GLOBALISATION AND SMALL INDUSTRY FAILURES

S.F.Chandra Sekhar

Abstract: the number of small industry failure in our country is growing at an alarming rate. More than 1000 new ssi's are started each day in our country but approximately, 900 of these firms eventually fail. SSIs, although les conspicuous than the corporate giants, are a vital component of our economy. Approximately, 90% of all businesses in India are small and provide jobs for about 50% of the workforce. As part of the business community, they unquestionably contribute to our nation's economic welfare. There are various reasons for their failures. Tweleve basic rules, if followed, this sector of business could recover and withstand the onslaught of globalisation. All these issues are addressed in this paper.

Introduction

The impact of globalization is strongly felt in all sectors and types of business in our country. Many have benefited and some have become victims of it. One such victim is the small-scale industrial sector.

Much attention has been given in recent years to the high incidence of small-scale industries failure in the country. This paper addresses the problem with some basic rules, which, if followed, should reduce the high incidence of sickness/failures among small business. While many experts have looked at the specific reasons why particular companies fail, few have suggested practical procedures to facilitate growth and development of small industries and to prevent their decline and death. Twelve basic rules are defined which serve this crucial function.

By the way, who is entrepreneur? The word "entrepreneur" is used with increasing frequency in the literature of commerce, business and economics. What does it really mean? The more one examines this question, the more it seems that it means different things to different people. If true, this suggests the existence of a serious communications problem among students of the subject.

To Schumpeter (1961), the entrepreneur was an innovator. It was he who created the "new combinations", the new products, processes and organizational forms, through which economic progress occurs. Schumpeter, saw in the entrepreneur the very heart of the competitive process and so seriously did he take the entrepreneur's role that in its decline with the rise of a professional managerial class he saw the end of capitalism itself.

S.F.Chandra Sekhar is faculty member at Siva Sivani Institute of Management, Komapally, Via.Hakeempet, Secunderabad 500 014.

BACKGROUND

The failure rate of small businesses fluctuates from year to year with changes in general economic conditions and other factors. Table 1 shows the number of SSI units, year wise. Table 2 below depicts the percentage of business failure.

An examination of fluctuations in the rate of failure reveals that the rate within this decade is significantly lower and gradually falling. The failure rate reached its highest point in the subsequent years.

National attention was focused on the role and importance of small business by the 1985 when Development Commissioner, SSI.GOI, conducted a diagnostic survey. Small businesses produce a substantial portion of our total goods and services; therefore, they must be encouraged to flourish and expand. To a great extent the success of any campaign for the renewal of Indian enterprise rests on this sector of the economy because of its special role in technological innovation, the creation of jobs, and growth outside the high-tech area.

The business community, together with the public sector, should be working harder to identify the problems and to provide direction for small business. Specifically, we should be focusing on the basic tenets by which small business can improve its management strategies, capital formation, and job training. All of these factors must be addressed if we are to take advantage of what has been traditionally the most creative and dynamic sector of Indian enterprise. Thus, we could see the growth of SSIs in our country over a decade from table 1. It is evident from the table that the growth of this industry has been gradually increasing over the period after 1988 on wards.

Table 1: Distribution of SSIs Year-wise

Sno	Year	No of units
1	85-86	13.55
2	86-87	14.76
3	87-88	15.76
4	88-89	17.01
5	91-92	20.82
6	92-93	22.46
7	93-94	23.84
8	94-95	25.71

Causes Of Failure

Aside from the relatively few cases of fraud, neglect, and disaster, the major root cause of
Business failure is found in managerial incapacity. The weakness of management manifests itself in various ways, which are addressed in the twelve basic rules.

The indictment of managers is supported by the extensive analysis of business failures conducted by various researches. Consider, for example, their analysis of reasons for the failures that occurred in 1974, as shown in Table 2.

TABLE 2: Causes For Failure

Sno	Causes of failure	Percentage
1	Incompetence	41
2	Unbalance experiences	22
3	Inexperience in line	16
4	Inexperience in management	14
5	Neglect	2
6	Fraud	1
7	Disaster	1
8	Unknown reasons	3

Sources: Dun & Bradstreet Data, quoted in SEDMI, 1992.

What are the cases for such sickness of SSUs in our country?

Table 3: causes of sickness of SSI

Sno	Causes	% Suffering from sickness
1	Marketing problems	14.3
2	Non-availability of materials	18.1
3	Shortage of working cap	149
4	Labour trouble	6.8
5	Shortage of power & resources	14.9
6	Faulty/obsolete technolo	3.1
7	High rate of taxes	3.1
8	Transport bottlenecks	0.0
9	Personal factors	5.0
10	Others	19.8

The causes of a company's problems will determine, in part, whether or not it can survive, and the type of outside professional services that it may need. Patrick F. Dolan, in his article "A Four- Phased Rescue Plan for Today's Troubled Companies" [3], has suggested the following major causes of the large number of business failures in the United States from 1980 to the present:

- Bad management
- A change in Federal Reserve policy
- Appreciation of the U.S. dollar the Domino effect
- High interest rates.

Although some of the causes are uncontrollable by the entrepreneur or manager of small business, "management" - the number one problem of the enterprise - can be improved. The competent manager utilizes his/her time judiciously and gives proper attention to the various management functions. This includes careful consideration to production and inventory control, product/service quality, customer and public relations, financial planning, employee relations, pricing and selling, along with other key factors. Ways of dealing with these aspects of the business will be explained in the statement and description of the twelve basic rules.

TABLE 4: CAUSES OF FAILURES IN 1979

Sno	Causes	Percentage
1	Neglect	1.1
2	Fraud	0.6
3	Inexperience, incompetence	91.9
4	Inadequate sales	52.3
5	Heavy operating expenses	28.9
6	Receivables difficulties	9.8
7	Inventory difficulties	9.2
8	Excessive fixed assets	3.1
9	Poor location	2.2
10	Competitive weakness	26.2
11	Other	1.7
12	Disaster	0.6
13	Reason unknown	5.8

Source: The Dun & Bradstreet Business Failure Record (New York: Dun & Bradstreet, Inc., 1981), pp. 12-13.

The Basic Rules

Rule 1. Management's first responsibility is to develop a master plan to guide the business, a basic plan for the start-up period plus one year.

The cornerstone of business success and growth, and in some instances mere survival, is planning. A frequently overlooked critical issue is that of the specific relevance of the planning concept to small business. Does planning have any useful application for this large but often ignored group, and, if so, how and by what means?

While much has been written about planning concepts over the years, there still exists much confusion about the process. The planning process can be conducted on two levels. The first level is that of strategic planning, which defines the future general direction and purpose of a company. Certain criteria are established which are called objectives. The second level is that of tactical planning, which is much shorter-term and focuses on the specific processes used to achieve the primary plan. While it may be possible to have a loose strategic plan without tactical backup and still achieve some results, the converse is not true. Experience has shown that over the long run no tactical plan can be successful unless it has a strategic plan to back it up and give it purpose.

So what does planning do? According to Ernest Dale [2] planning (1) establishes objectives, (2) sets priorities, (3) validates objectives, (4) converts activity into results, (5) increases productivity, and (6) provides higher quality overall results. A strategic plan must be continuously reviewed and updated based on current information and facts.

Rule 2. Fill a known need or known requirement for a product or service (don't guess or wish – be sure).

Using objectives that are relevant and fit the needs of a changing economy and a dynamic environment will give a firm a resource by which to attain success. The definition of purpose provides, also, a greater clarity of exact resource requirements. In any small business resources are usually meager at best. Having a goal that fills a known need facilitates the proper utilization of scarce and valued resources, particularly in the areas of capital and personnel.[4]

What is required is to define a product market in a unique way in order to create an opportunity to develop an array of capabilities that afford a significant competitive advantage in that particular segment. Market targeting, preparing for target changes as well as product changes, and meeting the changes in a timely manner, are crucial aspect of this rule.

In almost every industry there are opportunities for a company to differentiate one particular strategy from those of competitors and to build superior resources for filling its unique role. What is required is imagination and creativity in defining a business segment in a new way.[5] If there is no need to be filled doesn’t imagine one. Find another real and actual need and fill it.

Rule 3. Have on hand or readily available a source of adequate financing to correspond to twice the projected loss period plus one year.

Understanding cash flow within a business is vital to an understanding of the liquidity objective. In the typical small business sales are seasonal to some degree. As a result cash on hand will sometimes be inadequate. Analysis of the firm's cash flow will point up the need to arrange additional financing before cash is exhausted.

The entrepreneur's cash may well be the most significant, if not the only source available to many starting ventures. Other personal resources include bank loans against collateral. A myriad of businesses are financed from the personal resources and borrowings of the entrepreneur. This financing must be arranged before the business is launched.

Rule 4. Research the market to get facts, not opinions - and have a market plan for each month of the start-up period plus one year.

The environment in which the small company must stay alive changes continually under the impact of technical, social, legislative, and competitive forces. The character of markets changes in response. In small business managers should become thoroughly familiar with the situation of the market segment they expect to penetrate. They must understand in detail the competitive, technical, financial, and legal constraints applicable to the intended product or service.

The development of new products for new markets requires invention and innovation. Opportunities abound for identifying new needs for new markets. Growth and change generate these needs, and filling a need in turn creates change that stimulates growth. This requires knowledge of the market and future trends. Managers should be flexible enough to meet any market change and do it promptly.

Rule 5. Prepare a profit and loss statement, a balance sheet, and a statement of cash flow for each month of the start-up period plus one year.

The small business enterprise employs its resources in the attempt to generate a surplus. Its effectiveness in this regard can be judged best on a regularly scheduled basis with an analysis of its financial statements. These are timely and disclose the firm's general financial condition, its liquidity, its profitability, and its effectiveness in the use of financial resources; then corrective action can be taken if necessary.

No small business manager should neglect or do without a definite periodic comparative analysis of balance sheets, profit and loss statements, and cash flow statements, since these are the fundamental means of financial measurement and control. The comparison of financial statements of different periods provides insight about trends and any needed changes. A systematic and periodic analysis of the financial statements pinpoints problems requiring positive corrective action and provides a good basis for management decisions in all functional areas.

Rule 6. Select an advisory board of experienced, knowledgeable associates at the very beginning to advise and approve all activities, plans, and reports (these associates need not be friends).

One very important consideration, too often given very little attention, is the composition of the board of advisors or directors. A small, closely held corporation usually has on its board the principal shareholder, wife, or husband, or other relative, and usually no experienced advisors. Such a board is too often assembled without thought of its responsibilities and the impact of its decisions on the welfare of the firm.

Boards may be classified as inside or outside - or, a combination of the two depending upon whether the majority of directors are selected from within the ranks of the enterprise or from persons outside the company. Outside directors can use independent judgment to chart a course of action for the company. They are not concerned about losing their positions if they should disagree with the chief executive officer. Managers need expert advice, not friendly agreement or family domination.

Rule 7. Hire only the employees who are best qualified for their specific duties, and keep the number to a minimum according to the needs of the company. Make a monthly chart of needs for start-up plus one year.

The hiring decision is one of the major influences toward the likelihood that a firm can survive.
Four issues that are important in the selection and treatment of employees are:

- recruit innovative people
- provide opportunity for advancement and diversity
- limit rules
- provide suitable reward systems (i.e., yearly bonuses if feasible).

Selecting qualified, creative applicants improves the likelihood that the firm will have the potential to survive crises and difficult times.

In tandem with strategic planning, the firm's human resources plan should be reviewed continually and on a regular schedule, to ensure that sound organizational planning supports strategic plans. Understaffing is better than overstaffing, creating an impetus to over-achieve followed by appropriate rewards for the extra effort.

Rule 8. Don't panic or become over confident because of losses or unexpected profits. Rework plans for at least a year in advance.

The first task of the manager is to be sure that the company stays in business during the short term so that there will be a long term. Staying in business involves two major activities – maintaining strict control of cash, and reemploying earned profits. But small business leaders should not make the mistake of placing top priority on profits. To survive in turbulent times, the company can sustain losses provided there is adequate cash flow. But the reverse - profits but no cash flow - spells disaster. Therefore, it is important to maintain a manageable debt level and to repay bank debt obligations as they come due. Reinvesting profits to reduce cost, improve quality and service, add new products, and expand market share insures continued life of the company into the long term.

Rule 9. Make a rolling forecast of costs, sales, losses and profits; one year, two years, three years, four years, and five years. As a year is added, one should be dropped; always be out in front five years. Then base first year by month to month for twelve months. As a month is added, drop a month. Always be out in front by twelve months in the base first years.

Companies can often reduce uncertainty and behave in a logical, rational manner by developing accurate forecasting capabilities. To the degree that environmental fluctuations can be predicted, they can be treated as constraints and adapted to accordingly. The primary costs associated with forecasting, besides those entailed in its implementation, are a consequence of inaccurately predicting demands for goods and services. Forecasting must become a way of life. Comparing the forecast with actual results forces change and continuous improvement in operations. Without accurate forecasts and a measure of results, the company is doomed to failure. For example, the income loss resulting from underestimating demand can be just as serious a problem
as the expenses resulting from overestimating demand.[1]

Rule 10. Listen to and seek employees' ideas, knowledge, and help to improve the areas in which they can help and to which they can contribute.

Managers need all the help that they can get from the advisors and employees. But - the manager must make and be responsible for the final decisions which must be based on fact, not fiction.

The manager can effectively influence his/her employees toward greater company viability and improved productivity by using the following methods:

- fully and completely train the employees

- interact frequently with employees
- share information in a transactional relationship
- try to be open about problems
- implement as many feasible suggestions made by employees as is possible (It is important for everyone to feel involved in the whole company as long as they are inspired to do so intelligently.)
- as a last resort, appeal through the hierarchy and establish rules for performance.

The employees are the company's most important asset; use them effectively.

Rule 11. Set maximum inventory controls. Approach "just in time" inventory as close as possible. Work at it to hit "just in time."

A major objective of inventory control is to minimize inventory costs. Primarily, managers are faced with two related inventory problems: (1) What quantity should be purchased when an order is placed? and (2) When should an order be placed in relation to existing inventory levels? Costs can be reduced, and service and quality can be improved by proper selection of vendors. Work with them on a long term basis; seek their help and advice in reducing inventory without having stockouts. By proper replacement scheduling, quantity purchases for price are not always profitable because of the carrying costs. Managers should be loyal to suppliers in the same manner that they seek customer loyalty.

Rule 12. Set high quality standards. Approach "Zero defects" in product and service as closely as possible. Work diligently toward a goal of "Zero defects.

Quality control is a major consideration of all firms offering a product or service to customers. To most costumers, of course, quality is a relative matter in terms of the price that they are willing to pay. Even here, however, the customer still expects the best possible performance. Customers have learned to expect quality regardless of price. No one wants problem products, so eliminate them from the inventory on hand in order to avoid customer dissatisfaction.

Conclusion

It is said that “success is a journey and not a destination”. An entrepreneur’s success as a designation can be achieved through the journey made possible by the manager. There is a need for greater coordination between both the entrepreneur and the manager on a continual basis. Periodically, scientific analysis needs to be made by both of them. Infact, when two hands meet together, greater applause for the SSI’s in these times of fierce competition presented by the market friendly economy. I prescribe these twelve rules for greater future of the SSIs, their owners and their posterity while withstanding the onslaught of the globalisation.

REFERENCES

[1] Bedeian, Arthur, Organizations: Theory and Analysis (New York)

[2] Dale, Ernest, Management: Theory and Practice (New York: McGraw-Hill, 1973).

[3] Dolan, Patrick F., "A Four-Phased Rescue Plan for Today's Troubled Companies," The Journal of Business Strategy, Vol. 4, No. 1, Summer, 1983.

[4] Drucker, Peter, Managing for Results (New York: Harper & Row, 1964).

[5] Lauenstein, Milton, "Keeping Your Corporate Strategy on Track," Journal of Business Strategy, Vol. 2, No. 1, Summer 1981.

[6] Manz, Charles C. and Charles A. Snyder, "How resourceful entrepreneurs meet business challenges... and survive," Management Review, October 1983.

[7] Van de Ven, Andrew, Roger Hudson, and Dean Schroeder, "Designing New Business Startups: Entrepreneurial, Organizational, and Ecological Considerations," Journal of Management, 1984, Vol. 10, No. 1.