

**MANAGEMENT DEFICIENCIES IN THE SMALL SCALE
MANUFACTURING INDUSTRIES IN SRI LANKA: A CASE
STUDY ON RATNAPURA DISTRICT**

By

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This thesis was submitted to the Faculty of Graduate Studies of the University of Sri Jayewardenepura in partial fulfilment of the requirements for the Degree of Master of Arts (Economics).

Registration No. : A 19334

Index No. : S.P.A. 417

September, 1998

ACKNOWLEDGEMENTS

The debt which I owe the many individuals and institutions who provided advise and support in the writing of this thesis is very great. It is with pleasure that I single out the most important of these for mention here.

Numerous thanks are naturally due to the advice and encouragement provided by my supervisors Professor P. Wilson, Vice Chancellor and Mr. H.H.D.N.P.K. Opatha, Senior Lecturer, Department of Business Administration of the University of Sri Jayewardenepura. I extend my most grateful acknowledgements for their help throughout this writing. And also I would like to thank Professor J.W.D. Somasundara, Vice Chancellor of the Sabaragamuwa University for giving valuable advice.

Here I would like to extend my special thanks to Mr. L.W.S. Kularatne, Mr. C. Disanayaka and Miss. S. D. K. Dharmadasa for sacrificing their valuable time in assisting me to complete the thesis. Finally I thank Professor Rajiva Wijesinha, Dr. N.D. Weeratunge Starkloff, and Father T. Jayawardena at the Sabaragamuwa University for their help in writing this thesis.

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CHAPTER 01

INTRODUCTION

I.I Introduction of the Study

Many nations in the developed and developing countries have recognized the importance and promotion of Small-Scale Manufacturing Industries (SSMIs). Consequently, they have devoted their attention towards the development of SSMIs because they play a significant role for their rapid development. SSMIs perform as a useful vehicle for the economic growth of countries because they have capacity to achieve rapid economic growth fast, while generating a considerable extent of employment opportunities. Promotion of SSMIs results in an increase of the industrial output of a country and thereby increases the share of the industrial output in GNP and finally it may enable the country to maintain a significant economic development together with a rapid industrialisation. Economic development of well developed industrial countries like Japan, Germany, the United States of America, the United Kingdom and also newly industrialised developed countries like Taiwan, South Korea were initially based on SSMIs.

The role played by the SSMIs is significant in many developed countries, for instance: the development of Japan in the early half of the 19th century was initially based on SSMIs. SSMIs comprise a significant portion of the Japanese economy and perform an important role to the sector and has formulated policies to assist in its development. SSMIs in Japan still supply a large amount of component and intermediate products for the large industries and 65 per cent of SSMIs in Japan perform as sub contractors. In addition, it is also significant that they contribute 40 percent of industrial export (United Nations, 1985. p.72), it shared 87.2 per cent of total industrial employment and 80 per cent of industrial establishment (*Reddy*, 1991. p. 1-3).

The importance of SSIMs is significant not only for the developed countries but also for the developing countries. In India, for instance, there are 1.7 million units of SSIMs functioning all over the country and they comprise half of the total industrial establishment (*Rao and Nagaiya, 1991, p.12*). In 1990, a half of the industrial employment has been contributed by SSIMs (*Jalal, 1991, p.80*), and they contribute 22.6 percent of total export earnings (*Rao, & Nagaiya, 1991, p. 13*).

Development of SSIMs is significant in the developing countries like Sri Lanka, which suffered from problems of unemployment, lack of investment etc. SSIMs can develop using a very limited amount of capital assets and simple techniques. They help to solve unemployment problem to a considerable extent and SSIMs create more employment opportunities than that of large industries, since they are labour intensive industries. Resources dispersed all over the country can be utilised efficiently and economically in developing SSIMs and it helps to develop the rural sector as well. Problems of income inequality, balance of payment, lack of capital, technology etc can be solved by promoting SSIMs, and they help to increase countries' national income, thereby enhancing the living standard of the people. So the development of SSIMs in developing countries like Sri Lanka is very significant.

All the governments in Sri Lanka have recognised the importance of developing SSIMs after independence. In 1952, the World Bank recommended that the government should assist to develop SSIMs rather than the large-scale industries (*Karunaratne, 1973, p. 28*). Governments elected in 1970 and 1977 provided a major place to promote SSIMs, in their development plans. In 1990, the government highly supported, in developing SSIMs through "Janasaviya" programme. In addition, government institutions like the Industrial Development Board (IDB), Ministry of Youth Affairs, Department of Small Industries etc and various non-government institutions, usually pay their attention towards the promotion of SSIMs providing financial, technical, marketing, training and assistance. Furthermore, financial institutions in Sri Lanka provided Rs. 12.036 millions credit for SSIMs under the Small and Medium Industry Loan Scheme during the period

between 1979-1998. (Central Bank of Sri Lanka, 1998, p. 123). Though government and non-governmental organisations paid attention to the promotion of SSIMs in Sri Lanka, they contribute a very small portion to the GNP (1.5 per cent in 1996). Table 1.1 shows that the annual growth rate of SSIMs was nearly 06 per cent during the recent four years.

Table 1.1 Contribution to GNP and Growth Rate of SSIMs (1990 – 1996)

Year	Contribution to GNP		Annual Growth Rate
	Rs. Million	%	
1990	960	0.77	3.5
1991	1065	0.86	10.2
1992	2007	1.45	88.5
1993	2120	1.43	5.6
1994	2251	1.44	6.2
1995	2410	1.45	7.1
1996	2562	1.50	6.3

Source: Central Bank Annual Reports 1993, 1996

Annual growth rates of SSIMs in 1991 and 1992 were recorded at a very high rate because the government highly assisted the SSIMs under the poverty alleviation programme 'Janasaviya'. But this growth was not sustained and after 1993, it has decreased again. Lifetime of most SSIMs is very short and growth of most industries was very slow. Major reasons for the low growth rate and short lifetime are the problems and difficulties. Lack of capital assets, low technological knowledge, poor managerial knowledge, marketing problems etc directly caused the less growth of SSIMs in Sri Lanka (Central Bank, 1996 p. 151).

In order to overcome these problems and obstacles faced by SSIMs, an efficient and effective management is needed. It is evidenced that growth of most industries depends on efficient management. Efficient management can satisfactorily face any challenge

obstacle; problems coming from external and internal environment of industry. Entrepreneurs can achieve their goals if there is an efficient management (Cyril, 1984 p. 13). If management process of the industry is efficient, production of SSIMs, increases due to the decrease of cost of production. Decrease the cost of production due to management efficiency directly causes to shift the industrial supply curve to the right showing the increase of production (Howord, 1991, p. 31). SSIMs can develop by enhancing management skills of the small entrepreneurs.

Some countries like India, Japan, Indonesia, Taiwan, etc launched various long-term management programmes for the enhancement of management knowledge of small entrepreneurs. In Indonesia, growth rate of SSIMs was less than 4 per cent before 1978 and it was increased to more than 7 per cent during the five-year plan period 1978-1982. One major reason for the growth was that the Indonesian government provided management training for the enhancement of management skill of small entrepreneurs (United Nations, 1985, pp. 40-55).

According to the Indonesian experience, SSIMs can be developed in Sri Lanka too using better management. So this study examines the management deficiencies of SSIMs in Sri Lanka and how SSIMs develop by overcoming such problems. In Sri Lanka, it is rather difficult to distinguish between entrepreneurs and managers. The entrepreneurs handle the management process of SSIMs themselves. According to the field survey conducted in the Ratnapura district, a number of management deficiencies could be identified and basic management functions such as planning, organising, staffing, controlling, etc that are not properly practiced in most SSIMs in the study area. Most entrepreneurs of SSIMs do not have sufficient management knowledge as a result; growth of SSIMs may be lessened. By improving management knowledge of small entrepreneurs, SSIMs can be developed efficiently in Sri Lanka.

1.2 Objectives of the study

Major objectives of the study are;

- 1). To explain the structure of small scale manufacturing industries in the study area.
- 2). To analyse the deficiencies related to the basic management process of SSIMs in Sri Lanka.
- 3). To make recommendations to develop SSIMs efficiently by overcoming deficiencies in the management process.

1.3 Methodology and Data Sources

In order to fulfil the objectives of the study, the descriptive method of analysis has been used. Since this is an in-depth analysis of SSIMs, the study was totally based on the primary sources of data. However, the analysis was supplemented with the data from the secondary sources when and wherever it was needed and demanded.

Since the Sabaragamuwa University always encourages research within the province, the Ratnapura district has been selected in collecting primary data. The Industrial Development Board (IDB) has already prepared an 'Inventory of SSIMs in the Ratnapura district'. This inventory was taken as a bench mark for the sample. According to the IDB study, 3703 of SSIMs were dispersed all over the Ratnapura district (see table 3.6). However, it is noteworthy that the definition used by the IDB was not very specific and includes even the self-employment projects as SSIMs. Therefore for the purpose of this study, industrial units, which employ between 5 to 24 persons, were defined as SSIMs. This refinement of the definition reduced the total number of SSIMs from 3703 to 285 units. In order to keep the sample within manageable proportions, 20 percent of the SSIMs i.e. 57 industrial units were selected.

According to the IDB study, SSIMs had been spread out unequally among the 16 Divisional Secretariat (DS) areas in the Ratnapura district. Therefore, by distributing the total number of selected sample of 57 SSIMs proportionately (20 percent of SSIMs in each DS division), an attempt was made to avoid high concentration of SSIMs in some DS divisions such as Kuruwita, Ratnapura, Balangoda and Embilipitiya because the study attempts to show the full picture of the deficiencies of management (The DS area wise and category wise distribution of the sample is given in annexure 02).

For the purpose of classifying SSIMs, two digit International Standard of Industrial Classification (ISIC) has been used for this study. In order to facilitate the comparison the randomly selected 57 SSIMs were categorised into nine industrial groups (31 to 39) specified in the ISIC.

In order to collect data from the selected sample an open-ended questionnaire was used, answers are taken only from interviewing entrepreneurs or the general manager (if available). To assert validity and reliability of data all the answers provided by the interviewees have been written in details. Furthermore in order to ascertain SWOT (Strengths, Weaknesses, Opportunities and Threats) the process of production, method of book keeping, marketing, advertising and personnel management etc were studied personally in each SSIM.

1.4 Chapter Outline

The study consists of five chapters. Chapter one deals with the introduction of the study, objectives, data sources and methodology, organisation of the study and limitations.

Chapter two discusses definitions used by a few selected countries and Sri Lanka, role of SSIMs in economic development, importance of management for the SSIMs, development of SSIMs pre and post independence in Sri Lanka. In addition, importance