

82497  
P.O.  
8.05.81.

UNIVERSITY OF QUEENSLAND

AN ANALYSIS OF COMMERCIAL AND NATIONAL  
PROFITABILITY OF A SMALL BUSINESS ENTERPRISE

*(A Case Study of a Small Business Project  
in Australia and Sri Lanka)*

A thesis submitted to fulfill the partial requirement for  
the Degree of Master of Business Administration  
in the Department of Management at  
the University of Queensland

by

W.A. Wimalatissa

82497

1980

ABSTRACT

The study focuses on the need to evaluate the commercial and national profitability of small business enterprises in a developing economy. Based on a case study of a small rubber products manufacturing firm in Australia, a profile of similar project is formulated for Sri Lanka (a developing economy) using the market structure and macro-economic constraints relevant to Sri Lanka.

The importance of small business enterprises both for developed and developing countries is reviewed in this study. A market analysis for the demand for the project's output is estimated using a simple econometric approach. A comparison is made between the commercial profitability of the rubber products firms for Australia and Sri Lanka via several profitability criteria. The preferred criteria for profitability evaluation being discounted cash flow techniques - extensive use has been made of both net present value and internal rate of return methods in the study.

The need for calculating shadow prices so as to reflect the true opportunity cost of scarce resources in the context of market distortions prevailing in typical developing economies such as Sri Lanka is appreciated. In this context, the Little-Mirrlees techniques of shadow price calculations for the candidate project's main inputs and outputs such as tradables, labour and non-tradables have been accomplished in the study.

The sensitivity of the commercial profitability of the candidate project to changes in main project variables is also examined.

CONTENTS

ACKNOWLEDGEMENTS	V
ABSTRACT	VI
LIST OF EXHIBITS	VII
LIST OF TABLES	VIII
LIST OF APPENDICES	IX

Chapter

1	INTRODUCTION	1
	1.1 <i>The Rationale of the Study</i>	1
	1.2 <i>The Usefulness of the Study</i>	2
	1.3 <i>The Methodology of the Study</i>	2
	1.4 <i>The Layout of the Thesis</i>	3
2	A REVIEW OF THE NATURE AND SIGNIFICANCE OF SMALL BUSINESS ENTERPRISES	6
	2.1 <i>Definitions of Small Business Enterprises</i>	6
	2.2 <i>Reasons for the Operation of Small Business Enterprises</i>	8
	2.3 <i>Country Surveys of Economic Performance of Small Business Enterprises</i>	12
	2.4 <i>Constraints for the Growth of Small Business Enterprises</i>	14
3	THE ANALYSIS OF COMMERCIAL PROFITABILITY OF A SMALL BUSINESS ENTERPRISE IN AUSTRALIA	16
	3.1 <i>The Organization and Management of the Survey Firm</i>	16
	3.2 <i>Analysis of the Relevant Accounts of the Firm</i>	18
	3.3 <i>Construction of the Cash Flow Statement</i>	18
	3.4 <i>A Review of the Criteria of Commercial Profitability</i>	19
	3.5 <i>Results of Application of Profitability Criteria</i>	23
4	THE MARKET ANALYSIS FOR RUBBER PRODUCTS IN SRI LANKA	28
	4.1 <i>Importance of Models in Market Analysis</i>	28
	4.2 <i>Specification of the Demand Model for Rubber Products</i>	28
	4.3 <i>Empirical Validation of the Demand Model</i>	33
	4.4 <i>Interpretation of the Main Results of the Model Fit</i>	37
	4.5 <i>Limitation of the Demand Model</i>	38

<u>Chapter</u>		<u>Page</u>
5	THE ANALYSIS OF COMMERCIAL PROFITABILITY OF A SMALL BUSINESS ENTERPRISE IN SRI LANKA	39
	5.1 <i>The Need for Profitability Analysis</i>	39
	5.2 <i>Organization and Management of the Firm</i>	39
	5.3 <i>A Marketing Plan for Rubber Products</i>	41
	5.4 <i>Development of the Input and Output Profile and the Cash Flow Statement</i>	41
	5.5 <i>Sources of Finance for the Project</i>	46
	5.6 <i>Results of Application of Profitability Criteria</i>	47
6	THE ANALYSIS OF NATIONAL PROFITABILITY OF A SMALL BUSINESS ENTERPRISE IN SRI LANKA	49
	6.1 <i>The Justification of National Profitability</i>	49
	6.2 <i>Market Imperfections in the Macro-Economy in Sri Lanka</i>	50
	6.3 <i>A Review of the Little-Mirrlees National Profitability Criterion</i>	52
	6.4 <i>Criticisms of the L-M Method</i>	54
	6.5 <i>Development of Socio-Economic Profits Statement</i>	55
	6.6 <i>Results of the National Profitability Analysis</i>	57
7	A SENSITIVITY ANALYSIS OF THE PROFITABILITY OF THE SMALL BUSINESS PROJECT	58
	7.1 <i>Uncertainty and Risk in a Small Business Investment</i>	58
	7.2 <i>The Rationale of Sensitivity Analysis</i>	59
	7.3 <i>The Application of Sensitivity Analysis</i>	60
	7.4 <i>Results of the Application of Sensitivity Analysis</i>	62
8	SUMMARY RESULTS AND CONCLUSIONS OF THE PROFITABILITY ANALYSIS	63
	8.1 <i>Comparison of Commercial Profitability between Australian and Sri Lanka Projects</i>	65
	8.2 <i>Comparison of Commercial and National Profitability of the Project for Sri Lanka</i>	68
	APPENDICES	68
	BIBLIOGRAPHY	126