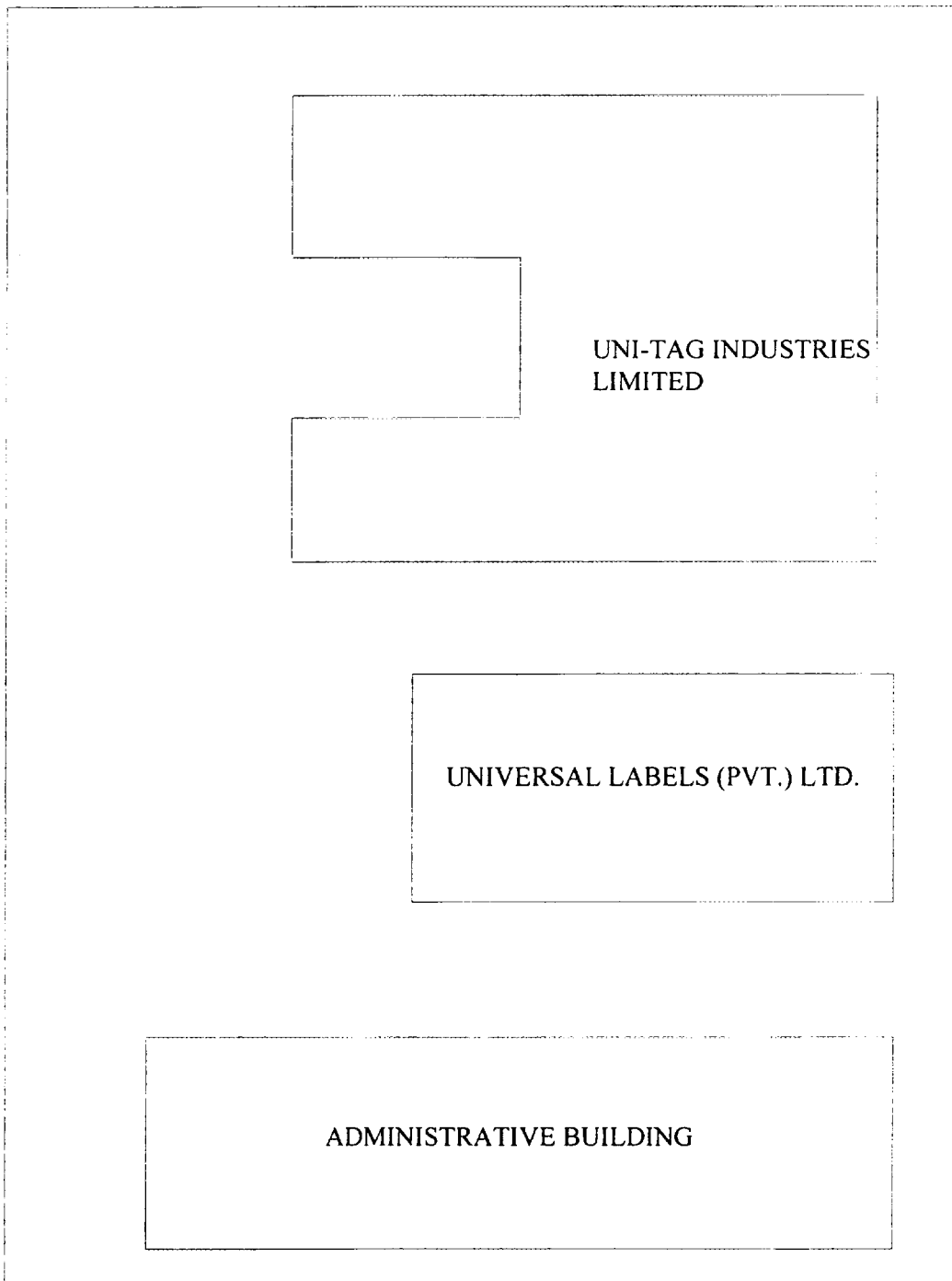
## 8.0 LOCATION OF PRODUCTION FACILITIES AND PLANT LAYOUT

### 8.1 LOCATION OF PRODUCTION FACILITIES

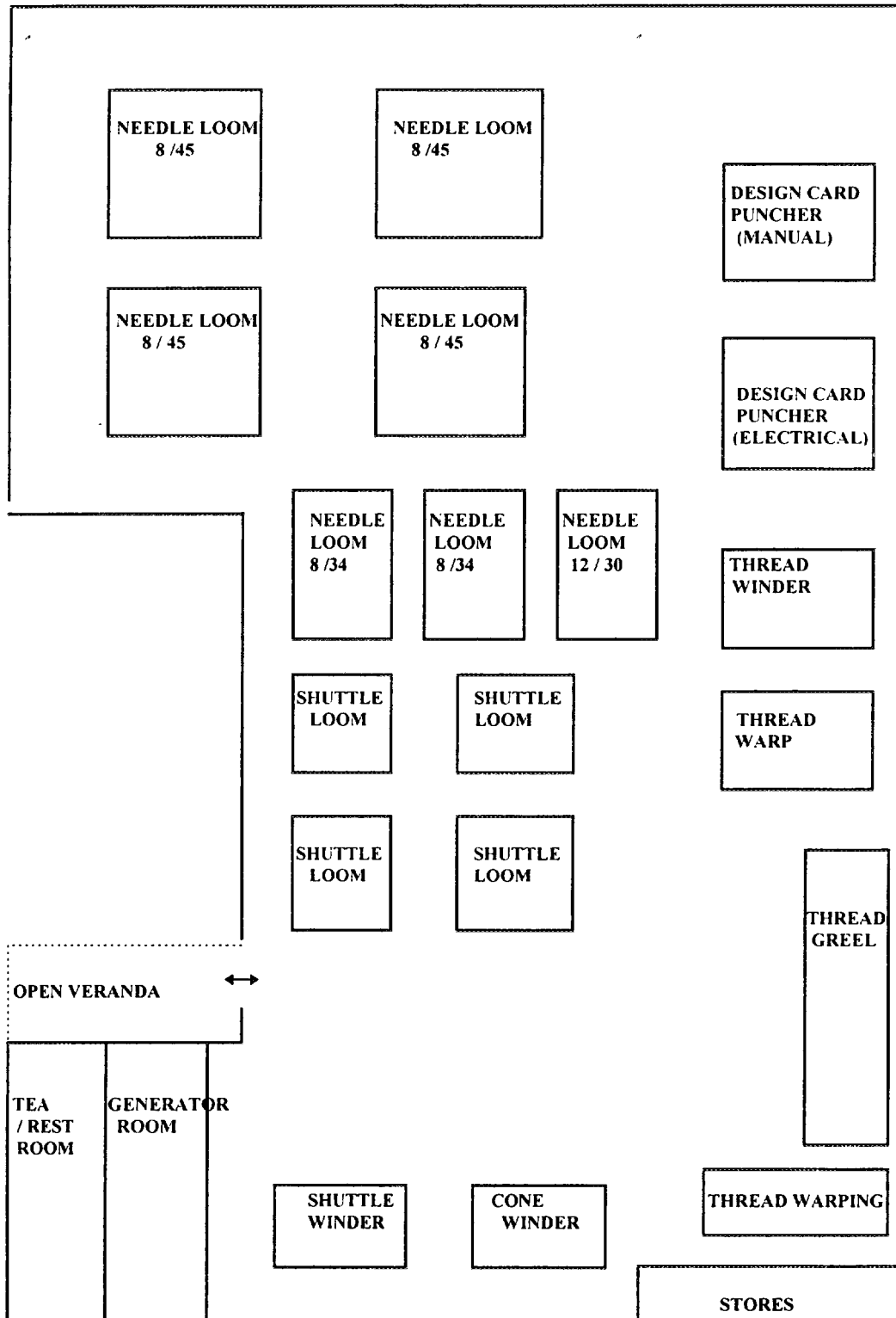
The production facilities are located in two buildings. The outline of the location of these facilities are as follows:

#### LOCATION OF PRODUCTION FACILITIES

(NOT TO SCALE)



**ACTORY LAYOUT**  
**UNI-TAG INDUSTRIES LIMITED**  
(NOT TO SCALE)



## 9.0 COMPUTER USAGE

The type of CPU's used and their locations are as follows:

TYPE OF CPU	LOCATION
286 SX	OFFICE
386 DX 33	OFFICE
586 PETIUM	OFFICE

The CAD / CAM software used for label design was developed by an outside organisation located in Hong Kong.

Standard word-processing and spread sheet packages are used for routine functions

The enterprise has the capability to do any modifications to the software in currently used by them.

The routine outputs obtained are as follows:

### ROUTINE OUTPUTS

SALARIES

ACCOUNTS

STOCKS

## **10.0 CONCLUSIONS**

### **10.1 GENERAL MANAGEMENT FUNCTIONS AND THE TECHNICAL ORGANISATION**

The general management functions and the technical functions are well organised and is capable of coping with changes that might have to be made with production increases.

### **10.2 MARKETING ORGANISATION**

The marketing organisation has been set-up to handle the requirements of the factories and buying offices located in Sri Lanka.

If the volumes marketed are to be increased to match the production capacity the marketing organisation will have to be changed to deal with foreign buyers and foreign markets.

### **10.3 MARKETING STRATEGY**

The present strategy is to obtain orders for the products from buying houses located in Sri Lanka and from export oriented factories. If the available capacity is to be utilised production volumes have to be increased by 480%.

The total market share enjoyed by the Sri Lankan woven label manufacturers is only 25% of the total demand.

The Sri Lankan buying offices and the factories has very little control over the portion of the demand (i.e. 75%) supplied from abroad. This control is mainly with the foreign buyers and the central buying offices located in USA, Europe and Far East (i.e. Hong Kong).

## 11.0 RECOMMENDATIONS

1. Considering the limited decision making powers of the local clients this enterprise will have to take immediate steps to canvas orders from clients located outside Sri Lanka.
2. If the production capacity is to be satisfactorily filled the enterprise will have to give preference to long batch runs. Considering this feature when canvassing orders from foreign buyers attempts should be made to obtain orders for their total requirement of labels without confining to the Sri Lankan requirements.
3. The marketing organisation will have to be changed to enable it to canvas orders from buyers and buying houses located outside Sri Lanka.

## 12.0 FINANCIAL REVIEW

### 12.1 FINANCIAL PERFORMANCE

With the installation of the new machinery for Universal Labels Ltd. the entire scope of operations would need to change. In this context, the factors which have a bearing on finance may be identified as:

1. The drastic increase in production capacity which is more than eight times the former capacity for manufacture of labels, using the machinery operated by Unitag.
2. The investment in new machinery which has resulted in a large increase in borrowing. The Long term loans which were Rs. 703,836 as at 31st March '96 as indicated in the accounts of Unitag has increased by Rs.23.5 Mn., taking into consideration, Universal Labels Ltd.
3. Sales have shown an increasing trend from August '96 with a peak being reached in December '96 when Universal Labels recorded sales of \$31,285 or Rs.1.720 mn. approximately.

The performance of the company has been fairly flat, with sales in the region of Rs.6.6 mn. to 7.5 mn. during the past 3 years. Modest profits were evident, except in 1995/96 when a loss of Rs.131,635 was indicated. The Salient features pertaining to the performance of the company, during the past 3 years could be considered to be the following:

1. Sales were virtually stagnant.
2. The gross margin was quite satisfactory being in the region of 38% to 46%.
3. Unlike in most industries the material content in the total cost was not very high, being in the region of 16.7% in 1994/95 and 25% in 1995/96.
4. The administration costs were high being 32.8% of sales in 1995/96.

In general the staff remuneration component is high.

In the light of the new developments, the past performance would have little bearing on future operations, other than to arrive at certain financial ratios of expected performance. We have resorted to deriving this information, in the absence of complete data in the Finance Section.

With the necessity to service a much higher component of finance costs - after absorbing the direct costs and overheads - the company would need to set new targets for sales. Therefore it becomes imperative for the company to prepare a Cash Forecast along with a Profitability Forecast possibly for 2 years. As at the moment such information is not available we have made certain estimates, making use of past information.

On this basis the break-even point at the outset has been computed as follows:

**Estimated expenditure for a month**

	Rs.'000
Fixed Overheads (including salaries of factory)	275
Selling and distribution	60
Financial expenses	<u>425</u>
	<u>760</u>
Depreciation	380

Assuming a margin of 45%, the break-even point is Rs. 2.533 mn. per month.

If depreciation is not taken into account, giving emphasis to the Cash Flow, the break even could be considered as Rs 2.244 mn. per month. This takes into account the monthly loan installment of Rs.250,000 approx.

It should however be borne in mind that the interest component would reduce progressively in keeping with the loan repayments.

## **12.2 ORGANISATION AND MANAGEMENT OF THE FINANCE SECTION**

### **12.2.1 FINDINGS**

#### **12.2.1.1 STAFFING**

The section is under the supervision of a Finance Manager who is supported by an Accountant.

The Finance Manager has passed the intermediate examination of the Institute of Chartered Accountants of Sri-Lanka in 1966 and has 19 years experience as an executive in an accounting related environment.

The Accountant is a graduate in Accounting and has 3 years experience in Accounting / Auditing , of which about 2 years has in training.

The Book keeping functions of the company was being done by an Accounts Assistant who had certain qualifications as a Book keeper and over 6 years experience. She has left the firm recently.

At present the accounting functions are carried out by 4 persons, whose functions are mixed as they also handle non accounting duties. Their knowledge and experience of Accounting work is limited. In the case of some it is virtually 'nil'.

At the time of our visit to the Company the Finance Manager (FM) was on leave for about 3 weeks, after an accident . The Accountant was acting in place of the F.M.

#### **12.1.2 FINANCIAL MANAGEMENT**

The basic accounting operations were said to be closely supervised. The receipting and banking of money was supervised by the Finance Manager / Accountant and payments were also closely administered. In the case of Payments, the Directors too supervise this aspect with the authority to sign cheques being confined to them.

With regard to other aspects such as Purchasing, Stock Controls the Finance Section executives and the Directors were closely involved and carrying out a direct supervisory role.



The presentation of formal accounting information, in a regular manner was absent, except for the Annual Accounts. However information on sales , production, stocks, debtors, etc are available though not analysed. Profit and Loss Accounts and Cash Flows are not prepared on a monthly or quarterly basis.

The accounting records such as Cash Books, Ledgers are being maintained throughout, though such records have fallen into some arrears, after the departure of the Assistant Accountant.

The company is planning to computerise the Accounting functions by the use of a standard package. It was explained that at the outset the main task of the Accountant was to implement the computerisation scheme in respect of the Financial Accounting functions. This has been suspended, after the Accountant took over certain responsibilities being performed by the Finance Manager, as a consequence of the latter's absence.

As regards the fund management function, this aspect is not being done in a formal manner in the absence of Cash Flow Statements.

### **12.2.2 CONCLUSIONS**

1. The company has in the past being operating at an 'Entrepreneurial' level. In such a scenario the expectations of a Finance section are mainly confined to the maintenance of records. The control aspect is the responsibility of the owners with the organisation being highly centralised.

With the installation of the new equipment which is under Universal Labels Ltd., there has been a change. Increased production capacity implies expansion of all activities. There is bound to be a break away from the system of closely centralized control because of constraints of time arising from the heavier and more complex work patterns.

The Directors would of necessity have to delegate their duties and responsibilities. As a consequence internal controls would have a new dimension. There would be an increased responsibility for the Finance Section to be actively involved in Financial Management without being confined to performing book keeping functions.

Proper staffing, accounting procedures, accounting information are basic requirements for a firm which would be expected to reach the production / sales levels to finance the costs of production, maintenance as well as the costs of funding.

Borrowing has escalated six fold - on a conservative estimate - by the beginning of the financial year 1996/97, when compared to the previous year.

2. The head of the Finance section should also possess sufficient experience to instal and implement accounting procedures which would provide adequate control. This would follow on the need to delegate authority and responsibility arising from the probability of the Directors having to devote more time for other functions and thereby possibly not being directly involved in accounting functions.
3. In the absence of knowledgeable/ experienced staff in the Finance section, an intensive training programme is an option open to the management.

There is apparently the absence of laid down duties for the subordinate staff. This could lead to essential work being not attended to and a weakness in the control system.

4. Computerisation of the accounts would need to be given priority, once proper arrangements are made with regard to the staffing of management grades.

With a proper system of computerisation the Finance Section should be able to present regular Management Accounts, improve the fund management function and also establish better financial controls.

5. It would be in the interest of the company to recruit personnel with at least a basic knowledge and experience of accounting, when replacing the existing staff.

A careful evaluation of the accounting duties is essential before recruitment of any further staff.

## **12.3 COSTING SYSTEM**

### **12.3.1 FINDINGS**

A separate Cost Sheet is prepared by the Accountant for each order placed by a customer. The materials, labour and overheads which are likely to be utilised are costed. Quotations are based on such cost estimates.

There is no system for arriving at the actual cost of products manufactured.

However the Accountant informed us that it is intended to install such a system in the future, when the staffing problems are straightened out.

### **12.3.2 CONCLUSIONS**

The absence of a system of appraising actual cost leaves, the company in a vulnerable position. In a competitive environment and in circumstances where promotion of sales would be of paramount importance, a company which is equipped with reliable Cost data would have a distinct advantage. Of particular advantage would be the capability of deciding on a competitive price.

## **12.4 RECOMMENDATIONS**

1. The company should give the utmost priority to the task of preparing a financial forecast. The projected Profit and Loss Account and Cash Forecast for 3 years is vital in order to assess the direction in which the company should move in the future.

For this purpose the limiting factors should be identified in the first instance. Depending on this information a careful assessment would need to be made of the market at present and the future. The entire future of the company would depend on these factors and therefore accuracy of the appraisal should be uppermost in the minds of those undertaking the task.

Dependent on the forecast, the company would need to develop a strategy to achieve the objects which are required to be fulfilled.

The plan should therefore encompass all aspects, such as the market, production capacity, financing, staffing and other logistical requirements.

2. In future the company should recruit persons with suitable qualifications / experience to the subordinate grades of the Accounts Section.

As at the moment the staff are very much short of knowledge / experience, a concerted training programme is a necessity. This training could be done 'in house' or 'on the job', by setting aside a few hours for such a purpose.

3. The systems and procedures should be documented so that the staff would be able to follow certain guidelines.

Simultaneously the staff duties should be specified and made known to them, so that at some stage there would not be any ambiguity regarding responsibilities for the different accounting functions. This would also strengthen controls.

4. The head of the finance section should have the ability to guide the staff and ensure implementation of standards, systems and controls pertaining to Financial Management.

In the absence of experience in such a capacity, the Head of Finance should also be sent on short training courses.

In the alternative a Financial Consultant may be employed for a short term, in order to bring the 'Finance Management' operations to an acceptable standard. Once a certain standard is reached it would only need to be administered along the lines laid down.

5. The company should give priority to the computerisation of the financial accounting functions as the hardware is available.

Training of the staff in this direction would also be a requisite.

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6. The design and implementation of a system of Costing is essential for the company in order to make decisions which have a bearing on the market requirements. A specific programme and action plan should be drawn for this purpose.
  
7. The company should endeavour to keep a close check of Administrative expenses, which are in the main, controllable.

□

The team of consultants engaged in the preparation of this Background Dossier were:

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Mr. Lal Nanayakkara

Mr. Metsiri Weerakkody

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke at the bottom.

**NANDA MEEGAHAWATTE**

**MANAGEMENT CONSULTANT  
NATIONAL INSTITUTE OF BUSINESS MANAGEMENT**

□