6.1 Introduction:

Of the fifteen firms chosen for this study, brief profiles of three firms which excelled in making competent decisions in production, finance and marketing, have already been provided in Chapter IV as an illustration of what a systematic decision making process can do to a small firm. After an attempt to understand the environment under which the small firm decision maker makes his decisions, it was considered fit to study in depth a few small firms as a case study in order to understand their decision making processes. Studying all the remaining twelve firms in detail was ruled out on account of time, effort and other constraints involved. But at the same time it was decided to choose six firms out of the remaining twelve firms for a detailed study.
In the hypothesis advanced earlier in this thesis, it was made clear that structured decision making considerably lead to better performance of the small firm. In pursuance of this, it was decided to choose the six firms on the basis of their performance. For the purpose of assessing performance through (i) growth in turnover and (ii) growth in assets were considered as a basic criteria, a cross sectional view of bankers, large firm executives as well as other local entrepreneurs was used. This led to identification of three categories of firms namely (i) High Growth Firms (ii) Moderate Growth Firms, (iii) Low Growth Firms.

When the twelve firms were classified, three firms were placed in high growth category, five firms in moderate growth category and four firms in low growth category. Needless to say this was not a rigid compartmentalization but a general assessment aimed at improving objectivity. Out of these, two firms from each category were chosen for a more detailed study. As already discussed in Chapter III a case study method was adapted in studying these firms.

While the objectives of this special study were manifold. The main objectives were:

(i) To study the entrepreneur as a decision maker through personal interaction and participant observation. In
doing so it was aimed at understanding the 'culture' that he imparted to the firm.

(ii) To study the vital decisions taken in functional areas such as production, finance and marketing from a decision making point of view and to see how those decisions affected the firm's performance in ultimate analysis.

While details with regard to production area were easy to get, there were marked difficulties in getting information about other areas especially finance. Many entrepreneurs particularly those coming from technical background had a good amount of conceptual clarity with regard to production management in comparison to areas of marketing finance. However in respect of production management, some of them lacked knowledge about the basic principles of inventory control, value engineering etc. Production scheduling was another area which had received scant attention though informal attempts were being made in this direction. Finance was one area where the entrepreneur did not want to talk much. He was also less inclined to give facts and figures. An attempt was made by them to conceal some information. Since unnecessary probing would result in withdrawal of the entrepreneur from his active involvement in research work, it was
deliberately decided to ignore any area that appeared to be sensitive from the point of view of entrepreneur. Broader generalizations of research purpose were emphasized time and again to make the entrepreneurs feel less inhibitive about the whole research purpose.

In the following pages, six case studies have been presented. Discussion starts with high growth firms and ends up with low growth firms. In the beginning of each case study a brief description of the production, finance and marketing decisions are provided. This is followed by analysis of these decisions. In the analysis the managerial inputs provided by the entrepreneur are focussed upon. An attempt is also made to present views regarding strengths, weaknesses, opportunities and threats faced by the enterprise. All the discussions are aimed at providing an overview of decision making process adapted by each entrepreneur under the environment faced by him.

6.21 1 Case Study - I: Krishna Feeds Private Limited:

Ramesh had just completed B.Com., when he was invited by his father to join their well established family business in cotton trading. His elder brother Ajit who studied only
up to intermediate, had already joined his father. His younger brother, who was studying in a polytechnic, had one more year to go before he could get his diploma in mechanical engineering. Ramesh had often visited June where many of his close relatives live. His acquaintances in the community (theirs was a business community) were young men who after a brief stint in college had started their own enterprises. Some of them who had gone into fields like electronics, automobile components etc., had grown fast and were doing quite well. This obviously had an impact on Ramesh as he could see for himself how they had chosen a business idea and pursued it relentlessly to start firms of their own. While studying he had often wondered whether he was wasting his time.

But Ramesh's case was different. He belonged to Hubli, a comparatively small place which had just begun to appear on the industrial map. Most of the small units in the area were ancillary units started around the nuclei of a few large industries. Many of them were not doing well presenting a picture of despair. This obviously had an impact on entrepreneurial climate. Many young men like Ramesh who were thinking in terms of their own units were being discouraged rather
than being encouraged. Added to this, Ramniklal, father of Ramesh, who had made a fortune in his commission agency business was firmly grounded in his faith that it is no use starting small units which had high chances of failure.

Ramesh who had his dream of becoming a highly successful entrepreneur was visibly perturbed on being forced to choose the only available option of joining the family business. He was moving here and there aimlessly trying to somehow overcome the situation. It was on one such occasion that he was sitting in a leading restaurant of the city which used to be frequented occasionally by executives of nearby big business units. It was here that he met Dr. Pratap who engaged him in an interesting conversation. It was in the course of discussion that Ramesh had to tell who he was and what apparently he was going through at present. At this point Ramesh made it clear to Dr. Pratap that he was in search of a business opportunity which had a good growth prospect. Adding further he emphatically said "you see, hard work is no bar for me, I am prepared to work as hard as one can. What I need today is a good product proposition since I am not interested in starting any ancillary as many have done". This obviously impressed Dr. Pratap who felt
that here was a young man who has the necessary entrepreneurial zeal to start a small firm of his own. He invited him to see him later at his residence.

In the meeting, Ramesh had with Dr. Pratap subsequently, it was suggested by Dr. Pratap that Ramesh can think of producing poultry feeds using shell chips available cheaply in the nearby stores of Karwar. He explained that shell chips available on the shores of Karwar contained 95% Calcium which was a very high percentage compared to shell chips available elsewhere. Dr. Pratap possessed a doctorate in animal feeds technology from a reputed American University. He was at present heading an animal feeds unit in the city as its general manager. Dr. Pratap had returned from abroad with hopes of making significant contribution to the state of art in animal feeds technology in the country. He had chosen a big firm which was thinking of starting a animal feeds division. Here initially he was given all the freedom to organise the unit the way he felt suitable. This had given great satisfaction to Dr. Pratap in the early period. Now the business was well set. Still he wanted to continue the tradition of product innovation, wherein he had already made a beginning. But the limited objectives with which
the big firm top management approached business proposition had placed severe limitations to his quest for perfection. During this period he also was thinking seriously about a change for the better. Starting his own firm had appeared to be certainly a better proposition. But coming from a family of intellectuals he was not sure whether he had the required entrepreneurial material in him. He was looking for a prospective entrepreneur who could back his ideas with investment. Meeting Ramesh such a hope was rekindled in Dr. Pratap. It was in this context that a chance meeting had led to further discussion. The views expressed by Dr. Pratap about such a business proposition had more than convinced Ramesh who was on a look out for a bright opportunity. Coming from a person of stature of Dr. Pratap the suggestion had acquired greater credibility.

Ramesh made a bee line to his father's shop soon after his meeting and narrated the new exciting idea. But this did not change Rannikbhai's earlier stand. In the meanwhile, Ramesh made some trade enquiries to find out the present position. He found out that three large business houses in the country were in the business already. There were a few small firms producing poultry feeds in the region. He also found that
many of the big poultry farms were situated in Maharashtra a nearby prosperous state. His enquiries revealed that there were small poultry farms in the nearby cities. The products of large firms were too costly even though quality was good, while products of small firm were low in price and quality was also poor. Having been convinced about the scope for a high quality product he continued to pester his father to permit him to start his own firm. At this point, Ramnikbhai decided to meet Dr. Pratap and sort out the issues once for all. In the meeting Ramnikbhai made pointed reference to the suggestion made by Dr. Pratap and explained how he felt such an approach involved high risk which was unnecessary. Dr. Pratap in his own scholastic manner outlined the bright prospects animal feeds industry had, in the context of increased emphasis Government was planning on use of egg as a nutrient and also in the context of incentives the Government was giving for investments in farm sector. He said "new possibilities are opening up in this field which will make it one of the fastest growing industry" Dr. Pratap in the process cited the campaign started by Government of India to promote egg as a vegetarian food with a view to persuade a larger segment of vegetarians who are averse to consumption of eggs.
All these facts coming from an expert who was in a responsible position had their own impact on Ramnikbhai, who for the first time started thinking about the proposition. He decided to consult some of his close friends and relations whose children had started their own units. These enquiries and persistence of Ramesh made him think seriously about the issues involved. Ramnikbhai through his experience had known that sound product knowledge was a 'must' for success in any business. In his own product line he had developed a lot of expertise which was of great help to him in carrying out his business. From this point of view, he felt that Ramesh did not have the necessary technical background to start such a product. Even though Dr. Pratap had assured his technical help, he felt it would not be feasible unless Dr. Pratap joins the venture on permanent basis. Hoping that he may get a no from Dr. Pratap to this suggestion, on which he can shelve the whole project, he asked Dr. Pratap whether he would be interested in joining the project on a full-time basis if it was started. To his surprise Dr. Pratap agreed to do so, as it was already on his mind. It took nearly six months for him to handover charge and make himself available.

Thus Krishna Feeds was born in 1976 as a partnership firm with Dr. Pratap as one of the partners. They obtained a
shed measuring 1500 sq. ft. along with a total surrounding area of 10,000 sq. ft. A larger plot was deliberately chosen as it permitted future expansion. An amount of Rs. 1.5 lakhs was invested, of this Rs. 1 lakhs was borrowed whereas a total of Rs. 0.5 lakhs was invested with a part of investment coming from Dr. Pratap. Initial investment was low because the process involved manual labour. A sum of Rs. 0.5 lakhs was invested in working capital whereas Rs. 1 lakhs provided for plant and machinery and other requirements. Raw material had to be stocked for some time before use, as a result the working capital requirements were high. Since the raw material i.e. shell chip suppliers insisted on supply of shell chips in larger quantity on a regular basis, a regular order with staggered delivery was placed. A storage space of 1,000 sq. ft. was created within the premises to stock the raw material supplies.

The shell chips of Karwar shore were of a superior quality since they contained 95% calcium. This improved the quality of the end product. Moreover Dr. Pratap through his insight of the feed requirements of chicken added a number of other nutrients to yield better value to the buyer. While organizing the sales he made a suggestion to Ramesh to go in
for veterinary graduates so that they can support sales with necessary advice on control of animal diseases etc. This suggestion meant higher expenditure per sales person in comparison to science graduates who were available easily and commanded a low salary. The other two brothers, eldest and youngest who had joined as partner had opposed such a step but Ramesh had insisted on following the advice of Dr. Pratap in larger consumer interest. Because he had learnt in his informal survey that services rendered by the small animal feed manufacturing firms were highly inadequate vis-à-vis those provided by large firms. This step had proved highly successful as many of the farm owners were new to the field and comparatively in experienced. Even though large firms were also providing similar services the ratio of sales personnel to the number of customers was low. As a result there was a drop in the level of services. Thirdly, while all the big manufacturers were using dealer network, Krishna Feeds decided to sell products directly to the customers. Here the transactions were more individualised and helped the firm build vital rapport with the customers which it was aimed would help further in making many improvements in quality of product, packaging etc. to suit the customer needs. In 1978 the firm implemented a small expansion in capacity from
50 metric tonnes to 200 tonnes per month. They increased
the factory floor space from 1500 sq. ft. to 3,000 sq. ft. and
storage space from 1,000 sq. ft. to 2,500 sq. ft. The number
of workers increased from 8 to 20 thereby bringing it under
the purview of Factories Act. The Indian Factories Act of
1948 stipulates that the firm should enforce a number of
statutory provisions concerning labour welfare such as
contribution to provident fund, gratuity fund, leave facili­
ties etc. The growing trend in sales convinced the manage­
ment of the need for further expansion. In 1980, they acquired
two acres of land in a nearby village industrial area. This
purchase came in hand when they had to go in for a big
expansion in 1984. A factory with floor area of 10,000 sq.ft.
with a storage space of equal magnitude was created and the
expansion was completed in 1985. This increased the capacity
from 200 tonnes to 2,000 metric tonnes per month and the
number of workers from 20 to 100.

By 1986, the turnover increased from Rs. 6 lakhs in
1976 to Rs. 6 crores, an increase of 100 times the initial
turnover. The firm converted itself into a private limited
company in 1980. As a result, it could attract fixed deposits
from public who usually reposed more faith in a private
limited company when compared to a partnership firm. The
investments in plant and machinery as well as land and buildings has risen from Rs 1 lakh to Rs. 25 lakhs. The working capital has increased from Rs 5 lakh to Rs. 100 lakhs. Of this Rs. 55 lakhs was locked up in inventory of raw material stock, the remaining amount being used for operations and trade credits etc. The firm used to give credit of 2-3 month to the customers in the beginning. In 1980, when it was able to build a good demand for its products, it went in for dealership in different areas. The saleability of product was better on account of competitive pricing vis-a-vis the large firms. According to Ramesh "this has been possible due to comparatively low overheads our firm enjoys, all along we have kept in mind that our overheads should be low. This constant effort has increased our competitiveness". The credit hitherto given by the firm to the customers is now managed by the dealers. The dealers enjoy about 7.15 days credit from the firm a comparatively low credit period which speaks of the high saleability of the product. Under the direction of Dr. Pratap the firm has undertaken a programme to educate customers on animal health. For this purpose attractive posters depicting the various stages in animal life and hazards they

4. See Table.
face, have been developed. He pays occasional visits to the customers to understand actual problems. Asked about the management of functional areas Ramesh said "we brothers have divided responsibilities among ourselves. While I look after finance, my elder brother Ajit looks after personnel. My younger brother who is a mechanical engineer looks after marketing, while Dr. Pratap looks after production. One of our cousins, Nandan, helps Dr. Pratap in production and looks after our godowns."

6.2.2 Analysis of Decisions

i) Production Decision:

The most basic production decision was with regard to choice of product. Hubli offered number of advantages vis-a-vis the product requirement. One of the basic requirements for processing of shell chips is dry climate. Since these chips cannot be processed in humid climate production at the place of raw material procurement is ruled out. Hubli was the nearest big city after Karwar and offered number of infrastructural facilities, as a result this was considered an ideal location. Another important requirement of the product was cheap labour. This was available in good number, as there were a number of villages around the city. Seasonal nature of agricultural
employment and increasing number of unemployed agricultural labourers on account of fast urbanization of the area were the factors that had increased availability of unskilled labourers required for jobs. Another important aspect of production is management of technology. Involvement of Dr. Pratap took care of this aspect and even though being small size, it could compete with large firms. The innovative product ideas introduced by Dr. Pratap had significant impact on overall product profile.

(ii) Finance Decisions:

The initial requirements of finance came from owner's own equity as well as bank borrowings. This is a typical approach found in most of the small firms. The basic problem faced by this firm was the financing of high growth, it embarked upon. Two important decisions taken were with regard to expansion in two phases whereas the requirement in the first phase of expansion was met partly by internal generation of funds and partly by bank borrowings, the second expansion is financed by funds generated by the firm and a combination of bank borrowing as well as fixed deposits held by the firm. Analysis of financial results reveals that the annual growth
## Table 5

**Turnover, Profits, Investments and Borrowings of Krishna Feeds Pvt. Ltd.**

(Rs. in lakhs)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Sales Turnover</strong></td>
<td>6</td>
<td>14</td>
<td>30</td>
<td>55</td>
<td>100</td>
<td>185</td>
<td>270</td>
<td>380</td>
<td>460</td>
<td>600</td>
<td>2,100</td>
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<tr>
<td><strong>Annual Growth Rate</strong></td>
<td>-</td>
<td>133</td>
<td>114</td>
<td>83</td>
<td>82</td>
<td>85</td>
<td>46</td>
<td>40</td>
<td>24</td>
<td>30</td>
<td>Av.71</td>
</tr>
<tr>
<td><strong>Profits</strong></td>
<td>0.6</td>
<td>1.4</td>
<td>3.0</td>
<td>4.4</td>
<td>8</td>
<td>14.8</td>
<td>16.2</td>
<td>22.8</td>
<td>27.6</td>
<td>36</td>
<td>134.8</td>
</tr>
<tr>
<td><strong>Profits as % of Sales turnover</strong></td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>0.2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>7</td>
<td>8</td>
<td>15</td>
<td>10</td>
<td>13.5</td>
<td>8.8</td>
<td>73.5</td>
</tr>
<tr>
<td><strong>Cumulative Investment</strong></td>
<td>1.7</td>
<td>2.7</td>
<td>4.7</td>
<td>7.7</td>
<td>14.7</td>
<td>22.7</td>
<td>37.7</td>
<td>47.7</td>
<td>66.2</td>
<td>75</td>
<td></td>
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<tr>
<td><strong>Borrowings</strong></td>
<td>1.0</td>
<td>3</td>
<td>6</td>
<td>10</td>
<td>15</td>
<td>20</td>
<td>35</td>
<td>40</td>
<td>45</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td><strong>Capital employed</strong></td>
<td>2.7</td>
<td>5.7</td>
<td>10.7</td>
<td>17.7</td>
<td>29.7</td>
<td>42.7</td>
<td>72.7</td>
<td>87.7</td>
<td>111.2</td>
<td>125</td>
<td></td>
</tr>
<tr>
<td><strong>Cumulative Profits + borrowings</strong></td>
<td>2.7</td>
<td>5.7</td>
<td>10.7</td>
<td>17.7</td>
<td>29.7</td>
<td>42.7</td>
<td>72.7</td>
<td>87.7</td>
<td>111.2</td>
<td>125</td>
<td></td>
</tr>
<tr>
<td><strong>Profit as % of Capital employed</strong></td>
<td>22</td>
<td>25</td>
<td>28</td>
<td>25</td>
<td>27</td>
<td>35</td>
<td>22</td>
<td>26</td>
<td>25</td>
<td>29</td>
<td>Av.26</td>
</tr>
</tbody>
</table>

Initial investment of Rs. 1.5 lakhs.
rate achieved by the company was 71% while the initial growth during 1977-79 averaged 110 per cent. The growth rate in the last four years has shows an average of 35 per cent. This is on account of capacity limitation of the company. It is to be noted here that future expansions are being deliberated carefully since such an expansion would increase the investment in plant and machinery to more than Rs. 35 lakhs taking away the firm from the scope of small sector thereby denying the advantages enjoyed now. The firm has made an immutative investment of Rs. 75 lakhs, of this Rs. 25 lakhs has been invested in plant and machinery. The remaining Rs. 50 lakhs has gone in to financing of working capital. The firm has a borrowing of Rs. 50 lakhs showing a debt capital ratio of 0.66:1 while profit as a percentage of sales has decreased from a high of 10 per cent in the beginning to 5% of sales turnover in the last four years. The capital employed has shown an average return of 26 per cent with the highest return in 1981 at 35 per cent and lowest in the beginning at 22 per cent. Though the financial results turned out reflect mature handling of resources in this case, however a typical small firm suffers
on account of bad financial management the primary reason for this is the scant regard paid to financial management aspects.

(iii) Marketing:

The firm was launched at a time when Government policy was highly favourable for setting up of poultry farms. During certain enquiries made outside it was learned by researcher that number of filmstars and persons having high concealed incomes had resorted to activities on a big scale. Reasons for this were two while on one hand they enjoyed tax incentives, on the other hand the high vulnerability of animals to diseases provided an opportunity for them to show losses.

An important marketing decision was to appoint veterinary graduates as sales personnel. This move aided the product acceptability as they could provide the much needed service and as a result the firm a 'niche' in the market. The decision not to make use of dealers in the beginning brought in the vital customer contact. This was of considerable help in the beginning of the firm when firm has to understand the customers well. Many small firms try to act like big firms by appointing dealers and loose touch with customers in the process. Dealing with the customers directly not only helped in understanding
the customers but also in developing demand for the product which helped in creating dealer interest in the product. The programme of educating the customers developed by Dr. Pratap is another highlight of the effort. This step which is a result of genuine customer orientation built by the firm has further helped the firm from insulating itself from competition by helping customers use the feeds more objectively.

6.2.3 Decision Making Process Within the Firm

The early decision to produce poultry feeds was taken by the entrepreneur was based on expert advice coming from a large industry. Dr. Pratap brought with him considerable amount of information which a large firm is able to collect and use apart from his knowledge and experience. In respect of all vital decisions with regard to product content technology etc. Ramesh did not interfere but provided all the support needed. It is common knowledge that number of such starry associations of experts and entrepreneur fail to click on account of the inability of the entrepreneur to get along with the 'expert' any longer. The researcher in his sittings with Ramesh could observe the dignity with which Dr. Pratap was treated. 10 years of such partnership seemingly appears impossible in present environment marked by prejudices and misunderstandings, but it was due to a thoughtful approach of Ramesh that such a long
standing association was possible, exercise has enabled him to retain a knowledge worker (to use Peter F. Drucker’s euphemism) of the stature of Dr. Pratap. It was observed that the Directors of the company hitherto partners of the firm met several times during the day to exchange a word or two on different matters pertaining to the company.

The air of informality coupled with mutual respect marked the ‘culture’ of the company, this differed considerably from a highly ‘conservative’ approach seen elsewhere even in respect of small firms belonging to the sample. The directors in charge of different function of the company met every week on Saturday to review the performance during the week and important decisions relating to policy matters were taken during such meetings.

Ramesh even though he had decentralised decision making had the final say in many of the important matters pertaining to policy in his capacity as Managing Director of the firm. But as far as the handling of the functional departments were concerned he saw to it that complete freedom is allowed to them within broad parameters. Even in respect of policy decisions, all were encouraged to present their views even though final decision depended on Ramesh. Asked about
the important decision in respect of major expansion taken by the company, Ramesh said "In our weekly meetings we often talk about long range prospects of the company. In one such meeting we identified that going by the present trends the company was poised for a major growth. At this juncture we visualised that our existing production capacity would be inadequate. We discussed about steps that we have to initiate in a subsequent meeting we had especially for this purpose and decided that we should immediately buy further land so that expansion could be carried out at an appropriate time.".

Even though this was a joint enterprise Ramesh was the dominant entrepreneur. He had provided much needed dynamism in the small firm that he had established. He was responsible for developing a 'culture' of mutual respect and understanding. Through his understanding of human component of an organization he had initiated sound practices of organizational communication. Through his noninterfering style he brought about the much needed management development within the organization. The major contribution of Ramesh comes from his ability to maintain an expert of Dr. Pratap's stature for more than a decade. In essence it can be said that Ramesh provided the leadership and vision required. He had
also some accompanying characteristics which did not go in his favour. His obsession with good performance sometimes lead to tantrums within the company. Even though he was kind and humane at heart when it come matters of performance he often lost tempers. Being basically a hard worker he often used to work so fast that his colleagues could not catch up with him. Ramesh knew his weaknesses well, after a seemingly unpleasant incidence the researcher saw that he often withdrew himself from the scene to reduce the impact. In an overall context, Ramesh had many strengths and made these strengths productive while tried to reduce the impact of his weaknesses appeared as though he fitted well with Peter Drucker's concept of an 'Effective Executive'.

Based on the observation, the characteristics of decision process within the firm can be summarised as below:

i) Only important policy decisions were made by the entrepreneur while operating decisions at functional level were made by respective heads with the help of the second line

ii) An air of informality resulted in a continuous consultation process thereby improving the decision perspectives as well as information use.
iii) Persons affected by the decisions, particularly, persons responsible for implementing decisions were involved in decision making process thereby improving effectiveness of the decision.

iv) The environment in the organization is very conducive for development of people who in the course of time have to take up important positions where they will be required to make competent decisions.

v) Decision making process within the firm not only took care of the present but reflected on future issues on a periodic basis.

vi) Through formal meetings on appointed days a definite structure was provided for the process of top management decision making.
6.3.1 **Brief Case History:**

**Case: Golden Labels**

Amitkumar came from a family which was in Jewellery trade. It was a large joint family with father, mother and five brothers. Being the third eldest, Amitkumar had thought of teaming up with his younger brother (number 4) to start a business of their own. They received encouragement from their father. Among the number of business ideas that they screened, electroplating was one. There were many small units as well as medium scale units which had demand for such a process. They discussed their proposal with Small Industry Service Institute (SISI) who advised them on feasibility, sources of supply of equipment etc. In 1969, they started off their unit.

The kind of jobs they did varied in their specification and as a result they started finding difficulties in the process. Seeking solution to the problem he approached SISI again.

At this time, Amitkumar was advised to undergo special training at Prototype Training Centre, Rajkot. Accordingly Amitkumar left for Rajkot in June 1970 for a three months training programme. While undergoing training Amitkumar showed great zeal and enthusiasm in learning and thereby impressed his teacher. One of his teacher, Sharma was experimenting with anodized label making process which is an allied trade. Amitkumar, out of his curiosity and zest for learning new
things had shown great curiosity in the work. Since Sharma needed some one to help him in his experiments he sought the help of Amitkumar. This gave him further opportunity to learn the trade. By this time he completed his specialised training in electroplating and had developed great interest in anodised label making work.

After his return Amitkumar could introduce number of improvements in the electroplating process and as a result the quality of their work improved. They were also able to take more intricate jobs and could carry them out to the satisfaction of the customers. In his spare time Amit had continued his experimentation with anodised label making. The initial success that he had in developing the printed labels had stimulated his interest further. During his visits to buyers of electroplating services he used to enquire about their requirements. One of his customers, who was manufacturing electric motors required them in large quantity. Further enquiries revealed that these were being procured from as far away as Bombay and Bangalore (two metropolitan cities at distance of nearly 600 Kms.) He also contacted a machine tool manufacturer and a chemical process manufacturer equipment. They also had demand for similar product. On being convinced that good demand existed for the product, Amitkumar decided to

5. Anodized label making is a process by which printing is carried out on metal sheets. It requires expertise in printing as well as photography.
make his hobby a business proposition. He set up his small workshop in the same premises and produced the first consignment of labels for an electric motor manufacturer. After two-three trial orders, he was convinced that there were a number of inadequacies in his knowledge of the process. He felt he should go to someone who is already in the business so that these problems can be clarified. With this end in view he obtained the addresses of suppliers of anodised label from Bombay. He went to Bombay and met them. All of them were unwilling to share any type of information connected to the process, with him. But he found out a way to overcome this situation. He stood near one such corner where workers from the factory would pass by. He caught hold of one of the workers and requested him to give the information he wanted. He also promised the worker some reward if he would give the vital information required. In the subsequent exchanges Amit could obtain the details that he wanted. After returning to Hubli he re-started his efforts again. He replaced the earlier equipments with some new ones, fabricated by himself. He improved the process in line with the various hints that he had received. The renewed efforts were started in 1977. He shifted his factory to the new premises that he obtained on a rental basis. These premises were located away from local
industrial estate. Now he had a better grip over the process. The quality of labels produced by him improved and there was greater consumer acceptance of his products. Through economies of scale and low overheads he could compete well with the established suppliers of the product. There was one more reason why the local large industries were interested in developing Amit as a vendor. They had often felt difficulties in liaising with suppliers who were located in far away places. The lead time for procurement was also high with the development of Goldenlabels, these problems were reduced. But as a policy large firms continued to buy from all suppliers even though bulk of the orders were now being received by Golden Labels. Amitkumar kept on his quest for product improvements. He took hints for product improvement from several books and periodicals that were available on the subject. During his reading, he noticed in one of the periodicals that a trade exhibition was being organized in Dusseldorf, West Germany in March 1982. He visited the fair and was much impressed by the progress the Western countries have made in the field. In comparison he felt that the technology being used in this country was primitive. Being inspired to modernise he ordered for a photographic equipment which cost him Rs. 1.5 lakh to procure. By making these changes Amitkumar had brought his
production technology in tune with the best in the field, even though he felt he had a long way to go.

Amitkumar also developed contacts with a number of other customers in the nearby industrial cities. Still the bulk of business came from local industries. Having grown steadily over a period, the firm started experiencing serious problems in production scheduling. He sought help of the faculty of the local business school to solve his problem. He was advised to go in for an MBA inplant trainee during 1985 vacation. He did accordingly. Today he has a well developed order processing as well as production scheduling system.

As far as the firm's finances were concerned, the entrepreneur, from the beginning, he adopted a cautious approach. His initial investment in anodized label making was Rs. 20,000. This amount was utilized to put up some self fabricated machinery as well as working capital. While the equipment cost Rs. 10,000 (approx), Rs. 10,000 was utilized for providing working capital. The sales turnover in the first year was Rs. 20,000. The sales turnover of the firm in the tenth year i.e., 1985 was Rs. 7 lakhs, showing an appreciation of 28 times the initial turnover. While own investment in the firm

6. See table No. for details.
has increased from Rs. 20,000 to Rs. 6 lakhs, showing an appreciation of 30 times, the borrowings have increased from nil to Rs. 75,000 showing a total investment of Rs. 6,75,000. During the period the firm made a total profit of Rs. 8,30,000 but ploughed back Rs. 6,00,000 in to the firm. Rs. 2,30,000 were retained by entrepreneur. This amount was utilised for household expenses, partly for construction of house and buying a car. The maximum borrowings of the firm were Rs. 1,05,000 in the year 1982, when the firm bought an imported photographic equipment.

6.5 Analysis:

6.5.1 Production Decisions:

Amitkumar had started a unit to do electroplating. This was set up in consultation with authorities and also after assessing the demand. Being result oriented, he wanted to do well but some inadequacies in the process made him realise that he needs additional expertise. At this time he again approached Small Industry Service Institute an institution developed by Small Industries Development Commissioner, Government of India, which specialises in helping upcoming as well as working entrepreneurs. By this act Amitkumar reflects a keen awareness of the environment around him. Observations
in the field reveal that the entrepreneurs are often obsessed by the problems that they face and do not put in efforts to solve the problems. Here in the entrepreneur solved his production problem by taking an appropriate step. He showed a lot of zeal and enthusiasm while undergoing training which made him take special interest in some other allied trade. It is common experience that the early enthusiasm of the entrepreneurs wanes away as time passes. But this was an exception. Even after having improved upon his electroplating he did not rest. He wanted to take up to manufacture of anodized labels. For this purpose he went in for early experimentation but failed. With determination he pursued the problem and approached the businessmen who were already in business. When he did not receive a favourable response he was not deterred. He pursued his objective by finding out his own ways. Here in he again showed determination to succeed. His obsession with excellence did not allow him to rest. He continued to study relevant literature and took number of decisions to improve the process. A very important decision he took almost single handedly was one of visiting trade exhibition abroad. This brought him in touch with 'State of art' in his chosen field. This step also enabled him to add some equipment which considerably improved the quality of work.
The production decisions show an almost relentless effort to improve upon what has already been done. This is a significant effort viewed in the context of the fact that number of small firms fail because they are unable to manage the technology.

6.4.2 Finance Decisions:

Right in the beginning of the firm the entrepreneur held a guarded profile by limiting his investments to Rs. 20,000 which included the working capital also. On discussion with the entrepreneur it could be known that the level of investments were deliberately kept low in order to reduce the overhead burden. In tune with the belief that bank borrowing will be cumbersome on account of several statements etc. that have to go with it and also on account of the fear that the bank may not consider favourably such a business proposition, the entrepreneur refrained from approaching the bank. But as business grew he became more investment conscious. Amitkumar knew that he was in high technology business and the business needs have to be met. This trend of repetitive investments coming from firm's own funds has been a significant feature of firms financial management. On one hand the entrepreneur was able to plough back the entire profits as he belonged to a joint family and had to meet only the out of pocket expenses.
On the other, it was the realisation that his was a growing firm and growth needs in terms of investment in plant and machinery as well as investment in working capital have to be met. In essence a singular feature of firms financial management was a good effort in growth financing which enabled the firm to increase its turnover from a meagre Rs. 20,000 to Rs. 7,00,000, in a span of 10 years.

Seen in the context of problems facing small sector such as diversion of funds to non productive purposes the firm's efforts in maintaining strict financial discipline is commendable. It may be noted that the firm has invested back nearly 81.5% of the total earnings. The choice of a product where in value added was as high as 60% was another significant feature that helped the firm generate profits at a rate of $\frac{60}{100}$ of the turnover which in turn could be reinvested.

Another observation made by the researcher was with regard to handling of accounts. It was observed that the entrepreneur was independently handling all the accounts. It could be made out that this approach was being used to conceal certain vital data about profitability, turnover etc. The secretive approach to business and controlling of all activities himself has produced excellent results so far as Amitkumar is
concerned. But when the firm grows the functional division of managerial activities is not only essential but also inevitable. If delegation of tasks continues to be ignored it may act as a hurdle in the transition to professional management which is absolutely essential for a group firm like this. Another problem commonly faced by the firm is with regard to receivables. Fortunately in case of this firm, the receivables stood at an equivalent of 1 month sale. It was also observed that borrowing of Rs. 75,000 for a turnover Rs. 6,00,000 was very low at a ratio of 0.11:1. When compared to a ratio of 1:1 in case of case study I this is indeed a very low figure. Reluctance to submit detailed statement of accounts as required at higher level of borrowings could be one of the reasons for such an approach.

The other interesting features were an average annual growth rate of 54.3 per cent with the highest growth being registered in the beginning 3 years showing 85 per cent growth annually. Profit as a percentage of sales turnover has steadily increased except for a setback in 1980, to reach 32 per cent from a level of 25 per cent in the beginning. This reflects the increase in value added by the firm due to technological improvements. The return on capital employed
### Table 6

**Turnover, Profits, Investment and Borrowings of Golden Labels in Rs.**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Sales Turnover</td>
<td>20000</td>
<td>40000</td>
<td>75000</td>
<td>125000</td>
<td>200000</td>
<td>225000</td>
<td>275000</td>
<td>350000</td>
<td>550000</td>
<td>700000</td>
<td>2560000</td>
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<tr>
<td>Annual growth rate</td>
<td>-</td>
<td>100</td>
<td>88</td>
<td>67</td>
<td>39</td>
<td>13</td>
<td>22</td>
<td>27</td>
<td>57</td>
<td>27</td>
<td>Av. 54.3</td>
</tr>
<tr>
<td>Profits</td>
<td>5000</td>
<td>10000</td>
<td>20000</td>
<td>35000</td>
<td>50000</td>
<td>65000</td>
<td>95000</td>
<td>125000</td>
<td>200000</td>
<td>225000</td>
<td>830000</td>
</tr>
<tr>
<td>Profits as a % of sales turnover</td>
<td>25</td>
<td>25</td>
<td>27</td>
<td>28</td>
<td>25</td>
<td>29</td>
<td>35</td>
<td>35</td>
<td>36</td>
<td>32</td>
<td>Av. 30</td>
</tr>
<tr>
<td>Investment</td>
<td>10000</td>
<td>25000</td>
<td>25000</td>
<td>50000</td>
<td>50000</td>
<td>50000</td>
<td>200000</td>
<td>50000</td>
<td>50000</td>
<td>70000</td>
<td>600000</td>
</tr>
<tr>
<td>Cumulative Investment</td>
<td>30000</td>
<td>55000</td>
<td>80000</td>
<td>130000</td>
<td>180000</td>
<td>230000</td>
<td>430000</td>
<td>480000</td>
<td>530000</td>
<td>600000</td>
<td>-</td>
</tr>
<tr>
<td>Borrowings</td>
<td>5000</td>
<td>15000</td>
<td>15000</td>
<td>15000</td>
<td>15000</td>
<td>20000</td>
<td>125000</td>
<td>55000</td>
<td>55000</td>
<td>75000</td>
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<tr>
<td>Total Capital employed</td>
<td>35000</td>
<td>70000</td>
<td>854000</td>
<td>145000</td>
<td>195000</td>
<td>250000</td>
<td>555000</td>
<td>535000</td>
<td>585000</td>
<td>675000</td>
<td>-</td>
</tr>
<tr>
<td>Profit as % of capital employed</td>
<td>14</td>
<td>14</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>26</td>
<td>26</td>
<td>17</td>
<td>23</td>
<td>34</td>
<td>33</td>
</tr>
</tbody>
</table>

*Initial investment: £ 10,000*
By attempting an entry into this market he attempted a nearly difficult task. It was made possible due to the personal interest he took in the manufacturing process and the basic knowledge that he could obtain from his teacher. Since every firm where the value added is high attracts competitors, this firm also should be an attractive investment proposition. But intricacy of the technology involved and lack of organized training facilities etc. have prevented further entry of competitors. Added to this the entrepreneur has improved his competitive position by his constant endeavour to improve the quality of the product. He has good market potential to be exploited further as he has no competitors in the radius of nearly 500 Kms. Entrepreneur's recent effort in setting a study carried out by MBA inplant trainee has helped further in developing systems in order processing and follow-up which in turn have improved customer service. The prior informal survey conducted by the entrepreneur gave him the much needed confidence which many entrepreneurs lack today, this set the trend for future events.

6.4.4. Decision Making Process Within the Firm:

The entrepreneur from the beginning has exhibited a consultative style where he has sought opinion of knowledgeable
persons in matters of importance. During the interaction the researcher had it was found that the entrepreneur was more a introvert in approach as a person. His communications with subordinates were task oriented and cryptic. Even though he maintained congenial environment it was not a charged atmosphere as observed in case of Krishna Feeds Pvt. Ltd. It was surprising to note that the firm had deliberately limited itself to employment to 9 persons. This was done in order to avoid coming under the purview of Factories Act, 1948. This appeared to have halted the further growth and expansion of the firm. Another significant observation was with regard to total lack of second line in command. The firm employed a part time clerk, a draughtsman and a supervisor in addition to six other operators. But none of them seemingly made any independent decisions. All decisions waited for Amitkumar much to the detriment of organizational needs. When asked why he had not developed a second line which could at least carry the routine operations he replied "I have been looking for competent person to handle all the day to day work but I have not found one" The supervisor who was employed was only given mechanical instructions without scope for independent decision making. As a result, of this distance deliberately maintained by the entrepreneur, there was no possibility
of human resource development. This does not augur well for a firm of this type with high growth prospects. Except for the initial decision with regard to product and market the entrepreneur has been making decisions himself without much of consultation process. This was evident on observation. Even as regards the ownership pattern the firm continues to be a partnership firm. It has the potential to become a private limited by virtue of enlarged capital base provided the entrepreneur is interested in further growth of the enterprise.

Even though firm's growth appeared to be an obsession with the entrepreneur in the beginning days, the high profitability of the firm at higher levels of sales had lead the entrepreneur into complacency. Asked about his views regarding role of a consultant the entrepreneur said "in my opinion the consultants fees are high and a small firm like ours cannot afford the high cost". This lack of receptivity to external intervention apparently raises doubts regarding the firm's ability to consolidate the growth already achieved and ability to grow further satisfactorily in the context of growing complexity of business. As already discussed in chapter V a small firm entrepreneur has to play two important roles one as a technician and another as a manager. While the entrepreneurs excellence as a technician has earned him the necessary benefits in a area marked by low technological competence he has to now turn to become a manager who can absorb the growth achieved.
The observed characteristic features of the decision making process within the firm are:

i) Highly decentralized decision making with no visible attempts at decentralization.

ii) A keen eye for the overall environment concerning decisions as well as ability to use facts and figures to minutest details.

iii) An obsession with product excellence reflecting in all product related decisions such as choice of raw material, workmanship etc.

iv) Even though the entrepreneur shows occasional interest in professional management, close observations revealed that entrepreneur had a guarded attitude towards use of full time professional managers in the firm presumably due to the perceived threat to the privacy being enjoyed now.
6.4. Case Study III - Vijay Industries

6.4.1. Brief Case History

Ramkrishna was to retire from Perfect Tools Ltd., a machine tool manufacturing company after three decades of service. He had a large family to be supported with sons yet to settle in life and daughters yet to be married. Prospect of future days often made him worry. Moreover, the growing inflationary trend was making the existing income itself small in relation to the requirement. After spending sleepless nights worrying over his post-retirement life, he took a decision to start some side activity which would support him in his post-retirement period. When he chose to discuss this issue with the Chief Executive Officer, he was received with warmth and given a patient hearing. When he explained the proposal he had in his mind, Chief Executive Officer suggested that he can take up one of the components that went into company's product by starting a small firm. This was a vital break through for Ramkrishna. He thanked profusely and set out for his preparations. He applied for a shed in the industrial estate where sheds were being offered on a rental basis. But still the hitch was that of choosing the product. His decision on machinery would depend upon the choice of end product. Many of the components which went into a machine tool
required sophisticated machinery which in turn needed sizable investment. At this stage of life, he did not like to be further burdened with debt while he wanted to set up a production unit, he wanted to keep his investment to the bare minimum. This was like having the cake and eat it too. The next four days Ramkrishna spent were devoted to feverish search for a product that would meet his requirements. On one morning he was having his cup of tea with his colleagues. He chose to share his dilemma with a colleague of his who was his close confident. His colleague was quick enough to suggest production of 'Gaskets'.

'Gaskets' belonged to a class of component which were used as reinforcement to machine tool parts. They played a vital role in protecting the machinery from loosing its tolerances while working at a high speed which induced stress. These were made from fibre board material which was available in required thickness in a sheet form, and did not require machining of any sort. But, since these components played a vital role in maintaining the tolerance requirement in a machine tool, the company had deliberately chosen not to give this job to a ancillary. It was also an interesting fact that Ramkrishna had spent much of his time supervising the manufacture of these components. It was only in recent decade that
he was transferred to another section where he had involved himself in supervision of machining work.

In manufacturing 'gaskets' the simple pressing and cutting machines were used. But the process required lot of personal care as possibilities of loosing these tolerances were high in the process of cutting. The entrepreneur was well aware of these factors. Because of high precision requirements the product had not been subcontracted out.

The idea delighted him and he was in smiles again. Next day he met chief executive officer and explained to him his proposal. This he had to do because a policy decision at the highest level was required to give this job to an ancillary for the first time. The chief executive officer who was well aware of workmanship of the entrepreneur readily agreed.

As the cutting job also could be done manually in the initial stages when the quantity to be processed was small, the pressing machine was the only requirement which was a must. There was an old press in the factory which was idle on account of a new replacement bought recently. The entrepreneur made a plea to the concerned authorities to dispose off the machine to him so that he can use it in his workshop. As a gesture to the retiring employee it was decided to sell
this machine to the entrepreneur at written down book value. The payment for this machine which was a meagre Rs. 3,000 compared to cost of a new machine which was Rs. 10,000/- was to be obtained from the bills payable to the entrepreneur for his services. In 1976 the work of the unit Vijay Industries was started with an initial investment of Rs. 1,500 in tools and accessories. This amount was the only cash out go as far as initial investments were concerned. The owner manager devoted his time to the job after working hours and completed them to the satisfaction of his employers without posing any quality problems. At the end of his service in 1981, he was also permitted to purchase two more old machines at written down book value which also included a cutting machine. Now the entrepreneur had the full complement of machinery required by him. Some of the operations which were simple were carried out in the backyard of his house where many of his family members could help in their spare time.

Since there was high difference in the overheads of large and small units, Ramkrishna could get a reasonable price for his product. His son an engineer by training who was working in a large industry joined him in 1983 on a full time basis. Ever since he has been concentrating on developmental work while his aged father looks after to developmental work.
Gasket making continues to be a speciality item of the firm. Even though the firm has added machinery to enable itself to undertake several other jobs, the major contribution continues to come from Gasket making. This is because the entrepreneur believes he has developed an expertise in the field over a long time. Not only this, competition in respect of other products is also high. The present active entrepreneur Prakash has received number of suggestions from big firms for development and marketing of products independently. In addition Prakash's brother who stayed in a developed country on an assignment from his employer has brought with him prototypes of number of products. But none of these have received any serious attention even though Prakash is seen toying with these ideas very often.

6.4.2. Analysis of Production Decision

In the choice of product for his service oriented firm the entrepreneur through his efforts exhibited a keen awareness of his limitations and settled for an item which made use of his strength. The second important decision he took was in respect of procurement of machinery. If he were to procure new machinery it would have cost him high amount. This would have
meant that he has to borrow which in turn would lead to debt servicing problems. This was a singularly important decision which saved him the burden of high overheads. But after the initial start after two years he added several other machineries to increase the scope of his activities. Still the major buyer was the exemployer contributing to 30% of sales. Major item was Gasket making contributing 75% sales. In the next 2-3 years the position did not change much. But in 1983 when his son Prakash joined him certain changes took place. He developed 3 other customers and now share of his father's employer had come down to 50% while Gasket making enjoyed a share of 60%. The machining and other allied services accounted for the other 40%. This was a deliberate move made by Prakash to reduce over reliance on one buyer on one hand and to develop expertise in other areas on the other. But Prakash the new generation entrepreneur found that value added by the firm had come down from a high of 60% (during earlier period when Gasket making had a higher share) to 40%. So, while the work had increased the volume of sales, the profitability came down. After an analysis of his profitability he started looking for gasket requirements of other industries and concentrated on those jobs and slowly discontinued jobs
concerning machining and other allied services. This strategy has again increased the value added by the firm to almost 65%. The additional value added is on account of higher prices he has been able realise on account of excellent vendor rating given to him. Today 95% of his jobs come from Gasket making area. In 1985 he faced acute difficulties in obtaining fibre board required for Gasket making. While, the material is as available in bulk it could not be obtained in small lots. When bought in small quantity with great difficulties the quality was poor and prices were high. After thinking over he has devised a solution. He has approached the big industries with an offer delivering 1-2 years requirements of Gasket related products on a staggered basis. This means the inventory carrying responsibility is held by the owner manager and not the buyer. Not only this he has also decided to offer quality discounts to increase the bulkiness of the order. With these arrangements he has overcome the problem of raw material procurement. Due to the bulk order arrangement he is able to plan his production activity on a regular basis. As a result he is able to increase the productivity of labour. Thirdly he is able to devote time and attention to developmental activities as he has less of liasoning work to do.
As illustrated already the initial investment was only Rs. 4,500/- of this Rs. 1,500 came as owner's contribution while Rs. 3,000/- came as a loan linked to purchase of second hand machine. In the first year itself the firm achieved a turnover of Rs. 20,000/- of this Rs. 10,000 was the net profit (the initial profit was high on account of two things (i) comparatively liberal attitude of buying firm who were his employers (ii) the economical way in which the entrepreneur organised his production). Of this Rs. 2,000 was utilised for paying back the loan and Rs. 7,000 was used to buy some other machinery required. In 1978 and 1979 he invested back Rs. 25,000/- each pooling back his profits earned during 1977-79. In this period while he earned a total profit of Rs. 52,000/- he invested back Rs. 50,000. This was for the simple reason that he was yet to retire and he had taken a decision to invest back the earnings. He became more conservative in his reinvestments in the next three years when he invested only Rs. 10,000/-. Out of Rs. 74,000/- earned as profit during the period. This was because he prepared for his retirement in the first two years and eventually retired in the third year and had to meet household expenses and met
### Table - 7

**Turnover, Profits, Investments and Borrowings of Vijay Industries in Rs.**

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<tbody>
<tr>
<td>Sold Turnover</td>
<td>25000</td>
<td>35000</td>
<td>45000</td>
<td>50000</td>
<td>55000</td>
<td>60000</td>
<td>70000</td>
<td>80000</td>
<td>110000</td>
<td>130000</td>
<td>660000</td>
</tr>
<tr>
<td>% Annual growth in sales turnover</td>
<td>-</td>
<td>40</td>
<td>22</td>
<td>11</td>
<td>10</td>
<td>9</td>
<td>17</td>
<td>14</td>
<td>37</td>
<td>18</td>
<td>Av. 20</td>
</tr>
<tr>
<td>Profit after tax</td>
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<td>18000</td>
<td>20000</td>
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<td>24000</td>
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<tr>
<td>Profit as % of sales turnover</td>
<td>25</td>
<td>25</td>
<td>27</td>
<td>28</td>
<td>25</td>
<td>29</td>
<td>25</td>
<td>35</td>
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<tr>
<td>Investments</td>
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<td>25000</td>
<td>25000</td>
<td>-</td>
<td>10000</td>
<td>-</td>
<td>10000</td>
<td>10000</td>
<td>-</td>
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<td>80000</td>
<td>80000</td>
<td>90000</td>
<td>100000</td>
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<tr>
<td>Borrowings</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5000</td>
<td>10000</td>
<td>15000</td>
<td>-</td>
</tr>
<tr>
<td>Profit as a % of capital employed</td>
<td>50</td>
<td>70</td>
<td>40</td>
<td>29</td>
<td>31</td>
<td>30</td>
<td>35</td>
<td>34</td>
<td>40</td>
<td>45</td>
<td>40</td>
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</table>

*The market value of the investment is taken into consideration.*
As far as the bank borrowings are concerned the firm did not borrow any funds from the bank till 1983. It was again the forward looking Prakash who initiated bank borrowings. In the years 1984 and 1985 the cash credit limit enjoyed by the company was Rs. 10,000 and Rs. 15,000 respectively. When asked about his unusual decision not to borrow Ramkrishna replied "from the childhood we were brought up in an atmosphere where we were told that one should not develop the tendency of borrowing whether it is money or otherwise. True to this, I have never borrowed from anyone in running my household for last 35 years. This principle made me rely on my own sources as far as the initial investment as well as further investments were concerned" This was reflective of the type of standards some of the entrepreneurs held.

These were some of the glimpses of financial management decisions of the firm.

6.4.4. Analysis of Marketing Decisions

The most basic decision was with regard to product-market relationship. The entrepreneur's choice of market was based on a suggestion that came from the buyer himself. Secondly, the choice of product i.e., gasket was based on an
analysis of the production machinery, requirement. Since Ramchandra wanted the initial investment to be low, he made a choice in favour of a product whose machinery requirements are low. This is a noteworthy aspect of decision making process in product selection. The second important decision the firm took was with regard to addition of other services like machining etc., for which required machinery was added in due course, with an objective of extending the product range. But due to limitations that he faced in liaisoning work he could not develop new customers more seriously. However, it was only after his retirement in 1931 that he took up this effort more seriously. Arrival of Prakash on the scene changed the situation and soon the firm was able to develop three more customers reducing the total dependence on limited to only 50%. Next decision that he took was to increase share of activities other than gasket making. Through a profitability analysis he found out that certain products were not making enough contribution. This analysis enabled him to reshuffle his range of products or services with more objectivity. This analytical approach resulted in choice of Gasket making activity, since firm had considerable strength
in the area. Another vital decision that the entrepreneur could take was in clubbing the size of orders. By studying buyer behaviour closely he could overcome certain limitations that he faced in raw material procurement by going in for bulk orders with an arrangement for staggered deliveries. However, a vital decision that Prakash could not take was with regard to new product development. Even though, he had interest in developing his product because of his perceived limitations in spending enough time on the matter he apparently neglected an issue of vital importance to firms long term development.

6.4.5 Decision Making Process Within the Firm:

The present entrepreneur of the firm Prakash has exhibited certain characteristic features which put him in a different framework from others. Having been trained as an engineer trainee in a reputed manufacturing firm, he had exposure to modern methods of management. Moreover he had worked as an executive for some time which had given him exposure to managerial problems.

In his decision making he exhibited a combination of rational and intuitive approaches. The researcher was able to arrive at such a conclusion, based on the observations made
during several interactions that he had with the entrepreneur. Unlike other entrepreneurs observed in the field Prakash did not base his decision purely on 'hunch' or intuition, e.g., faced with problems in pricing of his services he often used to rely upon historical costs of the job or service. He maintained records of his earlier cost workings and found out what variations had taken place in respect of cost details. Subsequently, in the quotation he submitted, he took care to see that these cost details were reflected. However, this does not mean that all his decisions were based on processing of information. Occasionally, faced with different situations in respect of production marketing etc. he had to adapt 'hunch' approaches to make quick decisions e.g., He often faced enquiries from large industry wherein they sought his acceptance of a job on an 'urgent' basis. At this time he could not use a rational approach due to paucity of time. He often adapted a consultative style to solve difficulties faced by him e.g., whenever the researcher visited him, he took opportunity to place his problems before him and ask for a opinion or advice. This advice or suggestion that he used to receive was used further in his deliberations. It was also interesting to observe that several entrepreneurs in the industrial estate came to him with their problems.
The decision process prevalent in the firm was marked.

(i) Use of information wherever necessary depending on the nature of the problem and time available.

(ii) Occasional use of intuitive or hunch approaches to overcome situations where the available time was inadequate for a rational analysis.

(iii) A consultative approach, which went in as an input in the final decision making process.
Case Study IV - Maxi Industries

6.5.1 Brief Case Study:

Ramakant Desai obtained his engineering degree in first class during the year 1963. He joined a multinational firm in Engineering sector as a trainee. Due to his excellent performance during training and thereafter, the firm decided to send him to West Germany for further training. Soon after his initial training he decided to stay in West Germany and took a job in one of the subsidiaries of the firm producing machine tools. During 1973 he was on one of his 'routine' visit to see his parents. While in India he could see that his parents had grown weak due to aging process and needed help of some one. Being the only son he thought of returning to India to help his parents. Even though it was very difficult decision to make, Ramakant made it since he considered it was his boundant duty. He returned to India after six months. All along he had been vigourously thinking about alternatives before him. Basically there were two alternatives, one to go in for a job two, to set up his own unit. Even though on the face of it a job alternative was more attractive, a job assignment would have taken him to a far away place. Since his parents were unwilling to move to a new place this alternative
was not feasible. So he decided to set up a small business in the near vicinity of his native place. Having spent nearly 6 years working in machine tool manufacturing firm using latest technology, he had developed great confidence in doing well in manufacturing operations concerning machine tools.

When he scanned the area nearby for suitable opening he found that there was a reputed medium sized machine tool manufacturing unit which had come up. Over formal discussions with the executives of the firm he decided to produce components by starting an ancillary firm for the purpose. He applied for a shed in the industrial estate in the vicinity of the unit. He also prepared a project report and submitted it to his bankers. While preparing the report his mind was agitated by two alternatives that were before him (i) to manufacture certain major components such as milling adapter and arbour checks and sell them not only to the local unit but also to outside units (ii) To work as an ancillary to the local unit. While the first alternative appeared more attractive there were certain difficulties in implementing it. Some of them were (i) Problems in procuring raw materials for a small unit, (ii) Plant and Machinery and tooling requirements needed a high investment (iii) Uncertainty of success in a different 'culture or business environment. As against this an ancillary status
meant all support from the buyer in (i) obtaining raw materials (ii) Tooling requirements (iii) expert help in solving production problems. Desai felt starting off as an ancillary would keep his initial risk 'low' since it required lower investment in machinery in addition to other benefits. In his project report he submitted that, he would take up subcontract work in the 1st phase with an investment of Rs. 1.5 lakh and independent manufacturing in the II phase with an investment of Rs. 2.5 lakhs. Due to the strong technical background that he had the bank readily approved his project.

A period of two years as an ancillary proved highly rewarding experience for Desai. During this period he had fully acquainted himself with the requirements of the buyer in respect of design specifications, raw materials and tooling requirements etc. During this period, he had been able to develop sources of raw materials. He was not confident of meeting his raw material requirements himself. As a result of this renewed confidence he was able to make an offer to his buyer of outright sale of components hitherto being subcontracted to him. By this time he had developed competence in manufacturing over 250 components to the entire satisfaction of his sole buyer. The buyer not only accepted the idea but also offered the privilege of self inspection facilities with an incentive of 2% of invoice value. The present investment in the firm is of the order of Rs. 2.5 lakhs whereas
turnover is Rs. 10 lakhs. The entrepreneur could not take up the II phase as planned and the bank sanction for the same has lapsed.

6.5.2(i) Analysis of Production Decisions

Ramakant was well educated, trained, experienced, and financially sound; he had built his personal savings over a period during his stay at West Germany. In his initial search for a suitable business proposition, he considerably scaled down his aspiration in keeping with 'reality' as perceived by him. He dropped his idea of independent products such as milling adapter, and arbour chuck for which he had the needed technology. Enquiries made by the researcher in the industry circles revealed that Ramakant had high probabilities of success since 1975-1980 was a period which saw a boom in the Indian machine tool industry due to growing industrial infrastructure and opportunities. They quoted instances of small entrepreneurs who had taken to manufacture of machine tools components and said these entrepreneurs even though were not as brilliant and experienced as Ramakant have done exceedingly well supplying to a number of machine tool manufacturers. Making specific references to Ramakant they said 'he could have easily made it to the top. Since
he had distinct production experience vital in manufacture of components such as arbour chucks and milling adapters.

The basic decision to go in for subcontracting no doubt helped Ramakant in making a safe beginning but in the course of time experience of such a parasitic existence has driven out whatever zeal and energy he had for manufacturing products independently. Some entrepreneurs consider going in for ancillary status as lackluster activity and resist all the temptation that such a status offers. One of the highly prospective entrepreneur in vacuum technology with a turnover of Rs. 6 crores per annum narrated to the researcher how he was tempted by large industry to go in for production as ancillary. Due to certain constraint the entrepreneur had to postpone manufacture of production of vacuum based products for a period of six months. At this juncture, chief executive of a large company in automobile business who was his persona acquaintance made an offer of subcontracting work or ancillary work on a long term basis with attractive terms. The offer had come in the wake of the fact that the entrepreneur was a highly accomplished engineer with a proven track record. But the entrepreneur in this case refused the offer and waited for six months before he could start production. Expressing his vehemant opposition to ancillary activities particularly
for a beginning small firm he said 'I kept all my machinery with a packed condition for six months. Since I had a feeling that I will be tempted to take up ancillary work the moment I assemble the machinery' Reflecting over the present status of the firm as one of the highly reputed firms in vacuum technology the entrepreneur said "had I not resisted the temptation to go in for a comparatively easy task, I would not have been where I am today. It is this in this context that we have to view the early decision of Ramakant to go in for ancillary status and his subsequent failure to take up indeterminate production in the production of which he had exceptional pm capabilities.

6.5.3 Analysis of Finance Decisions:

Ramakant started with a higher level of investment at Rs. 1,50,000/- looked at from the point of view of production requirements this action was justified. Since he wanted to produce machine tools to the best of precision having been exposed to such a precision in his past employment, we went in for the best available machinery. But the initial period was not as smooth as expected, his turnover ranged from Rs. 70,000/- to Rs. 1,10,000 during this period. All along in
the discussion it would be gathered that being a technocrat Ramakant devoted much of the early period perfecting his art than in developing business at large. The period between 1978-1981, was better when the turnover increased from Rs. 1,30,000/- to 2,10,000. 1982 was the year of lean growth with a rate of 5%. It was in this year that the machine tool firm on which he was dependant faced some unfavourable trends in the market. The turnover increased in the next two years to reach a figure of Rs. 3,40,000 in 1984. The firm achieved an overall growth rate of 19% at the rate of 10% per annum the real growth achieved has been only 9%. Of the total investment of Rs. 1,00,000 only Rs. 50,000 has been added in the form of needed machinery and accessories. The remaining Rs. 50,000 has been used to finance high debtors at Rs. 1,00,000 equivalent to 105 days production at 1984 level of production.

The accounts of the firm are maintained by the entrepreneur himself and all the transactions involving finance are handled by Ramakant personally. The major constraints in growth of the firm has been the reliance on only one major customer, whereas other firms accounted for 12% of sales the machine tool manufacturer accounted for 88% of the sales. There were
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<td>Profit (in Rs.)</td>
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<td>Turnover, Profits, Investment and Borrowings of Mark Industries in Rs.</td>
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only two other customers. The firm’s inability to grow can be attributed to changing fortunes of its major customer. It is interesting to note here that this customer also registered a low growth at around 10% a year for the decade as a whole.

6.5.4 Analysis of Marketing Decisions:

Ramakant when he returned to India, had some immediate problems. The first and foremost was that of adapting himself to Indian conditions after a stay of seven years in a highly industrialized western country. While this was his personal problem he had to make a choice of product and the market. As discussed earlier, location was a factor over which he had no control. In making his decisions he did not make an extensive use of consultation process as he felt that he ‘knew enough’ coming from a multinational firm of high repute. He was not interested in taking too many risks as he thought he had already taken much risk in resigning a prospective job and coming down to settle here. So he looked for a captive market for the components he was in a position to manufacture for machine tool industry. In this search for a firm that matched his capabilities he was successful and he went on to develop number of products keeping the same customer in mind.
The first nine years after his start in 1975 he concentrated his efforts in developing his capabilities around one buyer. It is only in the tenth year that he has developed two other customers.

Machine tool industry in India has made significant strides in the last one decade. There is a full-fledged body called Indian Machine Tool Manufacturer's Association which has made significant contribution to the development of this industry in the country. As a part of its programme to bring together all machine tool manufacturers, component manufacturers, middlemen and ultimate users the industry organizes a trade exhibition every three years. It gives an excellent opportunity for a firm to display its capabilities in different areas of production and thereby develop the needed contacts to grow and expand in business. It was observed by the researcher that a few firms in Hubli-Dharwad area had taken advantage of such an opportunity and had made significant progress in their respective areas. The entrepreneur in question Ramakant did not in effect scan the environment closely to understand the environment the entrepreneur identifying reasons for slow growth said "In our country today at this stage of development a small firm has more uncontrollables and a few controllables only strategy we can think of is to
compromise. We are seldom able to optimize output of a given input, maximization is totally out of question. In general the entrepreneur reflected a sense of helplessness arising out of inability to influence the environment in which he made his decisions.

6.6.5 Decision Making Process Within the Firm:

It was interesting to note that the prevailing environment in the firm was one of task orientation with an equal concern for human relations. Having worked in West Germany for a period of six years Ramakant had developed a high concern for productivity. As a result he had devised a wage system totally linked to productivity. e.g., a person producing three times the daily wage rate. Laughingly Ramakant said "this scheme of mine makes it a haunting place for those who do not have orientation to hard work. On the other hand others who are able to do more work have stuck to my firm, even for as long as 6-8 years." This was a very interesting revelation in the context of many small units where it is difficult to find an employee who has completed a year of service in the firm. True to the statement made by Ramakant some workers of the firm told the researcher that they were earning as much as Rs. 1200/- during some months on account of this total
wage linkage with productivity. Apart from this Ramakant supplied his workers with a pair of uniform and shoes in addition to providing free tea twice a day. Such personnel decisions in a small firm were a rarity compared to many firms studied which were of similar size. During the course of researchers participation in the firm activities it was observed that Ramakant took help of his employees in the form of ideas and suggestion in many of the production decisions. The day to day decisions regarding production scheduling, quality etc. were taken by the employees themselves under broad framework provided by the entrepreneur. On the contrary all the marketing and finance decisions were made by the entrepreneur himself. Needless to say he did not employ any supervisor as he felt he was the best supervisor.

The main characteristics of decision making process within the industry are summarised as below:

(i) While decision making in respect of policy was no doubt centralised, the decision making in respect of day to day operations was decentralised. Needless to say the entrepreneur had taken adequate care to develop a "second line" which aided the routine type of decision making.
(ii) Decision though future oriented did not incorporate a synthesis of prevailing environment to this extent only short or medium range future of the firm was taken care of.

(iii) Decisions of the firm had the predominant influence of owner manager's 'past experience' than the exposure to the present.
6.6.1 Case Study — V Precision Services:

Brief Case History:

Jayant who came from a family of jewellers was seriously thinking about his future course of action. Soon after his completing final year examination of a diploma course in mechanical engineering. Since Jayant was of a type who did not like to work under someone his parents did not force him to take up an employment.

It was around this period in early seventies that Government was implementing several schemes aimed at industrialising the area which came under a declared industrially backward district. Many of the Jayant's schoolmates had started their small firms, while some of them had started it themselves, some had joined the firm started by their relations. The proliferation of small units was largely a result of multi pronged effort of Government in promoting industrial estates on one hand, and persuading banks to help unemployed graduates and diploma holders to start their own units on the other. As a result, there was a spirited entrepreneurial activity in the area. Jayant, consulted some of his friends with a view to choose a suitable activity for starting his own firm. Since many of them were in the
subcontracting area. Jayant naturally chose the same operations for his firm also. Soon he applied for and obtained a small shed in the Industrial estate having a built in area of 1,000 sq.ft. and vacant land of 1,000 sq.ft. The next choice he had to make concerned the type of jobs that he should take up as an ancillary. Among the various jobs that he could take up he preferred machining as this offered a large market potential. With this decision he went in for a second hand medium precision lathe. He had difficulties in going for precision work as precision requirements of jobs were high. After working in this way and accumulating profits he went in for a high precision lathe to improve his capabilities. The initial period of two years, was difficult for Jayant as he had to face number of difficulties in job work starting from quality to maintaining demanding delivery schedules. Soon the competition for the jobs increased considerably and the units having similar capacity started under-cutting each other. This lead to a panic situation for Jayant. He started a serious search for an alternative trade where competition was less. After a period of nearly two years he identified threading activity as a desirable one in terms of its competitiveness, vis-a-vis other trades. As a consequence the high precision lathe that he had bought had to be discarded at a loss. But he did not have any other
alternative. After changing to threading activity the demand for his service went up. But soon in a course of six months he faced another problem; he had to face severe competition from a few firms that had gone in for automatic threading machines.

The automatic machines have affected his business in two ways (i) in comparison quality of his products is low, (ii) the production cost is much lower in case of automatic machine, as a result Jayant has run into a difficulty once again. For the last ten years no major changes have taken place in his product profile. His turnover has increased to Rs. 2,60,000 from a level of Rs. 20,000 in the first year of operation. He is now seriously thinking of diversifying into wire products area. Even though he has been able to collect all details regarding the diversification, he has still not gone ahead with the final decision and its implementation. His sales have remained almost stagnant for the last four years.

6.6.2 Analysis of Production Decision:

The personal discussions with Jayant revealed that he has been of late much agitated on account of his inability to grow as others did. The basic production decision that he took
was based on a short range projection and true to his estimation he did do well in short range. This is clear from table No. 3. But it was only in the long range that Jayant felt the impact of his decision. He reversed his earlier decision at a cost and took another decision which also had a short lived utility. As a result of these two decisions he is in a fix. As regards other aspects of subcontract business such as quality, ability to maintain delivery schedule, providing help to buyers in new product developments etc., the entrepreneur is found lacking. It was surprising to observe as well as hear from the entrepreneur that he has not been able to develop any policy with regard to vital aspects such as quality control. He appeared to be casual most of the problems he was facing in production such as low capacity utilization. This impression is borne out of the fact that he has been using 40% of his capacity for the last two years whereas the average capacity utilization is around 60-65%.

Another problem area confronted by Jayant is with high level of material wastage. Here in also the total lack of material control data is responsible for the inability of the entrepreneur to cope with high wastage percentage. As far as the production planning is concerned the entrepreneur lacks orientation. In most of the production decisions that he has already made and in some of them that he is going to make the researcher sees apparent lack of clear business purpose, arising out of inability to define one's business.
6.6.3 Analysis of Finance Decisions:

In finance area also Jayant did not have any operating systems, when asked about his approach to financial management he said point blank "I don't believe in paper work. My calculations are simple and they are on tip of my tongue. Right now I can tell you what total billing I have done till this time, and what is the amount I have to receive". Obviously the firm did not have neither an accountant nor ledger clerk. One of the reasons advanced by other entrepreneurs regarding the style of Jayant was the fear of tax authorities. Before making his first investment of Rs. 5,000/- in purchase of machinery, the entrepreneur did not have any extensive consultation with anyone except a few entrepreneurs he knew. As a result, he did not know what exact facilities he can enjoy from the bank. He was told in his early career that bank borrowing was too cumbersome as process since they keep visiting the firm often checking inventory and sometimes records. This had made him refrain from bank borrowings. It was only in 1975 that he availed of cash credit facility of Rs. 5,000/-. 

The financial results of the firm show that average profitability of the firm in question was 27% of the turnover. The firm in question made a total profit of Rs. 5,25,000 of
### Table 9

**Profits Turnover, Investment and Borrowings of Precision Industries**

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<td>Growth rate</td>
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<td>30</td>
<td>12</td>
<td>29</td>
<td>28</td>
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<td>Total capital employed</td>
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<td>Profit as % of capital employed</td>
<td>71</td>
<td>60</td>
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* Cumulative investment till 1975 stood at Rs. 20,000/-
+ Cash credit facility
which a sum of Rs. 2,50,000 was reinvested in business (this includes cumulative investment of Rs. 20,000 upto 1975) of this amount Rs. 1,50,000 was reinvested in plant and machinery while Rs. 1,00,000 was invested in working capital. Of the total working capital of Rs. 1,40,000 Rs. 40,000 came from bank borrowings. In making several decisions concerning investment, management of working capital etc. the entrepreneur had not made use of any professional advisor. In his discussions with the researcher the entrepreneur had expressed his inability to go in for automatic threading machine that he required to face up to the competition. High cost of the machine at 3 lakhs and his inability to invest such an amount was cited as a reason for in action. Enquiries made by the researcher revealed that the entrepreneur had built a bungalow investing nearly Rs. 2.5 lakhs. It was fairly obvious that this step had denied the business of the required reinvestments. Another important aspect of the case was the inability of Jayant to quote prices for jobs on account of lack of data. Since he maintained minimal accounts, he used his mental calculations to replace a more scientific approach.

6.6.4 Analysis of Marketing Decisions:

Jayant thought of setting up a small firm since he saw many of his peers had done so. This is quite in consistence
with the spirit of entrepreneurship because every such activity needs inspiration from somewhere. The ultimate problem arises when the entrepreneur has to define the products and markets. If Jayant were to take a decision to have a product of his own and market it, it would have demanded a greater degree of preparation in terms of money, time and effort. He further simplified the problem of choice by going in for subcontract work. But even in starting an ancillary unit he has to take into consideration number of factors such as -

(i) The type of demand in terms of (a) quantity (b) quality (c) frequency,

(ii) Cost considerations taking into account (a) cost elements (b) changes in cost and the rate of change etc.,

(iii) The prices offered taking into consideration (a) support through tooling etc. (b) terms of payment.

This kind of analysis was necessary in case of every buyer who was identified. But the owner manager in this case decisions on a few casual enquiries made here and there with persons who were not competent enough to render wise advice.
In any marketing decision unless the marketer has a proper description of type of markets he is going to serve and the specific characteristics of customers, he is likely to be lead in to commitment of resources in wrong direction thereby reducing his own impact on the market. In this case the entrepreneur committed his scarce resources in an area where he did not have any specific competitive advantage. As a result he had to reverse his decision after understanding the nature of market and the type of competition faced by the firm.

Explaining his early set back Jayant said "I should have been more careful in the beginning. Had I spent more time in studying market conditions, I would have been in a position to make an appropriate decision. But this could not be done in my hurry to set up the firm, and it just did not occur to me that I would possibly get into this kind of trouble".

The second important decision which redefined his market was that of going in for a different type of special purpose machine. This decision changed the direction of the firm for better. But now he is facing another hurdle in the form of competition from those units which installed automatic machine with built in capabilities for higher quality as well
as quantity. If he were to visualise possibilities of installing automatic machines at the time of changing over to threading activity, he would have avoided the dilemmatic situation.

6.6.5 Decision Making Process Within the Firm:

Jayant was basically an introvert. He did not mix himself freely with his employees. He maintained a reserved attitude which resulted in cryptic exchanges on the shop floor. On one occasion when researcher was spending time on the shop floor, one of the employees committed a mistake in his work, Jayant was furious and took the worker to task in the presence of all others. A few days later, the researcher visited the firm again, the particular worker was not to be seen. When asked Jayant said "that person I checked him out the other day as he was argumentative and tried to prove that he was right. I know I can get another person if one goes out. So I don't care if they go you know after all it is their funeral". After a few days while talking to employees in the absence of Jayant the researcher was told that the employee who had left the firm was one of good workers and had in fact spent the longest term in the firm amongst all of them i.e., 6 months.
The above instances is quoted to prove the point that environment maintained in the firm was one like that of a temporary work place where no long standing relationship is maintained. Needless to say organizational decision process is a function of management i.e., to say it is the management prerogative to maintain the kind of environment that would help smooth functioning of the firm. Going back it can be seen in Krishna Feeds case of this chapter that Ramesh maintained a charged atmosphere where there was an effective organizational communication resulting in interactive decision processes. On several occasions during the routine operations of the firm the entrepreneur when called upon to make a decision with regard to pricing or production scheduling etc., did not make use of any data, available on the subject matter. However the researcher often felt that this owner manager possessed many good ideas whether it concerned product or market. But these things remained at the 'ideation' stage only and did not move forward. Looking to this researcher suggested Jayant that he should think of developing some systems in his organization covering areas such as production scheduling, quality control, finance management etc. But pat came the reply "I agree with you that systems are good. I have seen them work very well in big firms but how do you think a small firm like mine needs them".
Unlike entrepreneur in Vijay Industries case Jayant did not exhibit any keenness to know about modern techniques of management. Often researcher sat for a discussion with 3-4 entrepreneurs including Jayant when a few glimpses of techniques that small firms could adapt were given. After a while when others kept themselves thinking, the owner-manager would point out and say how these techniques were more suited for a large firm with marginal utility for small firm.

The chief characteristics of decision making observed in the firm were -

(i) Lack of serious attention to the various factors involved in a decision reflecting a 'taken for granted' approach.

(ii) Short term perspectives in management of production finance ranging in some cases up to a month.

(iii) A tendency to accept whatever comes along without any attempt whatsoever to determine the outcomes of various available alternatives.

(iv) Total lack of information use.
Case Study VI - Jagadāsh Industries:

6.7.1 Brief Case History:

Sudhakar was a senior Government official nearing his retirement. His son, a graduate yet to be employed was doing his law, just to keep himself engaged. Having been a district official, Sudhakar was well in touch with the Government's policies aimed at promotion and development of small sector. He had chaired many meetings in his official capacity to monitor the progress of small sector promotion in the area. He had often felt that people did not come forward and take up to small business inspite of several incentives offered including 15% subsidy as well as soft loan with deferred payment facility etc. When he was keenly in search of something, that would keep him busy after retirement, an idea occurred to him as to why he should not think of setting up a small firm of his own. He hoped that this could in turn be handed over to his son thereby solving his 'employment' problem.

Being high official, Sudhakar cut through the red tape in no time and managed to get a shed allotted in his son's name as an unemployed graduate. When he was thinking aloud as to what business activity he should take up, some persons who had come to meet him in his office told him that number of
units were taking up an ancillary status and were doing exceedingly well. When they explained what an ancillary or bus subcontract firm meant he felt it was a 'simple' yet interesting proposition. Soon he got into action and telephoned Chief executive officers of two large firms in Hubli who gladly invited him to come and see them. When he explained to them his proposal, they showed their appreciation of his idea saying that in times to come, as a policy they are going to rely more on ancillaries as they were more competitive on account of lower overheads. One of them went on to say "If you are starting a subcontract firm our doors are open to you. You can pick and choose any item for job work and it will be our pleasure to give it". Obviously they were playing up to the officer. Seemingly enamoured by the aura of large firm as well as prospects of becoming owner of a business, he returned a happy man. He met the subcontracts officer of the large firm in the chamber of chief executive officer and asked him what type of machines he should buy and from where. On verifying the background of both father and son he advised him to go in for a medium or low precision lathe which could carry out the simple machining jobs that they could offer. But Sudhakar was in no mood to settle for anything 'ordinary' told the officer "Remember money is
no bar, tell me about high precision lathe and its supplier when I buy I want to buy the best so that I can take up high precision jobs at least in future. Being surprised at this the officer readily supplied details and specifications including the name of the public sector enterprise which supplied such high precision lathes. He withheld suggestion to go in for second hand lathes looking to the tone of the officer's talk. When the quotation was received for the total complement of different machines the total amount came to a staggering Rs. 1,60,000/- But this did not deter Sudhakar from pursuing his idea. He went in for a term loan of Rs. 80,000 and invested Rs. 80,000 of his own to finance the purchase of machinery. Soon his son Mohan joined the firm discontinuing his education in law. The firm did fairly well for the period 1976-81 reaching a maximum turnover of Rs. 1,20,000 in 1981, but there after there was a decline in business and turnover reached the lowest figure of Rs. 60,000 in 1985. In 1985 Mohan the present entrepreneur was seriously thinking of selling the unit.

6.7.2 Analysis of Production:

Any production decision has to have a match with the market opportunities as well as capabilities or strengths of the entrepreneur. Though apparently, the decision to go
in for machining job was matched by favourable demand for such jobs, the choice of activity did not match the capabilities of the entrepreneur. Neither Sudhakar nor Mohan did have any training or experience in engineering to be able to excel in the area. As already identified (chapter V analysis) a small and big industry relationship demands a greater degree of involvement from the entrepreneur in the jobs that he undertakes. He should not only be able to do jobs well he has also to be of assistance to the big firms through his 'superior knowledge' and initiative that he can take in respect of difficult jobs. Such initiative and involvement become necessary because the job that are given to a subcontractor are not tailor made. There is a good amount of experimentation before an approach to machining of a product is developed. Success of job work depends upon ability of the entrepreneur to develop innovative ideas that can increase the production at the same time maintain quality. Seen in this context Mohan had distinct limitations in management of production technology. This led to his inability to make decisions at an appropriate time to choose different products as well as customer, lead to development of only one customer.
Not only this, even the supervision of jobs carried out by skilled workers needs better skills on the part of the owner manager which both of them did not possess. Under these circumstances it can be concluded that entrepreneurs in question did not have the needed inputs for making effective production decisions. A reflection of this could be found in many of the related decisions in areas of inventory control, production scheduling etc. Some jobs even in an ancillary situation require that the entrepreneur should buy the raw material required and supply them after due processing. An examination of inventory revealed that the entrepreneur had bought many materials on the basis of availability than necessity, thereby locking up working capital vital to the firm. Similarly in respect of production, it was seen that the entrepreneur changed the jobs often thereby increasing the production set up costs.

6.7.3 Analysis of Finance Decisions:

The initial investment Rs. 1,60,000 of this Rs. 80,000 came from owner's capital and Rs. 80,000 from banks. As against an average initial investment of Rs. 67,000 in all firms (case study I, V, Chapter VI) this level of initial investment is very high. This has been basically due to...
Table - 10

**Turnover, Profits, Investments and Borrowings of Jcadesh Industries in Rs.**

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<td>860000</td>
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<tr>
<td>Growth rate</td>
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<td>15</td>
<td>20</td>
<td>11</td>
<td>10</td>
<td>9</td>
<td>-20</td>
<td>-16</td>
<td>-19</td>
<td>-7</td>
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<td>Profits</td>
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<td>15000</td>
<td>20000</td>
<td>23000</td>
<td>26000</td>
<td>30000</td>
<td>20000</td>
<td>16000</td>
<td>11000</td>
<td>10000</td>
<td>184000</td>
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<tr>
<td>Profits as a % of turnover</td>
<td>20</td>
<td>20</td>
<td>22</td>
<td>23</td>
<td>24</td>
<td>25</td>
<td>21</td>
<td>20</td>
<td>17</td>
<td>16</td>
<td>21</td>
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<tr>
<td>Investments</td>
<td>-</td>
<td>-</td>
<td>2000</td>
<td>3000</td>
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<td>2000</td>
<td>-</td>
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<tr>
<td>Cumulative Investment</td>
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<td>80000</td>
<td>82000</td>
<td>85000</td>
<td>88000</td>
<td>90000</td>
<td>90000</td>
<td>90000</td>
<td>90000</td>
<td>90000</td>
<td>237000</td>
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<tr>
<td>Short-term borrowings</td>
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<td>20000</td>
<td>25000</td>
<td>30000</td>
<td>40000</td>
<td>45000</td>
<td>30000</td>
<td>25000</td>
<td>20000</td>
<td>20000</td>
<td>-</td>
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<tr>
<td>Long-term borrowings</td>
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<td>64000</td>
<td>48000</td>
<td>32000</td>
<td>16000</td>
<td>-</td>
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<td>-</td>
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<td>-</td>
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<tr>
<td>Total capital employed</td>
<td>190000</td>
<td>164000</td>
<td>155000</td>
<td>147000</td>
<td>144000</td>
<td>1135000</td>
<td>120000</td>
<td>115000</td>
<td>110000</td>
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<tr>
<td>Profit as a % of capital employed</td>
<td>7</td>
<td>9</td>
<td>13</td>
<td>16</td>
<td>18</td>
<td>22</td>
<td>17</td>
<td>14</td>
<td>10</td>
<td>9</td>
<td>13.5</td>
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Initial Investment = Rs. 30,000
Initial borrowings = Rs. 80,000
Note: The figures are as supplied orally by Mohan
Since no past records were there.
of high precision machinery. The turnover of the firm which reached Rs. 1,20,000 from a meagre Rs. 65,000 in the first year of operation has declined to Rs. 60,000 in the last year. The growth rate has ranged from + 20 to - 20, the biggest slump coming in the year 1982. Average growth rate registered is just 0.37. The profit of the firm expressed as a percentage of turnover registered an upward trend in the beginning period owing to favourable circumstances. They have declined after 1981 due to severe competition which has resulted in undercutting. A total investment of Rs. 10,000 has been made by the firm during the ten year period. Low investments are on account of high debt servicing requirements at a rate of Rs. 16,000/- per year starting from 1977 onwards upto 1981. The return on capital employed also shows an upward trend upto 1981 when performance of the firm reached its highest level with a turnover of Rs. 1,20,000 with a percentage profit on turnover being 25.

A total look at the investment reveals that the owner managers did not have clear ROI consideration when they made this huge investment. A look at the accounting side revealed that the accounts were not maintained systematically. In fact, this was one of the weakest areas while debtors were worth nearly Rs. 20,000. The amount of money locked up in unusable
inventory was Rs. 7,500 while Rs. 2,500 was used for financing operation. The financial performance shows that the entrepreneurs did not use their machinery in such areas where value added by products was high. As a result they made low profits and achieved low growth rate.

6.7.4 Analysis of Marketing Decisions:

A small business invariably ends up in markets not perceived by it earlier. This is because prior to the starting up of the firm the entrepreneur does not evaluate strengths, weaknesses, opportunities and threats to the firm. A clear picture emerges as time passes by. It is at this stage that the entrepreneurs redefine their markets and as a consequence they redefine their products. This process has already been seen in respect of Vijay Industries (case study III, chapter VI) and Precision Services (case study V, chapter VI). But the entrepreneur in picture here had severe limitations in evaluation and development of new markets owing to his technical incapabilities. Around 1981-82 an interesting development took place which was partly responsible for the loss of competitive position by the firm in question. As pointed out already the large firms in the area had embarked upon a policy of increasing the share of bought out components in the total composition of the product. This
had lead to a halt in further recruitments in the company. Added to this, the existing employees were not able to earn additional amount through overtime incentive schemes etc. as the demand on their services had considerably decreased. Third, some feared retrenchment of existing workers on account of declining work load. Incidentally by this time, the trade unions in the industry had also become stronger, they were day by day more vociferous in their demands. This issue was taken up in periodic collective bargaining that took place in 1981-82. Under threat to go on strikes if the management relents, the employee’s union made the management to halt further development of subcontractors in addition they tied up a date as 31-3-1982 by which the management was asked to reduce the subcontracted components from the present 40 per cent of the total components to 25 per cent. This had an adverse impact on the demand the company had built up for its requirements from ancillary industries. This was the particular reason which brought sudden decline in the turnover of Jagdish Industries. While most of the general type of jobs were redrafted into company only specialised jobs were kept aside. This is how the other three firms did not lose much ground.
The researcher's interaction revealed that the entrepreneur did not give much importance to many of the decisions. His expectations of the outcomes of decisions being low he did not put in any effort to make decisions more carefully. On one occasion the subcontracts Officer of Alloy foundry nearby, came and asked the owner manager whether he would take up some items for [text missing] work (removal of burrs etc. from castings) and deliver them within a week. Mohan said "I do not have many jobs now. My worker's are idle I will definitely do your work. You can send the items" After 8 days when researcher visited the firm the items sent by the foundry were still lying on the ground unattended. Mohan was asked as to what was the matter. Mohan said "you see the other day I received a telephone call from Kiran Industries Ltd. who wanted that a particular job that I have been doing for a long time be taken up immediately as they were clearing a bulk order. You see the payment here is three times more than what I get for fettling work" When the foundry executive was contacted he told researcher that his firm's schedule got severely affected on account of inability of Jagdish Industries to carry out the promised job. He also told the researcher that he had already given
instructions to his assistants not to give any work to this firm in future. When asked about his experience about other firms he commended Vijay Industries in particular and said "this firm inspite of the fact that they had much more paying jobs did the assigned jobs. I want to give them some more remunerative jobs in future".

There were many such incidents observed by the researcher which reflected a total lack of disciplined approach to business. To put it in more appropriate words the entrepreneur lacked a 'value system' which a firm has to nurture with a great difficulty in order to attract and retain customers. As far as employees were concerned, it was a simple 'hire and fire' approach without any effort to develop people. Needless to say none of the employees were even consulted in making decision concerning jobs to be undertaken.

The decision making process in the firm was characterised by -

i) Total lack of long term business perspective resulting in failure to practice good customer relations.

ii) Total lack of data in decision making reflecting a pure 'hunch' approach.

iii) No involvement of lower level employees in decision making process thereby denying them opportunities to develop themselves and denying himself the benefit of their commitment to decisions.
CHAPTER VII

CASE ANALYSIS

In Chapter VI, a few case studies have been presented with a view to provide the necessary material for examining the hypothesis that structured decision making is likely to ensure better performance of the firm than the unstructured one. It is with this end in view an objective analysis of these cases has been carried out in this chapter.

Needless to say, the case studies incorporated in this study show that each small business differs in its approach as far as the decision making process is concerned. As already discussed earlier, it is the interplay of three factors viz., (i) Decision maker, (ii) Decision itself, (iii) Decision making style which explain the differences of the styles of owner-manager of the firms in question. As noted earlier, it is the cultural and social background of entrepreneurs that determines the operational styles and of manager. One can easily notice that the owner-managers in case studies I, II and V have a family business background, while their counterpart in case III has middle-class white collar background. Entrepreneur in case study IV had a rural background whereas in case study VI the entrepreneur came from a bureaucratic background. This socio-cultural factor is very important in
understanding operational styles of each one of them. Whereas in case study I the choice of product and market was influenced by the advice of technical expert, in case II the decision was based on entrepreneur's own efforts in understanding the product and market with only marginal technical help from outside expert. In case of study III, the choice in respect of product and market was made under more limiting circumstances, and a consultative process was responsible for the decision. In respect of case study IV, the choice was made again under limiting circumstances with less scope for an open and objective search of the product.

The theory on decision making identifies a number of limitations in adapting a rational approach to a problem. These limitations are defined by the circumstances under which a decision is made. For example, in case of study III and IV there were certain severe limitations. Ramchandra (case study III) wanted to start a side activity and for that matter initiated a search activity. In a short time through a process of consultations he chose "Gaskets" as a product. Naturally the market for this product was also predetermined. In fact he had only to fill in on the dotted lines. Since his objective was only to support his family, this kind of effort helped him
achieve his objective since decision was in consonance with his objectives. But Ramakant (case study IV) started under slightly different circumstances. He had limitations in choosing the location of the plant, since it had to be near his place where his parents lived, he also could not be rational in his approach to finalize the location. In case of case study V and case study VI, even though other conditions were favourable, the decision makers were limited by the perspectives that they brought to the situation. Due to inherent lack of understanding of small business, they were unable to make rational decisions even though they had enough opportunities.

Another aspect to be considered is the subsequent efforts that these persons put in this direction. In case study I, the entrepreneur in association with the expert-turned-entrepreneur went on to make several vital decisions affecting marketing and finance. It was not a simple choice of market and product but a host of other decisions made with considerable foresight and application of mind that ultimately paved way to the success of the firm. Decision to hire veterinary graduates as sales personnel and decision to deal directly with the customers in the initial period were some of the important ones which contributed to the success. Division of
functional responsibilities among the brothers was another significant step which provided the needed organizational structure. Timely decisions with regard to purchase of land and initial procurement of a large piece of land have contributed immensely to the success and fast growth of the firm under reference.

In case study II it is seen that the entrepreneur brought about a qualitative improvement in every one of the decisions he made with regard to his product and market. Earlier, jointly with his brother, he chose electroplating as an area of operations and when the faced problems he did not lose any time for finding out solutions. With a view to improving his decisions he went to Rajkot and obtained training in requisite technique of electroplating. This enabled him to establish his electroplating business on a more sound footing. This is how he improved upon the earlier decision. Going further he exercised his choice of another product, because he wanted to exploit business opportunities by combining his business instincts with his acquired technical skills. The result was a creation of excellent business opportunity. He did not end here; in fact it was the beginning of a decade long effort to capitalise on his basic skills and develop a business on it. He faced a number of hurdles in the process. First, it was the problem of getting the know
that he felt he did not have, which in turn made him to search for other avenues. Again, he faced a problem area when this know-how could not be obtained so he developed his own methods to overcome the hurdle. Second, he continuously kept himself in touch with professional journals and books relating to his choice area. He painstakingly read them and tried to improve upon the process thereby exhibiting his passion for excellence.

He did not stop at this, he went a step further and attended the international exhibition to keep himself in touch with the recent developments in the field. Such an approach has not only widened his business horizon, but also has helped him to protect from likely competitive threats by adopting an upgraded technology to a level where 'ordinary' entrepreneurial efforts were of no avail. He exhibited 'dynamism' of a type of not usually found among small scale entrepreneur. Furthermore when shop-floor environment changed owing to the complexity of production management, he did not hesitate to hire a professionally trained persons with a view to developing systems approach to the management of his enterprise. He clearly exhibited the much needed systems orientation with a view to ensuring smooth transformation from an owner-manager.
firm to a professionally managed firm. Needless to emphasize again, he did take precautions in marketing. The most basic decision in marketing that he made was based on an informal survey carried out which assured him of the market potential. Nowhere did he proceed on a 'hunch' but based his actions on more valid considerations. Far more important than all these were the finance decisions. As already identified in Chapter V the small entrepreneurs have an almost irresistible temptation to divert funds for unproductive purposes and thereby starve a growing unit of needed funds. Entrepreneur in this case, gracefully resisted the temptation and nursed his firm through its growth period. This was the single and most important decision that really contributed to the progress which otherwise would not have been possible. Naturally, this entrepreneur also has certain weak areas. Being afraid of letting others know about his profitability he handled all the accounts by himself. He did use of bank credit adequately. Out of total investment of Rs. 6.75 lakhs, only Rs. 75,000/- came from bank borrowings, showing a ratio of 0.11:1 which is low by any standard. But this has to be viewed in the context of stringent procedures laid down and followed in respect of lending operations to small firms.

Coming to case study III it is seen that the owner-manager followed up his basic decision to produce 'gaskets'
by acquiring various other machinery required through further effort. In addition, he expanded his range of operations by purchasing machinery required for other products such as those for machining, drilling etc. By doing so, he gave himself more options in choosing his jobs. This early step taken by the first entrepreneur, Ramachandra, enabled the succeeding entrepreneur Prakash, to expand the business by developing more number of customers. He further improved upon earlier decision by applying his imaginative ideas to solve certain, inherent problems of a small firm, such as inability to procure inventories in big lots, as already identified in Chapter V\(^1\) as well as Chapter I\(^2\). Ramchandra by reinvesting all the profits made during the first year, followed by a sizeable investment in the next four years, enlarged a capital base of his firm from Rs. 1,500 to a total of Rs. one lakh giving an appreciation of 66 times the initial investment. Prakash was quick to built on the sound foundation laid by Ramchandra. A singularly important decision he took was to analyse the costs and as a result the profitability. This analysis enabled him to establish an yardstick

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1. Differing perceptions of small business problems views of small entrepreneurs, p.91.
2. Problems of small business pp. 18.
by which he decided whether to accept a job or not. In assessing his needs of profitability he took into consideration the needs of the firm for survival during recession and growth during boom period since both needs adequate financing. This measure kept out unprofitable jobs and as a result profits increased per unit volume of business. Naturally, in this case also both the entrepreneurs-father and son-exhibit certain kind of inherent weaknesses. As usual Ramchandra continues to be cautious and highly conservative. Even though he is not actively involved in business, sometimes he asserts to have his final word on many matters of policy. But in operational matters Prakash is free to take his own decisions. This approach has lead to containment, as far as the performance is concerned. As a result the potentiality of the firm to grow and expand remains to be fully exploited. Whether such contentment with performance should exist or not is a personal issue as far as the entrepreneur is concerned; but seen from enterprise growth point of view, it appears to be a limiting factor. As a consequence of this guarded approach to the management of the firm there has been no significant progress as far as the development of new products concerned, in spite of the fact that the firm has been receiving a number of suggestions from the clientele.
Another factor that has seriously hindered the growth of the firm is the tendency to remain outside the purview of the regulatory bodies established by the Government. According to Indian Factories Act, (1948), a firm employing 10 persons using machinery and a firm employing 20 persons without using machinery comes under the purview of Factories Act. This Act which is labour welfare oriented, aims at regulating various benefits such as leave provisions, provident fund, gratuity, apart from prescribing several other requirements in respect of security, welfare and safety of employees.

No doubt, in the beginning, a small firm enjoys a number of exemptions whereby its overheads get reduced, but it is unfortunate to see that this special treatment to an 'infant' becomes so attractive as to make the firm pretend to behave like an infant even after it has grown. This is the type of attitude which is portrayed by some of the entrepreneurs in the sample studies which also includes case study III. This enterprise also exhibits a low propensity to use bank finance on account of several extraneous considerations explained earlier.

Coming to case study IV it is seen that the entrepreneur followed up his basic choice of product and market by
evolving a strategy to do subcontract work instead of engaging in outright manufacture and sale of products. This strategy resulted from two things.

(i) Understanding inherent limitations of self in coming up to expectations of the firm due to perceived change in culture.

(ii) Propensity to take up less risky propositions opposed to more risky proposition irrespective of the pay off involved.

No doubt, this strategy paid off, and the firm in the course of time developed its own capabilities to independently produce and sell the machine tool parts to a captive market where it enjoyed certain benefit such as self inspection and the incentive attached to it by following a policy of product-excellence.

As far as the financial decisions are concerned there is not much to say as the entrepreneur has been very careful in committing himself any further after the initial commitments in respect of plant and machinery. In fact, the high debtors position shows that the firm is suffering at the exploitative
hands of large firm. It also makes it clear that the entrepreneur is not able to throw much weight around as done by the entrepreneur in case study III who obtained his payments much earlier. The progress of the firm is halted in this case also on account of the policy of the entrepreneur to continue to remain outside the purview of Factories Act and to enjoy on a continuous basis the benefits that accrue to such a firm.

In case study V the entrepreneur in question Jayant improved upon his earlier decision in the course of two years and adapted another product, but in the process, faced another hurdle in the form of competition from firms which owned automatic threading machines.

The implication of earlier decision to go in for threading business could well have been taken care of with a little more deliberation which Jayant did not engage himself in. As identified by Peter F. Drucker the 'futurity' of present decisions have an important role to play in determining the future growth prospects of the firm. It is an entrepreneurial characteristics to visualise future impacts of present decisions and accordingly make a 'futuristic' decision in the present. It is difficult to judge at this point how much scope the entrepreneur had at that time to consider an
option of buying a automatic machine itself in the first instance. Nevertheless the researcher considers it important to mention here that a small business entrepreneur who suffers from 'irreversibility' of decisions once made as already identified in the chapter I, should make his decisions more carefully by taking into consideration all possibilities.

The inability of Jayant to make a firm decision on 'new product' i.e., the decision to buy a machine to mould wire and thereby enter 'wire products' field, shows a number of inadequacies. On one hand, he is not sure about the statistics he has, secondly, the entrepreneur is not able to invest the needed funds. It is not that he does not have funds but he is facing a financial crunch due to investments in unproductive assets like residential buildings etc. Third, he does not have the confidence to go ahead with diversification. These were the observations of the researcher after spending several hours with the entrepreneur trying to assess his mental make up as far as the decisions in these areas are concerned.

As far as the overall financial performance is concerned, the entrepreneur has shown considerable maturity in increasing

his investments from a meagre Rs. 5,000 to Rs. 2.90 lakhs. 
A growth of 58 times. The rate of profitability as given by 
the entrepreneur stands at 29% of sales turnover. But the 
high debtors' position at Rs. 1,00,000 shows that the firm 
has not been able to carve a 'niche' for itself in order to 
be able to dictate terms rather than being dictated. An 
important question that needs to be answered in case of 
every small firm is one that concerns the future growth 
prospects. Seen from this angle the entrepreneur did not 
show any such capabilities that would enhance chances of 
such future growth. His lack of orientation towards accounting 
practices and his dependence on 'hunch' methods in respect of 
submission of quotations reflect the tendency to solve diffi-
cult problems with 'simple formulae'. Needless to emphasise, 
in the context of a difficult environment faced by a small 
business, such approaches can lead to wrong directions depri-
ving the business of several opportunities that pass by.

And finally in case study VI the entrepreneurs 
concerned, the father and son having made early decision to 
start subcontract services in machining trade business did 
not make any plausible attempts to redefine their business 
in the context of a declining trend in sales as well as
profits. This was on account of inherent weaknesses that seriously limited the opportunities available and options to be exercised. This is an instance where an industry having come into existence on account of number of incentives and concessions available, fail to make the grade on its own efforts. This is also a classic instance which shows that a firm suffers badly under entrepreneurs who have neither requisite experience nor requisite technical knowledge. It also shows that a firm, above all needs, a determination to succeed, and this can only be imparted by the untiring effort of the entrepreneur in retrieving an otherwise lost ground.

Very interestingly the decision making styles depicted in the earlier pages provide a broader framework under which these firms can be fitted. Since the primary objective of a small firm is to survive and grow, all the styles depicted can also reflect on the growth stage of the particular firm. An interesting work in this direction done by Neil C. Churchill and Virginia L. Lewis suggests a growth framework consisting of five growth stages. This framework has been used to identify the growth stage of each firm mentioned in the case studies. Following is the brief description of stages of growth identified in the above mentioned work.

**Stage I - Existence:**

At this stage the main concern is to obtain customers and delivering the product or service contracted for. Among the key questions faced by the company at this stage are -

a) Can the firm get enough customers and be able to deliver the products and services contracted for to become a viable business?

b) Can the firm expand from one key customer or pilot production process to a broader production base to cover the cash demands?

The characteristics of the organization are -

i) Owner does everything and supervises subordinates, systems and formal planning are minimal or nonexistent.

ii) Company's strategy is to simply remain alive.

iv) Owner is the business and performs all the important tasks and is a major supplier of energy, direction.

Many such companies may never gain enough product acceptance or product capability to become viable. In a such
cases the owners chose the business when start up capital runs out. In some other cases the owners cannot accept the demands the business places on their time, finances and energy and they quit.

Stage II - Survival:

In reaching this stage the business has demonstrated that it is a workable entity. It has enough customers and satisfies them sufficiently with its products and services to keep them.

The problem here shifts from mere existence to establishing meaningful relationship between revenue and expenses.

The main questions are -

1) can the firm in the short run generate enough cash to break even and cover the replacement of our capital assets.

2) can the firm at a minimum generate a cash flow to stay in business and finance growth to size that is sufficiently large, given our industry and market niche to earn an economic return on our assets and labour.
The characteristic features of organization are -

a) Except owner-manager none others make decisions but carry out the orders of the owners.

b) Systems development is minimal. Formal planning at best is cash forecasting. The major goal is still survival and owner is synonymous with company.

In survival stage the enterprise may grow in size and profitability and move on to Stage III or it may as many companies to remain at this stage for some time earn marginal returns on capital and eventually go out of business when the owner gives up or retires.

Stage III - Success:

At this stage the decision facing the owners of the firm is whether to exploit company's accomplishments and expand or keep the company stable and providing a base for alternative owner activities. Key issue is whether to use company as a means of support for the owners, as they completely or partially disengage themselves from the company. This stage is further subdivided into two stages on the basis of the above.
Substage III-D: This is called Success Disengagement Sub stage: 

Here in the company has attained true economic health and has sufficient size and market penetration to ensure economic success and earns average or above average profits. Company can stay at this stage indefinitely provided the environment does not change radically.

The organization of the company has following characteristics.

i) It requires functional management to take over certain duties performed by the owner.

ii) Cash is plentiful and the main concern is to avoid a cash drain in prosperous periods to the detriment of the company's ability to withstand the inevitable rough times.

As business matures the owner and business move apart because of presence of other managers. Many firms continue for a long period at this stage. While the product market niche of some does not permit growth, This is also the case of many service oriented firms.
SubStage-III-G:

At this stage called as success-Growth substage the owner consolidates the company and marshals resources for growth. The owner reinvests his earnings and goes in for maximum possible debt and risks it all in the financing of growth.

The major tasks to be performed at this stage are:

1) To make sure that business stays profitable so that it will not run short of cash resources.

2) To develop managers to meet the needs of the growing business and as a consequence to hire managers with an eye to the company's future rather than the present condition.

3) To install systems with attention to forthcoming needs.

While the operational planning is in the form of budgets, strategic planning is exclusive and deeply involves the owner. The owner is far more active in all phases of the company affairs, than in the disengagement aspect of stage.
If it is successful, substage III-G company proceeds to stage IV.

Stage IV - Take Off:

The key problem areas at this stage are:

1) How to grow rapidly
2) How to finance that growth.

The important requirements in success are:

a) Delegation:

The owner should be able to delegate responsibilities to others to effectively handle managerial responsibilities of a fast-growing and increasingly complex enterprise. To see that delegation is true with controls on performance and a willingness to see mistakes made and not a mere abdication.

b) Cash:

To see that there is enough cash to satisfy the great demands of growth, ensure a cashflow which is not eroded by inadequate exposure controls or ill-advised investments brought about by owner impatience.
The characteristic features of organization are as follows:-

1) The organization is decentralized and in part divisionalized.

2) There are competent managers to handle functional areas.

3) The systems strained by growth are becoming more refined and extensive. Both operational and strategic planning are being done and involve specific managers.

4) Owners and business are separate still the owner has a dominating influence through his presence and stock control.

This is a pivotal period and if the owner rises to the challenges of a growing company, both financially and managerially, it can become a big business. If not it can be sold at a provided the owner recognizes his limitation soon enough.

Very often those who make it to stage III usually fail at stage IV. The reasons are:

i) They try to grow too fast and run out of cash (the owner falls victim to omnipotence syndrome)
ii) Owner-manager is unable to delegate effectively.

But at this stage the original management can be replaced by either voluntarily or involuntarily by the company's investors or creditors.

Stage V - Resource Maturity:

The concerns of a company entering this stage are first to consolidate and control the financial gains brought by rapid growth and to retain advantage of small size, including flexibility of response and entrepreneurial spirit.

The tasks are:

i) To expand management force as fast enough to eliminate the inefficiencies growth can produce

ii) To professionalise the company by use of such tools as budgets, strategic planning, management by objectives and standard cost systems and do this without killing the spirit of entrepreneurship.

The characteristics of the organization at this stage are:

i) It has staff and finance to engage in detailed operational and strategic planning.
ii) The management is decentralised, adequately staffed, and experienced.

iii) Systems are extensive and well developed.

iv) The owner and the business are separate both financially and operationally.

The company has made it. It now has the advantages of size, financial resources and managerial talent. If it can preserve its entrepreneurial spirit it becomes a formidable force in the market. If not, they may enter the sixth stage i.e., ossification.

Ossification is characterized by a lack of innovative decision making and the avoidance of risks. It seems most common in large corporation whose sizable market share, buying powers and financial resource keep them viable until there is a major change in the environment.

The six case studies analyzed in detail and three case illustration are classified as below in terms of the growth stages they belonged to -

Case Study I - Krishna Feeds Pvt. Ltd:

The firm is in substage III-C and provided the Ramash the dominant entrepreneur takes to true delegation reducing
his blind obsession with high performance it is possible for the firm to reach stage IV.

**Case Study II - Golden Labels:**

According to facts of the case and also according to the personal observation of the researcher this firm is in substage III-D. The interest the entrepreneur has taken in social activities much to the detriment of organizational needs gives an impression that he wants to use this success as a spring board to launch himself as a prominent citizen of the place rather than an accomplished striving entrepreneur.

**Case Study III - Vijay Industries:**

This is a case of substage III-D with a high propensity to move on to substage III-G. The entrepreneurs, with their guarded attitude towards enterprise development in the context of having already cherished objective, reflect disengagement. But continuing efforts of Prakash in developing a product of his own if they click the firm has all the potential to move on to Stage IV.

**Case Study IV - Mark Industries:**

The entrepreneur though capable of making his firm a success is unable to devise a strategy. This inability is also partly borne out of contentment with existing
performance. If the entrepreneur can himself with zeal and energy, with his operational behaviour, has all the chances of going to stage IV for this he has to start developing a middle management which is non-existent now. He should also reduce his total identity with the firm.

Case Study - V - Precision Services:

The firm is in survival stage. With profits not enough for replacement of assets by improved ones but enough to function marginally provided owner develops a new diversified business in 'wire making' and if he succeeds in this he has chances of moving to stage III. Success out his chances of remaining there are weak due to his limited managerial capabilities.

Case Study VI - Jagdish Industries:

This is a clear case of existence with declining sales in a limited market matched by technical as well as managerial incompetence. While submitting this report the researcher has learnt that the firm has been eventually sold.

Case Illustration - I - Navin Industries:

From the facts of the case this firm can be placed in take off stage, because complete functional specialization
has taken place. Added to it the researcher observed that the style of the entrepreneur was not much too interfering type thereby allowing some mistakes to be committed at the middle level, thereby ensuring a learning process. The cash needs were well met without any visible crisis.

Case Illustration II - Shrikant Tiles:

Here was an organization poised for growth. But it appeared to researcher as though was trying to grow too fast thereby giving warning signals of impending organizational crisis resulting in its sliding down to stage III. Another reason for such an observation is total identity of the entrepreneur with the company, which in the way of hiring and developing managers who can make policy decisions even though this has been done at the operational level.

Case Illustration III - Anand Biscuits:

This organization though it has made a transition from stage III to stage IV the ultimate stay at stage IV and transition to stage V have been seriously affected by apparent bickerings of top management in the form of conflict among the brothers thereby resulting in division of business amongst the brothers.
The identification of growth stage and the desirable characteristics of the firm including organizational structure as well as entrepreneurial behaviour makes it possible to assess the future growth prospects of the firm more candidly. The main issues on which decisions have to be taken by the respective entrepreneur have also been identified which the researcher has come to the conclusion that it is the ability of entrepreneur to identify the crucial areas of decision at the appropriate growth stage of the firm that ultimately paves way for high organizational growth even though other factors also compete with this thought process and subsequent action.

Churchill & Lewis have made a significant contribution to understanding growth behaviour of small firms by providing a very befitting framework.