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I. Introduction:

Small Business development as an issue has become increasingly important in recent years in both developed and developing countries (Roy and Hutchinson, 1983). Substantial money and energy world-wide has been invested in support services for the small and mid-sized enterprises (SME) sector, as interest has grown in the development of small enterprises (Bolton Committee, 1971; International Labour Organisation, 1992). For example, The World Bank alone has lent over US $3 billion between 1978 and 1989 to foster a healthy growth in this sector in developing countries. Although, it will be impossible to give one to one clear answer to the question “What makes Small Business so important?” but it is quite well known that the term small business is almost equated with poverty alleviation and new job creation through enterprises and entrepreneurship. According to the survey of the World Bank in March, 1988, giving encouragement to the growth of small enterprises was the best way to benefit the masses or non-agricultural job seekers in the developing countries.

Insipite of long drawn planning efforts the strategy for industrialisation adopted in India’s economic policy, such as providing gainful employment to surplus labour, alleviation of poverty, egalitarian distribution of income and wealtna etc., could not be achieved successfully. The growing dis-
enchantment with the supposed virtues of large-scale economic units, has helped to re-focus attention on the “Small Business”.

If we look into the history of the small business, the first known piece of work on small business, describing how bankers loaned money at interest, appeared more than 4000 years ago. Since then, it has spent countless hours creating product and services to benefit the consumers. They flourished in almost all ancient cultures. It is largely through small business the civilization was spread to all four corners of the then known world (Barrow, 1997). Significant innovation by small business in the twentieth century are wide ranging – FM radio, over night delivery, personal computers, Xerography are just a few examples. The beneficial impact on society of such innovations by small business includes not only lower price and better product quality and services for consumers but also a better quality of life.

The widely held view that many of the human aspects of work are more satisfactorily resolved in small organisational units, than in large ones, does seem to be justified. Job satisfaction is probably greater; people are more involved; they feel their work matters more and is better appreciated (Dewhurst and Burns, 1993). Therefore, in terms of their contribution to the economy at any rate it would seem they need to be encouraged.
1.1. Economic contribution of Small Business:

Small, independent business is the traditional source of local and national economic growth as SSI contribute to nearly Rs. 6.5 lakh crores (40% of gross industrial value and 7% of GDP) in Indian economy. On the other hand Small Trading which contribute nearly Rs. 44,200 crores worth of value added annually to the country’s economy (NSSO Report, 1997). Different studies have also shown that most of the new jobs created in this country come from small business. Therefore Micro-enterprise (Small Business) development is an essential and important factor for generating employment and encouraging economic growth in developing countries (Chuta and Liedhotm, 1975; World Bank, 1978).

Danziger and Weinberg (1986) stated that in spite of twenty years of increased spending, the level of poverty in underdeveloped countries has not declined. Education, employment and training initiatives have provided only small gains. They concluded that not enough is known about how to improve the education and employment prospect for the poor and that international assistance to developing countries needs to address more directly the economic needs and potential for self-improvement programs for the poor. Alternative strategies are needed to reduce unemployment and redistribute economic opportunities and benefits among regions and social groups within developing countries (Miller and Kirschetein, 1988).
The interest in and importance of micro-enterprise development among economic planners and international assistance agencies stem from the need for more direct assistance to the alleviation of poverty (Neck, 1977). In contrast to ‘top down’ economic planning and implementation, micro (small) enterprise programs are based on several ‘bottom up’ development premises which include the need for (Harper, 1984, James and Rose Ackerman, 1986):

1. Self-employment opportunities among the poor;

2. Employment which is labour intensive rather than capital and education intensive;

3. Economic growth based on small scale business initiatives;

4. An economic base from which to foster business expansion;

5. The use of natural resources in the economic development process;

6. Development strategies that assist in the transmission of economic initiatives and opportunities from the informal to the formal sector.

7. Economic development opportunities for indigenous population as opposed to ‘alien minorities’ within a developing country’s social and economic structure.

8. Poverty alleviation through new sources of income.
9. “An incubator environment” from which indigenous services and technology can be nurtured for expanding a country’s economic base.

10. Technology adaptation to indigenous resources.

11. Development of entrepreneurial skills and talents.

Small Business units however, are even more important to economy of developing countries in a functional sense. They include:

- **Interdependence of Business**: No modern business is an entity in itself (Baumback, 1988). It must buy from other firms and sell either to different business owners or to consumers in competition with a great many other business. This means that there is a place for everyone, if any business unit has something worthwhile to offer and is able to offer it in an effective and efficient way. Furthermore, numerous small business enterprises are essential to enable a few large ones to concentrate on those activities where their efforts are more effective.

The fact that our economy, with mass production industries, requires great number of small wholesalers, retailers, distributors and other middlemen must be emphasised. Products of mass production units (Industries) are available in thousands of such remote locations only through the invaluable services provided by small independent merchants/small businesses, otherwise, mass distribution of mass production would be impossible.
It is also apparent that the mass producers of automobiles, farm machinery, TV sets and other electro-mechanical products of our increasingly affluent society are very much dependent on thousands of small, independent service establishments for their repair, upkeep and maintenance of these products. Small business also perform a wide variety of commercial, technical and electrical services both for big business and for any other customers in need of their specialised skill and knowledge.

- **Maintenance of Competition**: The importance of competition in a country’s economy cannot be denied. In the age of rapid economic changes, competition can be the vehicle of change, through innovation or through improvement. Modern competition appears in many forms: price, credit terms, service, product improvement, product marketing strategy, inter-industry struggles concerning substitution/product development and replacement and so forth. Basically, it is rivalry for consumer patronage (Baumback, 88). This competitive environment in a market economy, insures freedom of independent small enterprises and provides an outlet for individual creative impulses and abilities as well as a livelihood for a large segment of the population. It is the best insurance that the country’s economy will remain dynamic and provide a continuous stream of innovation, new ideas, experiments and pioneering efforts in new business ventures. Small owner-managed business
enterprises are more innovative than are large, publicly held corporate enterprises because ingenious people working on new ideas that relate to their own profit are motivated in a more direct way (Baumback, 1988). Therefore, if we are to continue our progress in extending more goods and services to an ever increasing number of people, big business alone cannot provide these things.

Diversity: Diversity is part of the definition of Small Business (Harmon, 1979) – “We are such captives of the philosophy of so called ‘economies of scale’ (through big business) that we frequently neglect the more important value of diversity”. While big business may be valuable small business is vital. Small Business develops components and ideas that big business uses in its products. Small Business offers services big business cannot accommodate. Small firms train workers who help big firms solve their problems. Small organisations contribute to the community in ways big business cannot.

All these functions/factors of small business point to the most vital feature of our economic system - diversity. It keeps our economy strong and receptive to innovation. Diversity is stimulated by the opportunity for profit (Harmon, 1979). This create a chain reaction as they recirculate in the economy. A person (owner-manager in case of business enterprise) cannot eat profit, nor do profits evaporate and drift away. Profits are reinvested in
the market, in better equipment or an increased investment in the form of inventory or in savings account. But in every case, they provide investment capital that increases productivity and raises the standard of living.

- **Small business Firm improve society**: It is the small business firm running in an unorganised sector without any management structure that typically hire/engage, employees of marginal ability (unskilled labour). This term might apply to teen-agers seeking their first job. These individuals often cannot find employment with larger units. Another social benefit from small business is that of leadership training that the young people get in a more practical business environment.

Small business are vital to the nations defence effort. Both the diversity and dispersion of small business add skill more strength to defence because no enemy could conceivably bomb (destroy) all of the nation's productive capacity (Harmen, 1979).

Finally one cannot overlook the psychological contribution of the small business firm. Small Business operators (owner-managers) are optimists by nature, which is one of the important characteristic of an entrepreneur. If they did not believe in themselves and their nation, they would not be in business (Harmen, 1979). The optimism has a certain buoyant effect on workers and communities as they some time becomes the role model of younger generation. In these days of high level of
unemployment, personal dissatisfaction/disaffection, country’s population needs all the optimism and confidence we can generate –small business is one of the instrument in this direction.

The economic importance of small business was supported by many, at different time in different parts of the world. During the struggle for independence in India, Mahatma Gandhi – “Father of the Nation”, has been keen on the protection and expansion of traditional, mainly rural, household enterprises. Another stand of thinking has been shaped by the Report of the Ford Foundation Team (Government of India 1954) which emphasised the role of modern small-scale units as an industrial structure.

In 1973, the publication of Ernest F. Schumacher’s study “Small Is Beautiful: A study of Economics as if people Mattered”, helped recast the public image of small business in contemporary industrialised societies through the newly proposed concept of “intermediate technology”. Schumacher favoured intermediate technology for low-developed countries as it require low equipment cost. Such a technology necessitates regional approach to development and suggest work place should be cheap, method of production should be fairly simple, production should be located in those areas where most of the people live. The oil crisis of the early 1970’s and the economic stagnation that followed, prompted rising expectations towards the mysterious power of Small Business …, as if it could magically step in as a
creator of new jobs, a seedbed (or incubator) of new technology, a pool of
dynamic entrepreneurship free from rigid bureaucratic vices and even
provide the momentum for the revitalization of local communities (Odaka
and Sawain, 1990).

The economic argument in favour of small business were considered
in the Bolton Committee Report (UK, 1971), which reaffirmed the
importance of small business and given reason for doing so. These were that
small enterprises provide an outlet for entrepreneurial talent; they are most
suitable where the optimum production size is small; play an important role
as specialist suppliers to large companies; add variety and choice for
consumer; act as a check on monopoly power; provide a source of
innovation; are a breeding ground for new industries and act as base for new
larger companies.

There has recently been a tendency in developing countries to take the
benefits of “intermediate technology”, which involves smaller business units
(Ray and Hatchinson, 1983). This is due to the growing awareness in favour
of small business and the problems involved in transplanting larger and
heavy technological industries from developed countries. Commenting
against transplanting such technologies from developed countries, J.H.
Boeke, a development economist pointed out that “we shall do well not to try
to transplant the tenden, delicate, hot-house plant of western theory to
tropical soil, where an early death awaits them”. In many cases such a transplantation has resulted in many undesirable consequences in the form of replacing existing traditional indigenous industries, creating wide spread unemployment; more and more reliance on developed countries – thereby incurring heavy burden of external debts. The painful impact of these consequences ultimately transfer to the shoulder of general population.

Today most of the countries are suffering from huge economic depression and thereby economic growth slowed down. In this crucial juncture small business can act as a shock-absorber for these depressed economics. It has a “flexible element” in the economic growth (Odaka and Sawai, 1990). In ever changing economic climate, Small Business in different countries have demonstrated vitality and high level of adoptability as they thrive everywhere and continue to seize upon new business opportunities. It is therefore, that small business which adjust itself with the new requirement of the economy and at the same time they will successfully help to revitalise the stumbling economies.

Besides unemployment, most of the developing countries are facing many chronic problems – like, capital market may be inefficient or non-existent, the ability to mobolise savings via banking system may be deficient, educational facilities may be lacking, the supply of physical resources in terms of transportation, suitable premises and power are not
sufficient according to the demand. In addition, developing countries may have social and political structures which are not conducive to industrial and firm sector growth (Ray and Hutchinson, 1983). So to overcome these problems, developing and underdeveloped countries may encourage small business.

Small Business have acted as a reservoir of traditional manual skill, which are not necessarily needed in big business houses with high capital output ratio. Today this small business has often resulted in economic dualism, where relatively big organisations having imported technology exist with small indigenous concerns typically operated by means of labour intensive traditional technology. In the words of Inc. Magazine (USA) “The world has changed, in short and small business along with it. Where once it was a sleepy appendage to the corporate sector, it now stands alongside it – and in some cases well out in front of it.”.

The development of small business is regarded a vital for economic upliftment of emerging economics (ILO, 1990). One ILO (International Labour Organisation) study reveals that, share of employment in small business enterprises, in various industrial groups, roughly about 30 to 40 percent were found to be engaged in manufacturing, construction, trade and commerce, transport and services in developing countries – such as India, Pakistan, Bangladesh … to count a few in recent past (Maurya, 2001).
In response to the increased attention to small business development, International Bank for Reconstruction and Development (The World Bank) has been putting more emphasis on employment creation in urban areas through assistance to small business, relatively labour intensive enterprises. The ILO for the first time organised the World Enterprise Forum in Geneva in December, 1996, in order to create a business environment conducive to the growth and development of small business. The Committee on Job Creation recommended that the member countries should adopt policies to promote a state economic environment as regard information, interest, taxation, employment and stability and remove constraints to the development and growth of small business.

So, there are many reasons for promoting the small business in developing countries. Development efforts such as this particularly needed to address the needs of the poor and unemployed who could succeed on their own if given an opportunity (Sharma, et. al. 1990). Small Business plays a critical role in the growth and development of local and regional economies. It is through systematic direction of technical support and assistance that indigenous small business enterprise can flourish.

Economic importance of small business in a developing country like India are much more than innovation and invention. Those business have been a vital source of absorbing unaccountable number of persons at places
in semi-rural, semi-urban, urban and metropolitan areas, where expeditiously most productive and viable economic activities are done by them in keeping with local demands of goods and items of mass consumption (Maurya, 2001). This is because small business required low capital and low level of barriers to entry. Infact, it is often easier for man/woman to go into small business for themselves than to find an employer. Today, they are so vital that few if any part of the global economy could go on without its products and services. It thrives every where.

In India, besides unemployment, we are facing many chronic problems like poverty, lack of proper education, health, non-existence of efficient banking system and capital market etc. The supply of physical resources in terms of transportation, suitable premises, availability of adequate power etc., are the vital problems. To overcome these unsolved problems the country may encourage small business, which shall bring in a balanced regional growth and their problems could be solved.

The development of the small business may also produce far-reaching social changes in the country. It has been estimated by the sociologists that 53 percent of the Indian population would be under 38 years of age, that means the younger segment of population would become a major constituent of our total population. Hence, there is the greater need for channelising the
resurgence and potentialities of youth of our country in constructive
direction (Barpujari, 2002).

Establishment of small business unit, would provide the Indian youth
their fruitful opportunities for self-expression and for increasing their
material well-being (Barpujari, 2002). Country’s younger generation feel
frustrated because they do not have assurance that their education and
scientific talents would be fully utilised. So their active participation in the
small business units would ensure job satisfaction for them. Increasing the
small and medium sectors of our economy would strengthen the backbone of
society and also curb, social unrest in the country (Barpujari, 2002).

Some time, small business has been criticised for its economic vices,
like rat-race competition, the exploitation of employees through low wage,
child labour, poor working condition, lack of quality control, environmental
pollution and so on. But the other side of the coin, supports the development
of small business. As they can act as a shock absorber for a depressed
economy like India, it has a flexible element in the economic growth (Odaka
and Sawai, 1990). They are characterised by the relatively labour intensive
choice of production method, which contribute to the society by enhancing
the employment capabilities of skilled and un-skilled, educated and
uneducated labour forces which may otherwise remained unutilised. The
opportunity to enter into business through small venture, by the new
generation, shall cultivate the entrepreneurial spirit in the economy. While giving tribute to these new-entrepreneur U.S. Congressman John Lafalee said “Entrepreneurs are economic visionaries whose efforts consistently help fuel our nation’s economic growth. They are the Pied Pipers of tomorrows corporations, the leaders who will pioneer new products and jobs and create new exports”.

1.2. Statement of the Problem:

Financial Management control is vital for the success of a business whether small or large. Therefore, good financial records must be constantly maintained in business if it is to have effective financial control (Pickle and Abrahamson, 1990). Sound record keeping and analysis can generally increase the possibility of solving many unseen problems early. Financial Management comprises essentially the planning and control of financial resources, that is money. To be a good owner/manager, one has to cultivate the art of analysing and interpreting financial statements, which are prepared using money as a measure. To prevent their units from spinning ‘out of financial control’, a small business owner “should start with good control system right from the beginning so that there is constant knowledge about what is going on” (Peters and Waterman, 1994).
So, proper financial management is essential for operation of a successful small business units. The present study, therefore, set out to identify the level of awareness, the general practices and uses of financial management tools and techniques by Small Business owner/manager in running their units. Small Businesses with only one major decision-maker, are in a unique position as only at this size a firm can manage without having to communicate information to others (people in and outside the business). To match the present pace of change in the business environment and maintain a competitive edge, the owners/managers of small business units must know personally in correct form the present position of his/her business. So, for small business enterprises to flourish, more sophisticated accounting tools can not be a luxury (Soral and Jain, 1994).

We have taken up this study because we believe, and the survey of growing literature on financial management of small business units reveal, that there is wide gap between theory and practice of financial management. They hardly find the existing financial management techniques of any use. There are seldom few written documents or records. As a result, a great majority of small business units do not survive long and remain in operation with low level of efficiency.

Several studies have been undertaken on the financing aspect of small business, but very limited work has been undertaken to research indepth into
the management aspect of finance (money) which act as a ‘life line’ of a business. Without ongoing control of financial resources, we would not be able to spot profitability concerns or opportunities" say’s William Mc Bride. "Operating without a detailed financial analysis would be like trying to play poker blind folded".

Financial Management aspect of a small business is often assumed as most neglected area, because owners/managers of the small enterprises do not understand its functions and utilities for business survival and growth. As a result, the simplest items, like keeping track of cash or tracking exactly how the business is doing, get lost (Peters and Waterman, 1994). Waterman (1994) recommends that small businesses owners/managers should “look at this kind of information as a proactive management tool, not merely as historical information”. One classic study (Potts, 1992) on financial management and control techniques in small business concludes that “the clearest and most startling distinctions between successful and discontinued small business lies in their approach to the uses which can be made of accounting information”.

As it is commonly believed that the very survival of the business depends on its ability to make profit, but it does not happen by accident. It requires careful planning, a lot of sound management and control techniques. Ian Peter, Head of Small Business, National West Minister Bank says
"success does not happen, it needs to be planned. Business planning is about business understanding their own risks and how they are going to manage them to achieve their objectives ....... It's about being in control". A financial expert Eileen Davis says, “Small Business that does not establish sound controls at the start are starting themselves up to fail”.

The purpose of the present study is to discover whether small business units which do not have to collect information for dissemination to others, have enough information to pursue their goals. Each firm which is owned and managed by single individual and with unlimited liability, the owners/managers must have every incentive to apply the appropriate level of effort and to make the correct utility maximizing decision. This is because the owners/managers of small businesses would personally bear all the costs associated with the mistakes. As Benjamin Frankin said, “beware of little expenses; a small leak will sink a great ship”. So a little mistake may cost huge money. Thus, small enterprises cannot dare to make mistakes. Properly kept financial records and their analysis make it possible to eliminate mistakes.

Notwithstanding the abundance of prescriptive literature on financial reporting and analysis in small business enterprises, there is very little empirical evidence to support recommendations made in the literature. Furthermore, theory development in the area is minimal and cannot
adequately support the recommendations (McMahon and Davies, 1994). The exploratory study described in this research work, attempts to find empirical justification for the prescriptions in the theory of financial management.

From a sample (non-random) of small business enterprises, the study seeks possible associations between historical financial records and analysis practices and overall financial control and performance of small business in North-Eastern Region of India.

Recognising the importance of financial management practices in general and management of small business in particular, this study is an attempt to explore and highlight the status of financial management practices of small business units in North-Eastern India; and particularly the small business owners/managers perceived awareness; and the use of selected financial management tools and techniques for financial control. The result of this study is expected to highlight area of accounting and financial management that require attention from the private and public organisations interested in development/growth of small business enterprises in India and North-East in particular with special reference to Assam.

1.3. Review of existing literature:

A rapidly growing literature on the financing and financial management of Small Businesses suggest that there is a considerable number
of reasons for believing that the financial management of small businesses is or should be qualitatively as well as quantitatively different from that of large enterprises (LeCornu, et. al. 1996).

There are obvious institutional differences such as regulatory influences, sources and types of finance, and forms of financial assistance. In addition, quite distinctive inherent characteristics of small enterprises/businesses are likely to lead to differences. Levin and Travis (1987) and Petty and Bygrave (1993) discuss the following: (a) In large enterprises there is frequently separation between management and ownership, whereas small enterprises are more likely to operate as extensions of their owner-managers; (b) small enterprises may be faced with fewer investment and financing options; (c) small enterprises (Business) often suffer from 'resource poverty', particularly of a financial nature; (d) starting from a smaller base, small enterprises are generally more likely to experience problems associated with the consequences of growth, such as liquidity pressure; (e) small enterprise financial management is inevitably more dependent on the ability of a single individuals than is the case in large enterprises; (f) the absence of a well-formed market for ownership stakes in small enterprises is likely to impact on their financial management.

On the motivations of small business enterprise owner-managers, three important messages appear to emerge from the empirical literature
(Hankinson, 1977; D’Amboise and Gasse, 1980; Ray and Hutchinson, 1983; Bolton 1971; Cooley and Edwards, 1983). It is suggested that owner-managers of small businesses –

(a) may not have a single overriding aim like wealth maximization but rather their intentions are likely to be numerous and complex;

(b) have motive which are unequivocally non-monetary and

(c) have considerable freedom to pursue objectives, monetary or otherwise.

Keats and Bracker (1988) suggested that ‘performance may have a different set of meanings for small firms than for large firms”. The melding of ownership and management in small enterprises allows the goals of the owners to become the goals of the firm (Naffziger, et. al. 1992). In this way, it appears that behaviour and decision making in small enterprises are unequivocally attached to the personal motivations of the owner-managers. The Bolton Committee (1971) reported that the need to attain and preserve independence was the fundamental motivation in most small enterprises.

Other researchers concur with this view and assert that both financial and personal independence are frequently pivotal factors in the decision to initiate a small business (Pandey and Tewary, 1979; Perry, 1980). Brigham and Smith (1967), and Boyer and Roth (1978) argue that owner-managers may be satisfied with a lower rate of return since they have control of operations and the advantage of working for themselves.
It would appear from the literature that there are a number of distinguishable characteristics of small enterprise (Business) which are not considered in the maxims of modern finance theory and that may account for the masked risk-return relationship which has plagued new areas of small enterprise research (LeCornu, et. al. 1996). Lack of diversification of their human investment (or capital) may prevail due to the owner-manager’s total involvement in the management and operating activities of the firm.

Owner-managers of a small businesses have considerable freedom to pursue and derive satisfaction from non-financial motivations.

This may cause the pursuit of decision outcomes and financial control that rationally diverge from those considered to be wealth-maximising, which is the traditional financial goal of the firm. But, as Hutchinson and Ray (1986) indicated, growth can result in financial stresses such as cash-flow difficulties and excessive use of debt. This financial problem create a critical need for improved financial control which came about through an upgrading of financial reporting and analysis systems.

The present research is a contemporary work on financial management uses and practices and its impact upon the performance and growth of small business enterprises. Numerous articles, reports and research papers have appeared on this topic, but very limited work has been done on the financial management aspect of small business in India and more particularly in
North-Eastern states. The literature survey is basically confined to the abstracts of different reports (Government and Non-Governmental Agencies etc.), academic and institutional works (published and unpublished) and other mentionable addition so far been made by various contributors in the national and international level on this fertile subject.

A substantial body of prescriptive literature has evolved dealing in whole or part with use of financial tools and techniques by the small business enterprises. In recent times, the books written on financial management for small business emphasise the importance of developing skills in reading and interpreting historical financial statements to monitor financial health and progress (Black, 1950; Harman, 1979; Tungale, 1952; Rausch, 1982; McMahon, 1986; Meredith, 1986; Walker and Petty 1986; Barrow, 1988; Scarborough and Zimmerer, 1993; Kuchl and Lambing, 1994). In journals of small business, some articles strongly advocate use of financial analysis skills for small business units (Mayo and Rosenbloom, 1975; Konstans and Martín, 1982; McMahon and Davie, 1994).

A number of recent publications deal with the distinguishing characteristics, problems and growth of Small Scale Industries in India. Most of these works highlight the importance of small business in the country’s economic development and also details the changes required in the organization and management of such enterprises in order to survive and
prosper (Ramakrishna, 1962; Mathur, 1979; Dey, 1980; Bala, 1988; Vepa, 1988; Satyanarayan, 1989; Mali and Deka, 1995; Rudramuthy, 1997).

Several studies have been undertaken to determine what financial ratios are used by owners/managers of Small Business to monitor their businesses (Lewis and Toon, 1986; Holmes and Nicholls, 1989; McMahon and Davies, 1991). Attempts have been made in some cases to measure business success as function of knowledge and use of these information. However, these studies have been on large sized small businesses.

A contemporary research work on small business at West Midland, U.K., (Nayak and Greenfield, 1994) shows that firms which do not do well, is not because of lack of business records and lack of awareness of key business factors, but due to the lack of adequate accounting knowledge and proper financial records. Comprehensive financial reporting and analysis should generally lead to improved financial control and that this in itself could significantly increase the chances of a small enterprise prospering through growth (McMahon and Davies, 1994).

It has been observed that there is wide gap between theory and practice of management accounting in case of small business. On the other hand financial accounting system is based on the traditional “Mahajani” system and is incomplete in nature. No systematic form of financial statement analysis were noticed (Soral and Jain, 1994). Large number of
small and tiny business units do not maintain even proper books of accounts, which are necessary for proper control of the business. Past experience and intuition plays important role in financial decision-making. Among the other factors, the non-use of financial tools and techniques for financial decision-making has resulted in a variety of financial problems, which the small units faces (Vinayak, 1987). Non-existence of financial analysis and accounting practices has been observed in other studies also. There were problem in increasing the financial assistance to small industries by the Financial Institutions due to lack of accepted accounting practices and financial management (Rao, 1984).

It is also observed that, those who ignore the financial aspect of their businesses run the risk of becoming just another failure statistics. To reach profit objectives, the small business owners-managers must be aware of the firm’s overall financial position and the changes in financial status that occur over time (McMahon and Holmes, 1991).

Another study (LeCornu, et.al. 1996) has thrown light on the financial objective of small business units. They found that financial management of small enterprise is or should be qualitatively as well as quantitatively different from that of large enterprises. Small Business financial management is inevitably more dependent on the ability of a single individual or small number of individuals. It also appears that behaviour and
decision making in small enterprises are unequivocally attached to the personal motivations of the owner-managers. The absence of a well-formed market for ownership stakes in small enterprises is likely to have an impact on their financial management.

Rice and Hamilton (1979) in their study found that small businessman employed a multidimensional, stochastic, non-quantitative decision process, which are primarily informal in nature. All the theories governing business operational decision making presume that the owner/manager is a rational, cogent and calculating individual and he should use “scientific decision making”. However the finding was that for a majority of small businessmen decisions were the result of ‘experience’, ‘intuition’, or ‘guesswork’. This implies that in small business units scientific decision making process does not take place.

A study was conducted by Narayanan, et.al., (1987) to know to what extent small business financial problems and practices were responsible for the poor recovery, sticky and irregular bank loans. The authors have studied such loan accounts of several branches of SBI and UCO Bank. The study has tried to show how non-use of financial management tools and techniques have led to non-payment of loan amount.

Another study by Holmes and Nicholls (1989) concluded that the amount and nature of accounting information prepared or acquired is
dependent on number of operating and environmental variables like business size, age, industrial grouping, owners/managers education. The findings of the study also revealed that most owners/managers engage an accountant to prepare statutory accounts, additional information (of non-statutory nature) tends to be prepared within the business.

New economic policies have introduced a host of changes throughout economy. Business life for owners/managers has changed considerably. To ensure their continued survival, there is a need for increased emphasis on management development activities. People may be called upon to act in new ways, attend to new concerns and master new-concepts and skills if they are to thrive in the reconstructed economic environment (Linower and Dixon, 1992).

Recently there has been a major focus on accounting information as an aid in planning and control for small businesses. This effort has resulted in the utilization of modularized contribution margin income statements as an aid to decision making and policy formulation. It is important that small business owners/managers have an awareness of this approach which is designed to provide better visuality and understanding of their financial situation (Dunne, et.al., 1980).

Maximization of profit or 'surplus' is the primary objective of an enterprise. Efficient and scientific management of finance in an enterprise is
of prime importance for achieving that ultimate goal. In practice, the matter of production or materials quality or marketing in the ultimate analysis, relates to financial issues (Sen, et.al., 2001). All-out efforts are needed for applying the tools of financial management to the enterprises in a scientific manner in the interest of injecting fresh confidence and restoring the financial health of the organisation.

The results of another study (Siop and Ahmed, 2000) shows that there is a big gap between the owners/managers, awareness and the use of financial management control techniques. It seems small businesses enterprise owners/managers are venturing into business without proper financial ‘know-how’. Even owner/managers who are aware of financial management control techniques are somehow restricted from using them to effectively manage their enterprises.

1.4. Gap in the existing literature :

The existing literature strongly support the argument that in small business, Financial Management is the key issue. It not only increases the success rate but also affects the level of performance.

Several studies (Sharma, 1976; Barooah, 1980; Dey, 1980; Baishya, 1986; Deb, 1993; Smith, 1997) have been undertaken in North-Eastern Indian states viz., Arunachal Pradesh, Assam, Manipur, Meghalaya,
Mizoram, Nagaland and Tripura to determine the underlying problems of small businesses in the field of financing, marketing, infrastructure etc. However, no study has been conducted exclusively so far on the awareness and uses of financial management tools and techniques by small business units. This aspect of small business has been left untouched and has not been extensively researched.

The present study, therefore, is expected to contribute towards filling the present gap in the knowledge, prevailing in the area of small businesses in general and their financial management practices in particular. The study will also examine the impact of uses and non-uses of financial management tools and techniques on the survival and growth of small business units of North-East India in general and Assam in particular. The purpose of this study is to discover, whether small business units, which do not have to collect financial information for dissemination to others, have enough information to pursue their goal.

1.5. Rationale of the study and its social relevance:

The last decade has seen a rapid growth in the number of small business units. They are the only source of self-employment and act as an economic shock-absorber. It is more so in the North-Eastern India, because here small business is the only ray of hope for large number of people
(educated/uneducated) for self-employment. North-Eastern India is industrially backward, having poor infrastructural facilities and agriculture is also subsistence in nature, and hence the only gainful economic activities for survival is “Small Businesses”. Therefore, Small Business units have become a highly topical area for research.

The present study has been undertaken keeping in mind the importance of small business units in the socio-economic development in North-East India and to deal with unemployment problems in this region.

Financial Management is a vital aspect to the success of a small business units. In North-East India no study has been undertaken so far to look into financial management practices in small business units. It was felt that a survey which looked at large number of small units in North-East might reveal interesting insights on how they gather/record and use the tools and techniques of financial management.

The topic is thus considered to be socially relevant and useful for small businesses management. The findings of the present study is likely to throw light on the mechanism to arrest the failure/sickness in small business sector in this region in particular and the country in general.
1.6. Objectives of the study:

Major Objectives of the present study are as follows:

(a) To assess the level of perceived awareness of the owner-manager of small business units about tools and techniques of financial management.

(b) To examine the pattern of managerial use of the financial management tools and techniques by the small business units.

(c) To evaluate the impact of Financial Management practices on the survival and growth of the units.

(d) To extend some pragmatic suggestions based on the findings of the study.

1.7. Research Queries:

Proposed research work aims to address the following queries:

Q1. Whether the owner/manager of Small Business units are aware of the Financial Management tools and techniques?

Q2. Whether they make uses of the same in managing their businesses?

Q3. Whether use of appropriate Financial Management techniques can aid the growth and survival of the Small Business units?
1.8. Chapterisation:

I. Introduction
II. Small Business in India: A Conceptual framework
III. North-Eastern region of India: A brief profile
IV. Management Theory: Its implications in small business
V. Financial Management: Its Role in Small Business
VI. Financial Management Practices of Small Business: Data Analysis and Interpretation
VII. Research Findings: A Summary
VIII. Suggestions and Conclusion

1.9. Research Methodology:

The main objective of the present study is to examine the level of awareness and practices of financial management tools and techniques by the owner-managers of small business units/firms in North-East region of India in general and state of Assam in particular.

The present research study is “Exploratory” in nature. The exploratory research advocated by Petty (1991) relies on ‘simply and subjectively observing phenomena in their natural setting and deriving theories that fit the analysis of the data’. It reflects the belief that this is a valid approach to theory development in a field where there is presently insufficient accepted
theory to guide the research (Abdel-Khalik and Ajinkya, 1979). Therefore, major emphasis in such (Exploratory) study in on the discovery of ideas and insight (Kothari, 1996). In the present case, this applies to financial management and analysis in general and to these activities in small businesses in particular. Such research may rely on a relatively small, non-random sample, can often be characterized as descriptive and/or associative and thus without pretensions to causality; and may employ non-parametric and distribution – free statistical methods and possibly techniques for structural escalation of data (McMahon and Davies, 1994).

There are indications that the broad data analytic approach to research outlined is finding increased acceptance in the literature concerned with small business.

The present research work, therefore, calls for field data or primary data from natural setting. The primary data were collected with the help of interviewer assisted questionnaire. The questionnaire so prepared included questions about general as well as specialised aspect of record-keeping, decision making etc.

(a) Sample selection:

The importance of small business units in the economy of North-Eastern region of India is well-known fact and need not to be reiterated. The
present study, therefore, restricted itself to the study of small business units located in North-Eastern states of India with special reference to Assam.

For the present research the working definition of small business units/firms, which fulfilled the following quantitative characteristics were considered:

(I) All Small Scale Industries (SSI) registered and unregistered (as defined under SSI Policy, 1991 as amended in 1998)

(a) Manufacturing unit – investment limit in plant and machinery upto Rs. 10 million.

(b) Ancillary unit – investment limit in plant and machinery upto Rs. 10 million.

(c) Tiny sector including service sector – investment limit upto Rs. 5 lakhs.

(II) Small Trading units (Whole seller/retailer) who run firms with under fifty (50) employees (with full time/part time; skilled/unskilled labourers).

While selecting the sample units, the following points were taken into consideration:

(a) Since one of the objectives of the study was to evaluate the impact of financial management practices on the survival and growth of the
firms/units, an attempt was made to choose those units which were in operation at the time of survey, for a period of at least two years so that an actual picture of record keeping and financial management practices and their uses for the business decision making by the owner-manager can be ascertained.

(b) At the time of selection of small business units for the present research study, due care has been taken to select small businesses who fulfil the quantitative characteristics for small business units as stated above.

(c) This type of study required in-depth interviews and prolonged discussions for which several visits to the units and a lot of time and willing cooperation of the respondents were needed. An attempt was, therefore, made to select only those units where the investigator had either some approach or the entrepreneurs (owner-manager) were willing to cooperate.

Due care has been taken to include in the sample different segments of the small business population. The segments are:

(i) Manufacturing units

(ii) Service units

(iii) Trading units
(b) **Size of the sample:**

As the universe is very large, it was decided to take a sample size of around 220 from the entire region keeping in mind the different business segment and different states involved. However, finally 208 duly filled in questionnaire were collected and out of which 191 duly filled in correct questionnaires were processed for the purpose of analysis.

The researcher himself collected field data through interviewer assisted questionnaire from three important states – Assam, Meghalaya and Tripura and for the remaining states like Mizoram, Arunachal Pradesh, Manipur, Nagaland – properly briefed and qualified interviewer were entrusted with the job and sent nearly 120 questionnaires to them.

The state wise position of responses received were as follows:

<table>
<thead>
<tr>
<th>State</th>
<th>No. of Sample Collected</th>
<th>No. of Sample Rejected/incomplete</th>
<th>Correct Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assam</td>
<td>122</td>
<td>3</td>
<td>119</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>13</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Tripura</td>
<td>15</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Manipur</td>
<td>16</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Mizoram</td>
<td>15</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Nagaland</td>
<td>13</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>14</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>208</strong></td>
<td><strong>17</strong></td>
<td><strong>191</strong></td>
</tr>
</tbody>
</table>
The state wise sample position shows that 62 p.c. of the respondent were from Assam and 38 p.c. were from other North-Eastern states. Efforts were made to include at least 10 sample from each states other than Assam. The interview has taken place during the early 2003 to early 2004 at a time when the business climate was stable in this region.

Due care has been taken to select sample units which were representative in nature in terms of business sectors and size of the units by applying judgement sampling method. Small business units were selected from seventeen (17) major commercially important places of the region including Assam. The places from where samples were collected are as follows:

Assam : Silchar (Greater Silchar), Hailakandi, Lala Town, Karimganj, Haflong, Lumding, Jorhat and Guwahati (Greater Guwahati).

Manipur : Imphal

Tripura : Agartala and Dharmanagar.

Nagaland : Dimapur

Mizoram : Aizawl, Lunglei, Chungta.

Meghalaya : Shillong.

Arunachal Pradesh : Itanagar.
(c) Statistical Tools Used:

The data were collected with the help of a structured questionnaire along with a loosely structured personal interview schedule (guide) for the entrepreneurs. A pilot survey was conducted by the Researcher within small group of small business units in Silchar Town of Assam to know the tendency of the entrepreneurs (owner-managers) in answering the questions and the type of data which were made available by them. Consequently, the questionnaire was modified suitably and a set pattern of question was emphasised through the questionnaire as well as in the in-depth interviews. Sampling was non-random judgement sampling was used so that data are representative and purposive in nature.

Since it was not possible to meet the assumptions underlying parametric statistical testing, the study used appropriate non-parametric tests of association as the sample collection was based on Judgement Sampling.

Chi-square ($\chi^2$) is an important non parametric test and as such no rigid assumptions are necessary in respect of the type of population. We require only the degree of freedom for using this test, as a non-parametric test. Chi-square ($\chi^2$) can be used

(i) As a test of goodness of fit.

(ii) As a test of independence.
\( \chi^2 \) (Chi-square) is calculated as follows:

\[
\chi^2 = \sum \frac{(O_{ij} - e_{ij})^2}{e_{ij}}
\]

Where \( O_{ij} \) = observed frequency of 'i' the class
\( e_{ij} \) = expected frequency of 'i' the class.

As a test of goodness of fit, \( \chi^2 \) (Chi-square) test enables us to see how well does the assumed theoretical distribution fit to the observed data. When some theoretical distribution is fitted to the given data, we are interested in knowing as to how well this distribution fits with the observed data. The chi-square test can give answer to this. If the calculated value of \( \chi^2 \) is less than the table value at a certain level of significance, the fit is considered to be a good one which means that the divergence between the observed and expected frequencies is attributable to fluctuations of sampling. But if the calculated value of \( \chi^2 \) is greater than its table value, the fit is not considered to be good one.

As a test of independence, \( \chi^2 \) test enable us to explain whether or not two attributes are associated. We generally proceed with the null hypothesis that two attributes (for example, age of the business and uses of financial management tools) are independent, which means that age of the business has no effect in using financial tools and business performances. On this basis we first calculate the expected frequencies and then work out the value.
of $\chi^2$. Now, if the calculated value of $\chi^2$ is less than the table value at a certain level of significance for given degrees of freedom, we conclude that null hypothesis stands, which means that the two attributes are independent or not associated. But, if the calculated value of $\chi^2$ is greater than its table value, our inference then would be that null hypothesis does not hold good which means that two attributes are associated and the association is not because of some change factor but it exists in reality.

It may be mentioned here that, $\chi^2$ (chi-square) is not a measure of the degree of relationship or the form of relationship between two attributes, but is simply a technique of judging the significance of such association or relationship between two attributes (Kothari, 1996).

Steps involved in applying chi-square test are:

(i) First of all, we have to calculate the expected frequency on the basis of given hypothesis or on the basis of null hypothesis. The expected frequency for any given cell is worked out as under:

Expected frequency of any cell

\[
= \frac{(\text{Row total for the row of that cell}) \times (\text{column total for the column of that cell})}{\text{(Grand total)}}
\]
(ii) Obtained the difference between observed and expected frequencies and find out the squares of such differences i.e., \((O_{ij} - E_{ij})^2\).

(iii) Divided the quantity \((O_{ij} - E_{ij})^2\) obtained by the corresponding expected frequency to get \(\frac{(O_{ij} - E_{ij})^2}{E_{ij}}\) and this was done for all the cell frequencies or the group frequencies.

(iv) Then, to find the summation of \(\frac{(O_{ij} - E_{ij})^2}{E_{ij}}\) values or \(\sum_{E_{ij}} \frac{(O_{ij} - E_{ij})^2}{E_{ij}}\). This is the required \(\chi^2\) value.

The \(\chi^2\) value obtained as such were compared with relevant table value of \(\chi^2\) and then inference were drawn as stated above.

Besides the above tests the researcher also used average, percentage rank order rating scale etc. whenever required to present the data. Chart and diagram were also used.

1.10. Limitations of the study:

The study is likely to have following limitations inspite of our best efforts.

(1) As the present research study is exploratory in nature and is distinguishable from the scientific method, which should be theory based, where we first develop the theory, build our hypotheses from the
underlying theory, then we test empirically (Petty, 1991). At this stage of the investigation into the financial management practices for small business the exact questions and measurements necessary for hypothesis testing was not yet identified. Hence hypothesis testing could not be done. The aim of the present research was to describe the phenomena and includes some preliminary statistical testing without any reference to causality ...., it provides a relatively inexpensive theory – building stage prior to the commitment of significant resources to a large sample (Le-Cornu, et. al. 1996).

(2) As the widely-acknowledged authority on exploratory research Tukey pointed out, it is still true that exploratory methodology can only be a beginning, a base from which subsequent confirmatory research can begin. With this in mind, the present research might be judged on the basis of the questions it raises regarding potential significance for further investigation, rather than upon answers it may provide.

(3) The dynamics of small business enterprise growth are inevitably complex and affected by many factors other than financial management. It was not possible to control for these other influences in the exploratory study with a limited sample size.

(4) Given small sample size and the lack of homogeneity among small business population and the selection bias, there is a need for caution in making generalisation based on its findings.
(5) As no official definition was there for small businesses in India, a
working definition for the study was framed taken into consideration –
qualitative and quantitative parameters/characteristics.

(6) The sampling and data collection methodologies employed inevitably
impose limitations on interpretation of the results of this study. There is
no indisputable assurance that the non-random (as study employed
judgement sampling), final sample was representative of the small
business in the region as a whole. The accuracy and completeness of the
data collected relied heavily on the ability and skills of interviewers and
also the co-operation of owner-manager interviewed.

(7) Because of the sensitivity of financial information, there was no attempt
to determine the actual amount of credit, debit, total amount of
borrowing, capital invested, net profit/losses by the participating small
business units.

(8) A further limitation of the present research work is that the methodology
used could not gauge all the factors influencing the responses, such as the
moral standing and social beliefs of owner-manager. These
considerations on financial management and reporting practices, limits
the internal and external validity of the study.