TEA PROCESSING EFFICIANCY: A CASE STUDY CONDUCTED AT MALWATTE VALLEY PLANTATION LIMITED

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Tea sub sector is an important component of the Sri Lankan economy and its contribution to GDP was 1.2 percent in 2008. Efficiency in tea processing is one factor that contributes to the profitability in tea industry and thus, this study attempted to quantify contributions of different factors of tea processing at the factory level and to estimate the technical and allocative efficiencies in tea processing of the Malwatta Valley Plantation Company. The data used in this study were obtained from official document maintained by the factories belongs to the company and the analytical framework used were simple budgeting, OLS and Maximum Likelihood estimates of the Stochastic Frontiers.

Results of the budgetary analysis indicated that cost of production of one kilogram of tea is Rs 354.89. Returns to energy, labor, packing materials, capital and transportation used are 41.3, 33.6, 9.4, 9.2 and 4.8 percent at the factory level respectively. A cobb-douglas form of function was used to explain the process of tea processing. Study revealed that energy cost and labor have significant impacts on tea processing. The minimum and maximum technical efficiencies estimated are 61 and 97 percent respectively and the mean technical efficiency is 87 percent. This indicates that there prevails a potential to improve the technical efficiency by 13 percent in average. All three independent variables have allocated efficiently. According to the results of the budgetary analysis, labor, energy and capital have used efficiently. Allocative efficiencies of labor, energy and capital are in par with the results of the budgetary analysis. However there prevail potentials to increase allocative efficiencies further. In general company's technical efficiency is higher than the maximum level of technical efficiency calculated by Jayathilaka(2006) for the whole tea sector in Sri Lanka . Based on the results it is possible to state that the company can take steps to raise technical efficiencies in tea processing of the factories of which technical efficiencies are low.

Keywords: Technical efficiency, Allocative efficiency, Resource use efficiency, Tea processing