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IMPACT OF FINANCIAL INDICATORS ON BUSINESS PERFORMANCE OF SMALL AND TINY GARMENT UNITS

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Abstract
The readymade garments industry in India has come a long way to reach the present stage where it enjoys the status of being the largest net foreign exchange earner for the country and the fifth largest gross forex earner. From only a small number of units two decades back, there is now a proliferation of garment units. Readymade garments are poised to be a major contributor to India's total exports of textiles which are expected to exceed US$ 20,000 by the turn of the century. The present study aimed to know the impact of financial indicators on business performance of small and tiny garment units located in Erode district. A garment unit requires financing to carry out its business plan. Production needs financing for purchasing raw materials, paying its employees, implementing marketing campaigns, and research and development. Financing activities refer to methods that companies use to raise the money to pay for these needs. Because of their magnitude and their potential for determining the success or failure of a venture, companies take care in acquiring and managing financial resources.

Key Words – Garment, Exchange, Contributor, Finance, Venture.

Introduction

There are tremendous possibilities for future growth in exports of readymade garments. The Indian readymade garments industry has many advantages over its counterparts in other countries. India has the second largest labour force in the world to feed labour-intensive garments industry. Its basic raw material, namely fabric, is mainly indigenous. Unlike Bangladesh, which is a relatively new entrant in international trade, India is one of the well established exporting countries. A number of garment industries for the past few years have been finding it difficult to solve the increasing problems of adopting seriously the management of export orders. Business concerns intent on developing their business have to use to the utmost, their available resources for the improvement and development of the business thereby enabling them to increase their profits. Now there is a more competition in the field of garment industry and financial appraisal of this sector is most challenging. Financial Appraisal is generally directed towards evaluating the liquidity, stability and profitability of a concern which put together symbolizes the financial efficiency of a concern. Financial performance of financial statements for balance sheet and profit and loss account aimed at diagnosing the liquidity, profitability, productivity, activity and financial condition of a business concern. Satisfactory diagnosis can rarely be made on the basis of such information which are included in these financial statements alone because figures are derelict, But, if they are analysing , they get a tongue and therefore they assist the management and other interested parties-groups in assessing the financial adventure of an enterprise. Information included and contained in balance sheet and profit and loss accounting is often in the form of raw material data rather than the same as information useful for decision-making. So, the Analysis of Financial statement is requiring. The process of converting the raw data contained in the financial statements into meaningful information for decision making is known as financial statement analysis. Through these kinds of analysis, one can derive the facts regarding the financial performance of the business unit. Thus, financial performance is processes of creation an intellectual activity. The analysis of both these statements gives a wide-ranging understanding of business operations and their impact on the financial health of the concern. Financial performance is also concern with the business operations which contribute to increase the profits and also to enhance the total investments. Financial performance is also concern with the prosperity of shareholders. The present study aimed to know the impact of financial indicators on business performance of small and tiny garment units located in Erode district.

Materials and Methods

Kavitha and Sangeetha, (2014) noted in their research that the Tirupur was the one of largest exporter of garment in India. There were more than 3,800 garment firms in count and its economic boom the morale of Indian garment industrialists. Fifty-six per cent of India's total knitwear exports come from Tirupur as that it contributed to a huge amount of foreign exchange in India. The Export in 2002-2007 made worthy acknowledgment to Tirupur for its contribution to the export efforts and calls it a Town of Export. This research probed about whether the garment Exporter had a very fine insight into garments export and revels about the problems of the people in garments exports. The research would study results about the exporters problems towards garments, the behaviour will involve in knowing the problems of garments in Tirupur district. Chowdhury et al., (2014) observed in their research that the development of Garments Industry was considered as the priority area in the development policy in many countries, especially in Bangladesh. The young entrepreneurs were engaged in varied form of small and medium scale garments industry which comprised of products like shorts, trousers, shirts, sweaters, blouses, skirts, tea shirts, jackets, sports attire and many more casual and fashion items with the changing times. This study was conducted to analyze the prospects, problems and solution of problems of Readymade Garments Industry in Bangladesh. The findings of this study showed that Bangladesh had a great opportunity to earn a great foreign currency through developing readymade garments industry. The study also suggested some measure for the removal of ongoing crisis of garment sectors. Parmar (2015) stated that advancement in the nature of business and management performance has pushed the need of people to build a more effective and structural financial measurement. Today it is well settled that the aim of every business entity should be to maximize shareholders' wealth. As investors world over, are currently demanding more shareholder value than just high returns. So investors are very keen in assessing the corporate financial performance that correlate with shareholders' wealth. Traditional performance measures like ROI, EPS, etc. have been used as the most important measure of shareholder value creation. But in the recent years, value based measures like EVA and MVA which measures performance in terms of change in value have received a lot of attention. The study analyzed economic value added and market value added with in selected cement companies. The design of the study is analytical in nature. This is a secondary database research. The relevant information is collected from various sources like internet, books, magazine etc. From the study of EVA, MVA cement industry and their relationship in the sample of 2 companies of Indian cement Industry from the year 2006 -07 to 2012-13. From the calculation of MVA, it is found that the trend of MVA is mix. The averages of all Companies are also mix. In general all the companies have created wealth or added value for its Shareholders. According to the study, Most of the times there is negative EVA in ICL. There for in General, company is not generating positive EVA from its Operations. Hajihassani (2015) stated that in analyzing companies, it is often important to measure their performance relative to other companies in the industry. Designing method for long and short term planning in every organization will start by evaluating the all condition. By indicative the present condition of company between other companies, and by making a competitive space in the financial evaluating model, companies bring up to achieve a best state. This matter equipped needed tools for companies to access the information in all industry. Standards of industry can be growth by believing in ability of human.

The research validity mainly depends on the systematic method of collecting the data, and analyzing the same in a sequential order. In the present study, an extensive use of both primary and secondary data was made. For collecting primary data, field survey technique was employed in the study. First-hand information was collected from 300 garment entrepreneurs in Erode district. The respondents were selected on a simple random basis from the district. In order to fulfill the objectives set, a sample study was undertaken by using a well-framed questionnaire that was duly filled by the respondents. Respondents with varying background were selected based on the important aspects of their occupation, education, age, area etc. The primary data were supplemented by a spate of secondary sources of data. The secondary data pertaining to the study was gathered from the various. Structural equation modeling was used for further analysis.

Results and Discussions

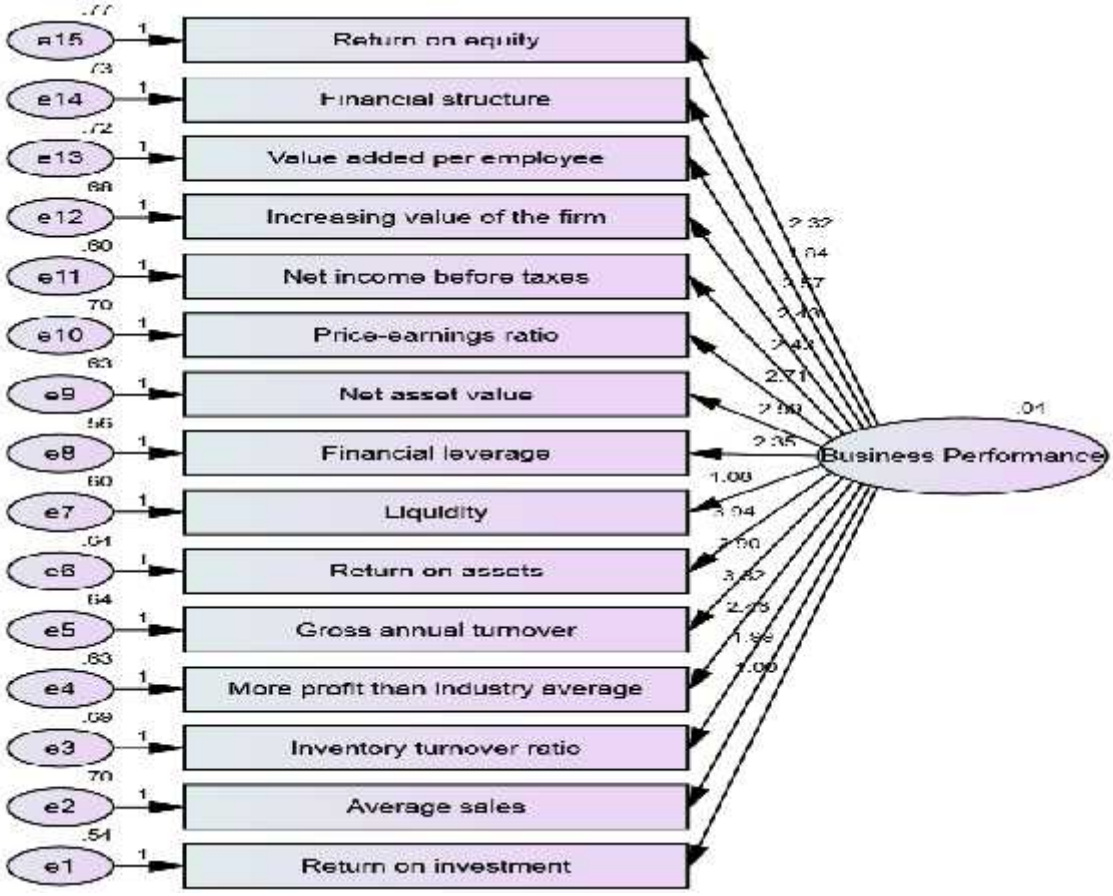
The structural equation model has graphical display which has boxes and arrows. Boxes denote observed data and the arrows signify assumed causation. In the structural equation model the variable that receives a one-way directional influence from some other variable in the system is termed "endogenous", or is dependent. A variable that does not receive a directional influence from any other variable in the system is termed as "exogenous" or is independent. An attempt was made to find out the financial indicators which influence the business performance of garment units. For this purpose, the variables or statement are categorized into fifteen manifest variables and the research hypotheses have been defined on the basis of the financial indicators and business performance of garment units.

Hypothesis

H_0 . There is a significant relationship between manifest variables and the business performance of garment units.
H_1 . There is no significant relationship between manifest variables and the business performance of garment units.

To test the hypothesis, Structural Equation Model was used and the output in the form of path diagram is given below in the following figure.

Figure 1
Path Of Financial Indicators Which Influence The Business Performance Of Garment Units



(Note: Chi-square = 394.913, Degrees of freedom = 90 and Probability level = .000**)**

In the above path diagram, the values attached to one-way arrows / directional effects are regression coefficients. The regression coefficients and correlations measure the strength of the relations between the variables. A regression coefficient of 2.32 for return on equity indicates a very strong relationship with the business performance of small and tiny garment units. A regression coefficient of 1.83 for financial structure indicates a

strong relationship with the business performance of small and tiny garment units. The value added per employee is having a very strong relationship on the business performance of small and tiny garment units with the regression coefficients of 2.57. A regression coefficient of 2.42 for increasing value of the firm indicates a strong relationship with the business performance of small and tiny garment units. A regression coefficient of 2.43 and 2.72 for net income before taxes and price earnings ratio indicates a strong relationship with the business performance of small and tiny garment units.

The net asset value and financial leverage are also having a strong relationship with the business performance of small and tiny garment units with the regression coefficients of 2.59 and 2.36. On the other hand, a regression coefficient of 1.00 for the return on investment indicates a close relationship with the business performance of small and tiny garment units. A regression coefficient of 2.00 for average sales indicates a strong relationship with the business performance of small and tiny garment units. A regression coefficient of 2.46, 3.31 and 2.90 for inventory turnover ratio, more profit than industry average and gross annual turnover indicates very strong relationship with the business performance of small and tiny garment units.

The return on assets and liquidity are also having a strong relationship on the business performance of small and tiny garment units with the regression coefficients of 3.95 and 1.08. The overall regression coefficient value for financial indicators is 0.04 indicates a very close relationship with the business performance of small and tiny garment units.

The analysis indicates that the return on assets and more profit than industry average are strongly influencing the business performance of small and tiny garment units.

The researchers applied model fit indices to decide whether to accept his model or to fine tune the model further. The result of model fit test is presented in the Table No. 1.

Table 1, Model Fit Indices of Financial Indicators Which Influence The Business Performance of Garment Units

No.	Test Factor	Calculated Value	Acceptable Value
1	GFI (Goodness-of-fit-index)	0.923	>=0.90 and above satisfactory fit 0.80 to <0.9 acceptable fit (Hair et al.2006)
2	AGFI(Adjusted goodness-of-fit-index)	0.898	
3	CFI(Comparative fit index)	0.856	
4	NFI (Normed fit index)	0.823	
5	TLI (Tucker-Lewis index)	0.833	
6	RMSEA (Root mean square error of approximation)	0.072	0.08 or less would indicate a close fit of the model

The table No. 1 indicates that the model fit indices of financial indicators and business performance of small and tiny garment units. The Goodness of fit index (GFI) score is 0.923, adjusted goodness of fit index (AGFI) score is 0.898, comparative fit index (CFI) score is 0.856, normed fit index (NFI) score is 0.823, Trucker Lewis index (TLI) score is 0.833. The Root Mean Squared Error of Approximation (RMSEA) secured 0.072 that indicates that the model is a close fit with a reasonable error of approximation. From the analysis, it is inferred that all the variables influence the business performance of small and tiny garment units.

Table 2
Regression Weights for Financial Indicators Which Influence The Business Performance Of Garment Units

Measured Variable		Latent Variable	Estimate	S.E.	C.R.	P
Return on investment	<---	Business performance	1.000			
Average sales	<---	Business performance	2.003	.359	5.578	Significant at 1% level
Inventory turnover ratio	<---	Business performance	2.457	.421	5.836	Significant at 1% level
More profit than industry average	<---	Business performance	3.310	.543	6.102	Significant at 1% level
Gross annual turnover	<---	Business performance	2.898	.482	6.012	Significant at 1% level
Return on assets	<---	Business performance	3.951	.639	6.188	Significant at 1% level
Liquidity	<---	Business performance	1.079	.235	4.599	Significant at 1% level
Financial leverage	<---	Business performance	2.356	.400	5.897	Significant at 1% level
Net asset value	<---	Business performance	2.591	.437	5.932	Significant at 1% level
Price-earnings ratio	<---	Business performance	2.720	.459	5.928	Significant at 1% level
Net income before taxes	<---	Business performance	2.430	.413	5.890	Significant at 1% level
Increasing value of the firm	<---	Business performance	2.424	.416	5.834	Significant at 1% level
Value added per employee	<---	Business performance	2.568	.438	5.861	Significant at 1% level
Financial structure	<---	Business performance	1.832	.338	5.425	Significant at 1% level
Return on equity	<---	Business performance	2.320	.406	5.711	Significant at 1% level

From this result as shown in table 2, it is noted that estimates of the coefficient of return on assets is high followed by more profit than industry average and it indicates that both financial indicators are mostly influencing the business performance of small and tiny garment units. Further, the analysis indicated that all the financial indicators are having positive relationship with the business performance of small and tiny garment units and significant at 1% level. Hence the null hypothesis is rejected and there is a significant relationship between manifest variables and the business performance of garment units.

The above analysis found that the measured variables of return on investment, average sales, inventory turnover ratio, more profit than industry average, gross annual turnover, return on assets, liquidity, financial leverage, net asset value, price-earnings ratio, net income before taxes, increasing value of the firm, value added per employee, financial structure and return on equity with the latent variable of business performance of small and tiny garment units are having positive relationship and also significant at 1 percent level. The analysis of the model, from the perspective of the business performance of small and tiny garment units, suggests that the financial indicators such as return on investment, average sales, inventory turnover ratio, more profit than industry average, gross annual turnover, return on assets, liquidity, financial leverage, net asset value, price-earnings ratio, net income

before taxes, increasing value of the firm, value added per employee, financial structure and return on equity are showing significant impact on the business performance of small and tiny garment units.

Recommendations and Conclusion

Performance of garment sector is of vital importance for entrepreneurs, stakeholders and economy at large. For investors the return on their investments is very much valuable, and a well performing business can bring high and long-term returns for their investors. Furthermore, financial profitability of a garment sector will boost the income of its employees, bring better quality products for its customers, and have better environment friendly production units. Also, more profits will mean more future investments, which will generate employment opportunities and enhance the income of people. Simple and clear policies and acts are to be made so that these garment units can understand them and utilize as well as implement them in the business for compliance and secure benefits. There are many government schemes but from the study it was observed that most of these enterprises are not aware and do not understand how they can benefit out of them. Finance is the first major problem for all the small and tiny garment units. Hence, the government can provide interest free loans to encourage small and tiny garment units. To attract more small and tiny garment units, the subsidy for loans should be increased. Finally, small and tiny garment units should be encouraged to start their entrepreneurs as joint stock companies rather than as a sole trade and partnership concerns to avail the advantages of large scale operation. Proper management, effective control and cost reduction strategies are the most significant methods that need to be implemented to improve the profitability in small and tiny garment units.

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