VII. RESEARCH FINDINGS: A SUMMARY
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From the present research, following observations are drawn about Financial Management Practices of small business units in North-Eastern region of India:

(1) The survey revealed that sole-proprietorships business consists of 92 p.c. of the respondent and 8 p.c. of the sample units were partnership units. No co-operative and company form of business were found in the study.

(2) There is a predominance of small business activities in the retail trade sector (Nearly 70 p.c. of the sample units). It seems that, retailing activity is more attractive to the small businessman of this region than any other business activities. This is because of a stable demand for basic needs such as food and clothing which are mostly produced outside the region and also the need for a low level of skill/knowledge to start a retail business in small scale.

(3) Small business owner-managers are relatively young, 30-40 years of age account for nearly 61.76 p.c. of the sample units, which can be seen as a positive factor in terms of entrepreneurship and small business developed through self employment. Being young (within 40 years of age) they could be more receptive to further training and development to manage their businesses effectively and efficiently.
(4) The small business units do not realise the usefulness of financial management techniques. This is also because these units have limited resources – both financial and human – to spare for devising any sophisticated accounting system. The way they were maintaining their accounts and financial information, was satisfactory to them as according to owner-manager’s perception nearly 86 p.c. of the respondent opined that they have no problem with financial management of their business units.

(5) Most of the respondent (89 p.c.) of the survey reported that they do not follow the double entry system of book keeping. Whatever records (financial in nature) they (small businesses) maintained for day to day control and monitoring of business performance, were in the form of single entry system, conversion of which into double entry system were almost impossible.

(6) The record keeping system adopted by small business units are inadequate to provide support to financial management tools and techniques for analysis of the information. These businesses developed their own tailor-made accounting techniques which are informal and incomplete in nature, generally based on traditional ‘Mahajani’ system (Soral and Jain, 1994).
(7) Business performance appraisal through profit and loss account and Balance sheet (yearly) is one of the most important tool of financial management. But, the study revealed that only 24.6 p.c. of the sample units prepare profit and loss account and balance sheet yearly. They mostly prepares the annual accounts with the help of tax consultant for Income Tax purpose, which has very little relevance with actual business purposes.

(8) It was found that 51.3 p.c. of the small business assess their business performances of their units with sales volume, not through preparing profit and loss account for the business.

(9) As the awareness level of owner-manager was very poor, very few financial analysis tools and techniques were properly used by the respondent to assess the level of performance/achievement/growth of the business unit. In most of the cases, small business decision process is the result of ‘experience’, intuition or ‘guess work’.

(10) It was revealed that 90 p.c. of the respondents did not keep their record of stock or inventory in a systematic manner through stock register or using any method of inventory management/control. They generally follow the physical verification of their stock at the end of the year.
The owner managers of the small businesses under study knew the most important indicators needed for monitoring their businesses. As all the respondents (100% ) said that even if they did not have firm figures or formal accounting records, but they knew (according to their own perception) how their business was doing. The study observed that small business owner-managers employed a multidimensional and non-quantitative decision process which were primarily informal in nature. This was corroborated by Rice and Hamilton, (1979) study.

With regard to pricing, all the small business units/firms have at least one method of establishing or calculating price of their product or services and some had used two methods. In general, full cost + p.c. of profit and purchase price + p.c. of profit are the most popular methods. This process appeared to be better understood by the small business owner-managers than anticipated. Although, the sample units used these methods of pricing not on pen or paper but on the idea (presence of mind and experience) no formalised methods were employed in actual practices. They only make rough estimation of unit costs. Therefore, firms were unsure whether the price they were also charging was correct or not, as they were also not sure of the effects on demand of a change in price.
In setting prices of their products/services, the study observed some significant difference between different sector of the small businesses in North-Eastern region of India (according to Chi-square test). Majority of the manufacturing units (68 p.c.) use full cost + p.c. of profit, service units adopt full cost (48.6 p.c.) and market price (28.5 p.c.). On the other hand, retailers mostly use either full cost + p.c. of profit (61 p.c.) or purchase price + p.c. of profit (34 p.c.).

Based on the perspective literature the expectation was that comprehensive financial reporting and financial analysis, generally lead to improved financial control and that this in itself could significantly increase the chances of a small business prospering (survival) through growth. On the other hand, given the complex dynamics of small business growth, it may be unrealistic to expect that only superior and proper financial management and analysis practices with appropriate financial tools and techniques will stand out as correlates with success. Non-parametric test (Chi-square test) of the associations between the financial reporting and analysis variables and the means of financial performance (Doing well/not doing well) as perceived by the owner manager failed to provide much additional evidence of significant relationships. As the finding of this study and earlier studies have shown, such a direct causal link was difficult to
establish. Thomas and Evanson (1987), McMahon and Davies (1994), Nayak and Greenfield (1994) were similarly unable to establish such relationships.

Yet, it does show that firms doing well were most likely to have good knowledge and detailed record keeping process for the business.

(15) No method of analysis were followed by the sample business units, while making their capital investment decision. Their capital investment decision were based on Necessity – 51.3 p.c.; Efficiency – 39.8 p.c.; Bank Finance – 8.9 p.c. Therefore, it observed by the study that no method of appraisal were followed in making capital investment decision. Observation, was the most important aspects of capital expenditure decision. There were no significant difference between young/old business, or the experience/in experience owner-managers of small businesses.

(16) It was observed that only 10.47 p.c. of the small business units used computer in monitoring their accounting records. While analysing the data it was found that only 11.36 p.c. of the trading units, 11.4 p.c. of the service sector and only 4.5 p.c. in manufacturing sector used computer. This results compares almost exactly with Brooksbank et. al., (1992) and when compared with those of Griffiths and Dorsman (1987) and Chen and Williams, (1993) and surprisingly indicates that
size of business (in terms of sales turnover) is a key factor in deciding
to put accounting records on computer.

(17) The survey revealed that only 15 p.c. of the business units prepare
their records or makes their financial data uptodate daily. Another
36 p.c. monthly and 49 p.c. prepare their accounts yearly.

(18) None of the sample units could make difference between private assets
and expenses with their business assets and expenses. As they feel that
it is their own business therefore separation between business and
personal expenses – is of no used.

(19) Not a single unit prepare cash flow and fund flow statement for their
business to know the fund position of the business in a particular
period of time.

(20) The study observed that 98.4 p.c. of the respondents used to allow
defered payments to their customer.

(21) For credit sale, all of the respondents generally allow credit to their
customer through open account i.e. without following any credit
policy. As no systematic credit policy were followed by the small
business units therefore, the credit worthiness of the customers is not
taken into consideration. Past business experience was considered to
be the only risk assessment technique used to evaluate the credit
worthiness of a person.
(22) No respondent make provision for bad and doubtful debt.

(23) No reserve fund was created by the small business units from their yearly profit.

(24) No financial ratios were used to analyse the financial statement.

(25) In case of costing it was found that nearly 98.4 p.c. of the respondents could not able to separate direct or indirect cost of production. It was also surprising that 96 p.c. of the manufacturing units were unable to separate their direct and indirect costs which is one of the most important factor in price fixation of a product for sale in a competitive market environment.

(26) Regarding fixed and variable cost not a single unit could split the cost between this two variables.

(27) It was observed that only 5.8 p.c. of the small business units gets their accounts audited by the qualified auditor. It was also found that most of the (big) small business in terms of sales turnover were employed qualified auditor (firms) to audit their accounts annually.

(28) Regarding drawing decision from the business by the owner manager it was found that 63 p.c. withdraw from the business for house hold needs, 35 p.c. withdraw from business according to what business can afford and only 2 p.c. withdraw only profit from the business.
(29) Small business in this region used bank finance as one of the most important source of finance. As nearly 45 p.c. of the small business units received bank loan for the business. Hire purchase system is not popular method of financing (only 2 p.c.). No other form of financing like Leasing, venture capital, equity capital was observed. Although internal sources like retirement of profit, bringing new capital and initial capital by the owner manager from the own sources which were continue to be one of the main source of finance for their small businesses of this region.

(30) While assessing the performance level and frequency of preparing financial records it was found that 10 p.c. of the respondents who prepare daily their financial records were doing well in their respective businesses.

(31) The analysis give interesting feature about the different types of business, retail traders who have the least complex decision process seemed the most diligent record keeper as 92 p.c. of them keeps their account themselves and all of them maintain cash book, debtors book and creditors book. Level of awareness was also high among the retail business units owner/manager compare to manufacturing and service units.
(32) There are several problems of Internal Management dislocating the general progress of small business units. Some of these problem were discovered under this study were as follows:

- Most of these small business units are grown by individual promoters. They come with personal egos and ideas, proprietorial attitudes and ineffective delegation. In short it's a one man show.

- The progress of an organisation depends heavily on mindset, courage and vision of the owner manager. This is at times influenced by personal and family requirement.

- The organisation structure is not built, targets and budgets are not worked out. The systems and procedures are not defined or transparent. Planning is not corporated and dealing are informal.

- The owner-managers of small businesses are lack of professional expertise, with out much of real accountability to outside agency.

- In many instances, business ideas and exposures are not upto date and adequate, rules and regulations are less understood, product and market knowledge are not upto the mark, business remains confined within local or regional market.

(33) The recommended way to plan and monitor a business’s activities is through the use of a budget. Deviation between budget and actual
performance will enable the owner-manager to change his actions to
get back on course. It was felt that, with regard to small businesses
which were being studied, not a single unit prepare budget but would
tend to use previous experiences as an adhoc budget.

(34) Due to maximum involvement of the owner-managers (proprietors) in
all aspects of decision making in these small businesses, much of the
information they need is picked up intuitively and formal records were
not used much on a day-to-day basis.

(35) It was discovered from the study that, bigger units of small businesses
(more than one owner-manager and monthly sales turnover is more
than Rs. one lakh) kept more records and also knew more about their
business units.

(36) The results of the study show that there is a big gap between theory
and practice of financial management tools and techniques as reported.
The survey result also revealed the fact. Awareness level of owner-
manager of financial management tools and techniques of record
keeping and analysis were very poor. It seems small business owner-
managers were running into business without proper financial
management know-how.

(37) It was readily apparent from the data that multi-factor considerations
were an important factor/aspect of small business owner-managers
decision making processes. Due to the size of the business, the owner-
manager was fully involved in the day-to-day operation of the firm. 
Therefore, he was likely to be involved in all levels of decision 
making. A major complication arises in the fact that the small business 
owner-manager will be forced to deal with a wide variety of decision 
areas simultaneously. Therefore, considering his extremely broad 
decision responsibility and the necessity of dealing with highly varied 
and concurrent decisions, the owner-manager of small business was 
forced to sharply limit the depth of his analysis in all areas. Here to 
support the findings, it is revealed by the research that small 
businesses did not use any techniques of budgeting analysis or 
forecasting to take informed and judged decision by the owner-
manager.

(38) The small businesses has vast sources of information related to 
business, generating during the business. Unfortunately, as suggested 
by Simon (1955), the owner-manager has only a finite ability to 
process this information. Very often the small business owner-
managers take his decision on some poorly defined interaction of the 
factors he chooses to consider.

(39) As in most of the cases owner-manager’s decision making process was 
more difficult as he rarely has any mechanisms for filtering or
comparing or analysing the information impinging on him from various inputs which was not properly recorded according to the prudent financial management terms. He (owner-manager) then perceives this information as Cleland (1960) suggests as unorganised, distorted and full of irrelevant 'noise'. Thus the owner-managers of small business often has great difficulty in synthesizing an optional solution to whatever problem that faces the firm. These may be the most important drawback for a small business management, which can affect the firm's sustenance. Many of these owner-managers stated that a majority of their decisions were the result of 'experience', 'intuition' or 'guess work'. This implies that there was no decision process involved which intern shows that small businesses under study utilised primarily a very informal approach to decision-making.

(40) No systematic pricing of materials/goods/services is done. Application of marginal costing and standard costing are not at all observed.

(41) While most of the respondents are not aware of many important financial management tools and techniques and its usefulness, they opined that such a technique is hardly of any use for them. This way, most of the respondent (98 p.c.) were satisfied with whatever financial management practices they adopt.
(42) The results shows that the small businesses using a computer were large enough to have employees and were either in the retail trade (wholeseller) or in service activity. The proprietors (owner-managers) who had made the decision to obtain a computer were more likely to have ambitious business goals.

(43) The study discovered that, small businesses are less organised in their record-keeping does not necessarily indicate a lack of organisation and effectiveness, but may be due to a lack of perceived requirement.

(44) The present study disclosed that the age of the businesses and their perceived level of achievement has no relationship (according to Chi-square test). They are independent.

(45) There is some relationship between different business sector (manufacturing/retail/service) and their level of achievement (according to Chi-square test). As it was observed that percentage of achievement level of service and retail trading units were good (doing well) compared to manufacturing units.

(46) Chi-square test revealed that there are some close relationship between size (according to monthly sales turnover) and the corresponding age of the business units. It was observed that big among the small business in terms of sales turnover, were older firms (more than 5 years of age).
(47) One of the major disclosure of the study is that business experience of the owner-managers of the small businesses has no significant relationship with their level of achievement/performances (Chi-square test).

(48) The present study draw the conclusion (with the help of Chi-square test) that the level of performance/achievement of the small businesses and frequency of record keeping has no relationship, they are independent. But on the other hand, age of the business unit and their frequency of record keeping has some relationship. Older (more than 5 years old) businesses were more particular and frequent in record keeping than the young businesses (less than 5 years old).

(49) The study finding highlighted the fact that there is no significant difference in the use of financial management tools and techniques between highly educated and less educated owner-manager of small businesses (Chi-square test result).

(50) It was discovered from the study that, more financial tools were used/practised, when the firm (small business) increases its size (according to monthly sales turnover).

(51) Various analysis in the study show that smaller younger firms in term of size (monthly sales turnover) and age (less than 5 years old) were managing with less records and knowledge than larger and older firm.
This may be contributing to their lack of achievement. If the younger and smaller firms wish to grow they will need to develop more records and methods of information gathering.

(52) Capital expenditure decision show differences between young (less than 5 years old) and smaller firms (according to monthly sales turnover) compare to older and larger units. The smaller and younger firms tended to focus on necessity (72 p.c.), while older (more than 5 years old) and larger firms were more likely to use efficiency (57 p.c.) criterion for capital expenditure.

(53) Drawing decision of the owner-managers of the small businesses show some differences between young (less than 5 years old) and older (more than 5 years old) business units. As 78 p.c. of the younger business, withdraw from business for their household needs/requirement. Older (more than 5 years old) business units on the other hand were divided between household needs (55 p.c.) and what business can afford (45 p.c.).

Single owner firms (sole proprietorship) show the most common tendency to take away from the business for meeting their household needs (79 p.c.).