

Nepalese Business Environment

(A Perceptual Study of Small and Medium Enterprises)

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I hereby declare that this submission is my own work and that to the best of my knowledge and belief, it contains no material previously published or written by others, nor materials which to a substantial extent has been accepted for the award of any other degree of a University or their institution of higher learning expect where due acknowledgement is made in the acknowledgements.

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Executive Summary

Factors that affect the internal and external operations of a business directly or indirectly are known as business environment. A business does not function in vacuum. Every business is surrounded by various environments; economic, political-legal, socio-cultural, technological, and global environment. These factors affect the internal and external operations of the business.

We are all aware of the important contribution made by the small and medium enterprise (SME) sector to the Nepalese economy. The sector constitutes more than 90 percent of the total industrial establishments, contributes about 80 percent in the industrial employment generation by the industrial sector, and shares about 80 percent of the industrial sector's contribution to the national gross domestic product (GDP). Yet, the Nepalese SME sector today is confronted with multiple barriers and challenges, which have been a concern to all. With Nepal's accession to the World Trade Organization (WTO), the rules-based multilateral trading system, and the current political system and ineffective law, the sector is likely to be in a more vulnerable situation. Though Nepal's membership to the WTO is likely to bring opportunities in many areas, there may appear new forms of challenges as well. This clearly necessitates that the Nepalese SMEs are given high priority, and adequately provided with proper safety nets so that they survive within the multilateral trading order. At the same time, high priority should also be given to make timely reforms in policies and working strategies in order to improve the competitiveness of the SME sector.

The study begins with the introductions of the environment and SMEs in Nepal. The main objective of the study is to analyze the current situation of the SMEs in Nepal and comparing the environmental dimensions of manufacturing and non-manufacturing; and new and old companies in Nepal. To fulfil the objectives, review of different papers, articles and studies were done. In addition to this a questionnaire was prepared and

respondents' views were collected. For the analysis of the data, hypotheses were set. T-test and ANOVA were done to test the hypothesis.

The study is based on the survey conducted to identify the general environmental of SMEs in Nepal. Fifty two Nepalese respondents were selected from the Kathmandu Valley. All respondents were collected from the SME sector. Result showed very consistent result with the theoretical assumption i.e. there is not appropriate environment for the SMEs to operate smoothly with reasonable return. Research identified five factors namely political-legal, socio-cultural, economic, technological, and global. Among these five, socio-cultural business environment was found the most affecting and global environment has the less impact. But the entrepreneurs of export based companies are highly affected by global environment than other environment. Similarly, manufacturing companies were more affected than the non-manufacturing companies by the current business environment. Further, there were no significant differences between the environments of new and old companies i.e. both type of companies were affected equally by the environment. Among the various reasons, frequent strikes and lockouts, and the current energy crisis are the most important factors that have made difficult to survive for Nepalese SMEs in this competitive market.

From the study it is also found that most of the SMEs are very small, based on traditional skill and local raw materials. There is always market problem for Nepalese SMEs. On the other hand the competition is also very high from the foreign products. This study concludes that the SMEs in Nepal must be supported by the government by drafting new policies and making new strategies. Nepalese SMEs must focus on producing purely Nepalese products such as handicrafts because of low competition in this industry. Similarly, focus must be given to infrastructure development, training for the workforce, and use of new technologies to strengthen the condition of the SMEs in Nepal.

Table of Content

	Page No
Chapter-I	
1.1 Background of the Study	1
1.1.1 Industrial Policies and Facilities	4
1.1.2 Classification of Industries	5
1.1.3 Investment Facilities and Incentives	6
1.1.4 Trade Policy	7
1.1.5 Problems and Constraints	7
1.1.6 Policy and Legal Issues	8
1.2 Focus of the Study	8
1.3 Statement of Problem	9
1.4 Objective of the Study	18
1.5 Rationale of the Study	18
1.6 Hypothesis of the Study	19
1.7 Limitations of the Study	19
1.8 Organization of the Study	20
Chapter-II	
2.1 Business Environment	21
2.2 Changing External Environment	22
2.3 Business and Competition	22
2.4 Nepalese Business Environment	23
2.5 Small and Medium Enterprises	24
2.6 Small and Medium Enterprises in Nepal	26
2.7 Current Situation of SMEs in Nepal	27
2.8 Review of Related Studies and Articles	28
2.8.1 Review of Articles	28
2.8.2 Review of Studies	30
2.8.3 International Issues in SMEs	38
Chapter-III	
3.1 Research Design	47
3.2 Sample of the Study	48
3.3 Nature and Sources of Data	48
3.4 Data Collection Procedure	48
3.5 Statistical Analysis	49
3.6 Research Variables	49

Chapter-IV

4.1	Presentation and Analysis of Secondary Data	52
4.1.1	Statement of Permission Granted to Small Industries by DOCSI	52
4.1.2	Statement of Registration of Small Industries	53
4.1.3	Statement of Registration of Small Industries on the Basis of Region	54
4.1.4	Classification of Small Scale Industries in terms of Type of Firm	55
4.1.5	Statement of Employment Created by Small Industries	56
4.2	Presentation and Analysis of Primary Data	57
4.2.1	Respondents Profile	57
4.2.1.1	Nature of the Company	57
4.2.1.2	Length of Time of the Company	58
4.2.2	Environment and the Nature of the Company	59
4.2.2.1	Economic Environment	59
4.2.2.2	Technological Environment	60
4.2.2.3	Socio-Cultural Environment	61
4.2.2.4	Political Legal Environment	62
4.2.2.5	Global Environment	63
4.2.3	Environment of the Age of the Company	64
4.2.3.1	Economic Environment	64
4.2.3.2	Technological Environment	66
4.2.3.3	Socio-Cultural Environment	68
4.2.3.4	Political-Legal Environment	70
4.2.3.5	Global Environment	72

Chapter-IV

5.1	Summary	75
5.2	Conclusion	79
5.3	Recommendation	81

Bibliography

Annex

List of Table and Figure

List of Table	Page No
Table 2.1: Weight of Obstacle	10
Table 4.1: Permission Granted by DOSCI	52
Table 4.2: Nature of the Industry	53
Table 4.3: Small Industries on Regional Basis	54
Table 4.4: Small Industries in Terms of Types of Firm	55
Table 4.5: Employment Created by Small Industry	56
Table 4.6: Sample Number of Nature of Company	57
Table 4.7: Age of the Company	58
Table 4.8: Environment Dimensions	59
Table 4.9: Economic Environment	59
Table 4.10 Technological Environment and Nature of the Company	60
Table 4.11 Socio-cultural environment and Nature of the Company	61
Table 4.12 Political-Legal Environment and Nature of the Company	62
Table 4.13: Global Environment and Nature of the Company	63
Table 4.14: Mean and Standard Deviation: Economic Environment and Age of the Company	65
Table 4.15: ANOVA: Economic Environment and Age of the Company	66
Table 4.16: Mean and Standard Deviation: Technological Environment and Age of the Company	67
Table 4.17: AVOVA: Technological Environment and Age of the Company	68
Table 4.18: Mean and Standard Deviation: Socio-Cultural Environment and Age of the Company	69
Table 4.19: AVOVA: Socio-Cultural Environment and Age of the Company	70
Table 4.20: Mean and Standard Deviation: Political-Legal environment and Age of the Company	71
Table 4.21: AVOVA: Political-Legal Environment and Age of the Company	72
Table 4.22: Mean and Standard Deviation: Global Environment and Age of the Company	73
Table 4.23: AVOVA: Global Environment and Age of the Company	73

List of Figure

Figure 2.1: Model of Latin American Business Environment	42
Figure 4.1: Permission Granted by DOSCI	53
Figure 4.2: Nature of the Company	54
Figure 4.3: Small Industries on Small Basis	55
Figure 4.5: Nature of the Company	57
Figure 4.6: Age of the Company	58

ABBREVIATION

ANOVA	:	Analysis of Variance
BoP	:	Balance of Payment
CBS	:	Central Bureau of Statistic
CFS	:	Container Freight Stations
CSIRD	:	Centre for Studies in International Relations and Development
DOCSI	:	Department of Cottage and Small Industry
EU	:	European Union
FNCCI	:	Federation of Nepalese Chambers of Commerce and Industry
GDP	:	Gross Domestic Product
H₀	:	Null Hypothesis
H₁	:	Alternate Hypothesis
ICD	:	Inland Container Depot
IT	:	Information Technology
LABER	:	Latin American Business Environment Report
LDC	:	Least Developed Country
Ltd	:	Limited
MCCI	:	Micro, Cottage and Small Industry
MFN	:	Most Favored Nation
NEM	:	New Economic Model
Pvt	:	Private
QRs	:	Quantitative Restrictions
R & D	:	Research and Development
SAP	:	Structural Adjustment Program
SME	:	Small and Medium Enterprises
SPS	:	Sanitary and Phytosanitary
TRS	:	Time Release Study
TBT	:	Technical Barrier to Trade

TRIPS : Trade Related Aspects of Intellectual Property Rights
VAT : Value Added Tax
WTO : World Trade Organization