CHAPTER II

OBJECTIVES AND PLAN OF STUDY

2.1 Introduction

"During the last fifty years, society in every developed country has become a society of institutions. Every major social task, whether economic performance or health care, education or protection of environment, the pursuit of new knowledge or defence, is today being entrusted to big organizations, designed for perpetuity and managed by their own management. On the performance of these institutions the performance of modern society increasingly depends".¹

Large organizations have been able to play such a dominant role primarily because of the support they have received from academicians, researchers and practicing managers in the form of need based research. Present and past literature on the subject, throws adequate light on the problems faced by these organizations. This effort has resulted in a highly structured approach to conceptualisation, creation and maintenance of large complex organizations.

Small scale sector, because of its recent emergence as a sector complementary to large sector, is yet to receive similar attention from its managers, researchers and academicians. By virtue of its economic power, the large sector has been able to field a number of special studies on its own. Such effort was more than adequately supported by business schools and economic research institutions. While similar efforts are being put in by Government institutions engaged in promoting small firms, they have concerned themselves with only specific ailments like finance, marketing etc. rather than general sickness. Added to this, due to lack of funds and the needed orientation, the small entrepreneur managers have lagged behind in instituting studies that would develop their management expertise. It is often argued, management expertise being universal in character, could be easily adopted to small business needs. The interaction, the researcher has had with some of the entrepreneurs who earlier worked as executives in large firms supported the contention that management of small firms often needed skills different from those acquired in large units. Needless to say, these entrepreneurs, while they were certainly better than those who had no background of managerial experience, could not address
themselves well with certain vital problems of small firms. The severe economic limitations of a small firm often scuttled the initiative of these entrepreneurs whose earlier experience was not marked by any such concern for financial constraints.

Small business entrepreneur, in the course of his activities takes a number of decisions, such as those pertaining to location, sources of finance, type of products to make, type of markets to serve etc. While these can be termed as preinvestment decisions, he takes a number of decisions in response to changing business environment which could be termed as post investment decisions. Existing studies point out that his inability to make these decisions properly has often lead to disastrous consequences. Sometimes leading to suicide being committed by small entrepreneur. This is because, many decisions made by small entrepreneurs both prior to investment and after investment are irrevocable in nature, and as a result put severe strain on the entrepreneur who stands to lose both economically and socially. This fact is borne out by available literature as well as field observations made by the researcher.

Hence it is imperative that efforts have not only to be made to resurrect the firms which have failed, but these efforts have to be more or less on a war footing to see that future entrepreneurs are protected from such dilemma situations by providing them with the right kind of tools and techniques to make vital decisions in a systematic manner than being attempted now.

Incidentally, the policy makers who have spearheaded the effort to promote small firms on a big scale have to re-examine their aggressive strategy in the context of increasing failure rate. Their effort in future should be highly guarded one, aimed at preventing recurrence of the past, through a series of policy changes in their programme.

Lastly, the researchers and academicians who are often unable to resist the temptation to associate themselves with the glittering drama on the corporate scone, need to have a second look at their prioritisation. In terms of a systems approach, it is the hunch of researcher that every input of research in this vital sector is going to be many times productive than in any other sector of the economy. This endeavour could lit families of many entrepreneurs with smiles.
The broad objectives of this study in this context are:

(i) To provide systematic framework of decision making skills required by a small entrepreneur by examining pitfalls in the area.

(ii) Based on the findings to make suggestions to the policy makers to introduce certain policy changes and initiate new programmes to lay a high degree of emphasis on need of managerial skills in small firms. By doing so, policy makers in India will be following steps already taken by organizations like Small Business Administration in United States.

(iii) To call upon the business schools and other economic research institutions to pay attention to the management needs of this sector, in consonance with the huge resources committed to this sector by policy makers in general and individual entrepreneurs in particular.
competence, experience and professional-integrity. As a result, faulty decisions are taken and implemented with great amount of wastage of time and money. In fact, many failures of business have their origin in the total neglect of consultation process which has been highlighted in the ancient scriptures very thoroughly.

4.2.2 Another great event of decision making process can be seen in Bhagavadgita, where prolonged and interesting dialogue takes place between Arjuna and Lord Krishna. In the course of discussion, Arjuna, a professional warrior declines to fight since he finds that enemy's camp consists of his many kith and kin, including his elders and teachers. The discussion follows the advice sought by Arjuna in his moment of distress when he is unable to decide as to what really is his duty in this kind of situation. This epic poem is known for its practical solutions to difficult problems of life, and deals with several facets of life, a discussion of which will be out of place here. Only those aspects that concern decision process are being chosen for reference. The situation faced by Arjuna is basically a decision-related one. Here Arjuna is unable to decide in either of the directions and thereby prefers to be inactive. It is often said that a wrong decision is better than no decision at all. This is because decisions signify action while non-decision reflects inaction unless the decision not to decide is made after weighing facts.
Lord Krishna advises Arjuna not to get bogged down by too much of analysis i.e., what Peters and Waterman have rightly called "Paralysis through analysis" Syndrome. Our observations in the field support such a synthesis. It was found that the entrepreneurs in their managing act had not acted on many vital issues in spite of the fact that these issues deserved highest attention. For example, product decisions of a firm require review. This review should lead to changes in the existing product quality, packaging range etc. This review should also lead to development of a new product on one side and planned obsolescence of products on the other. But many firms lack efforts in these directions. An examination reveals that entrepreneurs have screened a number of products for adoption; they have collected many details. The analysis they have carried out has overwhelmed them. For fear of failure they have preferred to remain inactive. Lord Krishna in his advice calls upon Arjuna to weigh the extreme possibility of either death in the war or rulership of Kingdom and be prepared to fight. Ability to take risk is partly a reflection of one's preparedness to face up to the worst consequences, should their estimation fail. Such preparedness will fill the manager of a


small firm with the grit and determination which he lacks at present. Another vital aspect he touches is related to the development of criteria for decision making. According to him one who has clarity about his priorities alone can come to a firm decision. For him the choice is clear. More often, he has one clear choice rather than too many hazy alternatives. This can be viewed in the context of what Peter F. Drucker has to say about the role of objectivity in decision making. In his words "constant effort alone can counteract the inherent tendencies toward diffusion and misdirection". There are many observations made in this epic poem which have far reaching impact on act of decision: for the fear of distraction they have been avoided. It can be said that decision making process in business cannot be separated out from human frailties. There is often a need to develop a 'holistic' approach to see a manager's decision making process in the context of his early experiences of life and the significant influence they have on his attitudes resulting in behaviour unique to each person. Viewed in this context decision making is not just an activity, but a vital one which in effect decides what man is ultimately going to be - both as an individual as well as a social being.

4.3 **Typology of Decisions:**

Many classifications of decisions are available. Each classification is naturally based on the approach of the author. A few classifications used often in literature have been provided here to give an illustration of the type of decisions made under different situations.

4.3.1 **Chester I. Barnard:**

Well known in the field of management for his contribution during the early period of management evolution, has classified decisions as -

(a) **Personal decisions:**

Decisions that relate to achievement of personal objectives of the decision maker.

(b) **Organizational Decisions:**

Decisions that are aimed at achievement of organizational objectives. He points out that while personal decisions are always made by the decision maker, organizational decisions can be delegated to subordinate personnel in the hierarchy.  

---

4.3.2 Herbert A. Simon:

Well known for his contribution to the science of decision making, has classified decisions into programmed and unprogrammed decisions. While the former type of decisions are repetitive and routine for which a definite procedure has been worked out, the latter type of decisions are novel, unstructured and consequential. There is no cut and dry method for handling the problem because it has not arisen before or because its precise nature and structure are elusive or complex, or because it is so important that it deserves a custom tailored treatment.13

4.3.3 Peter F. Drucker:

An eminent management thinker classifies decisions as
(a) Generic:
Those decisions which belong to a category or a class.
(b) Unique:
Those decisions which cannot be grouped into any category but hold their own place.14

4.3.4. Delbecq

He has gone a step further to classify decisions into three types.

(a) Routine:
These are of the type where there is clarity over the goals to be achieved and procedures are developed for achievement of these goals in the organization.

(b) Creative:
These decisions do not have a well established basis. There is incomplete knowledge of cause and effect relationship. Such a situation is common where a forward looking entrepreneur is confronted with a situation where the existing MIS does not provide enough information to make a decision on scientific basis.15

(c) Negotiated:
Because of differences in norms and values of interest groups working in an organization, negotiated decisions concerning either ends or means or both, become inevitable.

4.3.5 Thompson

He has imparted dynamism in the classification of decisions by looking at the whole process in the overall framework of strategy formulation. His classification is based on a premise that a strategy is dependent on preferred outcomes and cause and effect relationships involved.

(a) Computational Strategy:
The cause and effect relationships are well understood.
The outcomes are premeditated.

(b) Judgemental Strategy:
Here expected outcomes are clear but cause and effect relationships are not known.

(c) Compromise Strategy:
Outcomes are not determined but cause and effect relationships are known.

(d) Inspirational Strategy:
Neither outcomes are known nor are the cause and effect relationships clear.

From a short review of the typology of decisions given above one can easily infer that while there can be a number of permutations and combinations of types of decisions in reality it is difficult to draw a distinction between the decisions taken on the shop floor situation. However, a short review of the classifications does provide us with the contours of a broad continuum within which a decision has to be taken by the top management, irrespective of whether the organization in question is a large corporation or a small scale business firm.

4.4 Decision Theory:

The complexity of the problems faced by a decision maker resulting from multiplicity of objectives and multiple criteria in an ever changing environment has made decision making process difficult for an average decision maker. It was during the second world war, a need for some kind of well developed method to aid the decision maker, was felt. This led to a large scale effort from quantitative specialists to incorporate mathematical and statistical concepts in defining a problem situation faced by the decision maker. In fact it was the interdisciplinary effort of similar nature that led to the development of operations research techniques which have now been widely used for solving problems concerning
queuing transportation etc. It is often said that a manager should not only be able to define his problems but also define it very well. It is said 'a problem well defined is half solved'. In the first place it should be noted that decision making theory is a loose term used in management theory for identifying areas for extensive study, where quantitative aids are used for decision making. While using these techniques certain assumptions are usually made about the decision maker. They are: (1) He has definite objectives to be realised, (2) He has almost unlimited time and money available for search and evaluation activities, (3) There is virtually perfect information regarding the probability of outcomes and (4) He possesses inexhaustible cognitive power for comprehending, assimilating and retaining an infinite number of variables. The above assumptions some time act as limiting factors for the usage of quantitative techniques in management. However, their availability has enabled managers to choose these techniques as an aid to decision making whenever they are faced with highly complex problems involving


deployment of huge resources. A manager can use a number of models of decision making. For example, he can use the deterministic models, mostly mathematical in nature and the probabilistic models developed by statisticians.

A typical decision maker operates at any point in a continuum, from a situation of total uncertainty to a situation of total certainty. The quantitative techniques help a manager gauge up this uncertainty so as to make a proper decision with complete regard to quantitative parameters. As already identified, the act of judgement, which is the sole responsibility of the decision maker calls for consideration of both quantifiable as well as non-quantifiable factors before a final decision is made. One argument put forward against extensive use of these quantitative approaches is that certain situations faced by the decision maker are likely to be non-quantifiable in nature and therefore the available quantitative techniques are of little use to him. 19

In spite of this, it cannot be said that techniques available under broad areas of decision theory are of no help to an average decision maker and particularly to a small

business decision maker. In fact, the use of models and techniques help understanding of varied dimensions of the complex business problem and also develop conceptual clarity in structuring in an otherwise vague decision situation. In what follows are some of the illustrations of where and how a small business man can use many of the simple techniques for the decision making process. Needless to say, techniques can only be looked at as an aid and not as a solution to the problem.

4.4.1 Decision Matrix or Pay Off Matrix:

Assuming that a small businessman, who desires to set up a subcontract firm, has to make a choice of machines to buy. He has three types of lathe machines amongst which he has to choose one. The machines range from high precision to those of low precision. He has at the same time three large companies who are likely to place orders for job work with him. Amongst the buying companies there is a company interested in work of high precision and there are companies interested in moderate and low precision work respectively. Here the precision requirement of the machine is dependent on the buyer of the end product. The most important objective of small businessman is higher pay off. The decision matrix developed on the basis of information regarding the likely profits to the small firm in respect of each machinery chosen, is presented below:
### Table 1
**Pay Off Matrix**

<table>
<thead>
<tr>
<th>Machine Type/ Firm</th>
<th>High Precision H.P.</th>
<th>Medium Precision M.P.</th>
<th>Low Precision L.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100</td>
<td>80</td>
<td>40</td>
</tr>
<tr>
<td>B</td>
<td>60</td>
<td>90</td>
<td>50</td>
</tr>
<tr>
<td>C</td>
<td>40</td>
<td>60</td>
<td>45</td>
</tr>
</tbody>
</table>

The businessman will maximise profits if he buys H.P. lathe and gets orders from firm A. But he will make a minimum profit if he buys a H.P. lathe and gets orders from firm C. Similar will be the pay off if he buys L.P. lathe. Such an analysis is likely to provide a graphic picture of outcomes and thereby increase his clarity about the situation.

#### 4.4.2 Expected Value

Assuming that the probabilities of the outcome are also known, the decision maker will be in a position to find out the real worth of different events. In the above table values will change when probabilities of each occurrence are developed.

Assuming that the probabilities of large companies A, B and C placing the order with the subcontract firm are 0.4, 0.3 and 0.3 respectively the new pay off table will be as follows.

From the above table it is clear that with a H.P. machine and orders from company A the pay off is highest at 40. With H.P. machine and orders from company C the pay off is lowest at 12. In the case of M.P. machine the highest pay off is 32 when company A places order, lowest is 18 when company C places order. Riskwise this is a better proposition.

4.4.3 Maximax, Minimax and Maximum Propositions:

(a) Maximax:

Here the decision maker would select a proposition that would ensure maximum of the maximum profit that he can get from the three alternatives. These figures are 40, 32 and 16 respectively for alternatives I, II and III respectively. The maximum of the maximum will be 40. Such a strategy can be used when it is considered that environment is highly favourable to the firm.

<table>
<thead>
<tr>
<th>Type of Machine/ Firm</th>
<th>Prob.</th>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>H.P.</td>
<td>M.P.</td>
<td>L.P.</td>
</tr>
<tr>
<td>A</td>
<td>0.4</td>
<td>40</td>
<td>32</td>
<td>16</td>
</tr>
<tr>
<td>B</td>
<td>0.3</td>
<td>18</td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td>C</td>
<td>0.3</td>
<td>12</td>
<td>18</td>
<td>13.5</td>
</tr>
</tbody>
</table>

Table - 2
Expected Values

From the above table it is clear that with a H.P.

machine and orders from company A the pay off is highest at

40. With H.P. machine and orders from company C the pay off

is lowest at 12. In the case of M.P. machine the highest pay

off is 32 when company A places order, lowest is 18 when

company C places order. Riskwise this is a better proposition.

4.4.3 Maximax, Minimax and Maximum Propositions:

(a) Maximax:

Here the decision maker would select a proposition that

would ensure maximum of the maximum profit that he can get

from the three alternatives. These figures are 40, 32 and 16

respectively for alternatives I, II and III respectively. The

maximum of the maximum will be 40. Such a strategy can be used

when it is considered that environment is highly favourable

to the firm.
Another strategy is to select that action which would maximize the minimum gain or pay off. This is a conservative decision strategy. Assuming that environment is not favourable, decision maker opts for low risk approach and seeks the maximum of the minimum. Here the minimum outcomes which are also the worst possible outcomes are 12, 18 and 16 respectively for alternatives I, II and III respectively. Alternative II which yields an outcome of 18 will be selected i.e., worst possible outcomes for alternatives I and III are less desirable than for alternative II.

Another decision strategy available to the entrepreneur is to minimize the maximum loss. Here loss is defined as the difference between the minimum pay off for a given action and the highest minimum pay off for any of the actions available. The loss for alternatives I, II and III will work out to be 40 - 12 = 28, 40 - 18 = 22 and 40 - 16 = 24 respectively. The choice of alternative II will yield minimum of the maximum loss.
It can be observed that the maximin and minimax will both yield the same result. Such an analysis provides the entrepreneur with various alternative strategies at various levels of risk.

4.4.4 Bayesian Analysis:

Needless to emphasis the cost of uncertainty in a given situation can be reduced and new probabilities can be developed, provided new information is available. Bayesian analysis provides us with a technique which can be used to find out the new probability based on old as well as new information which are termed here as prior and posterior probabilities. Assuming a situation where the decision maker is trying to make a decision to launch a new product, the prior probabilities are 0.4 for success and 0.6 for failure. The entrepreneur institutes a study by a market research firm to find out the market potential for the product. The market research firm in its report recommends launching of the product. Through his enquiries the entrepreneur verifies the reliability of the finding of the market research firm which has made the recommendation. He finds that in 6 out of 10 cases the firm has been right i.e., the firm has 0.6 probability of making a proper recommendation.
Table - 3

Prior and Sampling Probabilities

| A_i | Possible Outcome | P(A_i) Prior probabilities | P(B|A_i) Sampling probabilities |
|-----|------------------|-----------------------------|-------------------------------|
| A_1 | Launch the product | 0.4                         | 0.6                           |
| A_2 | Not to launch the product | 0.6                         | 0.4                           |

Information Necessary for Solutions of Baye's Rules:

Using Baye's rule

\[
P \left( \frac{A_i}{B} \right) = \frac{P(A_i) \cdot P(B|A_i)}{P(A_i) \cdot P(B|A_i) + P(\neg A_i) \cdot P(B|\neg A_i)}
\]

Table - 4

Tabular Analysis of Example Using Bayes rule

| A_i      | P(A_i) | P(B|A_i) | P(A_i)P(B|A_i) | P(A_i/B) |
|----------|--------|---------|----------------|----------|
| A_1 = Launch the product | 0.4    | 0.6     | 0.24           | 24/48    |
| A_2 = Not to launch the product | 0.6    | 0.4     | 0.24           | 24/48    |
According to the new set of probabilities developed using Baye's rule, based on information supplied by market research firm, the probability of success of the product has improved from 0.4 to 0.5. This can considerably alter the attitude towards the launching of the product.

4.5 Some Pre Investment and Post-Investment Decisions in Small Firms:

Needless to say, even small firms have to follow some kind of decision making process although more often than not, they are likely to be unstructured and rudimentary. Notwithstanding the size of the firm, a typical decision process has three elements viz. (i) The decision maker (ii) The decision itself (iii) The decision making style.

What follows is a detailed examination of the extent to which these three elements prevail in the decision making process of the firms under study.

(i) The Decision Maker:

It was found that the entrepreneur was the key decision maker in all the 15 firms under study with varying roles depending upon the type of product, size of the firm and the top management structure. Often the entrepreneurs were unaided
in their role as decision makers. In firms which were private limited companies, the entrepreneurs received varying degree of assistance either from directors or external consultants or technical experts who were employed by the firm. In the rest of the firms the entrepreneur took the complete responsibility with low level of assistance from supervisor or middle level of personnel: whereas three entrepreneurs had relevant experience before starting the enterprise, six of the entrepreneurs had some kind of experience though not directly relevant. The remaining six entrepreneurs did not have experience of any sort. As far as the managerial experience was concerned only one had exposure as an executive in a medium size industry. Five entrepreneurs had supervisory experience, two had experience of having managed their family business and the remaining seven did not have managerial experience of any kind. As far as the technical background of the entrepreneurs was concerned, only five of them had relevant technical knowledge through formal education. The average age of the entrepreneurs was 40 years, and the minimum qualification they possessed was matriculation.

(ii) The Type of Decision:

The typical decisions made in a small firm can be classified into two (a) Pre-investment decisions, and
(b) Post investment decisions. Pre-investment decisions were such as the basic decision to start the small firm, the location of the firm, choice of product and markets, size of operations, sources of finance etc. Post investment decisions consisted of decisions concerning pricing, working capital requirement, production planning and scheduling, marketing arrangements etc.

(a) Pre-Investment Decisions:

The primary motives behind starting their own small firms were clearly of varied nature. There are a combination of factors that influenced their decisions. While five of them were motivated by the availability of infrastructure and finance, the other six entrepreneurs, who had prior work experience in large units were motivated by a desire to own their own enterprises, the four of the entrepreneurs who belonged to business community had started units merely as a commercial activity. As far as the location of the units were concerned, except for two entrepreneurs who had deliberately chosen the location for the remaining, the choice of location was incidental and not deliberate. The main reason for the location was the proximity to their living place. As far as finances are concerned, while fourteen entrepreneurs had opted for a package of self investment and bank loan, the lone entrepreneur had not sought any kind of outside finance.
Asked about ROI consideration, except in the case of four entrepreneurs who belonged to business community, the remaining could not provide a concrete basis for the investment opportunity chosen. As far as the choice of the products/markets was concerned, seven entrepreneurs had chosen ancillary status. The choice of ancillary status was based on the needs of organised corporate sectors, as a result of which it was perceived by the entrepreneurs that their commitment to ancillary status will involve less of marketing, and it can provide a steady turnover with reasonable profits. In case of the remaining eight, who had their own products, three were in consumer goods industry, five were in industrial goods industry, while one entrepreneur in consumer goods industry had inherited his family business, and two others had started their own firms, as a result of recommendation from small industry service institute; of the five industries in industrial goods manufacture, two had started producing products independently with the aim of catering to the needs of nearby large industry. Of the remaining three, one entrepreneur had started manufacturing a product on the recommendation of a large buyer in a far off area, while the other two had chosen their product after an informal demand survey conducted by them. Of these, one had started with a product idea and examined its potential through survey, while the other decided upon the product, based on the survey.
As far as the size of operations were concerned, most of the entrepreneurs had based it on affordability in terms of investment and management skills required. As many as twelve of them opined that a large size initially was unthinkable due to the high risk involved. As regards the deliberate limitation of the size, enquiries revealed that these firms did not want to attain the status of factory for the fear of being subjected to the regulatory agencies and the mandatory provision of Factories Act 1948. Therefore, some of them deliberately chose to enjoy status quo and thereby preferred low aim and low achievement strategy. On the contrary the approach of the three entrepreneurs, who now owned private limited firms, was quite different initially. Even though they also had to start on a small size, in their decisions pertaining to land area, design of the factory building and capacity of the machines they had shown considerable farsightedness. From the very beginning their focus was on growth and expansion opportunities. When the researcher requested them for elaboration on the points, they unhesitatingly told that before arriving at the decision they identified different industry growth parameters. For example one unit which was in consumer goods industry had procured land nearly, eight times its requirements. Today this is a leading firm and has used the whole area to house its various facilities.
Post Investment Decisions:

Pricing, was a vital decision each firm had to make very often and with greater degree of accuracy. Of the fifteen, seven entrepreneurs were of the opinion that they had no control over the prices they obtained for their products or services, because they were not in a position to dictate terms. They tried to convince the researcher that their aim is to survive and they can survive in a competitive market only if they follow the market. When questioned about their approach to pricing, assuming that they have an opportunity to determine their own price, they could offer only vague generalisations. Three entrepreneurs had identified areas of cost in respect of different products and services. They had developed their own simple methods of calculating costs and used them to arrive at the desired price. Even though these entrepreneurs too agreed that a typical small firm lacked strength to adopt an independent approach in pricing. They were of the opinion that knowledge of one's own costs is a must. Such a knowledge, they said, 'will help us know where we are' and 'that is very helpful in taking future steps' they added. Five other entrepreneurs had a totally different approach to their pricing pattern. One of them said 'I believe my price is largely determined by the benefits
the customer derives from my product and services'. While explaining his process of pricing policy he said 'I first find out what the customer's problems are. Second, I find out areas where using my special skills I can solve the customers' problems. Thirdly, I find out the value of the benefits that accrue to the customer as a result of my sale of products or services and then fix the price.' Another entrepreneur said 'price is a by-product of good offering made in the form of products or services taking into consideration the needs of customer'. So, he added 'I always focus my attention on the customer'. One of the entrepreneurs who ran an ancillary firm had a distinct edge over others on account of his strategy of offering a rate contract to the buyers provided they bought their entire requirements from his firm.

As far as working capital requirements were concerned, nine out of fifteen entrepreneurs did not adopt any specific method for assessing their requirement. Their approach was on an ad-hoc day to day basis and did not involve any kind of predetermined plan. The most important reason advanced for inability to plan for requirements on a longer basis was uncertainties in the market. The other six entrepreneurs adapted some kind of requirements planning approach. In their
negotiations with buyers of products and services they said they used a long term approach. One of them said "the typical buyer would always be interested in short term buying commitments whereas we need long term commitments to plan our work strategy". Explaining how he countered this he said 'I would offer a product or service based on the study of customer needs and combine two or more services in one product, so that in one shot the proposal becomes attractive to buyers and remunerative to me'. Adding further he said 'I would provide him specific advantages in terms of quality and price, provided he lifts his requirements on a long term basis'. This enabled him to plan his working capital requirements. Such an approach not only proved to be useful in procurement of materials, but also enabled him to control inventory. Four of the six firms in this category made extensive use of past data to determine the future growth parameters.

Another area which had a significant impact on small firm performance was production planning. It was seen that in respect of 10 firms there was no planning of any type. Out of five other firms, three firms had formal planning systems whereas in respect of two others, the less-formal type planning was in vogue. Giving an example of his functioning pattern, one of the entrepreneurs commented 'there are
occasions when I have run all the three shifts continuously for 3-4 days, but there are also occasions when I have kept my machinery and men idle almost for a day in the hope of receiving some orders. "One of the strengths of a small firm is its flexibility in operations." He further expressed with a contemptuous smile look... Mr.... we small people are always exposed to a situation where any attempt to plan our work-schedule ahead is likely to be abortive. In fact, planning is an exercise in futility at least in the case of small business. Another entrepreneur who also could not adapt plans of any kind said 'planning of any kind, even for a short term duration, is difficult because we are not clear about market demand for our product/services. We are not sure whether we will get the needed raw material tomorrow at the same price or not'. Adding further he said 'the tendency of Government to change its policies with regard to taxes, preferential treatment, subsidies etc. makes the whole environment difficult for any kind of planning'. In respect of firms where there was a favourable attitude to planning, it was seen that the entrepreneurs had developed their own methods for arriving at the demand for their products. In one of the units studied which was in machine tool business, the production was dependent upon individual job specifications ordered by the customer.
Over a period of time the firm had developed certain standard specifications on its own and had acquired suitable number of tools of standard size and other specifications in anticipation of orders. Here there was no analysis in terms of industry demand potential, competitors share and firm's share etc.

In another firm which was producing machines for chemical industry, it was possible to estimate the likely demand on the basis of investments proposed by public sector as well as private sector. But in actual practice the firm depended upon the crude estimates developed by the sales personnel. These estimates formed the basis for actual planning.

In respect of marketing arrangements, seven entrepreneurs who had chosen an ancillary status stated that there was no marketing of any type involved in their products and services, since they were totally under the control of big firms. According to them, marketing was necessary only when one develops one's own product. When explained that marketing is as much necessary in such cases as in others because, in almost all cases, understanding the customers and their needs is the first prerequisite to match our skills to the market demand they appreciated the point of view by nodding their heads with broad smiling faces.
As regards the remaining eight, one of them had a long term buying arrangement with a large marketing firm who lifted the entire production of the firm. This was in consumer products category. One of the entrepreneurs in industrial products category who was producing Gobar Gas Plants along with other products like tractor trailers etc. had a tie-up arrangement with Government organizations which were engaged in advancing loans and assistance for setting up Gobar Gas Plants. One of the firms in consumer goods category which was making plastic bags had opened a small show room in a busy market place through which the products were being sold. Of the remaining five firms, four in industrial products and one in consumer products, three had their own independent sales force while two depended upon middlemen. Except three firms, the remaining twelve firms, opined that they had not foreseen and planned for marketing since they felt that a good product would 'sell itself.'

A close examination of the basis for pre-investment and post investment decisions and the approach reveals that almost all, - if not all-entrepreneur's have an 'heuristic' approach to problem solving, whereas typical decision calls for an in-depth analysis of the alternative courses of action.
The approach of an entrepreneur signifies a simple model which he can use with no difficulty. A close examination of location decision will reveal the obvious. A typical location decision calls for detailed examination of the sources of raw material, location of customers, the time and cost of transportation etc. But in actual fact, a location decision is made first and then the search for products starts. So the decision maker does not enjoy the freedom to choose. He is bound by number of factors while a product decision should be guided by the growth potential, profit involved, special skills necessary and available skills etc. These decisions are simplified in choosing a well defined product or service for which demand is well developed but profit and growth potentials are low due to simple operations and competition arising as a result. As regards the size of operations, whereas the economic viability is an important consideration in determining the size of operations in terms of capacity etc., the avoidance of interaction with regulatory bodies seems to be the main criteria in respect of nearly 80 per cent of entrepreneurs.

As regards sources of income a simple method of financing is the owner's equity plus bank finances. There are possibilities of acquiring capital by inviting deposits from
public and using venture capital; but none thought it worthwhile to explore them, except in two cases of private limited companies.

In respect of ROI consideration, eleven entrepreneurs did not have clear expectations, whereas only four entrepreneurs did have some such clarity.

The most important decision which is made by any entrepreneur is that of starting an enterprise. Even though it is difficult to expect all to have both technical and managerial experience before starting an enterprise, the research studies emphasize the obvious that some basic managerial skills are necessary for ensuring the success of an enterprise. It is worth noting here that nearly 60 per cent of the firms under study did not possess any kind of managerial experience.

As far as post investment decisions are concerned, it is seen that nearly 50 per cent of the entrepreneurs did not have any kind of well defined approach to pricing. The result of such blindfold approach, where demand determines every parameter, is obvious. Survival of the firm and further growth and expansion depend upon profit generation. Profits depend
upon the control the entrepreneur is able to exercise over the prices. Unless a price is remunerative enough to meet his costs and then contribute a reasonable margin to enable the entrepreneur to meet his working capital requirement as well as future developmental costs, it is not possible to generate profits.

A close look at the assessment of working capital requirement and production planning reveals that the firms adapt a low profile approach. Nearly 65 per cent of the entrepreneurs felt that their business conditions were such that they could not carry out any kind of systematic exercises. Uncertainty is a phenomenon that is prevalent everywhere, whether it is small or big business. While the big business is able to reduce this uncertainty to manageable proportion through its information gathering and analysis process on the one hand, and the money power on the other, the small business is unable to make any dent in this direction. This does not mean that a small firm should drift like a ship without direction. It has to struggle within its own limitation to set a direction for itself though it may have to make course corrections more often than a big business. Seen in this context, there is a need for a small business to be more deterministic in approach if it has to survive and grow. This
situation is further aggravated by the fact that big firms which have a complementary status vis-a-vis the small firms have more exploitative tendencies thereby making small firms struggle with increasing uncertainty. The fact that nearly 70 per cent firms are unable to develop any kind of production plans, shows that many of the controllables such as product offering, synergy resulting in efficiency and effectiveness are not being used as a leverage in the process.

As Peter F. Drucker aptly puts if, marketing is so basic that it defines the whole business. Genuine orientation to marketing is sine qua non of good entrepreneurship. Several success stories of small firms have this message that marketing is the crux of the problem and if managed well it can pave the way for the firm's success. Another important hurdle in understanding marketing needs of a firm is its confusion with selling. All along we have lived with shortages. Our country has been a seller's market and obviously, marketing escaped the attention of entrepreneur's attention in the early period. It is only in recent years that they have had to face a buyer's market. This change has had an impact on the performance of small firms, but the entrepreneur has been rather slow to accept the realities.
Producing a technically superior product has been the predominant obsession with the entrepreneurs who have technical background (in this survey 35 per cent of them had strong technical background), with the result there is a search for the customer only after the product is ready for sale. An objective analysis of the firm’s capabilities, and market opportunities is necessary, while the entrepreneur should also undertake an analysis of the inadequacies of the firm. This has to be supported by a careful observation of competitive environment for possible threats. Choice of a market which has future growth potential is essential while it has to be ensured that adequate levels of profit exist to ensure survival, growth and expansion.

4.6 The Difference Between Large and Small Firms

The basic difference between a large firm and a small firm is in respect of the type of management control. While a small firm is owner-managed, a large firm is often managed by a group of people headed by the promoter or an executive appointed by the board. The second difference is in respect of finances. While the small firms particularly in India suffer from lack of innovative sources, the big firms attract funds from institutions and individual investors on a large
scale. Even Government occasionally comes forward to partici­
pate in financing a big firm. These advantages enjoyed by
the large firms, contribute a good deal in making a particular
business venture an instant success. For example products like,
toothpaste, electronic goods, soaps, detergents, require a
considerable amount of advertising expenditure in a vast
country like India. But small firms cannot make any impact on
the market for such products because they cannot afford an
expenditure which may run into crores of rupees for nationwide
coverage. Since persuasive communication in the form of adver­tis­ing has dominated the marketing scene, a thrust of small
firm without an adequate effort in this direction will not
yield needed results.

Another important difference is in respect of the
ability to attract bright talent. Large firms are in a position
to attract prospective young men and women by offering good
pay, quick promotional opportunities, assured bonus and other
perquisites. In addition the company's reputation and image
and growth prospects etc. make young men and talented hands
to prefer large firms. But a small firm which is often strug­
gling to find its own roots cannot compete with large firms
in attracting young talents by offering attractive terms and
conditions of employment.
The Fourth important difference is in the combined strength of small firms. Through their merchant bodies like chamber of commerce, employers' associations etc., large firms have easy access to corridors of power and are in a position to twist the tail of policy to suit their interests. But due to the high degree of competition, inability to spare time and effort, involvement of owner manager in day to day fire fighting at the shop floor level and lack of congenial atmosphere etc., the small firms tend to segregate day by day and do not form a force to reckon with even though their contribution on a national scale is in no way less than that of the large sector.

Another factor that determines the quality of decisions is the environment prevailing on the shop floor. Decisions made under conditions of stress and strain can prove to be qualitatively poor inspite of superior abilities of the decision maker. Observations in the field reveal that executives who did very well in large firms were unable to do equally well when they had occasion to float their own small enterprises. Strong personal identity of the typical entrepreneur with the firm, while it serves as a motivating factor on one hand, acts as a deterrent in developing objectivity. To be
more precise, it could be said that the risk involved in business decisions while it gets syndicated in case of a large firm, has to be borne by the small firm entrepreneur all alone. These are some of the factors which significantly affect the performance of large firm executive in his new role as an entrepreneur.

Needless to say, the literature in management is replete only to substantiate that a given decision has many dimensions which can be fully explored by group effort rather than by a single individual. Here problems of cognition and perception are involved which greatly reduce the individual's ability to develop the rationality required. This is the chief difference between small and large firms. Whereas these gaps in cognition and perception are filled in by a battery of specialists and professional decision makers in a large firm, a small firm decision maker struggles all alone.

4.7 Some Illustrations of Imaginative Decisions in Areas of Production Finance and Marketing:

In the foregoing pages it has been observed that defective and incomplete decisions were the main causes of failure of small business units. Now an attempt has been made to study crucial decision processes of a few firms, which
ultimately paved the way for their success. In all these cases the success is measured in terms of growth in turnover and assets.

4.7.1 Case-I

Firm: Naveen Industries Pvt Ltd.

This case is about a small family managed firm which after having started in 1961 as a small unit with a workforce of 12 and an initial turnover of Rs. 50,000 grew to have a turnover of over 10 crores with a workforce of 700 in a span of two decades. Not only this, the firm established a leadership position in a highly demanding product line serving chemical fertilizer, petroleum and Nuclear industry. Naturally the researcher was interested in exploring the factors that contributed to the phenomenal growth hence, in the case.

In 1961, a few brothers belonging to a business community decided to break away from the traditional cotton ginning business and decided to set up a unit for making hand tools for electronic industry. This unit was started in the premises of the traditional ginning business. The brothers among themselves had distributed managerial functions of marketing, production and finance etc. and used to work hard extending to nearly 18 hours a day at times. Success of their
venture was predominant on their mind as they wanted to prove their worth to their elders who had willingly supported their plans and had provided the needed infrastructure and working capital.

The initial effort was successful and soon they started making hand tools for a big public sector corporation which showed lot of enthusiasm in buying its needs from this group of upcoming entrepreneurs. Their family which owned ginning and pressing firm had its offices in major cities and often these offices were made use of by them for their own sales efforts. They had also kept up their contact with the buyers of cotton with whom they used to interact in their early days. One of these buyers, Sunlight industries, had grown as a reputed firm in textile industry and had its own units for manufacturing and processing textile fabrics. In the processing unit of their firm they had some serious problems with their chemical process pumps and often there were shutdowns due to obstructions to process flow caused by malfunctioning of the imported pumps. During one of their visits, one of the brothers, Krishna, was invited to have a look at the product and was asked whether they could attempt such type of products in their factory. Since the brothers as a lot had great aptitude for taking up challenges, this
enquiry enthralled Mr. Krishna and he immediately arranged to procure an old pump lying with Sunlight Industries and took it to his place for a detailed study. Soon they started their work. When they found some problems in designing, they invited a family friend who was working as an engineer in a firm and had an aptitude for design engineering to be in charge of their design section. Soon the prototypes were ready. These were taken to the Sunlight industry for a trial run. Even though the product was not as superior as the imported ones in terms of performance, it served the purpose well. The executives of Sunlight industries were happy that the nightmares with the imported pumps, for which spare parts were not available easily and had to be often fabricated, were getting over.

A trial order for five pumps was placed with the firm. To the surprise of the executives of all the pumps except one worked satisfactorily and buyer started recommending the pumps to other users known to them. In all their activities relating to development of this product, Naveen Industries was supported by the elders of the family and the main support came in the form of funds. By 1970 the firm had a turnover of Rs. 50 lakhs with a good trade record of having successfully sold and
serviced pumps in different industries including chemical, fertilizer, pharmaceutical etc. But other problems had started developing. Unlike the earlier buyers, buyers in these industries were very specific about their purchases. Each and every detail of pumps was specified while giving order and a close follow up was necessary to ensure that the details were not missed. For the first time Naveenbhai, the eldest brother, felt that they were losing grip over the manufacturing activities. In one of his earlier visits to Bombay, Naveenbhai was introduced to a consultant Ramesh, by a common friend. At that time the consultant had told him: "In future if you have a situation when you feel you need some outside help, please don't hesitate to call me. Even though I am a busy man, I would like to have a look at your factory". A letter was sent requesting the consultant to come over after a joint decision was taken in a meeting of the brothers which decided in favour of Naveenbhai's proposal, as every one was feeling equally affected by the changing scenario of the firm.

Owing to busy schedule, Ramesh could not visit the firm before the expiry of three months. But now he had come with sufficient time to spare as he knew Naveen industries is a growing concern with sufficient teething problems. He spent
7 days in the firm having detailed discussions with the owners as well as employees of the firm. He also observed the functioning style by taking a few occasional rounds in the factory. He studied the customer profiles and sales records to understand the type of interaction. Ramesh returned to Bombay and spent some time with the customers of the company trying to identify the strengths, weaknesses, opportunities and threats to the company. In his report, which he submitted after calling a few of the brothers for a detailed meeting at Bombay, he identified the problem as that of a transition from the small firm to a medium size firm. He told the young entrepreneurs that they needed a team of professionals who can look after the vital functions of the company. He observed that as a growing company, Naveen Industries needed a top management team which can identify itself with policy matters delegating operational tasks to lower levels.

He observed "after my study of the growth potential of your user industries which are thermal, nuclear, chemical, fertilizer, pharmaceutical, I am convinced that in future you will need technology of high order. I am also convinced that you have the potential to grow further in the market on account of overall market potential on one hand and your reputation on
the other. "This he said "you can accomplish by developing a strong management team as well as a technical team". In his final analysis he recommended that a full fledged R&D department be created to take care of the changing needs of technology. As far as the existing organizational structure is concerned, he suggested that a planning department headed by an engineer be created to handle systematically the materials requirements planning. He also suggested the setting up of an ancillary department, to support inspection of materials and quality control.

After deliberations over the measures suggested, a new organizational plan was prepared. Ramesh was instrumental in helping the firm in procuring suitable professionals both in management and technical fields to man the various positions created.

The culmination of these efforts marked by inspiring leadership and hard work is the transformation of a small to medium-size firm. The said firm has now added several other related products, and has established itself as a premier process equipment manufacturer.

An analysis of the decision making in this firm would reveal the following features.
(i) A team of men rather than a single person would be more efficient in handling a small business. It is also clear that right from the start there had been a division of functions among participating brothers who were also owners of the company. This kind of an approach was partly due to "business culture" that they had acquired in the past. It is natural that such a team with business culture and involvement would ensure qualitative improvement in the decisions taken.

(ii) Suggestions to go in for different types of products are received by many. But seldom do they receive the kind of follow up required for the effective implementation of those ideas. Needless to say, the suggestion to go in for a new product received the due attention and effort in this case which enabled a young small firm to come up with products comparable to those from multinationals. The fact that all this was achieved in a decade and a half speaks of the high degree of commitment shown in product development.

(iii) External sources like experts, consultants retired executives etc. are important sources for getting the needed and at times very critical inputs. Use of such outside intervention does help the top management to get an objective view of a managerial problem. Use of an external consultant
provided the much needed impetus for organizational growth as well as technology management, the two vital factors in product development. The problems faced by small firms are sensitive in nature and therefore solutions cannot be made available unless one has an ability to scan the environment properly. Inability to do so ultimately leads the decision maker to faulty decisions which can jeopardise the growth prospects, particularly of a small firm.

4.7.2 **Firm: Shrikant Tiles**

This case is about a small firm which could manage its growth into a highly successful firm in mosaic tile industry. The growth of this firm receives kudos because many small firms in the same business with the same environment could not either survive or grow. The fact that shrewed policies with regard to finance helped in shaping the destiny of the firm has made the researcher choose it as an illustration of decision making in small firms with focus on finance.

Mosaic tiles have become increasingly popular of late. The housing activity has been receiving liberal assistance from employers as well as institutions created for the purpose. These factors have created a favourable market for the mosaic tiles maker today.
In 1975, when Shrikant Deshpande thought of his own unit for making tiles he was not sure of his ultimate product and market. He had just graduated in Arts and was looking for an opportunity to settle down in life. He had no clear direction to pursue. It was at this juncture that he received a letter from his cousin working in Gulf where in he had prompted Shrikant to start a small firm where he could invest his surplus earnings abroad. This initiated Shrikant into a feverish search for a sound investment opportunity. Shrikant had special regard for Raghavendra a business colleague of his late father, so Shrikant approached him for a suitable suggestion.

After due deliberations Raghavendra had suggested purchase of a closed tile unit. The factory belonged to one of his friends and had to be closed to ward off further financial problems. The unit was started at a time when there was not much money in the housing sector. Housing development financing had not developed the way it had by now. The fervent desire to own a house being exhibited now was nonexistant owing to different constraints. When Desai the past owner of the firm produced glazed tiles they had lukewarm response. It was only after introduction of liberal credit facilities
extending upto 1 month that the sales had picked up to Rs. 1 lakh/month. Even though the financial working for the first three years was satisfactory, in the fourth year the firm received a big set back on account of non recovery of credit given to two big firms involving sizeable sums. One of the firms subsequently went into liquidation, while the other firm defaulted in repayment for a period of six months. These factors, coupled with declining sales on account of growing competition, had forced Desai to close the firm. This unit was subsequently attached by the bank for recovery of dues.

After a good deal of negotiations, Shrikant could settle a deal with the bankers and buy the unit with the funds sent in by his cousin. Shrikant did not know much about the technology that went into tiles making. He did not want to venture into production without adequate knowledge in the field. Moreover the existing machinery had rusted for some time and was not in a usable condition. On enquiries, here and there, searching for some one who knew Tiles making well, he came to know that there was one Raghunath who had retired from a reputed tile manufacturing company in the large sector, as its production executive. Since he belonged to the area he had come back and settled in the same city.
Shrikant did not waste time in approaching Raghunath for his help. On a discussion he had found him highly knowledgeable and resourceful. This had prompted him to make a suggestion to Raghunath to work as a consultant on a retainer basis till he settles down in business. Since Raghunath did not have too many preoccupations in a city to which he had returned after three decades of active life, he readily agreed.

On an examination of the tile making machinery in the firm, Raghunath suggested discarding the old machinery and purchase of new machinery. Even though this was an additional investment proposition, Shrikant agreed because he wanted to ensure a higher quality of production. After indenting for some more money from his cousin he installed new machinery and sold the old machinery by approaching some existing firms in a nearby city. Another problem was that of raw material. The final product quality depended equally upon the quality of raw material. Stones of different colour and strength were the requirement. Instead of depending only on the trade sources he also approached a nearby university department of Geology for advice regarding availability of different types of stones.

Trial runs proved satisfactory. He reasoned that a good product will definitely have high demand provided it
is built taking into consideration the aspirations of the ultimate user, the owner of the houses. Since the past history of Desai had an impact on him, he had decided to sell against cash come what may. When he put this forward in some trade circles they laughed at him saying that he is 'crazy'. No one had done it before. This did not deter, Shrikant who was firm in his conviction. Instead it made him take it up as a challenge.

He analysed the buying behaviour in case of tiles and saw that it was the Engineers and contractors who decided on all the building material except in the case of tiles. This was because tiles and their workmanship are actually experienced by the actual users whereas every other material goes into the system and user of the premises does not understand much about them. This was a plus point in his favour. Through the mailing lists obtained from social forums he wrote to the prominent citizens who formed the 'elite' class, telling them about his firm, his product, his commitment to quality and latest designs (In deciding upon the designs he had taken cues from some international magazines). Added to this, he followed this up with a personal invitation to a few wealthy influential people in the locality to come and visit his factory. This had created lot of enthusiasm because every other tile maker had always wooed the contractor and not the building owners.
As a result, some orders trickled inspite of the resistance of the middlemen who were contractors and engineers. Soon he participated in a local industrial exhibition and displayed his product. He gave free samples of the pieces to women who were fascinated by the several designs that he had displayed.

All these factors slowly acted in favour of Shrikant. At this juncture, his terms of trade were (i) 25 per cent advance against order (ii) 75 per cent against delivery. Shrikant further followed up his efforts by planning an attractive hoarding near each house under construction which had used his tiles. This board informed public that "SHRIKANT TILES ARE USED HERE". This kind of communication had a lot of persuasive value. Many prospective house owners stopped to have a look at the tiles. With all this, his cash terms had some adverse impact on his sales. His stocks piled up. Since he was keeping his cousin well informed, he informed him of this. Being abroad his cousin had understood the importance of having a sound business strategy. He encouraged Shrikant with some more funds to offset the temporary crisis.

Shrikant's sustained effort paid dividends after a year. With each order came an advance payment. But he had
found that customers were taking 7 - 8 days to make the balance payment. Sometimes keeping track of the remaining 75 per cent of the amount to be received, had an impact on active sales effort. Shrikant after discussion with his sales staff devised a method. The sales office would ring up a customer 7 days earlier and inform that the goods will be ready and party can come with the cash and take delivery of products. This policy worked because it gave the needed and breathing time for customers to arrange needed finance.

Today Shrikant is a highly successful small entrepreneur. His firm is no longer small and has a turnover of 2 crores. He has not only expanded the existing facility but has also gone in for a new sophisticated plant with imported technology. The firm has improved production as well as production consistently. Today he has invested nearly Rs. 50 lakhs in plant and machinery as well as land and buildings. He has a working capital of Rs. 20 lakhs. Bank financing is to the extent of Rs. 25 lakhs the remaining funds have been generated from within.

When asked to explain the secret of his success Shrikant sitting pretty in his air conditioned cabin said
"It is mainly a result of two factors, one, uncompromising attitude towards quality and continuous updating of technology and two, strict financial discipline as far as terms of trade are concerned."

Following conclusions can be drawn from the case:

i) Any strategy including that of finance has to be carefully worked out taking into consideration a number of factors such as, needed excellence in product, buyer behaviour, and persuasive communication. Genuine customer orientation can solve many hurdles likely to be faced.

ii) Finance can act as a constraint in times to come particularly to a growing firm. Sound policies in financial management have to be laid much earlier during the inception of the firm.

iii) A firm should have firm commitment to a chosen strategy and should arm itself with necessary resources to face the crisis if forced to.

4.7.3 Case Study -III

Firm: Anand Biscuits

This unit, started as a home industry with a meagre investment of Rs. 10,000 in 1956, grew up to become a leading
biscuit manufacturing firm with an investment of Rs. 52 lakhs and a turnover of Rs. 4 crores. This phenomenal growth was achieved in a span of three decades with some imaginative approaches as far as the marketing was concerned. Hence the discussion.

Hiralal, coming from a business community (Gujarati) had started a small firm as a home industry to make biscuits. His initial investment of Rs. 10,000 had grown to Rs. 50,000 with a turnover of Rs. 2.5 lakhs per year. This was the position when he died in 1969 on account of old age. He had four sons eldest among them being of the age of 32. After inheriting their father's property the sons continued the activity without much change in the product line. In between they had taken up agency for peppermints on regional basis and had organised sales in North Karnataka, Gulbarga and Bellary areas. This had given the much needed financial support and had left them with some savings with which they had obtained a big plot of 20,000 sq.ft. on hire purchase basis, with a view to expand their biscuits business, in the industrial estate. They decided to expand their production capacity and applied for a loan of Rs. 2.5 lakhs from the bankers. With this loan and some savings, they went in for a new plant and machinery worth Rs. 2 lakhs and kept the remaining Rs. 1 lakh for working capital requirement.
The objective was to expand the scope of their operation from local area to the areas surrounding Hubli. It was presumed that it will be possible to introduce the product with a new name and promotional backup. Accordingly it was decided to name the biscuits as SUPER. They had decided to provide the needed managerial backup through division of production, finance, marketing and personnel responsibilities. While the eldest had undertaken to look after production, others had taken the remaining responsibilities. The eldest son Prashant had many sleepless nights before the final launch was made in April 1976. Lot of publicity was given to the product introduction through newspapers. Prashant was very clear from the beginning that quality of the product is an important consideration with the urban class which they were trying to attract for the first time. Till now they were supplying their products to less sophisticated markets in the semi urban area. Secondly, there was severe competition coming from strong regional brands and some national brands. While shifting the demand of national brands was out of question, it was aimed at competing with the regional brands such as CRISP, QUALITY etc. The estimated market potential in Hubli city was Rs. 6 lakhs per year and in the surrounding semi-urban and urban localities Rs. 5 lakhs per year.
The result of this launch was not very encouraging. Somehow the consuming public had not shown the kind of enthusiasm as they usually show when new products are introduced at a regional level with much fanfare. Some persons who had been asked to comment on the taste of biscuits had said that the quality was comparable to national brands. A strict check was maintained in respect of raw material as well as the final product to maintain quality. All these steps had made Prashant feel assured of success. The result for the first year showed that they had achieved a turnover of 3.5 lakhs in urban sector while results were slightly better at 3.75 lakhs in the semi-urban sector. Inability of the firm to achieve the required sales had serious impact on cash flow positions. There was a pile up of stocks worth Rs. 2 lakhs along with an in-process and raw material inventory of Rs. 1 lakh. In fact this was a serious setback to Prashant whose business acumen had always proved him right. When he was seized of the matter he happened to meet a teacher from a nearby business school who had come to collect material for his research on working capital management. While explaining the serious flaws in working capital management he had to explain what went wrong with the company’s plans. At this point the teacher emphatically said "Mr. Prashant those are
the days of buyers. Unless we interact with the buyers and understand their psychology, no breakthrough in marketing can be made. May I suggest that you go in for a market survey for this purpose?" Prashant said "Sir market surveys etc. are for big firms and ours is a small firm, how do you think we can afford such an effort". The teacher told him that it was not the case and explained how small firms needed more managerial inputs than even big firms and impressed upon that they should have one of the business school students for inplant training as he can carry out the survey as a part of the training and it would cost them only a nominal amount. This appealed to Prashant and a survey was conducted soon after by a MBA inplant trainee under the supervision of the teacher from the Business School. The result of the survey showed that people of the region, particularly the urban dwellers, had rejected the project on account of following reasons.

1. The Super Biscuits were priced at Rs. 1 while the national brands were priced between Rs. 1.20 - 1.30. The consumers did not want to risk themselves by buying an unknown brand for the sake of small differential in price.
2. The earlier experience of buyers with such 'fly by night' brands had shown that there was no consistency as far as quality of the product was concerned. As a result, the customers as well as dealers did not have favourable inclination towards local new brands.

3. The national brands had advertisement support which motivated the consumer to buy. The advertisements of SUPER biscuits had not made any significant persuasive impact.

4. The dealers were not happy with the distribution pattern. While the national brands were distributed by competent distributors who called on the dealers every fortnight without fail with their van, the distribution of SUPER biscuits on bullock carts was rather erratic with no definite pattern. The bulk packaging in tins was not very attractive in case of SUPER biscuits, whereas it was much better in case of national brands. By selling the tins of other national brands the shop keepers were earning a steady additional income, whereas by selling ordinary tins of SUPER biscuits they realised a lesser amount.

This opened the eyes of Prashant who had thought every thing was right with what they did. For the first time,
he felt that it makes sense to study things more carefully before making a thrust. With his recent experience he was convinced that blind moves can be costly and disastrous too.

Now the question was one of choosing appropriate action. For this purpose all the brothers met. In this meeting, the MBA trainee was also present during the beginning and gave a summary of his findings and after answering a few questions he departed. During the discussion Rajeev, the third among the brothers, intervened to say that they should think of some other markets where competition was not as fierce as it is in Hubli. This suggestion was largely accepted but the thousand dollar question was which market should be chosen. It was at this point that Sunil the youngest (22) enthusiastically said "let us try our product in Gulbarga area. This is a highly backward area on account of a number of reasons such as lack of transport facilities, low per capita income, extreme weather conditions etc. But one good thing is whoever takes the trouble of going and operating in this market is sure to be successful since a few venture to go there" to support his contention, he narrated how two years back in connection with their peppermint agency he had toured the area and could manage substantial sales of the product. This gave some food for thought. If Prashant were
to use his original style he could have easily ignored the whole idea as childish and would have laughed at it. But time had made him wiser, and he did not want to reject the idea but he did not intend to accept it blindly either. He had come to a decision that every move of a businessman should be careful and deliberate without blind machinations. He felt it is better to delay the move so that adequate thought could be given without rushing to decide upon issues. He decided to visit the area himself along with Sunil. Reaching the place itself was a difficult experience. After reaching the place he visited a few surrounding villages and small towns to see for himself the state of affairs. Since there was not much of local entrepreneurship and also since outside world had not taken the area seriously, he felt it could be "anybody's land". But the problem was one of managing sales in such a distant area. Having returned to Gulbarga they stayed in a hotel and took some rest. This gave them some time to think. Prashant remembered that one of his relations who was a businessman had settled in the city for the last two decades. He decided to find out his place and visit him. They could locate his name and address in the telephone directory. When they rang him up he invited them for dinner that night. Having suffered without good food for 2-3 days
for lack of good hotels in the area, they readily accepted the invitation. Over the dinner table, while explaining what made them undertake a visit to this far off area Prashant said "having accepted the suitability of the market our problem is of distribution. See whether you could help us" To this Ramal their relative shot back saying "why are you worried there is a branch of a company whose headquarters is in your place i.e. Hubli. They are already in distribution business and are looking for some good products. Why don't you both go and meet them tomorrow morning. I know the branch manager and I will ring him up and tell him that you are coming". Thanking Ramal they left for their hotel. Next morning they met the branch manager of the distribution company. Over a cordial discussion the manager explaining the problems of the area said "I can think of taking up distribution of your products provided you send a van from your place to operate in the area. I am telling this because the transport services here are just horrible and you can't really do much if you have to depend on them". Prashant who was already desperate on account of piling up stocks told the branch manager that he will arrange for a van and requested him to take care of the product sales in the area. After a bit of bargaining a suitable commission was fixed for the dealing branch.
Soon after his return, Prashant contacted his bankers and enthusiastically told them how he had thought of a way out and requested for additional finance for buying a van. True to their reputation as "those who lend an umbrella when it is not raining and take it away when it starts raining," they refused to entertain the request and warned the entrepreneur instead that strict action will be taken if he does not start clearing his loan.

Being desperate Prashant decided to sell his wife's gold ornaments and purchase a second-hand pickup van. Soon it was pressed into service. Sunil was made in charge of the sales in the new area on account of his prior knowledge of the area. With the help of the distributor it took only six months for Sunil to build up sales of Rs. 11 lakh/month by May 1977. All the stocks were cleared. Smile was writ largely on the face of Prashant again. All the necessary payments to the bankers were made. In the context of renewed prospects bankers were again interested in financing the working capital requirements liberally. With the distribution experience in an alien area the effort was repeated in the local area in some selected parts of the city. The brisk sales and steady inflow of cash had enabled the firm to come out with attractive posters and hoardings in the city. They hired a van on a
lease basis for operations in the city and got it painted with SUPER ADVERTISEMENT. The bulk packaging also was improved. While there was a steady improvement in the sales of Gulkarga area, a matching sales turnover was built up in Hubli urban area also. This effort was repeated in the surrounding areas with greater success this time.

Today the firm is a private limited company with a larger capital base. It has a wide product range and has become a strong regional brand. It has opened a confectionery division and thereby offers a more complementary mix with products such as biscuits, chocolates, peppermints etc.

Their total investment stands at 52 lakhs and present turnover is 4 crores with a growth rate of 25 per cent. Looking back at yester years Prashant says "If I were to give up my attempts in disgust when I failed in my initial attempts to expand I would have been nowhere. I feel every entrepreneur should learn how to manage a failure situation rather than any anything else".

This case while depicting the decision making styles of a small scale enterprise, identifies certain ingredients of good decision with special emphasis on marketing functions.
Every entrepreneur rightfully starts with certain assumptions; this is what makes the enterprise possible in the absence of relevant facts and figures. But the risk carried by him increased day by day as his commitments increased. His "run of the mill" style will no longer be adequate to prove him competent enough in the complex environment he faces. It is in this context that the initial marketing decision has to be viewed. In the context of the tremendous flexibility a small enterprise has in making 180° turns (to use Peter F. Drucker Phraseology) it is necessary it should survive the limitations of initial decision and then make improved decisions. It is here that the profile of the entrepreneur is exhibited well. After having made some mistakes in the beginning, and blunders too sometimes, he starts examining his style and comes to know what he lacks as a decision maker. It is at this stage that ineffective decision makers are differentiated from effective decision makers. While the ineffective decision maker sticks to dogmatic decisions of his, the effective one opens his eyes and ears and sets in a process of information search, seeks opinion, changes his style and finally improves upon his initial thrust to make a renewed attempt.
4.9 Conclusions:

Decision has many meanings to many people, still the experts define it as an act of cutting off further deliberations. This meaning tells us that decision is the culmination of a number of psychological processes that the decision maker goes through. Every person in his lifetime has to arrive at a number of decisions. Each one of them according to his convenience frames his own set of rules to govern his decision making style, while the theoretical ingredients and characteristics call for number of inputs, a typical entrepreneur possesses a few of them. As a result, he tries to carry out this complex and demanding task with his own approximation of requirements. This has come to be understood as a "satisficing" approach in the words of Herbert Simon. Having studied the human decision process, a number of experts have classified the decision types. Most of these classifications aim to differentiate between the decisions as operating and policy decisions, while operating decisions signify a routine decision, the policy decisions signify non-routine decisions.

The advancement in quantitative techniques has come to the aid of the decision maker with "decision theory" a loose
term used to describe a host of techniques which can be used to help the process of decision making. A survey of these techniques reveals that the benefit of these techniques lies in their ability to define the given problem in more clear terms so that finding out a solution becomes much easier. So an important conclusion that can be drawn in confirmation of earlier findings is that these techniques are useful to the decision maker, not in arriving at solution but in defining his problem more clearly. Such a conclusion is borne out by the fact that the manager is often troubled on account of his inability to understand the problem in clear terms. So decision theory meets this need more than adequately.

A look at the pre investment decisions reveals that many of the entrepreneurs do not apply a very rational reasoning process, whether it is selection of product, market location or finally even in the decision to start the small business. As a result, the prospect of the business suffers much because these are basic decisions which cannot be reversed later. With regard to post investment decisions such as pricing, meeting working capital needs, financing growth, addition or deletion of products, the entrepreneurs exhibit a variety of styles. While some are highly conventional some
are unconventional. While some ignore the aid of scientific management, some make use of it marginally. But a survey of such decisions makes it clear that the status of a small business is very much the result of number of decisions taken, whether it is prior to investment or later.

Another important aspect that one has to note in respect of small business decision making is with regard to striking differences between the firms of small and big size. These differences when identified and focussed upon prove that approaches in either cases should be different. So before drawing broad generalisations a decision maker in a small business has to carefully make out what important advantages he has and disadvantages he suffers from. While he has to make best use of the advantages, he has to minimise the impact of disadvantages e.g., in a small business decisions can be taken faster than in a big business. This is certainly an advantage. The disadvantage is that the decision in big business is made by number of individuals who are experts in the field, added to this big business is able to spend a greater amount of time and money on obtaining necessary information which certainly improves the quality of decisions, but a small business cannot do this.
Before concluding on importance decision making as a process, it was thought desirable to examine in reality some such cases of small businesses where in the high quality of decisions made, the successes in the field of production, finance and marketing possible. All along in the discussions the aim has been to chart the path followed by the decision maker in respect of the functional area of decision making so that salient features could be brought out.

The case studies illustrate the fact that the decisions in small business need qualitative improvement from time to time to be able to act as effective tools in the process of enterprise development. These cases have been drawn from the fifteen firms chosen for the study.