CHAPTER-V

DIFFERING PERCEPTION OF SMALL BUSINESS PROBLEMS

5.1 Results of Interaction:

With the objective of analysing the decision environment faced by small business managers in the sample chosen for the study, interactions of informal type were held with entrepreneurs, bankers, large firm executives, and small firm executives (other than the entrepreneur). This interaction took place in social forums where the above-mentioned persons were present. Based on the interest shown by the persons in the topic of study, detailed interactions were held with them individually. The main aim of this approach is to provide a more specific profile of the small entrepreneurs in the sample area where this study was conducted. This is based on the premises that entrepreneurial behaviour differs from region to region and has an impact on the managerial performance of the small business manager.

5.2 Entrepreneur's Own Perception:

Almost all entrepreneurs with whom discussions were held refused to accept findings of research studies that managerial incompetence was the cause of failures in small firm. In support of their contention, they advanced number of other causes and the same has been presented below.
(a) Lack of Governmental Support:

The Government which plays a key role in promoting entrepreneurship in the small sector provides two types of support: (1) Policy support, (2) infrastructural support. Here as policy support is in the form of incentives and favored treatment, the infrastructural support is through the provision of sheds, land provision of raw material, supply of machinery on hire purchase basis etc.

(1) Policy Support:

Entrepreneurs voiced opinion that Government is not as keen in making small units operationally feasible as it is in bringing them into existence. There was a lot of gap between what they promise on paper and what they did actually. Some cases were narrated to support their contention.

Case - I

A semi Government public transport undertaking selected a few automobile graduates for training in entrepreneurship at a prestigious national level institute for small industries extension training. They were given stipend during the period and assured that they will be allotted sheds in the industrial estate and will be asked to produce automobile parts which they assured will be bought in turn by their organisation. After
six months of training two prospective entrepreneurs set up a small unit in the industrial estate to make nozzles required by the automobiles owned by the undertaking. After the nozzles were produced and field tested the entrepreneurs approached the concerned officer for their purchase. But the purchase officer of the regional office of the undertaking in the area refused to entertain the supplier saying that they did not have specific instructions to that effect. The firm which survived under considerable difficulties supplying products to other markets has been finally closed.

(2) Infrastructural Support:

The cost of land sold to entrepreneurs on instalments basis is relatively very high. The cost of sheds constructed and given on hire purchase basis is also prohibitively high thereby increasing operational expenditure of the entrepreneur. In addition to this the State Government has floated an organisation to supply some of the important raw materials requirements of the entrepreneur. The complaint of many entrepreneurs was that the vital raw materials like steel and coal along with other items were not made available in small lots as required by small firms. The supply of the items was erratic thereby making entrepreneurs buy their requirements at black market prices thereby raising cost of production.
This was another problem area identified by the entrepreneurs in the area. According to them (1) right kind of information was not available at all (2) wherever it was available it was often misleading as it was not updated.

(1) The informational needs of small entrepreneurs include lists of suppliers of machinery, accessories and technology. Details about various raw materials available like special steels, alloys, resins along with sources of supply would help a small entrepreneur choose appropriate material to be used for this product and thereby save costs. Apart from this many entrepreneurs do not know about the various services provided by Government run institution like training of workers, imparting of skills in various fields etc. The existing range of magazines and other books brought out by private publishers do not prove to be authoritative enough.

(2) It was pointed out that wherever such information was available often it was outdated. A specific case was quoted by an entrepreneur to illustrate this point.

Case - I

The entrepreneur who was employed by a multinational resigned his job to come and settle down in the area as he had
to look after his aged mother. He decided to set up a small firm and approached the Small Industries Service Institute (an institution run by Central Government) for suitable project proposals. One of the projects which appealed to him was making of ball point refills. He took up the project and in consultation with a few persons known to him decided to manufacture these products in the backyard of his house. He ordered for the machinery as per the information supplied to him in the project report. Then he ordered for the ink which is used in the refill he found that good refill ink would cost Rs. 800/litre in retail whereas it was much cheaper if bought in bulk. According to the project report cost of refill ink was only Rs. 200/litre. Since this vital information was not updated and the calculations were based on old prices the entrepreneur faced high cost of production at which level the production and sale of refills was uneconomical.

Case - II

An entrepreneur had developed an accessory to a printing machine. This was an innovative product and was aimed at reducing time and labour involved in a repetitive operation. Since the design of the accessory was simple the entrepreneur was afraid that the design would be copied by others. In order to overcome this, he wanted to preempt the market
by selling as many units as possible in one lot so that he can discard the product line after skimming the market. The success of this strategy depended upon information about the printing presses in the state and nearby regions along with the type of printing machines used there in. This lack of information delayed considerably the launch of the product.

(iii) Lack of Adequate Finance:

Many entrepreneurs voiced their opinion that existing financing arrangements were inadequate. They felt this was a major hurdle in their progress. Quoting instances they said that procedures for obtaining finance from banks which is the only official source of finance were cumbersome. Often a good amount of their precious time was wasted in submitting number of details and moving from one official to another. They identified two major hurdles in the banking system. For small sector (1) Procedures for sanctioning loans and monitoring loans were too cumbersome as there was no periodic objective review of the procedures keeping in tune with entrepreneurs' limitations as far as spending time and effort in the direction. (2) The bank officer who supervised the operations of the firm closely did not have a grasp of business problems due to lack of training and experience. With the result, many of their ambitious projects were scuttled.
in the initial stages only because the entrepreneur was often not sure whether he will be able to get the desired finance even after having followed all the procedures.

Another major problem cited was non receipt of timely payments from large firms against supplies made. Most of the products and services produced in the small sector are purchased and utilised by big sector. Every firm in small sector is invariably dependant on the big firm. The entrepreneurs complained that payments were delayed even up to 6 months in some extreme cases. Whereas payments for products supplied was made within 1-2 months, the payment for services provided was not made earlier than 2 months and extendable upto 6 months. Delay in payment to those who provide services like job work etc. was high because there was a keen competition among firms to provide services as it was more simple and less risky compared to manufacture of products. As a result they said much of their working capital was blocked in the form of unpaid bills from big sector thereby forcing the firm into further problems.

5.5.2 Banker's Perception:

Bankers have also their own perception of why small firms decision maker fails. Some of their observations have been enumerated as under:
(a) **Lack of Clear Objectives and Goals:**

The bankers argued that a typical small business manager lacked clarity of objectives. In their views, the small firm did not have a clear direction. This lack of clear goals made the owner-manager to experiment with his wild ideas much to the detriment of the financial health of the firm. One of the result of such a lack of business purpose, they said, was wrong channelisation of funds. They quoted the following instances to prove how the funds were diverted for unproductive purposes.

**Case - I**

An unemployed youth was granted loan of Rs. 5,000/- to finance his small business. The youth wanted to start a small shop to hire out bicycles and also carry out bicycle repairs. On one of his inspection visit the officer of the bank found that the entrepreneur had purchased three bicycles and one moped. On enquiry he could learn that while the bicycles were meant for renting purpose the moped which was purchased at a cost of Rs. 2,000/- was for his personal use to enable him to move to and fro from his house. Since 40% of the loan was used for unproductive purposes, the banker felt that the business suffered from lack of working capital
as well as lack of productive capital.

Case - II

In another small business, an industrial product manufacturing unit, the entrepreneur after a good deal of effort obtained a loan of Rs. 30,000/- to finance his working capital. While examining of the utilisation of the funds the manager of the bank found that entrepreneur had utilised Rs. 10,000/- for lavishly furnishing his office. The banker vehemently reasoned that the firm's survival and growth are of prime importance in the initial stages. Such a diversion of funds for non productive purposes would not only deprive the entrepreneur of the working finances for the present but also prevent banker from advancing money in future. For a stated purpose without stricter checks on the utilization of funds which the entrepreneur often resented.

(b) Lack of Proper Accounting Practices:

According to bankers the small business manager did not give adequate importance to 'sound' accounting practices. They argued that a small entrepreneur's effectiveness in managing his finances would increase, provided he has proper accounting information to rely upon. (1) They made particular references to inventory accounting and control. In their view this was a
potential area where imaginative efforts would reduce the amount blocked and release funds for productive purposes.

(ii) Cash flow projection was another area identified where small entrepreneur would benefit. The inability to visualise cash inflows and cash outflows and control them often lead to poor performance both in respect of servicing bank debt as well as production efforts. With the result both the bankers and customers were dissatisfied with small firm they added (iii) The third reason they identified was that of overtrading. The small entrepreneur often had a misconcep­tion that overtrading was a healthy sign and this the bankers said was a factor responsible for failure of many enterprises. In their view, the small entrepreneur must take into account his liquidity needs as he has severe limitations, in attracting outside finances as large firms do.

(c) Back Door Methods:

'Fairness' in business dealings is a prerequisite for a healthy customer-banker relationship. That many small firms relegated this principle to the secondary position and regular­ly resorted to unfair practices, such as:

i) Over invoicing of machinery and other purchases of high value in order to attract higher quantum of finances.

[caption]
11) Fabricating fictitious orders to show a comfortable order book position.

iii) Maintenance of false accounts to misguide the banker

5.3 Perception of Large Industry Executives:

While there was an overall appreciation of contribution made by the small sector, the following observations were made regarding the performance of small firm entrepreneur.

1) Lack of Planning:

It was felt by the large firm executives that a typical small entrepreneur lacked systematic planning, while the large firm's commitments were in accordance with the plans developed by them, it was necessary that small firm should back up this effort by their prompt response to the requirements of large firm. Further, they observed that most of the small firms failed to keep up their commitment and as a consequence put their firm in a different position vis-a-vis their customers. This they said was the reason why they developed multiple vendors so that risk involved was reduced. They agreed that unremunerative prices for products and services were a result of competition amongst the vendors, for which situation they held entirely the small entrepreneurs responsible.
2) **Lack of Initiative:**

According to executives of large firms, the relationship between large and a small firm is one of joint problem solving rather than that of buyer and seller. They identified many areas where small firms could make significant contributions. In the opinion of these executives, small firm entrepreneurs had a distinct advantage since they were able to look at aspects like product design, processes involved in manufacture, raw materials used, etc., more objectively than they could. If a small entrepreneur shows interest and takes initiatives in these areas by making valuable suggestions, it may result in considerable cost saving for the big firm. A part of these savings could be easily passed on to small firms. Such an effort they said was largely missing.

3) **Lack of Communicating Skills:**

Communication is an ability to express one's ideas effectively orally or through writing to bring about the desired impact on intended receiver. Such an effort becomes essential whether it is small or big business. It is said that a typical manager spends 57% of his time communicating. Since the entrepreneur is also in charge of the firm, it is true of him also. Seen in this backdrop, the large industry
executives felt that a typical entrepreneur failed to communicate well. This failure to communicate often became a crucial factor in the large and small firm relationship which is marked by frequent interactions of delicate nature. A valid observation made by the executives was regarding the inability of the small entrepreneur to understand communication needs of a given situation. e.g., they said "we give several crucial assignments to small firms we expect a small entrepreneur to be clear in telling us whether he will be able to do it satisfactorily or not. If he has any specific problem he should make it clear then and there. Such approach will make it possible for us to take effective decisions.

Quoting, instance of a small firm entrepreneur who had developed a highly fruitful relationship with large firms, they said "this entrepreneur is so clear in what he says, that we are left with no doubts when we give a job to him, that he knows what the job is and will be able to carry it out to our entire satisfaction".

Analysis of the problem reveals that these problems in communication arise from number of factors listed in order of their importance, they are -
i) Lack of clarity in mission, purpose, goals and objective. Because communication is essentially as result of thinking process. A confused person cannot communicate effectively.

ii) Fear of failure is another reason which may hinder the entrepreneur from giving vent to his ideas.

iii) Lack of communicating experience. Since many entrepreneurs who venture into small sector do not have any past business experience, they are unable to give expression to their thoughts ideas clearly.

5.5.4 Perception of Small Firm Executives
(Other than entrepreneur)

In some of the small firms selected for this study many executives were highly qualified in their respective technical fields. Apart from this some of them also had some kind of professional management education. They had joined the small firm with the hope that they can show more initiative and do their best to get more job satisfaction. But as time passed by they developed a feeling that inspite of some degree of flexibility of freedom the 'interfering' attitude
of the entrepreneur made them feel that they were no better than glorified clerks. Such entrepreneurs were not only a dominating type and always had identified themselves with the firm, but also expected the executives to toe the line without any hesitations, although almost all executives desired that the entrepreneurial intervention must be to the minimum.

An interesting situation was narrated by one of the executives to support the viewpoint -

**Case:**

In a reputed machine tool company with over 150 employees the personnel manager was asked to develop a number of formal systems as a step in the professionalisation process of the company. This task was undertaken by the concerned executive with a great deal of efforts. Soon a number of policy decisions with regard to recruitment, selection, training and welfare were taken in consultation with the entrepreneur who was happy that some structure was emerging. The policies were implemented one by one, whenever an employee was affected by the new policy, he approached the entrepreneur for a personal handling of the situation. Ignoring his own design of the organization policy, the entrepreneur tried to resolve the problem to the satisfaction of the concerned
employee. The unfortunate outcome of such an interference by the entrepreneur was that within a short period all the prescriptions for a personnel policy were thrown to the wind. Time, money and effort were wasted in this way. The executive had to start all over again when the occasion demanded.

5.6 Analysis:

In an earlier assessment of small business problems, number of factors were considered to include among others, the problem arising from non-availability of raw materials in small quantities, procedural issues in obtaining finance from banks, lack of proper information etc. There is a similarity the views expressed by the entrepreneurs in this study are similar.

In the first place, it is obvious that Government's effort in promoting small sector vigorously has not resulted in an equal effort in an understanding of their problems. As a result number of issues of vital importance such as supply of raw materials in desired small quantities, provision of infrastructural facilities at a reasonable price, development of an information system to aid the entrepreneur, have been neglected much to the detriment of developmental needs of
small firms. Needless to emphasise, information has come to occupy an important place. As put in words of Marione Harper we can say that 'to manage future is to manage information'. Strategies can be worked out to introduce the product, face the competition effectively only if sufficient information is available. Whether an entrepreneur has capability to store, retrieve and use such information can only be answered after such informational needs are met in the first place. Provision of information is not a one time effort but needs continuous updating. This factor cannot be ignored.

As far as the financial needs are concerned our country is yet to develop a third source of finance apart from (i) Entrepreneur's own capital (ii) Bank finance. A kind of venture 'capital' financing m arrangement as prevalent in United States.

As regards the perception of bankers, it can be said that there are some valid observations as bankers have much closer view of operational style of small business manager. Their observations that a typical small business manager lacks policy, and strategy, gains much validity in the context of uncertainties that face the entrepreneur. It is these
overwhelming uncertainties that create a need for clear policy and strategy while these uncertainties also act as constraints in developing them. The observation that the typical small entrepreneur neglects accounting practices is also valid because it is in tune with normal human tendency to keep figures to the minimum and rely on one's own intuition. It is generally true that unless an individual has a conviction that accounting information is useful, he is less likely to spend time and effort to maintain them. In the context of lack of necessary experience in managing the small firm it is obvious that a typical entrepreneur ignores this vital function.

Entrepreneurs' adoption of unfair practices though not a rule but an exception need not make the bankers overwhelmingly rigid in their attitudes towards entrepreneurs. Such deviation in a given population can always be found on prorata basis.

What large industry executive have to say have greater implications because of the close interactions of a long term nature. The fact that large and small firms have a complementary relationship has a bearing on the observation that small
firms need to be more systematic in planning. A prerequisite for this, is orientation to planning, as advocated in case of accounting, earlier. Some of the studies conducted on buyer behaviour of large firms validate the observations made with regard to greater initiative on the part of the small entrepreneur. One such study by Subhash C. Mehta and Nikhilesh Dholakia listed 65 attributes to be rated by large buyers as being important in their relationship. Out of these the 15 attributes which received highest ranking related to the ability of supplier to take greater initiative and be of help to the buyer in times of crisis through quick supply, through developmental work etc.

The observations of large firm executive on communicating skills of a typical entrepreneur throw light on vital needs of today's entrepreneurship. Communicating skills have gained increasing importance in the context of growing complexity of buyer-seller relation and comparative lack of time for prolonged interaction.

The inability of a small firm to grow successfully into a big firm has been a problem which has puzzled many students

of small business. The perception of small firm executives provides some interesting clues to such situational happenings. A small firm entrepreneur has far greater personal identity with activities of the firm because of his close association on account of multiplicity of roles. He has to consider the firm as a separate entity once he decides to professionalise as he will have a team which will take over different functions and start working. This is a bitter pill to swallow as far as entrepreneur is concerned. This predominant obsession with his inherent skills, which according to him are responsible for the growth of the small firm makes him to have lesser degree of faith in the employee's ability to perform. The entrepreneur does not often understand that each and every other person will have his own approach to problem solving.

A small entrepreneur needs an all round effort with a greater commitment to be able to overcome the various constraints faced by him both on account of his weaknesses as well as inadequacy of infrastructural support received by him.

5.6 Conclusions:
The differing perceptions of small business problems revealed by entrepreneur, bankers, large firm executives and

small firm executives give an insight of certain inadequacies on the part of Government, Banker, large firm and, last but not the least, the entrepreneur himself. While Government has failed to provide needed support to the degree felt necessary, bankers have adapted a highly conservative approach where there is less of innovative banking. The large firms, while advocating efficiency and effectiveness as far as small firm is concerned, have failed to provide the needed help in the form of technical assistance, market intelligence, and the most important of all the needed financial support. Large firm through its ability to attract finances on a larger scale can act as a saviour and build a symbiotic relationship with small firm instead of exploitation of inherent weaknesses including inter firm competition. In fact the practice followed in Japan in this score is worth emulating.

Lastly there is a need for the entrepreneur to have a second look at his approach to management of small firm. He has to be more particular about the accounting practices and needs greater orientation to planning. He has to take more initiative in his relationship with the large firm. In addition he needs to improve upon his communicating skills also.