Entrepreneurship: Creating Opportunities in Vendor Industry

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Abstract
The primary objective of this paper is to reveal a substantial amount of entrepreneurship capability waiting to be explored among the semi-skilled and skilled manpower of the population surplus countries of the world. Due to lack of necessary capital and market power, a large number of skilled workers are forced to seek jobs and help conglomerates to develop into pure monopolies. This paper likes to address all those possibilities that can provide opportunities for the better skilled workforce to join the pool of entrepreneurs where assembly line production processes can be subdivided for creating independent suppliers. The author while examining increasing evidence available from fast expanding vendor industries in China and India is fully convinced that skilled manpower in population surplus countries of the world can bring revolution in reducing processing costs of products and services to make their products and services accessible to the largest number of people in the world.

Key Words: Workforce, Vendor, Production Process, Revolution, Processing, and Population Surplus.

1. Introduction
Majority of people living in poor countries are considered surplus and their economic welfare is never in view when national priority programs are planned and executed. In accordance with the economic growth philosophy of the western economists (Rosenstein-Rodan), Big Push in the form of large investments in major industries and infrastructure is needed to promote faster economic growth in developing countries. It is argued that such investments are to accelerate economic activity and generate profit to promote further investments and ultimately is to result in trickle down effect to raise the economic welfare of the common man. Those living in less developed countries have never seen such trickle down effect appearing for the betterment of poor people in the society.

Human beings have capability and adaptability to perform several functions, a unique quality which no other resource can claim in the production process. Human beings can be trained and retrained, can be given several jobs of even diverse nature to perform and deliver accordingly. Business organizations all over the world are in search of low cost inputs to keep the prices of their products and services low enough to gain competitive edge among their competitors. The comparative advantage of many of the less developed countries, especially highly populous countries like China, India and Pakistan, in the supply of workforce is becoming increasingly attractive. Due to adverse economic policies adopted by the rich and powerful ruling class in many of the less developed countries, the common man has been almost neglected. To turn around economic strength of highly populous countries of the world we need to educate them, train them and to provide them with marketable skills and to allow them to play lead role in the economic growth process.

This study is to explore possible options to empower the common man to ensure equitable distribution of employment and income generated by the economy. Considering people as the most valuable resource, available in abundance in most of the developing countries, it is strongly believed that vendor industry has immense potential to innovate, generate employment and create cost efficiencies by playing leading role in the production process. The study has carried out an in-depth analysis of the experiences of highly populous countries in handling vendor industry to prepare adaptable guidelines to earn and share profit generated by the production processes.
2. Entrepreneurship: Literature Review

From available historical records it appears that the concept of entrepreneurship was first introduced in the early 1700s and its meaning and scope has evolved ever since. To some entrepreneurship is simply known as starting one’s own business. However, its scope has been subject to discussion and debate by social scientists and it is made to include the following as well:

i) One who bears the risk of new venture;
ii) An innovator who markets his innovation;
iii) One who produces new goods;
iv) One who looks for change;

Cantillon (1680-1734) in his writing recognized three classes of economic agents: landowners, entrepreneurs, and employees. Cantillon saw employer as the entrepreneur who owns and directs his business. Schumpeter perhaps on the same lines further developed the concept of entrepreneur and he clearly defined entrepreneur as an individual who combines things to make new combinations, and as creativity innovation. Basically all producers of goods and services are entrepreneurs, adopting different ways and means to sell their goods and services (innovative function), but some of them may be making unique innovations by adopting leadership role and are taking risk to make abnormal profits. According to Schumpeter (in his later view-Mark II) large industrial business firms have the capability to undertake research to promote innovations. Thus economic changes in the form of new products are the result and consequence of well planned activities of profit-seeking businessmen called entrepreneurs.

2.1 Large Scale Industries: Change of Emphasis

Industrialization for most people implies large-scale industries. This is true that in most of the developing countries economic policies are drawn keeping in view the impact of such policies on the expansion and promotion of large industrial concerns. As a result of which highly capital-intensive techniques have been adopted to minimize labor input in the industrial sector. The last two decades have witnessed large business firms increasingly concentrating on core competencies and experiencing mass lay-offs. This is exactly the type of output growth seen in traditional manufacturing industries and we have economists such as Galbraith (1967) who predicted that large firms would prevail in economic setup due to their higher productivity and superior technology. Perhaps Schumpeter (1950) also favored large industries and remarked that large firms outperformed their small. In fact, Schumpeter was describing the role of entrepreneurs and mentioned that the innovating entrepreneurs challenge incumbent business firms by introducing new inventions that make current technologies and products obsolete.

In response to the growing importance and contribution of entrepreneurs the share of small businesses expanded in the 1980s. This shift was seen closely linked with the employment problem in Western Europe. The authors, Audretsch and Thurik (2001) in their report, “An Eclectic Theory of Entrepreneurship: Policies, Institutions and Culture” pointed out that highly developed economies have experienced a shift from the model of the “managed economy” towards that of the “entrepreneurial economy”. Apparently this refers to the several key roles of entrepreneurship adopted by the advanced countries in their production process. The survey conducted by Global Entrepreneurship Monitor (2002) reported that the number of entrepreneurial active adults among the countries increased from 123 to 133 million between 2000 and 2001, and then to 161 million in 2002.

2.2 Small Businesses- Low Cost Suppliers

In the 21st century economic growth environment, major global restructuring is underway in the manufacturing and processing of goods at all levels. Due to outsourcing of various components of manufacturing lines, the manufacturing cycles are becoming increasingly shorter in duration. The workforce is seen more knowledgeable, having greater awareness concerning technology advancement and ready to perform to meet precise schedules. The entrepreneur-ability is rapidly growing in the form of small businesses while the large business firms are changing their setup to outsource some of the processing operations that are costly to supervise. In fact, the manufacturing process has been increasingly subdivided into precise components for placing in the suppliers market.
There is ample evidence around (North America, Europe, Asia) to prove that economic activity is rapidly moving away from large business firms to small business houses. This shift away from large business firms to small business firms is not confined to manufacturing industries; rather it is economy wide in many western countries.

2.3 Outsourcing Activities

Globalization has contributed a great deal to promote outsourcing as a means to cut costs. Several multinationals selling automobiles, household electronic appliances, fashion garments and readymade clothes and the like are getting their components from countries where the skilled labor and material input are cheaper and management costs are lower. China, India, and Malaysia and many other countries have educated, trained and provided specialized skills to their workforce. In these countries outsourcing is one of the key factor in cutting cost of the products sold internationally. The relocation of multinational business firms in search of low cost inputs has been very beneficial for the population surplus countries. New jobs of several levels, are created and the workforce in these countries is paid higher wages as well as on the job training to improve their skills for better job opportunities. As an example some of the actual cases of outsourcing are given below:

In automobile manufacturing, Toyota assembly plant covers only 15 percent of total manufacturing in-house. The rest of 85 percent of the process involves manufacturing more than 10,000 individual parts assembling them into 100 major components including engines, suspension systems, and trans-axels. Toyota worked closely with its suppliers, providing them with management expertise, engineering expertise, and some time capital to finance new investments. India and China is becoming hub of manufacturing small cars in the world. A survey by the “Economist” expects 60% of the international demand of 2.8 million vehicles to come from Asia by the year 2020, with China and India topping the list. The CEO of Renault and Nissan in India was of the view that sourcing cars from India for the world market is 35% cheaper than Europe.

2.4 China’s Vendor Industry Profile

Since China adopted the open-door policy, its economic growth has been astonishing. A country with 1.3 billion people (highest populous country of the world) has 816.2 million workforce actively involved in the production of goods and services. China’s real GDP is growing around 9.5% per annum. It is one of the highest in the world. In China less than 3% of the population is living below poverty line (one of the lowest in the world).

In response to highly cost efficient manufacturing facilities in China several multinationals, especially from North America and Europe, have shifted their manufacturing processes to China. Now China is counted as the most preferred destination for foreign investors. The FDI inflows relating to major destinations show the following comparative picture (Table-1):

<table>
<thead>
<tr>
<th>Table-1</th>
<th>FDI Inflows : Major Destinations (US $ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>1990-1999</td>
</tr>
<tr>
<td>China</td>
<td>148.5</td>
</tr>
<tr>
<td>India</td>
<td>11.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>43.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>25.0</td>
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</tbody>
</table>

FDI is one of the major sources of employment generation. In fact, China as a provider of a highly cost effective skilled workforce in accordance with the global market trend is one of the top performers in the following fields:

1. Highest FDI Recipient in the Region (Year 2007)
2. 2nd highest Export Earner (Year 2011)
3. 2nd highest recipient of Foreign Remittances (Year 2011)

China, with 1.3 billion people (the highest populated country of the world) is making best use of its people by involving them and sharing with them economic returns accruing from its production of goods and services (GDP). This is very much reflected in China’s low-income inequality indicator. The availability of highly skilled manpower in China has built competitive strength of its workforce successfully. A comparison of cost of exports from China as compared to India is at least 50% cheaper. Apparently all this credit goes to entrepreneur ability of the workforce.

Researchers from (School of Economics and Management) Tsinghua University, Beijing, China in their study (regression model) examined the impact of entrepreneurship on economic growth of 29 provinces in China over the period 1983-2003 and 1995-2003 and found that entrepreneurship has a positive impact on economic growth and this finding has been claimed to be robust even after demographic and institutional variables were kept under control.

2.5 Pakistan's Vendor Industry Profile

Pakistan is the 6th highest populous (185 million people) country in the world. A review of its past economic growth strategies reveal that entrepreneurship has never been given exclusive importance by the planning agencies in Pakistan. The national plans have largely focused on the growth and promotion of large-scale industry in the country. However, on their own initiative the informal and small businesses in the private sector have made substantial contribution (nearly half of the industrial output) in the production of goods and services in the economy (GDP).

Pakistan has immense potential to promote entrepreneurial activity on the lines of China and can become strong competitor in attracting FDIs. Due to mismanagement and exploitation by the rich and powerful ruling class in Pakistan, skilled and educated people are migrating to other countries in search of better income prospects. In fact, majority of people in Pakistan are not well educated (literacy rate being 55%) and trained. Therefore, the rate of unemployment in the country is quite high. Those Pakistanis who migrated to countries like UK, Canada and Western Europe, are doing extremely well and they are highly appreciated for their hard work and contribution as a community member. However many of the migrant families like to return back with their capital and valuable experience of the skills they learned to start their own business in Pakistan as entrepreneurs. Thus Pakistan if given in the hands of dedicated and selfless rulers can do far better to make the country a role model of economic growth in the world.

In spite of several hurdles in the promotion of entrepreneurship in Pakistan, the country is still considered relatively cheaper to supply various parts and components for large business firms operating locally or overseas. In Pakistan presently there are around 200,000 people employed in the auto industry, majority of them are contingent workforce. Pakistan on the average is able to export auto parts, worth nearly $20 million per annum. Among multinationals, many automobile companies, such as Honda, Toyota and Suzuki have their processing plants in Pakistan.

3. Methodology

The study examines in-depth the main factors responsible for neglecting the welfare of the common man in less developed countries. The idea is to find an acceptable solution to alleviate poverty among masses and to provide them with means to earn a respectable living in the society. While focusing on countries with surplus population, the study examines the role population can play in sharing processing of goods and services as an independent entrepreneurs, termed as vendors. The study further examined the ways and means to create awareness among policy makers to promote education and training to gain marketable skills so that more and more entrepreneurs can enter the vendor industry. The main objective of the study is to find better and feasible indigenously based resource to bring economic prosperity, which can be shared equally with all the sections of the society.
Keeping in view the surplus workforce available in the highly populous countries, the study examines the experiences of countries like China and India in reducing income inequalities and providing opportunities to the workforce to share production process as entrepreneurs. The study on the basis of proven facts and figures made an attempt to prove that population surplus countries have ample opportunities to educate, train and prepare their workforce to adopt a lead role for profit sharing in the production process. Further the study on the basis of detailed analysis and adequate supporting evidence came to the conclusion that the expansion of vendor industry in less developed countries is to provide opportunities for economic growth and is to promote income equalities among all the sections of the society.

4. Discussions and Analysis

With the coming of ‘WTO’, the pattern and economic structure of business world is undergoing substantial changes. Awareness of people has increased many folds. The demand for goods and services (quality and quantity) has been increased in response to better income and higher standard of living of people around the world. Extensive use of electronics and automobiles has flooded the global market and the price competition is bringing new and more competent entrepreneurs to deliver products at highly competitive prices.

To remain competitive in the global market, several multinational business firms are in the process of shifting their plants overseas. For example, Wolters Kluwer (WTKWY), a U.S. – Dutch publishing company are shifting their business interest (software development and editorial work) to India and to Philippines. Similarly, in auto parts manufacturing, Mercedes Benz, Toyota, Ford, Nissan, Renault and Peugeot have established their interest in India. A large number of business firms, including Procter and Gambles, DuPont, Unilever, Rockwell Collins and Marriot have signed megadeals, worth billions of dollars to outsource their business. The following outsourcing examples further strengthen the eagerness of the multinationals in conserving costs:

4.1 Xerox Outsource

Xerox with 80% of their manufacturing business conducted with vendors. This business concern has extremely active supplier training program. Xerox conducts two seminars that each of their vendors must attend. These seminars are for senior entrepreneurs, primarily to introduce them to the process and to make them aware what the Xerox is doing.

4.2 Toyota Outsource

Toyota assembly plant covers only 15% of the total manufacturing in-house. The rest of 85% of the process involves manufacturing more than 10,000 individual parts and assembling them into about 100 major components including engines suspension systems, and trans-axles. Toyota uses his long-term relationship with his suppliers by sending his staff to help suppliers improves their process.

To avail such deals and to make economically feasible contracts, many outsourcing agencies are trying to create highly cost efficient operational models to lower down processing cost to have an edge in offering competitive prices in the global market. One of the most cost efficient methods of production is associated with vendor operations. A sole entrepreneur specializes in the production of a component or a part of the product to be assembled into a finished product. By outsourcing to vendors, the business firm saves on several counts. Its inventory costs are negligible, its hiring and firing labor costs are minimum, its utility bills are reduced and risk factor associated with untimely delivery of inputs and outputs is minimized.

In fact, vendor industry provides competitive strength among the skilled workforce to do the job professionally at competitive costs to meet the standards and expectations of business organizations. Vendor’s function relate to Just-in-Time (JIT) system of production. The business concerns provide in advance a “vendor schedule”, that gives the vendor firm time-staged plan, broken down in weekly or smaller time periods. The vendor accordingly builds to that schedule for strict compliance. Apparently all this has been successfully organized in many of the products produced by countries such as Japan, China, India and Malaysia.

Vendors emerge from that class of population who perceive opportunities and are ready to respond. They believe in change and are willing to take risk to test their competence. The role of entrepreneurs in introducing technological change in recent years is astonishing and unprecedented in the history of business world.
To give an example of entrepreneurial activities the rapid changes in technological advancement is its outstanding contribution. In fact, Entrepreneurship is taken as a process of discovering, evaluating, and exploring opportunities and economic growth emerges on account of the contribution made by the entrepreneurs.

Vendor industry is not cost efficient in countries where labor is costly. Developing countries with surplus manpower can deliver all what is required provided they educate their workforce, train them and equip them with marketable skills to match the expectations of the business concerns. So far many population surplus countries are unable to take advantage of their low cost labor force and majority of their people are either unemployed or partially employed. Perhaps the ruling class in these countries is not very much concerned about the economic welfare of the common man. Being rich and powerful they want majority of their people to remain dependent on public subsidy and charity while the national resources are diverted to the projects and programs that are beneficial to them and are to serve their private interest. This is partly the reason that majority of the people in these countries are not adequately educated, trained, and given proper skills.

We see the huge wage gap between industrialized and less developed countries. Often big outsourcing deals causing big layoffs. However, some entrepreneurs are of the view that such outsourcing to less developed countries where manufacturing costs are low provide a chance to turn around dying businesses and allow them to do more Research and Development (R & D) work to speed up their pace of innovation and or expand existing operations that otherwise would have been difficult. In these circumstances the vendor industry is likely to bring economic revolution in countries where it is cheaper to make goods and services. However, the most likely beneficiaries of large scale outsourcing are those countries where the availability of highly efficient (productive) workforce (all levels), including managerial positions, plus relatively low utility costs and taxes are favorable.

Population surplus countries, like Pakistan, Nigeria and Bangladesh have ample opportunities to turn around their economies. But the role played by the government in these countries is more or less ineffective in strengthening the earning capability of its poor people. First thing first, the government has to reverse its economic planning strategy and divert a high proportion of national resources to all those programs and projects which are to provide immediate boost to the economic welfare of the common man. This includes free of cost education, training and skill learning programs at the initial stages. The workforce must be given jobs to start with or they must be given family maintenance funds so that a minimum standard of living is ensured for all.

We have China and India, the most successful role models where vendor industry is performing as a powerful vehicle for economic growth. For example, the driving force behind auto manufacturing explosion in India is largely come on account of lower cost of production. In fact, India has developed a strong base of auto ancillary manufacturers and there is several auto part suppliers like Hero-Honda who gather skilled workers of the quality needed to perform as per specifications of the vendors in the field. In India entrepreneurship is developing at various levels on account of on the job handling experiences of the skilled workers, who are seen highly organized and competent to supply parts and components on their own using JIT system to demonstrate their capability.

China has made excellent use of its highly skilled workforce to earn cost efficiencies in almost all the sectors of the economy. Its export earning is the 2nd highest in the world, and the direct foreign investment in China is growing faster then any other country in the region. Looking at China and India as the role models, the lessons we can draw for guidance of other population surplus countries to follow includes the following:

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<th>First Priority</th>
<th>Economic growth priorities must be reversed. Projects directly helping the common man must have highest Priority in the distribution of national resources.</th>
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<td>Second Priority:</td>
<td>Substantial Funds are to be assigned for Basic education and training of the children.</td>
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<tr>
<td>Third Priority:</td>
<td>Quality education to cover reasonable duration for all School age children, free of cost with incentive packages for poor families.</td>
</tr>
<tr>
<td>Fourth Priority:</td>
<td>Training and skill learning for entire workforce to become entrepreneurs. All expenses are to be paid by the state.</td>
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Fifth Priority: Small loans on the line of Grameen Bank of Bangladesh be given to the potential entrepreneurs.

In many of the population surplus countries, rate of unemployment is usually very high because majority of the people in these countries do not have basic education of the quality necessary to form basis for receiving marketable skills. To turn around these economies serious efforts are needed by their planning and executing authorities to promote entrepreneurship of the quality and competence to stand global competition. To share and participate in the rapid expansion of vendor industry, private sector (on their own) in some of the poor countries has taken the initiative to come in as a highly cost efficient vendors.

Pakistan, a country with plenty of workforce available at relatively cheaper rates, seems to be contributing a great deal in the promotion of vendor contracts. The auto industry is expanding very fast, and there is a growing demand for its parts and components while the entrepreneurial ability of auto-part manufacturing units is becoming highly competitive. According to Global Entrepreneurship Monitor-Pakistan 2010 survey the entrepreneurial attitude expressed by the total working age population (including those entrepreneurially active) of Pakistan was as follows:

I have the knowledge, skill and experience to start a business: 56.6% (of total working Age Population)

Fear of failure would prevent me from starting a business: 31.5% (of total working Age Population)

Most people consider starting a new business a good career choice: 77.3% (of total working Age Population)

Those successful at starting a new business has a high level of status and respect in society: 80.4 % (of total working Age Population)

The attitude expressed in the survey by Pakistani working age population is a positive finding and provides sufficient base for promoting entrepreneurial ability among the educated and skilled workforce.

5. Conclusions and Recommendations

Vendor industry has a very bright future for countries where workforce is not fully employed and the wages are relatively low. Rachael (2009) observed that in the global competition, many of the multinationals are trying to establish their links with these countries to get the low cost advantage by outsourcing many of the components they need to make for their final products. We have supporting evidence to show that countries like China, India, Malaysia, are becoming most popular hubs for manufacturing of parts and components for assembling electronics, automobiles, home appliances, ready made garments, shoes and several other final products sold by the multinationals.

Many poor countries with surplus population such as Pakistan, Bangladesh, Nigeria, Indonesia, have not taken full advantage of these opportunities, because they have not established a highly cost efficient network of trained entrepreneurs. Still the workforce employed in vendor industry in these countries is relatively inadequately educated, untrained and unskilled and without much training to use the latest technology to minimize costs. The potential is there for the expansion of vendor industry as an excellent source to transform the low income country to a high income earning economy. However, the share of many of the population surplus countries in getting outsourcing contracts offered by the multinationals is far below their capacities, a limitation which reflects the neglect on the part of the government planning and executing authorities in these countries.

In developing countries it is the primary responsibility of the state to educate, train and provide marketable skills to their workforce. The industrialists (large business concerns) must share their operational responsibilities and to some extent returns with their potential suppliers (vendors) of parts and components.
They should provide them with training and engage them on the lines of Just-on-Time system of operations, so that vendors can share normal profits. The most significant influence on an individual’s decision to become an entrepreneur is workplace peers and the social composition of the work place. Outsourcing by the multinationals operating in developed countries is a necessity for their survival in the global market. The wage gap between industrialized and developing countries is growing. Consequently the entrepreneurs in advanced countries are becoming increasingly interested in establishing their outsourcing contracts with entrepreneurs in developing countries, so that they can remain competitive and expand their business in the global market. Thus all the evidence so far points out that outsourcing is cost effective and is becoming increasingly indispensable for the survival of business concerns in the global market competition.

Globalization is bringing revolution in market economies. The consumer ability to choose and select products and services is increasing day by day to their advantage at a relatively lower cost and with higher satisfaction. The contribution of the entrepreneurs in providing highly cost efficient technology is to be acknowledged by the consumer societies who are enjoying comfortable life at relative lower costs.

References

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