CHAPTER VII

CONCLUSIONS AND RECOMMENDATIONS
7.1 OVERVIEW

The Indian textile sector is one of the globally renowned because of its large size and due to the unique structure of its supply chain network. It covers varieties of size and scale of the enterprises. The downstream network has organized market and many big corporate are involved. The upstream network operations are carried out by mostly tiny, small and medium enterprises. This formation makes very unique set of business practices in different level of its value chain.

The present study mainly focuses on upstream network of the textile value chain which runs by the tiny, small and medium small scale enterprises. These enterprises are always considered as locus of study as they are getting special benefits by the state and central governments as its providing employments to large spectrum of society. The researcher has focused specifically on Gujarat as large numbers of units of upstream network are situated mainly in Ahmedabad and Surat. And because of their significant contribution in terms of value and numbers to this sector in India. In 20th century Ahmedabad was considered as a hub of this activity and many textile industries were situated in this area.

In terms of activity, the business operations are mainly driven by manufacturing activities in these small and medium size enterprises. All other business decisions, long terms as well as short terms are heavily
dependent on this activity. The research has found this thing during exploratory research and also during primary research. During exploratory research, the researcher has observed that the key concerned areas of these manufacturing units are finance and marketing, as these units are small in size, their operations are heavily depended on financial support of various agencies and be short of marketing knowledge and business decisions are more reactive instead of proactive. Their success and failure critically depends on the level of coordination among finance and marketing with their manufacturing capacity and capabilities.

To study issues and practices of this enterprise of upstream network, the researcher has divided this work into two phases. In first phase researcher has done exploratory research in which he has done study of Indian Small Scale Industries, Textile Sector of India and the role of Gujarat State in the economical development of nation. In present study, major findings of this research are highlighted in first four chapters of this study.

This study helps the researcher to understand basic structure of textile value chain and on the bases of this study researcher has developed this model of textile value chain.
Value Chain Model (Cotton)

- Cotton Seed
  - Oil Mills
    - Cotton Seed Cake
  - Ginning Mills
    - Seed Cotton

- Seed Cotton
  - Cotton Fibre
    - Spinning
      - Yarns
        - Weaving
          - Grey Fabrics
            - Fabricators (Made Up)
              - Processing
                - Finished Fabric
                  - Garment Manufacturers
                    - Apparels
                      - Unbranded RTW Apparels
                        - Garment Manufacturers
                          - Private (Branded) Labeling
                            - Retailers / Superstores
                              - Consumer Markets / End Users
                                - Consumer Markets / End Users
                                - Consumer Markets / End Users
          - Wholesalers
            - Unbranded Mass Markets
              - Retailers
                - Consumer Markets / End Users
This exploratory study has given areas for primary research to understand and study the financial and marketing mechanism of small scale textile units of Gujarat and the questionnaire has been designed based on the literature review, which charted out the course of action for the survey. The major findings of the research are presented in subsequent section of this chapter.

7.2 OUTLINE OF MAJOR FINDINGS OF PRIMARY RESEARCH

The SSIs' units are focusing mainly on domestic market. The prime reason is huge domestic demand, lack of awareness of global market, lack of capability to serve global market and in few cases inability to supply finished products with consistent quality.

In function areas, in most of the SSI units the activities are not distributed under separate functional head. Due to this, in very few organizations the researcher has found separate departments for individual functional area. The major drawback of this type of organizational structure is that it is difficult to define responsibility center for individual activities and all the people are collectively responsible for success and failure. The researcher has found that more importance is given to the activities pertaining to finance, purchase, manufacturing and marketing. The role of the IT is very limited. And very few organizations are using computerized system. Again, these systems are operated standalone in most of the cases.

From integration point of view, the researcher has observed that there is a higher level of integration among purchase, manufacturing and marketing departments. Less emphasize is given to Integrated
marketing communication, as these SSIs have predefine client list and very little variation in price and quality of the finished products. It has observed that these SSIs are price taker and normally the decisions pertaining to quality, quantity and delivery period are negotiated on order bases. The role of design department is also comparatively low, because in most of the cases SSIs deal with standardize product. The integration between finance and manufacturing is high because of the tight financial control is inevitable for these small size enterprises.

During survey, the researcher has observed that these SSI units are giving highest importance to the operational excellence. This is quite obvious as these units are in monopolistic markets and ultimately they are price taker. So the profit is depending on their capabilities to minimize their operational cost.

The results of primary research has shown that the structure of the marketing department is highly centralized and the top management i.e owners are directly involved in all activities of this functional area. The marketing activities are divided mainly in two areas. Firstly sales area in which the responsibility of concerned staff is to get new order from the existing client as well as to identify new clients if there is excess production capacity for product category. Another area is of commercial activities. The researcher has observed that in SSI as such there is no separate commercial department but few executives are performing this task with the support of clerical staff. The researcher has also observed that the auditing work is performed by the external agencies on regular bases. Though the export activities in SSI are in infant stage, but in case of export these units take support of freight forwarder for all type of transaction and decisions. Regarding
customer feedback and queries, top management gets this information from sales staff. And in most of the cases, these queries are resolved directly by top management with the direct communication with client. The another important role of the commercial staff is to provide information about credit status to the top management almost on real time bases. As this information is crucial for top management to accept or to reject new orders from the client.

In strategy formation, role of marketing department is minimal. As the top management takes all the decision pertaining to production capacity and relationship with the clients. The marketing department mainly plays role in operational decision.

The forecasting process is not given sufficient importance in marketing activities. The argument is that the firms are in monopolistic competition and the success is depending more on firms’ capabilities to react to the market changes. The resource constraint is also one of the reason behind lack of emphasize on forecasting. The researcher has observed that the few firms give importance to this activity but they do not have financial and human resource capabilities to perform this task. The expert opinion method is normally used in forecasting and owners are considered as an expert in this process. Infect, the researcher has observed that the few organizations have taken initiatives in this direction but they used internal system to collect these market information and traditional tools are used for data analysis.

The role of integrated marketing communication is negligible in SSI units. The argument is the predefine client list and resources are sufficient enough to satisfy requirement of these client. Infect, in few
cases the order size of client is so big that the number of SSI units operate to fulfill a single order. The second reason is the nature of demand which is derived in most of the cases. And decisions are mainly taken on the bases of price, quality and delivery terms. For communication, the researcher has observed that the product catalogues are published and are updated as and when it is required. It is also found that these units are realized that to catch export business in future they will have to emphasize on this area.

- In recruitment of sales staff in marketing department, past experience of the applicant plays very vital role in the selection. In selection process there is a direct involvement of the top management. The performance of the sales executive is evaluated on business volume, feedback of the customer and performance in overall all coordination.

- In term of activities, marketing department focuses mainly on live interaction with the client and in coordination of activities with other departments. It is also found that the cross integration within the organization is very low. The cross functional meeting are not conducted regularly. The market information is not shared with all departments regularly.

- The financial mechanism in SSI units is highly centralized. The owners direly interact with the staff and external auditors. The owners take final decisions pertaining to sources of fund and application of fund. The role of the manager of the financial department is mainly in working capital management and auditing.

- As the financial plays vital role in any business, in SSI unit also the great importance is given to accurate financial record. Though the traditional tools are used for record keeping and analysis, the stake
holders are satisfied with the performance of these tools. The researcher has found that the SSI units have realized the importance of computerized record keeping system for efficiency and effectiveness of the mechanism. It has also come to notice that the financial statements are developed of day to day transaction according to accounting standards. These records are updated on different time interval according to the requirements of the organization and auditors. The researcher has observed that in most of the cases the reports are developed on time to measure financial health of the organization. It has also observed that these SSIs have well enough financial control and the prime reason is the higher stack of the owner’s fund and they are directly responsible for all types of liabilities and any mismanagement in this area directly affects on term loans and on owners’ market reputation. These factors forced owners to monitor financial mechanism closely and continually. It has also been found that the procedure manual is highly standardized in SSI units and external auditor takes all the decision to update these manuals. The use of online banking is comparatively low in SSI units. And it is used normally by the organizations which are in export business.

The ratio analysis and common size statements are primary tools to measure financial health of the SSI units. The researcher has found that in many organizations a report is frequently prepared with the calculations of profitability and solvency ratios for the top management and this report is used by the top management for their strategic and operational decisions as well as in some cases this analysis is shared with other parties like banks. Private money lenders
etc. Another use of ratio analysis is to make comparison of ratios on different time horizon like month to month, quarter to quarter. This practice is followed because the supply of raw materials is in seasonal pattern and the deviation in ratio results help organization to make route cause analysis. It has also been observed that in almost all organizations of sample survey, turnover ratios and liquidity ratios are calculated. The turnover ratios are calculated to measure resource utilization capabilities of the organization. The liquidity ratios are extremely crucial for these SSI units because they have limited sources for fund generation and their business sustainability heavily relies on revenue generation through business cycles. There are many applications of common size financial statements, but in SSI units, it is used to compare financial statements of the same company over different period. The other tools like trend analysis and inter and intra comparison are also used but their penetration is very low in SSI units.

It has been observed that these SSI units are heavily relying on owners' fund, term loans and cash credit and they are considered as the prime sources. The secondary source is the financial credits which are offered by the various state and central governments for tiny, small scale and medium scale industries.

The results clearly show that the SSI units prepare financial budgets. They are mainly of three categories, raw material budget, production budget and cash budget.
7.3 OBSERVATIONS AND SUGGESTIONS

✓ The researcher has observed that the textile SSI units of Gujarat are extremely focused on domestic and regional markets at present. This has made them vulnerable specifically when all Indian markets are almost opened for global players and these units have very less protection from the regulatory authorities after removal of quota restrictions. This change is continually forcing these units to identify and implement new strategic business policies to give them sustainable future in coming years. This competition has already created serious pressure on downstream network of domestic value chain and subsequently it has created serious pressure in terms of price and quality on small scale units. To properly respond to this change, they will have to change their mind set and need to come out from this ostrich mentality by developing strong and feasible strategic vision. The most critical requirement in case of these SSI units is need to have comprehensive knowledge of entire supply chain not only in terms of structure but also in terms of value at each stage. In contemporary management science, this study is known as supply chain costing. This knowledge gives the real picture to visualize their present position and also their future too. This exercise also gives option to these units to make strategic alliance in vertical and horizontal line to give sustainability. It is true that individually this study is not financially feasible for units but for that they have to develop cartel model to accomplish this task. This study will not only give them the vision for better fulfillment of present supply chain networks but also give opportunities and vision for timely shift from
one value delivery network to another one by making necessary strategic and operational level changes. It is true that this task looks very difficult for individuals but if they develop union then it can be accomplished with marginal cost.

✓ The another critical suggestion is to change operational structure within the SSI unit which is highly centralized and decision making process is extremely time taking and more on intuition base and less on facts and figure. In competitive market place, agility, clarity of roles & responsibilities of various designations in the organization and timely decisions are three extremely crucial areas for any organization, irrespective of their size and structure. The researcher has critically observed that almost in all decision the consent and involvement of top management is very common in these SSI units. This has reduced the overall pace of the decision making process and also created bottleneck problem in business expansion in direct and in indirect manner as the individual has very limited time to take all the decision. The researcher has strongly believed that because of the traditional operational structure, very few units are able to expand from small to medium size units in last two decades in terms of size and scale of the operations even after getting special benefits from various government regulatory authorities. The professional approach is essential requirement for these units and they have to distribute various activities and their decision control in different departmental head with clarity of roles and responsibilities of various positions. The researcher believes that the immediate benefits are not expected through this change but in a long run it is good for the organization in term of development of human resource down the line. And it's also

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reduces work load on top management and gives more time of strategic decision.

✓ The researcher believes that the penetration level of IT in SSI units of Gujarat is extremely poor. The argument of cost and requirements which are made by the respondent are certain extent inappropriate as in recent past overall cost has been substantially reduced of basic IT infrastructure. The researcher strongly suggests that these SSI units have to allocate budget to build comparatively good IT setup with basic application package of marketing and finance. This will definitely give valuable support in process of forecasting, as well as in analysis of various financial data.

✓ The researcher also believes that the levels of integration among the various functional areas need to be improved in SSI units. The researcher has observed that the goal congruence among various functional activities is very poor and ultimately it is harmful for the organization. The researcher suggested these units to develop cross functional team to perform various task and to improve goal congruence among these functional areas.

✓ The researcher has also suggested these SSI units to transform their vision as well as long and short terms strategies towards customers. It has been suggested to develop feedback system to measure client satisfaction on continuous bases.

✓ It has also been suggested by the researcher to develop mission and vision statement of the organization. The researcher believes that these statements give very vital inputs in the process of defining long and short term strategies of the organization.
The role of middle and operational management in process of defining long and short term strategies is very less in these organizations, even though this people are regularly dealing with the market and they have real time information of market and client. The researcher has strongly suggested to involve middle and operational level people in process of formation of corporate business polices as these people have very vital information, knowledge and experience.

7.4 SWOT ANALYSIS FOR INDIAN MARKET – TEXTILE SSI UNITS

The researcher has found that still the small scale units of textile value chain are not properly equipped and capable enough to sustain their growth in global market even though they have business knowledge and exposures of decades. On the bases of findings of exploratory research & conclusive research following points are listed out to understand their strengths and weaknesses viz a viz opportunities and threats.

Strengths

- Huge demand of the domestic markets because of the overall economical growth of the markets. The globalization of Indian economy has also given opportunity to selected players those who are having capabilities and capacities in terms of quality and price to export their goods to foreign markets.
- Ample raw material accessibility that helps sector to control costs and reduces the lead-time across the operation.
✓ India is having core advantage of excess accessibility of low cost and skilled manpower and this has given competitive advantage to industry.
✓ Availability of large varieties of cotton fiber.
✓ India has great advantage in Spinning Sector and has an existence in all process of operation and value chain.
✓ India is one of the largest exporters of Yarn in international market.

Weaknesses

⇒ Indian Textile Industry is highly fragmented Industry that is lead by several small-scale industries. Because of this, there is being short of Industry Leadership. These small companies do not have fiscal resources to invest in technological up-gradation and they are not able to generate economies of scale. This leads to inability to establish a world-class competitive player.
⇒ Despite many policies Industry is bound with historical policies that are reason for Complex Industry Structure.
⇒ Though Industry has cheap and skilled manpower but they are less productive.
⇒ There is lack of technological up-gradation in various steps of value chain that affect the quality, cost and distribution.
⇒ Inappropriate energy supplies to rural and semi-urban areas.
⇒ Industry needs to compete on the basis of Price, Quality and Delivery for the different segments.
⇒ Industry is facing stiff indirect competition from countries like China on the basis of productivity, quality, price and distribution.
Highly fragmented and heavily dependence on Cotton Sector, Inferior Productivity, Unfavorable Labor Laws are few drawbacks of the industry.

Opportunities:

- Elimination of Quota Restriction directs to greater Market Development.
- Increased Disposable Income and Purchasing Power of Indian Customer unlock New Market Development.
- Emerging Retail Industry and Malls provide huge opportunities for the Apparel, Handicraft and other segments of the industry.
- Greater Investment opportunities are available for local and foreign players.

Threats:

- Rivalry from other developing countries, particularly from China.
- Continuous Quality Improvement is required of the hour as the demand patterns are different globally.
- Elimination of Quota system will lead to fluctuations in Export Demand.
- Geographical Disadvantages.
- International Labor and Environmental Laws specifically in export business.
7.5 SCOPE FOR FURTHER RESEARCH

The suggested scopes for further research are:

1. The research area could be a focus on individual firms or group of small scale units of one geographical area and relating all aspects of comprehensive analysis of textile value chain to develop and experiment sustainable business operational model for SSI.

2. The research area could be to develop model of scanning and identifying market opportunities of other domestic as well as markets of other countries for these SSI units.