

Nature of Buyer–Supplier Relationship: Small Businesses in a Small City

by Venkatesh Murthy and Bino Paul

If the proposition of Williamson that “highly standardized transactions are not apt to require a specialized governance structure” (1979, p. 248) is to be accepted, then a discrete transaction market between small business owners and their suppliers can be easily organized in the market. This view essentially nullifies the possibility of there being a relational transaction. In this backdrop, this research attempts to explore the small buyer–supplier relationship in the context of a small city. Keeping embeddedness (Granovetter, Am. J. Sociol., 1985; 91: 481–510) as a theoretical foundation, we explore the social content in an apparently pure economic exchange. Although, earlier attempts (Khoja and Kauffman, J. Small Bus. Manag., 2012; 50: 20–40; Uzzi, Am. Socio. Rev., 1996; 61: 674–698) conformed to embeddedness in transactions between a buyer and a supplier among businesses of various sizes, they largely ignored very small-size buyers and suppliers owing to the miniscule size of business transactions and less frequent interactions between buyers and suppliers. Based on the grounded theory approach (Strauss and Corbin, Basics of Qualitative Research-Grounded Theory Procedures and Techniques, 1990), in this study, we conducted in-depth interviews with 57 very small business owners to develop detailed narratives. These narratives were organized under four themes: Contractual relationship, Strategic information sharing, Caste as a proxy, and Trust Factor. The findings clearly indicate that small business owners foster continued relationships with their suppliers, owing to social conditioning factors.

Introduction

A recent study (Khoja and Kauffman 2012), drawing on extant literature, has observed that the buyer–supplier relationship within a small business context has largely been neglected in the literature. It assumed that perspectives of large-scale businesses can be applied to understand how small businesses function as well. The research also showed that “small buyers can also foster long-term relationships with their respective suppliers” (Khoja and Kauffman 2012,

p. 21). However, Khoja and Kauffman’s study does not necessarily represent the businesses as in the present study. According to their definition, a small business comprises less than five hundred employees. In this study, however, this definition fails to hold good, because the maximum number of employees in our study is thirty and the minimum is one (Appendix 2). The businesses in our study are of a smaller in size than that perceived in Khoja and Kauffman’s work.¹ By following the transactional cost economy line

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¹Khoja and Kauffman’s sample consisted of manufacturing firms, whereas this study included manufacturing firms, retail and wholesale businesses as defined by National Industrial classification (NIC). Khoja and Kauffman had used perceptual data to measure their hypothesis. As we know, it is hard to obtain quantitative data on issues of this kind, and collection of perception-based data becomes inevitable.

of argument, Khoja and Kauffman concluded their study by viewing the long-term relationship between buyers and suppliers as a commitment emanated through increased or maintained asset specificity. Once again, Khoja and Kauffman have objectively constructed the relationship between the buyer and the supplier by not giving due importance to buyers' perceived notion of relationship with their suppliers. In another recent study conducted on small independent apparel stores in the United States, it was found that supplier transaction-specific investment has a positive impact on the dependence of small retailers on their suppliers (Chung 2014). This view once again invokes the logic of institutional economics whereby economic performance becomes a precursor to gauge the trust between two business parties. These arguments once again invokes the reasoning that the relationship between two individuals remains transactional as is evident in Williamson's (1981, 1985) argument that an idiosyncratic relationship is possible only when three dimensions of a transaction, such as specialized exchange, concurrent nature of exchange and involvement of a high degree of uncertainty, are met. Williamson further viewed that any discontinuity in a contractual relationship may hamper the profitability of the supplier and buyer, which in turn jeopardizes the relationship. Over a period of time, this contract-based relationship, under the economic conditions of cost and profit, turns out to be idiosyncratic, because both the supplier and the buyer are locked into a contract where the loss for both parties becomes inevitable if there is a discontinuity or breach of the contract by either party. This implies that an interpersonal relationship is possible only when sufficient measures are taken to discourage opportunism.

It becomes clear that the conditions set in institutional economics to understand the interpersonal relationships in a large-scale business exchange are quite apparent, whereas in a small business context, the very idea of personal relationships loses its meaning and essence if we impose the three conditions of institutional economics (i.e., asset specificity, frequency and uncertainty). This is because small businesses do not engage in specialized exchanges, and the nature of their business activities is more general. As these small businesses do not deal in specialized products, the frequency of the exchange and uncertainty involved would be too low. More importantly, for small buyers,

numerous suppliers are available in the market and vice versa. This basic characteristic of the exchange scenario in the small business sector makes it a peculiar context to explore and unravel the possibilities of exchange-led relationships between the buyer and the seller.

In this study, we define a small business as an activity that is independently owned and operated by individuals or a family. These businesses are not dominant in their field of operation (Amboise and Muldowney 1988) and involve wholesale, retail and manufacturing. The very nature of these businesses qualifies them as trading enterprises (Appendix 2). Business activities are carried out mostly by family members or with the help of hired workers (National Sample Survey 2002). Another important quality of these small businesses is that they are the primary sources of income for the family. The owner perceives the business as an extension of his or her personality, intricately bound to family needs and desires (Carland et al. 1984). As these businesses entail selling of goods and services and manufacturing, on a day-to-day basis, owners have an opportunity to come into contact with input suppliers. Small business owners interact with multiple suppliers from different regions, to procure commodities and services. This study is an attempt to capture the nature of the relationship between these two economic agents—small business owner and input supplier.

From Table 1, it is clear that the relative dominance of one agent over the other plays an important role in deciding the comparative advantage for both the buyer and the supplier. In this study, from the perspective of power, neither the supplier nor the buyer possesses a relative advantage over the other. This is because switch-over costs are too low. As shown in Table 1, low power possession of both the parties makes the transaction independent. For such a given precarious nature of power structure in transactions, it is quite interesting to assess the views of buyers on their relationships with their suppliers.

As against the general view that “organizations build ties with other organizations that have complementary resources and capabilities...” (Gulati and Gargiulo 1999, p. 1476), small businesses may not have a large array of choices. This is true because small business resources, both human and capital, are limited. As small businesses lack these critical resources, they may resort to making quick decisions on supplier selection based on certain cues such as some gathered information

Table 1
Attributes of Buyer and Supplier Power

| | | |
|---|--|---|
| | <p>Buyer Dominance</p> <ul style="list-style-type: none"> • Few buyers/many suppliers • Buyer has a high percent share of the total market for the supplier • Suppliers are highly dependent on buyers for revenue with limited alternatives • Supplier switching costs are high • Buyer switching costs are low • Buyer's account is attractive for the supplier • Supplier offerings are standardized • Buyer's search costs are low • Supplier has no information asymmetry advantages over the buyer | <p>Interdependence</p> <ul style="list-style-type: none"> • Few buyers/few suppliers • Buyer has a relatively high percent share of the total market for the supplier • Suppliers are highly dependent on the buyer for revenue with limited alternatives • Supplier's switching costs are high • Buyer's switching costs are high • Buyer's account is attractive to the supplier • Supplier's offerings are not standardized • Buyer's search costs are high • Supplier has significant information asymmetry advantages over the buyer |
| High | | |
| Attribute of buyer power relative to supplier | <p>Independence</p> <ul style="list-style-type: none"> • Many buyers/many suppliers • Buyer has a relatively low percent share of the total market for the supplier • Suppliers are not dependent on buyers for revenue and have many alternatives • Supplier's switching costs are low • Buyer's switching costs are low • Buyer's account is not particularly attractive to the supplier • Supplier's offerings are standardized • Buyer's search costs are relatively low • Supplier has only limited information asymmetry advantages over the buyer | <p>Supplier Dominance</p> <ul style="list-style-type: none"> • Many buyers/few sellers • Buyer has a low percent share of the total market for the supplier • Suppliers are not at all dependent on the buyer for revenue and have many alternatives • Supplier's switching costs are low • Buyer's switching costs are high • Buyer's account is not attractive to the supplier • Supplier's offerings are not standardized • Buyer's search costs are very high • Supplier has high information asymmetry advantages over the buyer |
| Low | | |
| | Low | High |
| | Attribute of supplier power relative to the buyer power | |

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through peers and friends, or knowledge gathered through experiences in earlier professions. At the same time, suppliers are keen to establish relationships with small sellers to sell their products to the end customers. In a way, it is apparent that both parties have a “want” factor.

In this study, we made an attempt to integrate the social aspects of individuals with their economic aspects. We drew from the perspective of embeddedness (Granovetter 1985) and tried to build on the same lines of thinking by arguing that the social and economic behaviors of individuals are interconnected and indivisible. Based on this line of argument, Uzzi (1996, 1997) demonstrated that the social and economic aspects of individuals are interlinked. Uzzi’s study is based on samples drawn from manufacturing firms that deal with relatively highly specialized products. In these circumstances, a breach of a contract by either party would affect the business. It is also viewed that economic performance is a precursor to judge whether a buyer and supplier can be relied on. This articulation of the buyer and the supplier once again invokes the dominance of economic behavior over social relationships. Thus, the argument presented by Uzzi falls in line with institutional economics. Therefore, in this study, we made an attempt to build a social cover around an economic activity in the context of a small business owner and supplier. The small business buyer–supplier segment is largely ignored even in domains such as economic sociology. Therefore, in this study, we made an attempt to fill the gap by demonstrating that even in such small economic exchanges, relational factors dictate economic transactions.

We drew upon subjective notions of buyers’ relationship with their suppliers. Using those notions, we tried to understand as to what kind of perceived relationship exists between the buyer and the supplier. During our data collection, constructs such as contract, caste, trust, and communication (Tantoush, Lettice, and Chan 2009) emerged as core themes. Based on Uzzi’s (1996, 1997) ethnographic evidence in terms of narratives to develop a broad understanding of the buyer–supplier relationship, in this study, we applied the grounded theory

method (Glaser and Strauss 1967; Strauss and Corbin 1990), and attempted to present respondents’ answers in a narrative form.

This paper is organized as follows: Introduction, Small Businesses, Theoretical Framework: Embeddedness Approach, Embeddedness of Business Relationships, Research Methodology, Findings, and Concluding Remarks.

Small Businesses

Small businesses have been regarded as means of better resource allocation and income distribution in poor countries as they employ more labour than do capital-intensive larger firms (You 1995). Small entrepreneurs in the United States (Petersen and Rajan 1994), Central and Eastern Europe, Russia (Gibb 1996), China and Japan (Vepa 1988), and India (Liedholm and Mead 1999) have contributed largely to the growth of their economy. Small businesses are future giants of an economy (Petersen and Rajan 1994) as they contribute nearly 38.5 percent of the Gross Domestic Product (GDP) and employ half of the workforce in a country. During late 2000, similar trends were observed in small business segment (Carree and Thurik 2010, p. 557).

If we look at the global small business sector, Japan and Italy have, comparatively, a larger small firm sector among the developed countries. Japan’s example suggests that strategies of larger firms can significantly influence the viability of small firms, whereas the Italian example shows the importance of local institutions. More similarly to the Italian Experience, China had adopted the “The Four Local” strategy, which entailed local raw materials, local skills, local finance and local markets. This strategy helped China to boost its business activities (Marton 1999). Small businesses in Japan and Italy, as against the economic theory^{2,3} of inter-firm interaction, emerged with new networks or inter-personal cooperation. By taking the example of the Japanese (sub-contract system) and Italian industrial (industrial district) integration model, You (1995) argues that if inter-firm cooperation is more widespread, small firms can flourish. In a modern economy, emergence of small business networks in the form of decentralized structures or sub-contracting is a

²In India, the net small business growth in terms of annual mean growth rate of employment has been 16.1 percent (Liedholm and Mead 1999).

³Theory of inter firm-cooperation suggests that interactions between firms take place only through anonymous market transactions as per the principle of competition (You 1995).

rising phenomenon (Gerlach 1992; Perrow 1993, p. 111) and is inevitable in today's business scenario (O'Donnell 2014).

In India, within non-agricultural business ecology, the majority of small businesses operate throughout the year in particular business premises. Seven areas were identified to be major non-agriculture business establishments (Government of India 2005). Among these, in both rural and urban settings, retail trade (41.83 percent) accounts for a large number of business establishments, followed by the manufacturing sector (23.28 percent), which accounts for the second largest number of economic activities (Government of India 2005). The first feature of India's business ecology is its rural and urban divide of business activities. In the rising global economic scenario, India's small businesses (employee sizes of 1–10 and 10–49) are faced with constraints of various kinds including those related to financial and human resources, and as a result their performance was worse during 2006–2010 than during 2000–2005 (Das and Das 2014).

India's business segments are deeply rooted in its religious and historical social stratification. Peculiarly, India's small- and medium-size businesses cannot be understood devoid of social characteristics involved in them. One of the interesting macro-features in India's business sector is its caste group-based ownership of small businesses. Upper caste groups own a large number of business activities in the country. It was revealed in the Economic Census (Government of India 2005) that just the backward caste groups, such as Scheduled Castes (SC) and Scheduled Tribes (ST), own around 12 percent of the small businesses, though they represent 25 percent of India's total population (Census 2011). Moreover, in recent times, their ownership size is shrinking further (Deshpande and Sharma 2013). It is interesting to note that such changes have occurred because of a close networks formed among businesses held by upper caste Hindus. This close social grouping of business activities among members of one caste may prevent entry to those of another caste (Gupta and Levenburg 2010). This is probably one of the reasons as to why historically India had low entry rates for the formation of new enterprises (Ghani, Kerr, and O'Connell 2014a, 2014b). However, as is evident today, raised education levels and urban agglomeration are factors that are boosting the entry of new entrepreneurs into India's business domain (Ghani, Kerr, and O'Connell 2014a, 2014b).

Theoretical Framework: Embeddedness Approach

Objective versus subjective interpretations has been a long contested subject matter. For Weber individuals' interpretations of economic terminologies is not void of subjective judgment (1947, p. 158). Primarily, individuals' subjective interpretation of the world stems from stories and conversations that individuals come across in day-to-day life. This denotes an interactive social system implying that the meaning construction of conversations limits an individual's capacity to visualize the objective meaning attributed to certain commonly used constructs. This further indicates that economic action of individuals cannot be explained with reference to individuals' economic motives alone (Granovetter and Swedberg 1992, p. 9). Therefore, in analysing individuals' notions on economic behavior, non-economic actions need to be kept in view (Weber 1947, p. 159). Isolating individuals from social fabrication and treating their economic actions away from social web of behavior give rise to cunning and self-centric individuals.

The exchange relationship between the buyer and the supplier seems to be a clear economic action; in reality, however, it is a socially embedded action. In this connection, Parsons and Smelser (1956) view individuals as being surrounded by sociological institutions. "Family" is the very first institution that every individual is exposed to, and it helps shape social consciousness. It is this very social consciousness that continues to influence all actions of individuals. Even in the case of plain economic exchange, social consciousness plays a vital role in subjective interpretations of apparent objective notions, such as in economic exchange. This is where the work of Granovetter and Swedberg (1992, p. 9), reflects upon how an individual's every behavior is embedded in the social world.

Embeddedness of Business Relationships

Most importantly, the true characteristics of embeddedness could only be understood by taking a particular context into account (Halinen and Törnroos 1998). Embeddedness in the business world represents an interactive structure among individuals or businesses (Halinen and Törnroos 1998). As is evident from contexts such as those related to Italy and Taiwan, more context-sensitive factors for each individual economy are necessary for precisely explaining economic structures because these factors emerge

historically in different societies (Orru 1991). Historically, it is viewed that bazaar economies of the Eastern world make information a costly commodity, however, Geertz (1978) concedes that to gain access to any piece of information it is essential to develop personalized relationships in a bazaar economy. In line with the logic of bazaar economy, small business owners strive to develop a close relationship with their sales persons (suppliers) to gain access to strategically important pieces of information.

Primarily, it is quite well established that an activity such as business or entrepreneurship begins with interactions (Greve and Salaff 2003). Indeed, such people-centric approaches bring in more sociological explanations for the creation and sustenance of a business. As is further evident in Italian industrial districts, regular interactions and meetings among competitors and other business parties in different forms of social gatherings emanate trust among interacting parties (Harrison 1994). Often, such interactions facilitate the exchange of new ideas. By juxtaposing small business performance, and social capital, it was viewed that even weak forms of social networking are truly beneficial for new small firms, whereas strong forms of networking are obviously beneficial in the case of older small firms (Stam, Arzlanian, and Elfring 2013).

As uncovered among cross-industry groups in Japan, close commitment and communication between buyer and supplier are the leading factors in a firm's innovative strategy development (Fukugawa 2006). Importantly, as observed in economies such as the United States, Japan, and Korea, an open conversation between the parties is essential in attaining trustworthiness in an exchange relationship (Dyer and Chu 2003). This is simply because a social logic can predict the outcome of a business exchange through its own calculability in contexts, as happens in China (Chung and Hamilton 2001). The very first thing that Chinese who engage in a small business with other people would attempt to do is to classify these people as outsiders and insiders using social logic as a way to minimize possible threats of dealing with absolute strangers (Landa 1981).

To understand India's business and entrepreneurial aspect, one must almost inevitably take a note of India's cultural belief (Dana 2000a). This is quite evident in the usage of religion-

specific expressions. As is evident in the work of Dana (2000a, 2000b, p. 20), this is part of the Bazaar nature of Eastern economies. The Hindus worship Rama, Shiva or Krishna, and other gods and goddesses whereas Islamists worship Allah as their source of faith and belief. This occurs commonly in day-to-day transactions in emanating faith between two parties. Among small businesses run by Turkish ethnic minorities, it was observed that commonly shared religious values emanate trust among trading parties (Altinay, Saunders, and Wang 2014).

Economic actions are not stand-alone acts of individuals, rather, economic actions fall within the realm of perceived social world of individuals. Taking the embeddedness approach to understand interactions between social and economic actions of individuals, we attempt to explore control of social actions over economic actions in the context of independent buyer and supplier relation within small business. We use narratives as data to demonstrate how embedded economic life is within a perceived social world of individuals. As Weber observes, subjective interpretations are key to explaining objective reality (Weber, 1947, p. 158).

Research Methodology

In this section, we briefly describe the place of the study, data collection, and analysis procedures.

Region of Study and Rationale

Data collection was performed in Udupi, a small city in Karnataka, India. Udupi has a historical lineage of its own kind. Popularly known as a temple city, Udupi has given birth to one of the Hindu religious cults, *Dvaita* (dualistic) school of Philosophy (Founder father, Madhvacharya 1238–1317)⁴ in 13th century AC. Since then, the city has been considered to be one of the most famous tourist destinations. The city's entire urban space is surrounded by temples and *Mathas* (monasteries) (Bhatt and Gopal 2006, p. 370). In recent times, Udupi is also surrounded by several small- and medium-sized manufacturing firms. Udupi city resembles a small business hub and consists of varied small business activities, in retail, wholesale and small-scale manufacturing (Central Statistical Organization, 2008).

⁴He is the founder of *Dvaita* (dualistic) School of Philosophy and Religion. Accessed on http://dvaitavedanta.files.wordpress.com/2007/10/madhva_basics.pdf.

Udupi was chosen for the study mainly for two reasons: (1) prior research experience in the area and the familiarity with Kannada (one of the authors is a native speaker of Kannada, the language spoken in this part of the country), (2) Udupi's unique institutional structure including its industrial, financial, educational and religious institutions.

As a small city Udupi appears to be a unique setting with a long lineage of spiritual and religious institutions. In a comparative sense, Udupi also stands out to be a very forward-looking small city with matured industrial estates around the city. If we put together all varieties of businesses, in 2012, there were 9,467 business units in Udupi. The city also consists of six large-scale private and public sector units. The city primarily exports products such as cashew kernels, plastic, fish net, fish meal and oil, and frozen fish. From the financial front, Udupi gave birth to two nationalized banks: the Corporation Bank and the Syndicate Bank. Today, it houses 187 commercial banks, 15 rural banks and 34 co-operative banks (MSME-Development Institute, 2013). Although at present conventional business entities, such as the tile factory, sugar factory and beedi industry, are losing their significance, service sector industries, including those related to communication, real estate, housing, hotels, and restaurants, have witnessed an impressive growth in Udupi (Government of Karnataka 2008). Its connectivity to other geographies including Kasaragod (in Kerala state), Mangalore, Goa, and Mumbai makes Udupi business friendly and well suited for the regular inflow and outflow of commodities.

Comparatively, as per the 2004–2005 data, Udupi city accounted for INR 1,879.04 Per-Capita Consumption Expenditure (MPCE) (Government of Karnataka 2014). This number is higher than the MPCE of some of the large cities of India, such as Chennai (INR 1,596), Greater Mumbai (INR 1,570), Kolkata (INR 1,520), Jaipur (INR 1,048), and Agra (INR 1,393). However, some of the small cities of a similar size, such as Kurukshetra (INR 2,851) and Rajnandgaon (INR 1,934), have recorded a higher MPCE than Udupi has. The MPCEs of small cities such as Thiruvananthapuram (INR 1,867) and Ludhiana (INR 1,835) are quite comparable to that of Udupi (National Sample Survey 2007).

On the demographic characteristic front, as per the 2011 census, the population of Udupi was 125,350. Udupi city ranks among the top cities in literacy with 93.89 percent of the popu-

lation being literate. In a comparative sense, Udupi city is quite ahead of even-larger cities such as Nagpur (93.13), Pune (91.61), Chennai (90.33), and Bangalore (87.67) (Census 2011). It is also observed that the higher the education level, the higher would be the chances of people participating in entrepreneurial activities (Ghani, Kerr, and O'Connell 2014a, 2014b). This is quite evident in the Udupi brand of restaurants, a business that is flourishing worldwide. The majority of people in Udupi city are the working class, primarily involved in non-agricultural activities. In 2004–2007 Udupi had witnessed a slow growth in employment (1.6 percent) as compared to the overall state growth (2.5 percent). Interestingly, about 96 percent of Udupi's population was engaged in full-time employment (Government of Karnataka 2008).

Data Collection and Analysis

Having chosen a place for data collection, we adopted a probing method using an unstructured data collection schedule (Appendix 1). As opposed to hypothetic-deductive approaches of quantitative studies, qualitative studies provide a detailed description of an entrepreneurial environment that accounts for cultural, social, political, and relational elements of a given business and individual context (Dana and Dana 2005). Also, qualitative research brings out narratives of the respondents that provide readers with more specific perceptual data (Dana and Dana 2005). In qualitative research, one of the essential features is to compare emerging concepts with those of the extant literature and further establish a comparative and contrasting linkage based on narratives (Eisenhardt 1989).

Before we interviewed the respondents, we asked them to recollect supplier details, not necessarily the most frequent ones; rather any supplier whom they thought supplied products of any kind to their shop. In addition, respondents were told to focus on suppliers who had supplied them products and still continue to do so. We explained the word *supplier* to them by drawing a similarity with that of a sales person, dealer, wholesaler and manufacturer. Since the enquiry pertained to the buyer's relationship with suppliers, the respondents were asked to recollect their interactions and meetings with the people whom they considered as their prominent suppliers. During the interview, although some respondents did not reveal details of their suppliers, they constantly referred to those suppliers with whom they share a certain degree of

knowingness. This constant reference helped us to understand that the data were authentic. The point of contact for a supplier has always been the owner of the small business (buyer). Interactions of representatives of suppliers have therefore always been with the owners of small businesses. All respondents in the study were men, and they virtually owned all shops and carried out all business deals.

Because small firms have a varied product range, they generally may have more than one supplier. However, small business owners whom we interviewed had chosen one or two suppliers as their prominent supplier(s). For example, in general, a barber will look out for a supplier who sells essential items such as soap, foam, powder and other cosmetic products, and a restaurant owner will want to have a supplier who sells essential items such as grocery and vegetables. When restaurant owners talked about their suppliers, they kept these products in mind whereas responding to the interviewer's questions. Importantly, the businesses that were passed on to the next generations by their ancestors already had their set list of suppliers. This helped the new entrepreneurs to continue doing business with the already existing suppliers. The new group of business owners, who established businesses on their own, met their suppliers through third party referral systems or through a known personal contact or they used their own knowledge to identify a suitable supplier.

We initially started our interview with a broad theme, that is, contract relationship between the buyer and the supplier, which in turn led to newer themes (Figure 1). Then, using ATLAS.ti software, we coded the data using open code, axial code and selective code principles (Figure 1). This process helped us to understand how various categories and subcategories were linked (Eisenhardt 1989). We then

used narratives to carefully develop the argument. We simultaneously continued performing data collection, data transcription into a Microsoft document, data labeling (open code), and identification of broader categories (axial code). Overall, we interviewed 57 small business owners in Udupi (Appendix 2), and realized that data saturation was attained by the 50th interview. However, to further cross-check and strengthen our findings, we continued to interview seven more business owners. We started the data collection process in May 2011 and continued for 6 months, and we conducted the last interview in January 2012.

Findings

The findings of the study are discussed under four broad themes: (a) Contractual relationship, (b) Strategic information sharing, (c) Caste as a proxy, and (d) Trust factor.

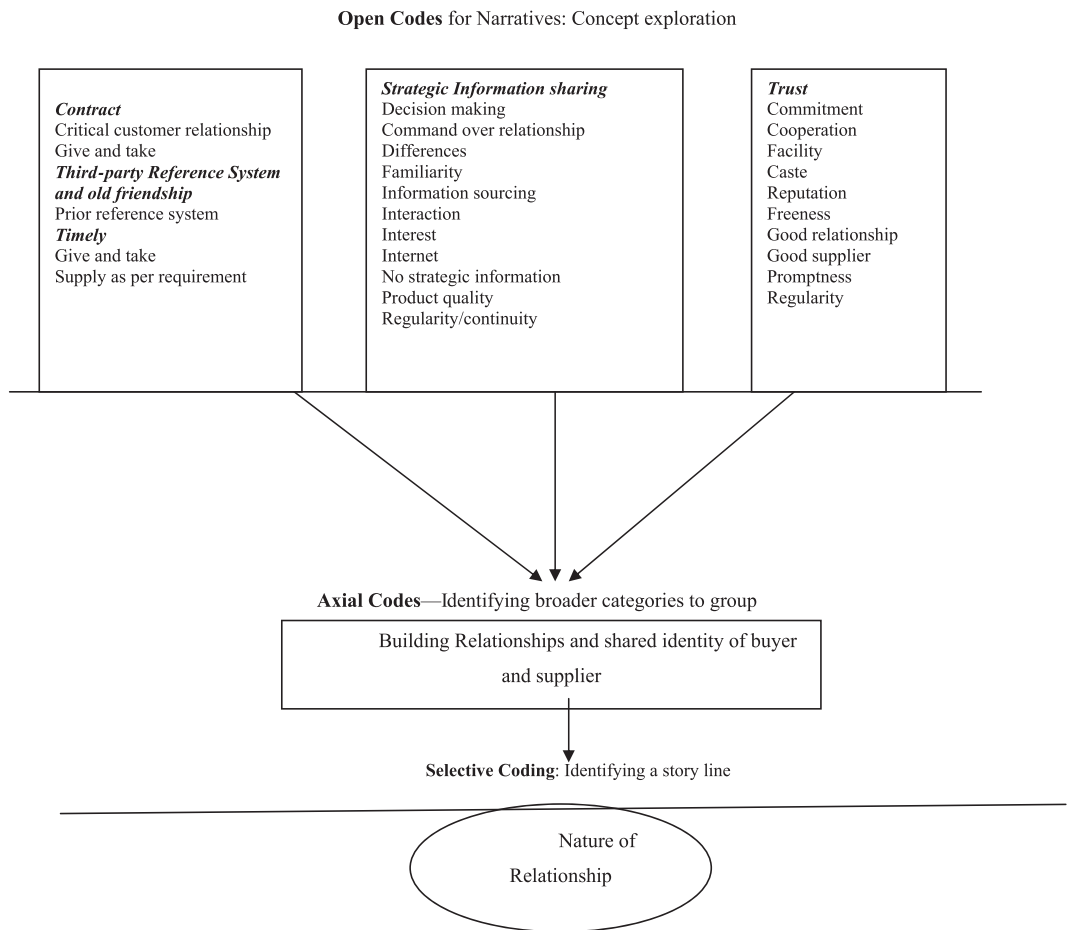
Contractual Relationship Nature of the Contractual Relationship between the Buyer and the Supplier

In general, the idea of a "contract" comes into existence to create a compelling environment between two or more than two parties with appropriate systems devised to ensure the completion of an accepted role in a give-and-take activity. This becomes quite vital in an exchange involving a high degree of uncertainty and risk.⁵ This alone is sufficient to explain why a contract becomes necessary in certain cases and why it is unnecessary in certain other cases. Given this brief background for "contract," in this study, we probed to ensure whether the practice of entering into a contract—written or oral—prevails among small business owners. The first round of interviews involving franchises⁶ and stand-alone businesses revealed that

⁵Classical economists view a "contract" as a system that is carefully worked out with all future contingencies in place, which provides the parties with a legal framework with court ordering as a solution for breach of contract. This group of thinkers discards the possibility of personal-level resolution for any disagreements that may occur between parties in the course of business. To make this more progressive, neo-classical economist introduced the possibility of mediation in the contracting. Later thinkers introduced the idea of relational contracting against classical and neo-classical views (Barnett 1992; Macneil 1974-as cited by Williamson 1985). As a further progression, Williamson in his series of works defines contract as a mixed product, both transactional and relational, depending on the degree of dimensions (frequency, uncertainty and asset specificity). In recent years, economic sociologists (mainly Granovetter and Uzzi) describe a contract as a system embedded in an ongoing interaction between people.

⁶Franchise business included branded watch sales and services, telecommunication products, gas services, fertilizers and cement.

Figure 1
A Brief Description of the Data-Coding Procedure



the former perceive a higher risk and hence entered into written contracts with their suppliers. Based on these initial revelations from the data, franchise businesses were not investigated further because a written contract provides an essential structure that does not allow the parties to deviate in their business transactions. On the contrary, an unwritten contract keeps options for transactions with other parties open for both groups.

As is evident from one of the responses, “word of mouth” in an act of business exchange between two parties is crucial. The course of interaction is simpler, and may take place at the business premise of either party or at a neutral place. The idea of a contract is so fluid that it does not legally or invisibly bind the parties for

an exchange. As there is no uncertainty involved in the transaction, it becomes obvious to rule out any form of serious discussion on the topic. However, it is important to examine the nature of the relationship before arriving at a conclusion. We begin our exploration by presenting the following narrative of a respondent, which sets the initial tone on the nature of the contract between the buyer and the supplier:

Our way of striking contracts is simple; we arrive at timely contracts through word of mouth. At times, it may be a face-to-face conversation or a telephonic conversation. Whenever we are in need of goods, we talk to them and give them a brief description of the product that we

need. Our relationship is such that just one phone call is enough for them to send the products that we need.

The point to be made here is that the contract that is in an implicit form, known only to the two parties concerned, does not have any enforceability; hence, either party can refrain from fulfilling the oral contract. However, from the narrative, it is clear that each party fulfils its promise as a gesture of honor to its commitment to the person(s) they deal with.

Despite noting that transactions performed by small business owners do not involve any serious uncertainty and risk, it has to be noted that there is a certain degree of cost involved in the whole process. For instance, if there is an order placed by a buyer (e.g., a cloth shop merchant ordering 100 silk saris) from Udupi with a seller in Bangalore (the distance between Bangalore and Udupi is 400 kilometres), if the product arrives and the party at Udupi rejects it, the product has to be sent back to Bangalore. This implies a serious loss to the supplier who supplies products without having any visible contract with the buyer (a retail cloth merchant) at Udupi. This instance not only affects the business credibility of the buyer but it also jeopardizes future transactions with this particular supplier as well as with the other suppliers who may be known to the first supplier.

It also becomes clear that the nature of exchange between the supplier and the buyer may be such that it does not warrant a situation where a written contract becomes a vital aspect of a particular business. As viewed by a respondent who has a textile business, because of the availability of multiple suppliers for the product, entering into a written contract with one supplier may curtail the opportunities⁷ to explore options prevailing outside a contractual boundary.⁸ However, this does not mean that there is an abrupt switch-over from one supplier to the other. As he/she also views, there is continuity in business ties with the same supplier for several years.⁹

Given the kind of transaction that takes place between us (buyer [respondent]–supplier), there is no need to have a written contract. We are known to each other for many years; we just cannot afford to jeopardize the relationship. Whenever we need products, we work together on an acceptable price for a particular dealing. Not having a written contract may help us to see different patterns of cloth available with other textile suppliers.

Two points need to be noted here: (a) if suppliers anticipate a serious loss, they might take precautions by insisting on deposits or advance payments from the buyer. Instead, what needs to be looked at is a form of implicit trust that prevails between these two parties. This implicit nature of trust is indicative of the successful completion of a contract between the two parties. This can be termed “workable trust.” (b) A buyer would essentially like to keep his/her options open. However, this essentially does not translate into a situation where the buyer would switch over to a new supplier. Instead, preference to continue to deal with one supplier seemed to be an implicit philosophy.

An obvious view is that small businesses are expected to act as links between the producer and the end consumer. In this case, some thinkers might like to assume an apparently obvious point that suppliers look out for sellers for their products. In search of a middle agent between the producer and the end consumer, it is often assumed that suppliers take a risk by trusting the middle agent, that is, a small business owner. However, it is to be noted that there are numerous small business owners who are also equally seriously in search of a worthy supplier. Therefore, the switch-over cost for a supplier seems to be almost nil. This view that the supplier-and-buyer relationship is independent clearly nullifies a relational-based contract. Despite such assumptions, there are relational elements that provide an impetus to a steady

⁷ “[S]mall businesses are concerned that increasing commitment to particular suppliers may entail a greater degree of risk than they are willing to take” (Khoja and Kauffman 2012, p. 31). In other words, by perhaps fully entrusting their purchases of a particular commodity to one supplier, they become totally dependent on that supplier for continued supply of products.

⁸ Uzzi (1996) calls this embeddedness *till the point of threshold*. Too much of embeddedness beyond the point of threshold in the network or relationship may curtail exposure to anything that lies beyond the network.

⁹ Quite a significant number of supplier–buyer relationships have been found to have a high level of trust and informal commitment (Mudambi and Helper 1998).

and continued relationship between the supplier and the buyer.

Interestingly, there are social proxies that create a trustful relationship between a buyer and a supplier. According to one grocery shopkeeper, a construct, such as caste, plays an important role in the context of a small city.

In my case, my rice supplier belongs to my caste. This fact (buyer–supplier belonging to one caste) makes things easier between us. In this business (with reference to other suppliers), it is all about trust without which no business is possible. There are, of course, always small problems between us and them. But we do not make this a big issue; rather we make necessary adjustments at different levels and move on. We do not need to get into any written contract in this business. So far, I have not seen my suppliers cheating me in any sense.

If we emphasize risk as a defining element in a contractual relationship (Williamson 1985), we may tend to overlook the dynamics of contractual relationships involved in small businesses. Although a written contract is something that is rare, and is also considered unnecessary among small businesses, there are other issues that need to be taken into account. For instance, factors such as caste, as viewed by our respondents, become crucial in defining the beginning and the sustenance of an exchange between two parties who have similar interests—accomplishing the goals of their business activity. Small business owners in Udupi have been able to evolve their relationships with their suppliers more in line with the bazaar economy. As is evident in Dana (2007, p. 1), this kind of relationship can be termed a symbiotic relationship as against a contractual relationship.

For small-business owners, caste is more like a gate pass to access resources that are prevalent within the caste boundary.¹⁰ This also helps

business owners to build a certain degree of confidence in exchanges that take place between them.

Strategic Information Sharing

Suppliers' Voluntarism and Information Sharing

Sharing of information plays a key role in trusting a supplier: “the acquisition of information may be used to partially offset the risks inherent in granting trust or to complement the trust that exists in the relationship” (Gundlach and Cannon 2010, p. 413). In an exchange between two business parties, information on certain key issues, such as price variation for product/service, mobility or transport of goods, product quality, technical descriptions of the product and change in composition of the product's assembly line, become vital in dealing effectively with buyers (small business owners in the study). Importantly, a study reports that for independent department stores, obtaining a knowledge of these issues was the biggest challenge (Keep, Hollander, and Dickinson 1998). The supplier of a product or service is therefore expected to share this information.

The answer to the question “What can a piece of information do?” lies in the views of the respondents. For business owners, information from a supplier clearly means that there will not be any surprises relating to the product or service market. It only means that the information is critical for avoiding unexpected changes in the market. This allows small business owners to efficiently plan their future sales of goods and services.¹¹

My suppliers voluntarily offer their service to us on various market trends and trajectories. Since my suppliers inform us on all the market variations as far as supply of different commodities is concerned, we are not caught unawares by changes in the market. Usually, they inform us about

¹⁰As noted by Mehta, *HalariOswal Jains* in East Africa built a strong network of business communities from their own caste, implying a sharing and exchange of resources for each other's needs (Mehta 2001).

¹¹Exchange of quality information is possible only under circumstances wherein a buyer's perceived trust is high. Although in the opposite circumstances, as findings in a recent study reveals, “under lower trust circumstances, information exchange does not provide significant enhancements to performance. ... In all likelihood, under low trust circumstances, information generated through information exchange has less credibility and therefore may have little impact on behaviour” (Gundlach and Cannon 2010, p. 412). Therefore, a high degree of trust becomes the cornerstone.

the price change in products, change in production methods, and change in prices of inputs. Of course, price is such a factor that goes on increasing. Our supplier frequently keeps us informed about this.

Complementing the above view, other respondents opine that the information from a supplier serves as a credible and relevant input in making futuristic decisions. The most important concern of small business owners is to manage their business by lowering risks and other complications. In this regard, information becomes a key in planning for the future stock of products, and sales.

My supplier visits our shop every week and informs us about the market variations. They (suppliers) inform us about the price hike and its possible future implications. This helps us to acquire the stock of products in advance. They also give us some key information like how to manage sales when the stock of a particular product is less. As far as my experience goes, there was a price hike in this product only in the last year. There is no hike in this ongoing year.

When receiving information from suppliers, small business owners have to foresee the kind of information being expected by their customers. It thus becomes necessary to gain sufficient knowledge on various products and services, because buyers (small business owners) have to answer customers' queries. Usually, such knowledge comes from suppliers; of course, this does not imply that this knowledge may not emanate from sources such as family elders who were involved earlier in this business, friends and known social groups within a city vicinity and written or visual media.

Our customers ask us different types of information on product pattern, colour combination and new offers available in the market. When we can provide them with the needed information, they go away happily. My suppliers usually inform me about new offers or differences in colour paints.

A respondent views that their suppliers (often sales representative) come to their doorstep to

provide necessary information. It is important to note that "the criticality of the attitude and the supplier's compliance in the evolution of the relationship" (Gedeon, Fearn, and Poole 2009, p. 221) becomes vital, especially the supplier's employee and his/her attitude toward the buyer is important in deciding the direction and course of the relationship (Gedeon, Fearn, and Poole 2009).

I discuss with the company representatives. They come and give us the necessary information on a regular basis. Most of the time, I keep on asking them about different patterns in the product. They are very friendly with us. This friendly nature helps us to interact with them comfortably. They also introduce us to new products.

One buyer is of the opinion that there are elements that dictate the course of information sharing, for instance, a continued relationship with the supplier for a long time may boost the confidence of the supplier, which in turn ensures sharing of key information so as to help the buyer (small business owner/respondent) to plan his/her course of business activities. Continued relationships also empower buyers to control the situation if there is anything seemingly going wrong.

If our sellers irritate us, I know how to command them. It is all about continued relationships... My suppliers never hike the price of the product without giving me prior information. (Also) I get information well in advance.

It becomes clear that small business owners tend to trust their suppliers more if there is regular exchange of information between them. Information forms a basis for small business owners strategic planning of business and execution. Having agreed in general that information is a corner stone for a healthy relation between buyer and supplier, the discussion above clearly brought out a view that suppliers need to be proactive in providing necessary information to small business owners. This point raised a new question that What if suppliers do not volunteer to provide the necessary information to "small buyers"? Will this tempt these small buyers to look for new suppliers?

We will deal with these issues in the following section.

Non-Volunteer Suppliers and Compromising Attitude of Buyers

On the one hand, it is argued that the lack of information might lead to poor planning and execution of a business. On the other hand, because only small businesses are involved, one might even downplay the importance of strategic information as a crucial tool in business planning for small business owners. However, on the contrary, small business owners perceive information as a necessary input to formulate their plans. Having said this, what happens to a buyer-supplier relationship if the supplier is less active in providing the necessary inputs to small business owners?

An important issue in sharing key information, as one respondent views, is the lack of familiarity and comfort level at which buyers interact with their suppliers. In such a case, information flow is at risk, which may in turn affect the course of a business at a given point in time.

We are supplied with products from far-off places. This has two implications: firstly in the form of a delay in delivery of the product, and secondly, we, at times, could not understand the sudden rise/fall in the price of the product. When we notice a hike in the price of a product in the bill, we seek clarifications from our suppliers. Quite often, they do not inform us of such changes. We get most of the information from television.

They (Suppliers) inform us about market changes for different products. However, they often remain silent about market variations; they do not share any information. However, I do not think there have been any disagreements or fights between us concerning this matter.

Despite such weak responses from suppliers, small business owners did not easily wish to curtail business links with their suppliers. Instead, they seem to have had alternative sources in place or had identified other sources to access information. In the absence of obtaining timely information from the supplier, applica-

tion of the rule of thumb, guesses and predictions of their own kind seem to be instrumental. In this case, business owners preferred to bank on their own experience to make timely decisions.

Using my experience, I manage this business on my own. So far, I have 20 years of experience. That is enough to make any necessary strategic moves in my business (Ayurveda business). Therefore, I do not seek any sort of information from any external person.

In general, when there is a lack of information flow between suppliers and buyers, respondents view that their suppliers may try to cheat buyers by tampering with market-led margins on sale of goods and services. However, this view does not allow buyers to blame their suppliers; instead they view such practices as being common in business.

My suppliers do not inform us, even when the prices are low in the market, and they may quote a high price. We cannot help it. Such things are common in business.

Coupled with experience and modern technologies, such as the Internet, information can be easily accessed by small business owners. In such cases, it is recommended that business owners educate themselves through books, journals and magazines. It thus becomes clear that flow of information from suppliers to buyers, though paramount (Uzzi 1997), does not solely dictate the relationship between the buyer and the supplier. Small business owners had therefore identified their own methods and means to obtain information on the issues concerning their strategic behavior.

Books and TV advertisements are quite important sources of information for us as far as this business (utensils and metal merchants) is concerned. These sources help us to understand designs and patterns in the metal industry.

Small business owners seemed to be more concerned about maintaining their long-term relationship with their suppliers. The former did not seem to place great importance on receiving

information that their suppliers wished to proactively share.

Our suppliers provide good materials. On a regular basis, we ask them about prices of different commodities. There is a constant increase in prices of commodities like sugar. They tell us about the price when we go to their shop, but they do not voluntarily do so. We have no choice but to compromise with our suppliers. We have a long-term relationship with them; we cannot just end it for reasons of undisclosed information. I believe we still have a good relationship.

In both situations where information freely flows from suppliers to buyers and the other situation wherein the information flow is quite rigid, the relationship between two trading parties is very important. Taking information as a proxy to assess the strength of the relationship between small business owners and their suppliers may be a misleading proposition.

Caste as a Proxy

A notion such as “people like us”—Homophily—(Mcpherson, Smith-lovin, and Cook 2001, p. 416) can connect people through sociological characteristics such as gender, race, ethnicity, marriage and family friendship. The same feeling—“people like us”—(Mcpherson, Smith-lovin, and Cook 2001) continues to connect individuals on an economic front, too. Caste has been an inherent quality of the Indian society for several centuries. In essence, it means that the Hindu religion has subgroups, that is, there are four caste descriptions—Brahmins, Kshatriyas, Vaishyas, and Shudras. Each of these caste groups has further subgroups, within which there are many smaller caste groups. Although each group does not differ in totality, there are minor and major ritual practices that differentiate among these caste groups. Importantly, as per traditionally defined caste practices, India is known to have occupation-based caste divisions. In the present context, we made an effort to link caste characteristics to the supplier-buyer relationship, as emerged from the narratives.

“Caste” imposes selection-related restrictions in buyers’ choice of their suppliers. An alternative way of interpreting this view is that business owners tend to consider caste while

initially selecting a supplier. For instance, tendency of striking a business exchange with a supplier from the same caste within the barber community is quite apparent in research.

In our society’s shop (which supplies necessary materials for a saloon shop), we often do not find many varieties. However, we continue to buy products from there. Since we buy everything from our own society, there is no question of going in for a new supplier. In a way, we support each other and grow together. It is almost certain that individuals from any other caste would not want to venture into this business. Even if this does happen, they may not sustain their business for long.

As viewed by a respondent who belongs to the barber community, there is only a remote possibility of diverting supply linkage to other sellers. Caste as a factor often creates a communitarian feeling that generates a feeling of belongingness.

It is perceived that buyers tend to identify themselves with suppliers who belong to the same caste and vice versa; thus, caste as an identity may infuse a certain degree of faith and confidence in the minds of the buyer and supplier. According to a restaurant owner, the fact that he and his supplier were of the same caste, might have played a role right from the beginning.

My supplier belongs to my caste. When I started this business, I had very little money with me. My supplier told me not to worry. He offered to help me in terms of giving me as much credit as I wanted. This created an initial sense of loyalty towards my supplier.

Buyer is quite considerate of the fact that his/her supplier belongs to the same caste. It is apparent from the narrative that the small business owner perceived the help offered by a supplier based on caste considerations. This essentially means that caste creates highly intense sentiments.

It is to be pointed out that the buyer-supplier relationship is not a preplanned strategy. Apparently, it is coincidental that a person from the same caste selling a product may create a certain degree of comfort in a buyer (small business

owner), easing complications¹² that may otherwise emerge in the business. This is probably one reason why the relationship between buyers and suppliers of the same caste seems to be stronger and quite continuous. Although prevalence of the buyer–supplier relationship is quite evident, it has to be noted that a caste-based buyer–supplier relationship in small businesses is not a general trend. Caste as a component of social capital, on the one hand, it is argued that social networking or building of interpersonal relationships based on strong personalized characteristics is powerful enough to give birth to an entire industrial set-up as was evident in the case of Venza Po’s jewelry district in Italy (Gaggio 2006), on the other hand, it was observed among the Alutiiq people that social capital alone did not give rise to any viable commercial activities (Light and Dana 2013). However, Light and Dana (2013) concede that building social capital facilitates economic activity. In the case of caste, a kind of social capital, this is a given fact and also has a religious sanction. Hence, the challenge for buyers and suppliers is to embark and strengthen such existing shared identities. Shared sentiments, such as “my person,” and “person from my caste,” become quite prominent in at least supporting each other in difficult economic situations.

Having explored caste-based loyalty and trust between the buyer and the supplier, we set out to explore stand-alone trust. In other words, we examined “trust” as an explanatory variable, by trying to explicate the nature and implication of trust in a buyer–supplier relationship in a small business.

Trust Factor

Trust can be defined as the confidence level of the buyer in relation to a supplier’s reliability and integrity (Morgan and Hunt 1994). As articulated by Doney and Cannon, trust is a combination of credibility and benevolence. Credibility however refers to the extent to which a partner’s promises (written or oral) can be relied on, and benevolence may be viewed as a partner’s genuine interest in mutual gain and welfare of the party concerned (1997).

In the absence of a critical size of a transaction, small businesses cannot afford to adopt a governance structure. Therefore, importantly,

the kinds of goods and services being exchanged between the buyer and the supplier do not carry a greater risk of rejection. However, the context of these small businesses is such that they receive goods from a supplier who resides at different locations. This definitely includes a certain degree of transportation risk from one destination to the other, whereas the supplier faces uncertainty in terms of safety of the product and its payment if the product is supplied on credit; the buyer is also equally concerned about the timely arrival of the product. It is also important to note that, in certain cases, small business owners may have prior commitments with the end consumers to deliver the product on time. Any failure in this would tarnish a firm’s image, and thereby its reputation. It is in this context that one has to look at the implications of trust-based trade between a buyer and a supplier. This argument qualifies the point that there is a certain degree of uncertainty involved even in such small exchanges. It is under these circumstances that trust as a unit irrespective of its degree—weak form, semi-strong form, and strong form (Henry Xie, Suh, and Kwon 2010)—needs to be looked at as a core definer of the relationship between small business owners (buyers) and their suppliers. This is one reason why trust becomes a powerful tool to explore the antecedents of the buyer–supplier relationship, especially the buyer’s perceptions (Tantoush, Lettice, and Chan 2009). Putting this in perspective, trust can be viewed in two broad ways: negatively and positively. The former implies that accepting to trust a business party is also about exposing oneself to vulnerability. On the contrary, a positive outlook of trust is such that it does not view an individual as a self-interested seeker with guile, and hence, in this view, trust can be interpreted as an output of the relationship between the buyer and the supplier with neither party having control over the other’s actions (Goel and Karri 2006).

The significance of trust in business was well explicated by a respondent, who compared trust to a wheel of a vehicle without which a business cannot be sustained. One does not see any difference between the nature of trust existing between two parties in a business and that seen in general social relationships. One views this as being the same. This indicates that small

¹²Complications may include issues such as the quality of the product and timely delivery.

business owners do not seem to draw a line between usual human relationships and business relationships.

Our business runs on the wheels of two factors: trust and cooperation. Always all kinds of relationships begin with trust, so also does our business relationship. In the process of business, trust develops through our interactions that further leads to a personal rapport in the business, which explains the good relationship between us.

The beginning of a relationship with a supplier is often subject to a few conditions and preliminary tests. One way of establishing trust with small buyers is to offer them initial small-time credit facility. A time-bound return of credit might sow seeds of trust between two parties.

In the beginning, our suppliers wanted to test us, so they gave us some product with a little credit; once we repaid this fully, trust started building.

This is the reason why it is argued that trust may also emanate from previous experiences (Goel and Karri 2006). Once, sufficient trust is built between the buyer and the supplier, it becomes important to maintain this in business and strengthen this in the long run.

In my experience, trust in the relationship with the supplier is a result of continued exchanges—long-lasting strong ties—and prompt payment.

Overall, what we see in the discussion here, and as viewed by Hite (2005), is that this form of trust can be termed personal competency trust: “based on a history of dyadic economic interaction, network ties developed a direct, personal knowledge of and trust of each other’s competency. The personal competency trust was built over a time through repeated interactions, such that the routines and processes of the interaction became known, understood and expected” (p. 130–131).

Although, buyers’ trust toward their suppliers largely depends on the comparative performance of suppliers, what is quite important is that small business owners (buyers) tend to acknowledge the existence of a construct such as trust even in an apparently transaction-based

exchange indicating that once there is a preliminary establishment of the feeling of trust through a better performance, it takes a transactional relationship to the next level and transforms it into a relationship-based transaction ensuring a continuity in dealings. This is simply because, an economic transaction is often dictated by relationship or by personal alliance (Dana, Etemad, and Wright 2008). As against firm type or typical market economy of the West, markets in the East revolve around interaction between the seller and the buyer. There is always room for negotiation. This is where cultural and social elements emerge and further give rise to relational transactions (Dana, Etemad, and Wright 2004, 2008) and emanate trust in a transactional relationship.

It is important to note that an important construct such as trust plays a vital role in the entire process of building relationships and to an extent in developing a quasi-relational structure that is well controlled by a self-governance system by the parties in the contract. In fact, general behavioral traits such as the “...perceived benevolence...will increase over time as the relationship between the parties develop” (Mayer, Davis, and Schoorman 1995, p. 722). Accepting the middle range of altruism, where individuals resort to reciprocate what is being received by them, then, “long-term partners are likely to possess a detailed understanding of the inter-firm transactions...” (Martin, Mitchell, and Swaminathan 1995, p. 609). As explained by Gaggio (2006), this study also extends the meaning of trust as perceived by the actors themselves. Perceived or perceptual trustworthiness plays a pivotal role in the reduction of transaction cost (Dyer and Chu 2003).

Concluding Remarks

The absence of any legally enforceable or predetermined explicit commitment exposes the buyer to a certain degree of uncertainty and vulnerability. Despite this scenario, what is being observed in this study is that buyers will not want to break relationships with their suppliers even if the latter exhibit odd behavior. Probably, one reason for this is to expect a no-change scenario in behavior even in the new supplier relationship, implying the understanding that there may be symmetric behavior among the entire group of suppliers. This point does not necessarily downplay the importance of relationships in the form of established familiarity (Gulati and

Sytc 2008), trust (Mayer, Davis, and Schoorman 1995) with the volition to take risk.¹³ More prominently, even for a discrete market structure of this form, sociological elements such as caste and trust play a vital role in sustaining a business relationship for a long time. Within the realm of economic sociology, this study extends the work of Uzzi (1997) and argues that even the smallest retail, wholesale and manufacturing businesses are also likely to build their exchange relationship with their trade partners based on social cues rather than on economic performance alone. The present study also adds to the existing substantive view that personalized exchange is a pivotal characteristic of a bazaar economy implying a cultural and a social integration of people who participate in an act of exchange (Dana 2002, p. 10; Dana 2005, p. 7). This is because relational elements in every form of exchange stem from the historical foundation of a given business environment (Dana 2000b).

It becomes clear from the above discussion that there are interpersonal and trust-based beliefs among small business buyers that regulate their transaction behaviors. As a recent study argued that even in the context of the end consumer and retail seller (e.g., farmer and fertilizer seller), there are interpersonal characteristics that lead to the development of trust between the seller and the end user (Waheed and Gaur 2012). Hence, it is not surprising that social cues are instrumental in initiating individual relational factors that lead to the exchange relationship between a small buyer and a seller.

Importantly, the genesis of these views of small business owners may have roots in their family. When we view a family as a hub of interactions among various actors for multiple reasons, including economic and social, there comes a greater understanding and attachment towards their family members implying that “relationships are at the heart of family” (Cooper, Upton, and Seaman 2005, p. 244). This view implies that relationships gain importance in the business sphere too. Hence, these chains of interaction right from the family to the buyer-supplier are embedded in their ongoing social life.

Hite (2005) viewed that embeddedness can be understood through two core parameters: (a)

first, it is important to observe probable evidence of the influence of social relationship on economic actions of a business unit (Uzzi 1996, 1997) and (b) second, the researcher has to observe a possible relational exchange as opposed to a neo-classical contractual relationship (Williamson 1973, 1985). If these two conditions are satisfied, one can argue that there are embeddedness in an exchange relationship between two or more parties in a particular trade (Hite 2005). As is evidenced, small business owners perceive their relationship with their supplier to be embedded in their ongoing interactions based on sociological characteristics. This explicates an important cultural element that individualistic and collectivist approaches in the life of individuals may shape their behavior in economic persuasion. This is because people with collectivist values might tend to have economic dealings based on informal trust rather than on individualistic cultures where people tend to exercise caution and tend to guard against uncertainties (Goel and Karri 2006).

This research contributes to economic sociology by extending the logic of embeddedness to a discrete exchange market scenario. We have given ample evidence to clearly show how social constructs control the economic actions of individuals, whereby we conclude that even in a discrete small business exchange context, personal relational exchange scenarios prevail.

Although our study establishes that even in arm’s length transactions sociological explanations become pertinent in providing an insight into economic transactions, the findings cannot be generalized to one-time transactions. Our study does not include narratives of suppliers to compliment or contradict stories of buyers (small business owners). Future research must focus on presenting stories from both buyers and suppliers to develop a holistic understanding of arm’s length economic transactions that could be based on sociological explanations. In addition, the present study clearly demonstrates the presence of a structural embeddedness between the buyer and the supplier. Future studies must place emphasis on the application of concepts such as cultural and political embeddedness in similar contexts.

¹³This is because speaking in quite economic terms “a firm can save time and opportunity costs by establishing supplier relationships with the future in mind” (Beekman and Robinson 2004, p. 72).

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Appendix 1—Open-Ended Data Collection Schedule

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1. Whom do you consider as your prominent supplier?
 2. Why does this particular supplier become prominent to you?
 3. What are the characteristics that put this supplier on top of every other supplier?
 4. Did you strike a contract with your supplier? If yes, tell us the nature of the contract? If no, tell us about your way of handling the business with your supplier.
 5. Did you already have a supplier or did you have to find one?

Questions that evolved through probing

6. Describe your relationship with your supplier.
 7. Tell us about the factors that affect your relationship.
 8. How often do you interact with your supplier?
 9. Does your prominent supplier share crucial information with you on strategic aspects of the business?
 10. What is the role of social constructs such as caste and trust in a buyer-supplier relationship?
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Appendix 2—Details of In-Depth Interviews: Basic Features of Respondents' Businesses

| Sl. No. | NIC 4 Digits ^a | Type of Business Description as per NIC 2 Digits | Actual Business | Business's Birth Year | Number of Employees ^b |
|---------|---------------------------|--|--|-----------------------|----------------------------------|
| 1. | 4771 | Retail and Wholesale | Tailoring and Cloth Sales | 1984 | 2 |
| 2. | 4752 | Retail and Wholesale | Hardware and Fittings | 1941 | 2 |
| 3. | 4752 | Retail and Wholesale | Glass Cutting and Sales Glass Materials Building | 1970 | 1 |
| 4. | 1071 | Manufacturing | Bakery Food Item | 1998 | 14 |
| 5. | 5610 | Accommodation and Food Service Activities | Restaurant | 2004 | 24 |
| 6. | 4761 | Retail and Wholesale | Gift and Fancy Store | 2005 | 1 |
| 7. | 4789 | Retail and Wholesale | Electronic Services and Sales of Electronics | 1990 | 3 |
| 8. | 4759 | Retail and Wholesale | Consumer Durables Electrical Sales | 1986 | 12 |
| 9. | 4752 | Retail and Wholesale | Glasses and Mirror | 1944 | 1 |
| 10. | 4321 | Other Service-Related Categories | Electrical Contractor and Marriage Decoration | 2007 | 9 |
| 11. | 1811 | Manufacturing | Printing and Binding | 2007 | 2 |
| 12. | 4773 | Retail and Wholesale | Jewelry Work and Sales | 1968 | 1 |
| 13. | 9609 | Other Service-Related Categories | Saloon Shop | 2006 | 1 |
| 14. | 7420 | Other Service-Related Categories | Photo Studio | 1925 | 2 |
| 15. | 4763 | Retail and Wholesale | Bicycle Shop (Multi-Brand and One Dealer Supplies) | 1942 | 8 |
| 16. | 4763 | Retail and Wholesale | Sports Goods (Non-Franchise) | 1989 | 1 |
| 17. | 5510 | Accommodation and Food Service Activities | Hotel/Lodging | 2002 | 24 |
| 18. | 4773 | Retail and Wholesale | Jewelry Marketing | 1995 | 1 |
| 19. | 4762 | Retail and Wholesale | Cassette Sales | 1985 | 7 |
| 20. | 1030 | Manufacturing | Pickles Sales | 2000 | 2 |
| 21. | 4662 | Retail and Wholesale | Metal Shop | 1910 | 6 |
| 22. | 4721 | Retail and Wholesale | Vegetable Shop | 1984 | 4 |
| 23. | 4763 | Retail and Wholesale | Sports Goods (Non-Franchise) | 2000 | 2 |
| 24. | 4761 | Retail and Wholesale | Books and Stationary | 1980 | 1 |
| 25. | 1010 | Manufacturing | Chicken and Mutton Stall | 1970 | 3 |
| 26. | 4751 | Retail and Wholesale | Readymade Garments and Kids Wear | 2003 | 8 |
| 27. | 4773 | Retail and Wholesale | Bangles Stores | 1948 | 1 |
| 28. | 4759 | Retail and Wholesale | Furniture Shop | 1997 | 4 |
| 29. | 1071 | Manufacturing | Sweets Shops | 1998 | 14 |
| 30. | 4721 | Retail and Wholesale | Grocery and General Items | 2005 | 1 |
| 31. | 4771 | Retail and Wholesale | Footwear | 2006 | 1 |
| 32. | 4762 | Retail and Wholesale | Cassette/CD Selling Business | 2006 | 3 |
| 33. | 4530 | Retail and Wholesale | Automobiles | 1935 | 2 |

Appendix 2 Continued

| Sl. No. | NIC 4 Digits ^a | Type of Business Description as per NIC 2 Digits | Actual Business | Business's Birth Year | Number of Employees ^b |
|---------|---------------------------|--|-------------------------------------|-----------------------|----------------------------------|
| 34. | 4752 | Retail and Wholesale | Marbles and Floor Materials | 2006 | 30 |
| 35. | 4759 | Retail and Wholesale | Mattresses, Pillows, and Bed Sheets | 2000 | 5 |
| 36. | 4530 | Retail and Wholesale | Automobile Spare (Generic) | 1985 | 2 |
| 37. | 8219 | Other Service-Related Categories | Photocopying and Stationery | 2005 | 5 |
| 38. | 9602 | Other Service-Related Categories | Ladies Beauty Parlor | 1999 | 2 |
| 39. | 5630 | Accommodation and Food Service Activities | Wine Shop | 1975 | 4 |
| 40. | 4761 | Retail and Wholesale | Fancy Store: Handy Crafts Making | 1985 | 2 |
| 41. | 4764 | Retail and Wholesale | Toys and Bangles | 2006 | 2 |
| 42. | 1071 | Manufacturing | Bakery Items | 1992 | 3 |
| 43. | 4741 | Retail and Wholesale | Aquarium and Mobile Sales | 2005 | 2 |
| 44. | 4759 | Retail and Wholesale | Musical Instrument Repair and Sales | 2001 | 1 |
| 45. | 4772 | Retail and Wholesale | Ayurveda Products | 1986 | 1 |
| 46. | 4530 | Retail and Wholesale | Automobile Spare Parts | 1993 | 2 |
| 47. | 4759 | Retail and Wholesale | Utensils and Metal Merchant | 1910 | 7 |
| 48. | 4752 | Retail and Wholesale | Hardware Paints | 2006 | 1 |
| 49. | 4741 | Retail and Wholesale | Computer Sales and Services | 2000 | 5 |
| 50. | 4772 | Retail and Wholesale | Medical Store | 2000 | 2 |
| 51. | 5630 | Accommodation and Food Service Activities | Bar Restaurant | 1975 | 15 |
| 52. | 4759 | Retail and Wholesale | Water Purifier Equipment | 2001 | 6 |
| 53. | 5911 | Manufacturing | Video, Shooting and Mixing | 2006 | 2 |
| 54. | 4773 | Retail and Wholesale | Flower Shop | 2006 | 1 |
| 55. | 1811 | Manufacturing | Printing Press | 1993 | 5 |
| 56. | 4759 | Retail and Wholesale | Refrigerator for Industries | 2004 | 2 |
| 57. | 4721 | Retail and Wholesale | FMCG Products | 2005 | 2 |

¹Source: Primary data.

²NIC: National Industrial Classification.

^aNIC 4 digits are used as reference points and description of NIC 2 digits is given in table for broad classification of businesses.

^bNumber of employees includes the owner of the business as the size of the business appears to be small, business owners themselves manage all the activities.