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)

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by

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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.
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