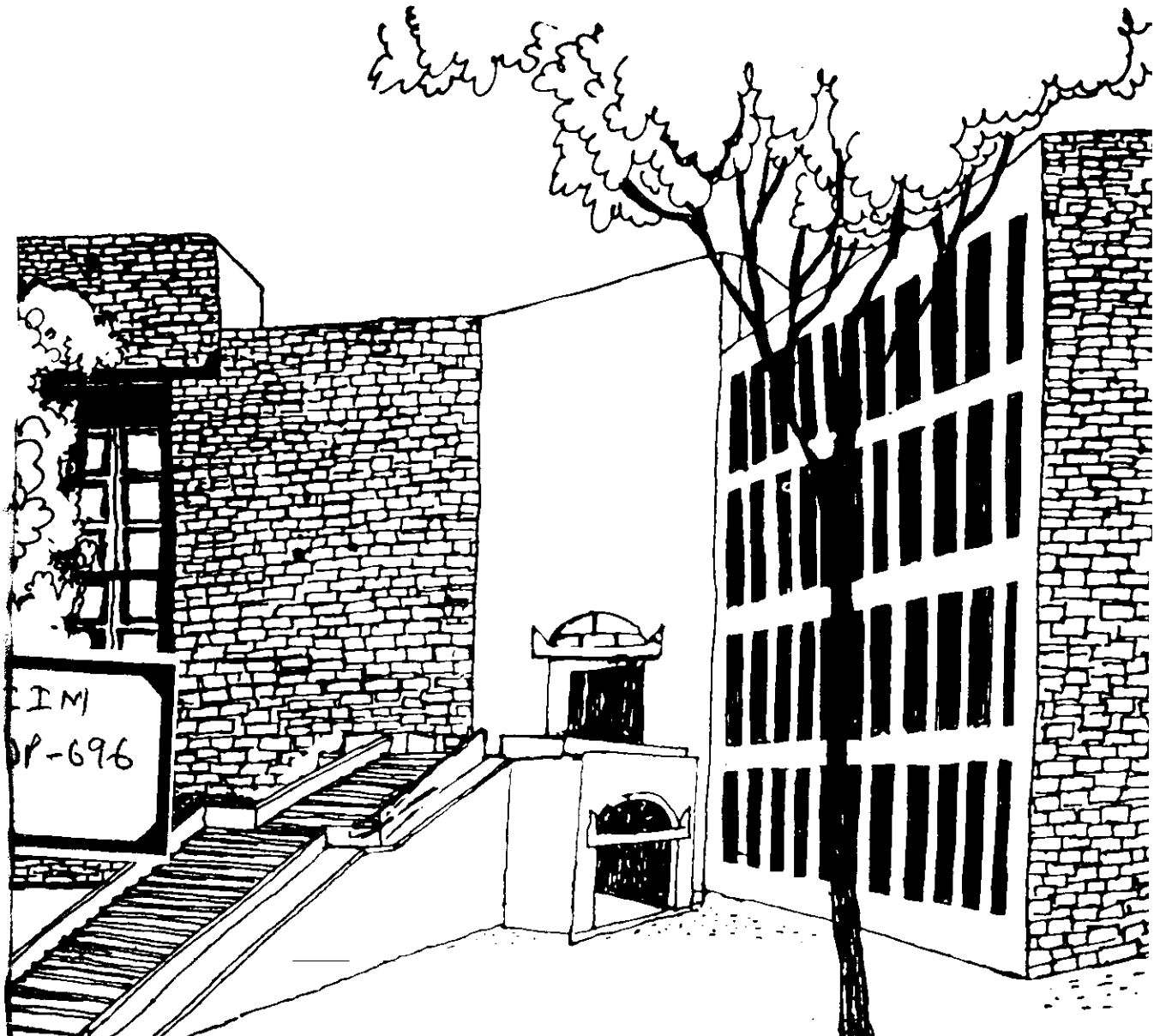


Working Paper



**PRIORITY AREAS FOR RESEARCH IN THE
OPERATIONS OF SMALL ENTERPRISES**

By

U.K. Srivastava



W P No. 696

September, 1987

The Main objective of the working paper series of the IDMA is to help faculty members to test out their research findings at the pre-publication stage.

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD-380015
INDIA

PRIORITY AREAS FOR RESEARCH IN THE OPERATIONS OF SMALL ENTERPRISES

U.K. SRIVASTAVA*

In the past few years, there has been a growing recognition of a role of small enterprises in promoting industrial development. Accordingly several efforts have been made to encourage the entrepreneurship and strengthening the process of promotion of small enterprises. The subject of failure and sickness of such enterprises at subsequent stages of the project cycle has, however, received very little attention by the developmental institutions, specialised research institutions and management specialists. This paper is designed to highlight some of the observed problems at pre-implementation and operational phase of such enterprises and identify priority for research, including the case research which can be used for training of such entrepreneurs and in rehabilitation of sick units.

PROBLEMS IN PRE-OPERATIONS PHASE

The pre-operations phase consists of the period till the various components of the project are finally installed and put into operation. The most important problem faced in the implementation stage of the project is delay in the execution of projects. In the project management terminology it is referred as slippage of project. The slippage of project results in exaltation of costs and also the losses of revenue, and thereby making the initial assumption made in the feasible report completely out of line. As indicated in Figure-1 the delays are caused by internal as well as external factors.

* Dr. U.K. Srivastava is Professor of Economics and Chairman, Research Committee at the Indian Institute of Management, Ahmedabad.

Paper presented at the National Conference on Small Business Policy Programmes and Research organized by TITI, Chandigarh and NISBUD, New Delhi, and held at Chandigarh on Sept. 8 & 9, 1987.

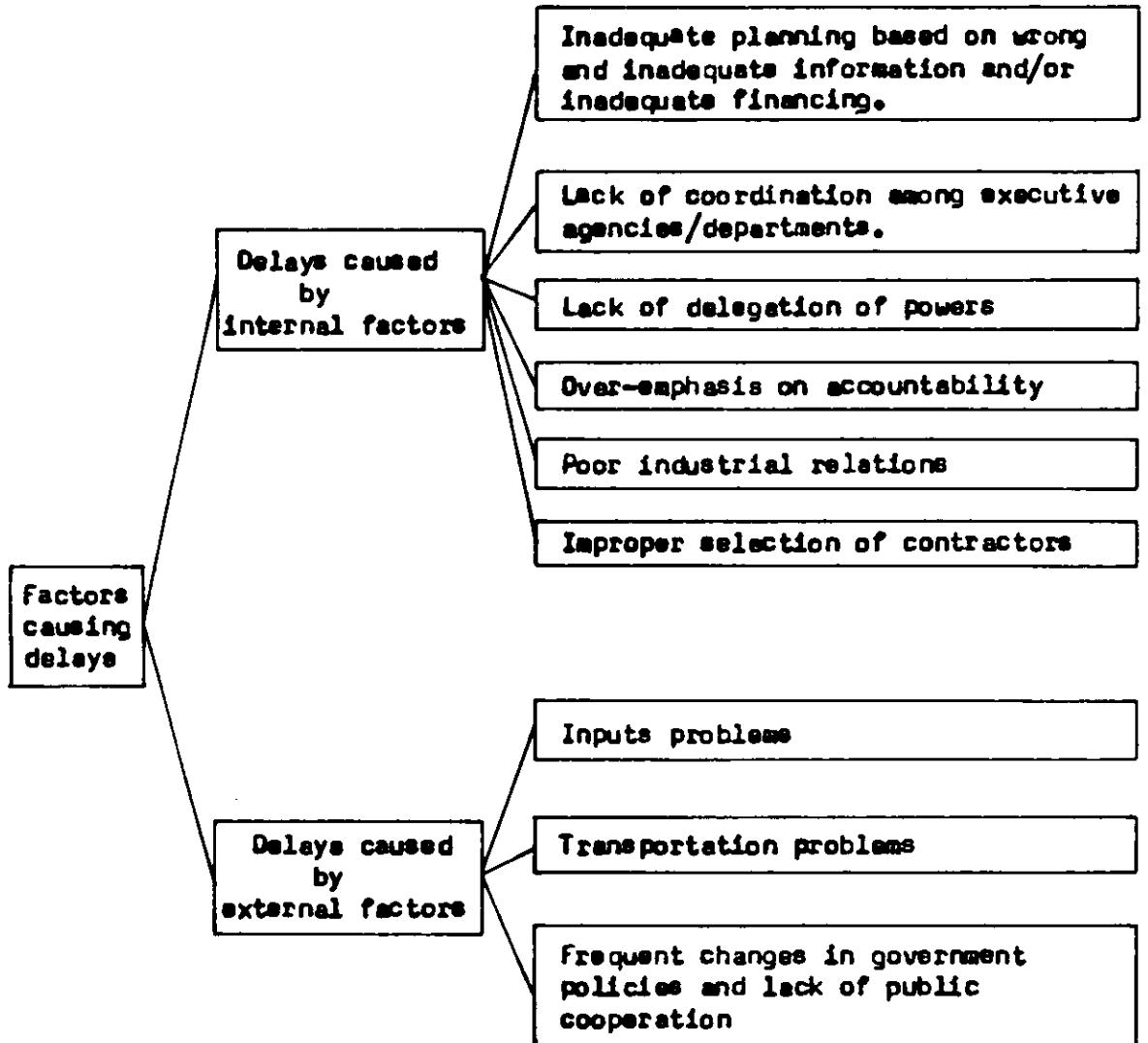


Figure - 1 : Delays in Project Execution

Source: U.K. Srivastava, Project Planning, Financing, Implementation and Evaluation, Indian Institute of Management, Ahmedabad, 1981.

Delays Caused by Internal Factors

The delays are often caused by the insufficient work at the planning stage resulting in the preparation of feasibility report based on inadequate information. In case of small enterprises the project reports are often based on locally available data and information. Very often this data is outdated and therefore the financial viability of the proposal also is not realistic. Another important reason for the delay is lack of coordination among various agencies and departments. The entrepreneur has to run to various agencies right from the land and buildings/sheds to release of approved finance from the funding institutions. This makes the project implementation schedule deviate from initial expectations.

In case of small scale enterprises most of the decisions are taken by the owner himself. Therefore, the lack of any delegation of powers are also sometimes create delay in the implementation. Other three factors indicated in the chart are perhaps not so important in case of small enterprises.

Delays Caused to External Factors

There are several factors which are not under the control of the entrepreneurs which contribute to the delays. For instance, the supply of machinery and installation of mechanical and electrical systems often lead to the delay in the project implementation. The problems are further compounded because of the time gap between the submission of the project report and final approval of financial institutions, government and others. The other external factors which cause delay are the transportation problems and changes in government policies.

The net result of the delays is the cost exaltation and increase in pre-operating expenditure. These cost exaltations often seriously jeopardise the financial viability of the project right from the initial stage.

PROBLEMS IN OPERATION OF THE UNITS

After completion of the pre-operation stage the unit become operational. It is at this stage that several problems arise pushing the unit in the category of sick unit. Some of these problems are illustrated in Figure-2. In case of small enterprises lack of trained manpower to deal with such problems at the initial stage itself further aggravates the situation. Some of the important problems are briefly summarised below.

Faulty Project Formulation and Implementation

In case of small enterprises faulty project formulation can be traced back to faulty product selection, doubtful financial viability and wrong location which create problem in using the installed capacity. Very often small enterprises select the product after observing some other successful units of the same type in the area. In the process the assumption which were valid for the first unit are often not valid for the other units in the same area.

Non-Availability of Raw Materials

The small enterprises have limited capacity procure raw materials - often problems arised because the environment for raw material changes. Several of these units have become sick due to poor infrastructure facilities. For example, the lack of power adequate power supply and other utilities hamper production. If an industry uses continuous process much time is lost in putting the process back after power cut.

Poor Financial Management

The small enterprises often face problems arising due to poor financial management which relate to low equity base, working capital difficulties, loose accounting, costing and record keeping.

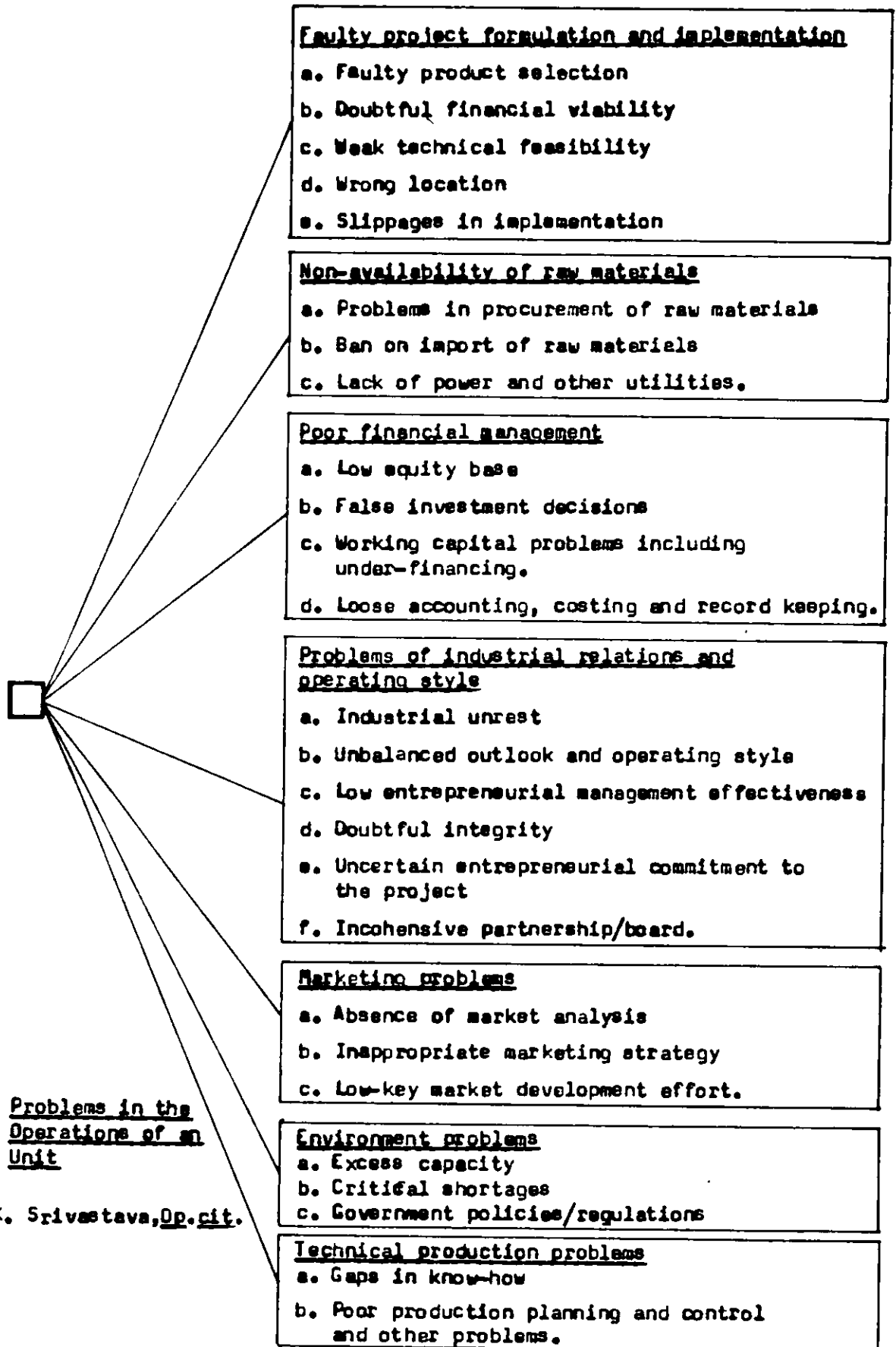


Figure-2 : Problems in the Operations of an Unit

Source: U.K. Srivastava, Op.cit.

Although several financial incentives exist for the small entrepreneur, in practice the entrepreneur needs higher equity base to tide over unforeseen cost escalations and difficulties in the release of working capital funds by the commercial banks. There is usually a long delay in the release of subsidy amounts due to the entrepreneurs. These enterprises usually have inadequately trained manpower to take care of accounts and book keeping. When the units begin to face constraints of working capital, bankers ask more data which the units are unable to supply. Lack of accounting, costing and record keeping also makes the cost control and pricing decisions difficult leading to financial problems.

Constraints of Trained Manpower and Industrial Relations

The small enterprises have considerable problems in getting good trained manpower and retaining them. This mainly happens because the salary structures and working conditions are extremely difficult for the labour force employed. Efforts in such enterprises is to restrict the number of regular employees to a very small number so that the government's regulatory mechanism do not apply. This works to the disadvantage of the manpower employed.

Marketing Problems

This is the weakest area in case of the small enterprises. Some of the marketing problems can be traced back to inadequate market analysis at project formulation stage. Other marketing problems arise because of the inappropriate marketing strategy, low key marketing effort and lack of access to proper marketing network. Generally the marketing channels require larger commission and longer credit period for handling the product of the small scale enterprise. Larger credit requirements create further problems for working capital management. Competition from the large units also becomes too intense for small enterprises.

Environmental Problems

This problem arises from changes in external environment faced by a unit. The changes in government policies or critical shortages of raw material and utilities cause problems for the ongoing units. The small enterprises have very little leverage in coping with these.

Technical Production Problems

Some of the technical problems arise because of the use of indigenous technology, a lack of after sales-service facilities and trained manpower. In case of imported knowhow also, shortage of spares and critical equipments break down the cause deviations from the projected production build-up. This makes it difficult to meet the market requirements and generating cash flows.

NEED FOR CASE RESEARCH

Some of the above mentioned problems are illustrative of the kinds of difficulties faced by the small enterprises. It is necessary to develop more indepth understanding of the causes which result in the problems mentioned above and the ways to avoid them. While surveys of a large number of small units improve our understanding of the problems generally faced by such units, they are time consuming and they do not provide insight at micro level into the reasons which lead to such problems. It is for this purpose the case studies of selected small enterprises from various regions of the country can be an extremely effective tool for generating the required understanding.

Case research should also cover small service and trading establishment set up by the entrepreneurs. Normally financial institutions do not pay much attention to such enterprises.

The case research methods to be effective requires adequate training on the part of researchers, proper generation of case leads and cooperation from the operating units and financial

institutions. It has been observed that small enterprises are very reluctant to part with any data or share their experiences with the researchers. The required cooperation from the entrepreneurs can be only generated by the efforts of the respective institutions through their out-reach programmes over a period of time. Very often, it is possible to develop such relation whenever consulting opportunities are also permitted in the research and training institutions involved in this area.

NEED FOR MORE PROFESSIONAL EFFORTS AND FUNDS FOR RESEARCH ON SMALL ENTERPRISES

In view of the difficulties mentioned above, very little professional attention has been devoted to understanding of the problems of small enterprises. Perhaps the prestige and excitement in analysing the problems of small enterprises has not been to a level to attract a large professional manpower in this area, even among the major management institutes in the country. It is, therefore, suggested that the major specialized research institutes should take the lead in generating the ideas and providing funding for such researches on long term basis.

NEED FOR NETWORKING OF INSTITUTIONS FOR SHARING THE RESEARCH AND CASE STUDIES

Several national institutions and few institutions at regional and state levels are researching in the area of entrepreneurship and small enterprises. Presently there is no established systems of pooling all the researches and sharing the findings with each other. Major institutions working in these area have evolved some case studies and teaching material for training the entrepreneurs. But this material is not widely disseminated.

It is, therefore, suggested that a regular system of networking of research and case studies be set up for the benefit of all the researchers interested in this area. Such a networking would also help to avoid the duplication of efforts between the institutions.