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Achieving Sustainable Growth - The Biggest Challenge

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ABSTRACT

The dictionary meaning of the term' growth 'is gradual expansion or increase in size of something. The Term growth does not simply mean increase. Actually the term increase has a quantitative dimension. On the other hand growth has a positive qualitative meaning. Growth includes some total effects of development. Growth is the process of all-round development or progress of all limbs or aspects or sectors of natural living body and dynamic man made activity also. It is obvious that a natural body has a its own growth limit in its life span e.g . Plant, Animal, Human etc. The other sector such as an Industry is also considered a living body and it has also a span of life which follows a cycle of erosion and depreciation though its stages of infancy –Youth –Maturity and old age. However, rate of growth is always constitutionally well regulated in all cases but it requires systematic supply of needful properties for the development of growth from nature or from man in particular case. But in human controlled activities the concept of dependent on the motivation of entrepreneur, and socio governmental structure to a great extent. Although growth aspect follows the rule of limit.

It is a pertinent question whether the simple old term growth is related with the term sustainable or not. Actually the combined word "sustainable growth" is a new one but the term sustainable not directly was always present accompanying the term growth in disguise. But 21st century strategically gives an enormous high thrust or boost in all sectors to gain worldwide sustainable development and for this purpose the term growth has been associated with the term sustainable development.

In simple terms and with reference to a business, sustainable growth is the realistically attainable growth that a company could maintain without running into problems. A business that grows too quickly may find it difficult to fund the growth. A business that grows too slowly or not at all may stagnate. Finding the optimum growth rate is the goal. A sustainable growth rate (SGR) is the maximum growth rate that a company can sustain without having to increase financial leverage. In essence, finding a company's sustainable growth rate answers the question: how much can this company grow before it must borrow money?

KEYWORDS : SUSTAINABLE GROWTH , SUSTAINABLE DEVELOPMENT

Creation of sustainable growth is a prime concern of small business owners and big corporate executives alike. Obviously, however, achieving this goal is no easy task, given rapidly changing political, economic, competitive, and consumer trends. Each of these trends presents unique challenges to business leaders searching for the elusive grail of sustainable growth.

The growth challenge is articulated differently by different companies and within different industries. For some, developing and launching new products and services to meet the evolving needs of their customers is the issue. For others, capitalizing on global opportunities is key.

Economists and business researchers contend that achieving sustainable growth is not possible without paying heed to twin cornerstones: growth strategy and growth capability. Companies that pay inadequate attention to one aspect or the other are doomed to failure in their efforts to establish practices of sustainable growth (though short-term gains may be realized). After all, if a company has an excellent growth strategy in place, but has not put the necessary infrastructure in place to execute that strategy, long-term growth is impossible.

SUSTAINABLE GROWTH RATE:

SUSTAINABLE GROWTH RATE (SGR) shows how fast a company can grow using internally generated assets without issuing additional debt or equity. SGR provides a useful benchmark for judging a company's appropriate rate of growth. A company with a low sustainable growth rate but lots of opportunities for expansion will have to fund that growth via outside sources, which could lower profits and perhaps strain the company's finances. Growth can be a major dilemma because with growth comes a spontaneously generated need for increased working capital. Growth beyond this amount will force the firm to obtain additional financing from external sources to finance growth. Formula: SGR = (Asset Turnover) x (After Tax Revenue on Sales) x (Assets / Debt) x (Debt / Equity) x (Fraction of Earnings Retained).

USING THE SUSTAINABLE GROWTH RATE

The concept of sustainable growth can be helpful for planning healthy corporate growth. This concept forces managers to consider the financial consequences of sales increases and to set sales growth goals that are consistent with the operating and financial policies of the firm. Often, a conflict can arise if growth objectives are not consistent with the value of the organization's sustainable growth.

According to economists, if a company's sales expand at any rate other than the sustainable rate, one or more of the basic business ratios must change. If a company's actual growth rate temporarily exceeds its sustainable rate, the required cash can likely be borrowed. When actual growth exceeds sustainable growth for longer periods, management must formulate a financial strategy from among the following options: 1) sell new equity; 2) permanently increase financial leverage (i.e, take on more debt); 3) reduce dividends; 4) increase the profit margin; or 5) decrease the percentage of total assets to sales.

In practice, companies are often reluctant to undertake these measures. Firms dislike issuing equity because of high issue costs, possible dilution of earnings per share, and the unreliable nature of equity funding on terms favorable to the issuer. A firm can only increase financial leverage if there are assets that can be pledged and if its debt-to-equity ratio is reasonable in relation to its industry. The reduction of dividends typically has a negative impact on the company's stock price. Companies can attempt to liquidate marginal operations, increase prices, or enhance manufacturing and distribution efficiencies to improve the profit margin. The sustainable growth model is particularly helpful in situations in which a borrower requests additional financing.

Mature firms often have actual growth rates that are less than the sustainable growth rate. In these cases, management's principal objective is finding productive uses for the cash flows that exist in excess of their needs. Options available to business owners and executives in such cases include returning the money to shareholders through increased dividends or common stock repurchases, reducing the firm's debt load, or increasing possession of lower earning liquid assets. Note that these actions serve to decrease the sustainable growth rate. Alternatively, these firms can attempt to enhance their actual growth rates through the acquisition of rapidly growing companies.

Growth can come from two sources: increased volume and inflation. The inflationary increase in assets must be financed as though it were

real growth. Inflation increases the amount of external financing required and increases the debt-to-equity ratio when this ratio is measured on a historical cost basis. Thus, if creditors require that a firm's historical debt-to-equity ratio stay constant, inflation lowers the firm's sustainable growth rate.

Objectives of the Study:-

1) To explore the essence of the term "sustainable growth "both in theoretical and practical terms.
2) To identify those essential factors & parameters which are essential for sustainable growth & related sustainable development?
3) To develop and propose an ideal formula for measuring sustainable growth.
4) To give birth of a new schematic model this is nothing but the outcome of the article.

Relation between Sustainable Growth & Sustainable Development:-

1) Both the terms are complementary to each other.
2) Sustainable development is impossible or it a utopian scheme without sustainable growth.
3) Each and Every process or group of processes which are needful for natural and manmade activities perform within a open system and not in a closed system because it is normal that any type of development faces different unknown matters which cannot be predicted beforehand.

On the other hand, any type of development is considered as the laboratory result which is not possible in an actual real world.

4) The key factor for sustainable development is the sustainable growth of all aspects to drive away the said limit of growth. It is necessary to think about the sustainable growth concept.

Concluding Observations:-

1) Sustainable Development and related sustainable growth has two main compartments

i) Already existed old sector and ii) newly planned and constructed sector. Therefore the arrangement for sustainable growth would be different for those two different compartments.

2) The Sustainable Growth includes various factors such as continuous flow of finances or capital where the amount is also sustainable towards its requirement. The other vital growth point is the attitude, aptitude and skill of both managerial and other staffs. . Again the sustainable growth requires demand of the product or products. So the sustainable growth always looks for market and the necessary advertisement towards their inevitable uses of the product which may to some extent superfluous towards the importance of the product or products.
3) Sustainable Growth is the continuously growing function of Market (M) , Capital (C), Skill (S), Technology (T), Management (Mt) and other related parameters (OPs). Symbolically it can be exhibited as follows:
   SG = f (M, C, S, T, Mt, & Ops)
4) So Growth and its allied properties are the key factors for sustainable development. So the allied properties for the sustainable growth are the important elements or parameters which need sustainable supply, creation and acceleration. So the proposed formula for sustainable growth should be Proposed Yearly sum of important or main parameters of a said Micro Regions' particular sector in terms of money or quantity.

$$SG = \frac{\text{particular sector in terms of money or quantity.}}{\text{Sum of above existing parameters for previous year.}}$$

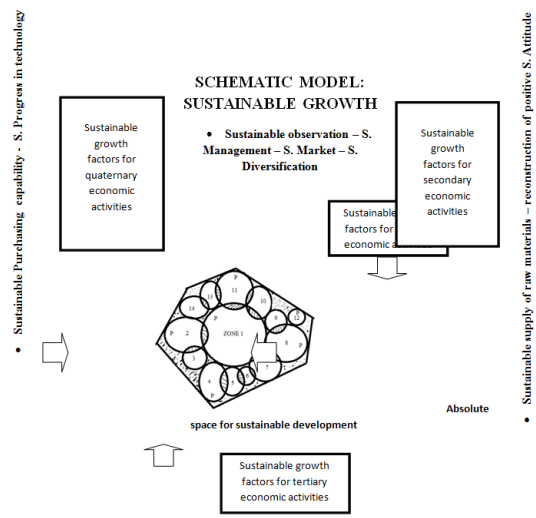
Example: Say SG for an Iron and Steel Industry of 2010 Proposed

$$= \frac{\text{Capital Outlay + Sell Target+ Production Lost + Production Cost etc}}{\text{Of 2009 Actual or Above}}$$

$$\frac{\text{Rs 10000000}}{\text{Rs 1000000}} = 10 \text{ SG Value}$$

So Higher the Proposed SG Value for 2010, Higher is the chance for sustainable growth of an actual result is nearer to the target and the process is continuous year after year.

5) The eradication of feature limits and ultimately to bring sustainable growth requires all round sustainability. i.e. sustainable observation, sustainable research & development, sustainable contiguous management , sustainable market, sustainable purchasing capacity of the society, sustainable diversification of products. Execution and acceleration of all these monumental or Himalayan or huge task are not very easy to the context of third world countries like India, and which can be visible in recent times in the backdrop of the LPG scenario where so many social disparities, misconceptions, ethnic attitude, illiteracy, poverty, psychological makeup etc are distinct gruesome problems which goes against the utopian concept.
6) Lastly the following Schematic Model is proposed for sustainable growth which has been constructed taking into consideration all those factors which contribute positively in the sustainable growth as well as sustainable development :



• **Sustainable processes for poverty alleviation – S. Supply of finance – S. research and development – S. Demand – S. Human resource development – S. market expansion process – S. export promotion – S. Market oriented foreign policy – N…**

Zones of different sizes and shows so called development with problem P

Areas of agglomeration

Forest

Limited space for further use

• Properties for sustainable growth – N

*Sustainable growth elements give a hierarchical chain