1. INTRODUCTION
In the process of immediate and often unpredictable changes in the markets of international trade and the formation of new conditions and regulations in order to compete in these markets, there has been a major focus on planning, law-making and the development of small businesses. With the advent of modern technology in the production and communications during the last two decades, some developments in the capabilities of industrial units, the methods of production, distribution and administrative structure of enterprises have caused a highly significant change in small businesses. The growth of competition and the concentration of companies in the pivotal activities have caused the vertical separation of companies, the expansion of contractual relations with the suppliers of spare parts and raw materials and also the reinforcement of relations in the supply chain. All these developments have been an ingredient part of the production which has brought together with itself all the technology, expert labour force and progressive management. On the other hand, since the process of learning in small and medium-sized businesses creates competent managers, the omission of these businesses due to inability to compete (in case they fail in the competition) incurs less loss to the society. However, small and medium-sized businesses are considered appropriate grounds to create competitive and powerful industries, and proper policy-making for these types of industries has been emphasized in most countries.

The economy of the Islamic Republic of Iran (hereafter referred to as Iran) is to a very large extent determined by large public and quasi-public enterprises, controlling up to around 80% of the economy. This is especially true with regard to the businesses engaged in exploiting, processing and trading crude oil, petroleum products and natural gas, which provide some 82.5% of Iran's export earnings and around 40-50% of the government budget. This has created a heavy dependency on this sector of the economy, and its mainly public sector large enterprises, in spite of the fact that the great majority of businesses in Iran belong to the category of Small Scale Industries (SSIs). The number of enterprises ranges around 66443 formally registered businesses, of which 93% belong to the category
As you know, Iran is heavily dependent on the export of oil and gas, which accounts for up to 82.5% of the country's total exports. Although non-oil exports are increasing, they are doing so at a very modest pace. Clearly, the Government of Iran sees the diversification and increase of non-oil exports as a major issue in strengthening the economy by making it less dependent on oil and gas exports. Secondly, Iran needs to increase its non-oil exports in order to become an active partner in the WTO-led process of globalization. Finally, and equally importantly, the development of new and existing export markets is seen as a powerful tool to promote Employment creation.

A main input into improving the enabling environment for developing competitiveness, which is a prerequisite for job creation and the promotion of non-oil exports, are government measures to create a conducive macro-economic climate for SSIs. These policy measures may relate to fiscal and financial aspects, to labour laws, to environmental policies and to a variety of legal matters having a direct impact on the creation of enterprises and the improved operations of existing enterprises. Finally, it may be particularly important to refer to the issue of transparency of government regulations.

2. THE DEFINITION OF SSIs IN IRAN

There is little unanimity regarding the definition of SSIs in Iran. Various ministries, institutions and organizations connected to SSIs in one way or another have their own criteria to describe, categorize or define SSIs.

As defined by the Ministry of Industry & Mines, the Ministry of Agricultural Jihad and the Central Bank of Iran, SSIs are (rural) industrial and service enterprises with less than 50 employees, whereas the Ministry of Cooperatives alternately uses the criteria of either the Ministry of Industry & Mines, or of the Statistical Office of Iran in defining SSIs. The latter, according to the Iranian Statistical Yearbook for 2003, categorizes businesses into four classes, i.e. businesses with 1-9 employees, 10 to 49 employees, 50 to 99 employees, and more than 100 workers. Although this categorization bears some resemblance to the definitions used by the EU, the Statistical Office of Iran only considers
businesses with less than 10 employees to be SSIs; all others are regarded as “Large Manufacturing Establishments”.

The latest definition presented by the small industries organization is again based on quantitative criteria. Those enterprises whose labour force ranges from 1 to 49 employees are termed as SSIs.

3. THE ROLE OF SSIs

Whatever the definition, and regardless of the size of the economy, the growth of SSIs throughout the region is crucial to regional growth. SSIs play a critical role in providing job opportunities, enhancing the quality of human resources, nurturing a culture of entrepreneurship, fostering creativity and opening up new business opportunities.

Small scale industries would a significant role in economy due to the following reasons.

1. Small-scale industries are less capital intensive and therefore found ideal for a developing economy, with scarce resources for heavy capital investments.
2. Small-scale industries are labour intensive and so provide innumerable employment opportunities. A given investment in small scale industries can provide 10 to 15 times more employment than the same investment in a large scale industry.
3. Local resources and skill can be efficiently exploited.
4. Small-scale industries are engaged in assembling and processing various types of products. Some small enterprises gather raw materials, some of them produce parts and assemblies and some other supply-finished products. This enables decentralization of economic power.
5. A small unit is generally owned and organized by a single entrepreneur or a group of persons. Personal character in an outstanding feature of small business. Thus it builds entrepreneurial character.

4. BARRIERS TO SSI DEVELOPMENT IN IRAN

These barriers are grouped into the following three categories:

- Market barriers, referring to market restrictions such as contracts, price controls, etc.;
• Financial barriers, related to various financial obstacles faced by SSIs such as a lack of appropriate banking services;
• Barriers resulting from inappropriate government interventions and Legal barriers to SSI development.

4.1 Market Barriers

I) The existence of purchasing monopolies (monopolies). Since large firms command unrivalled control over markets, the smaller firms become highly dependent on these monopolized markets, which limit their room for manoeuvre. Their sales are affected by state-controlled markets and are subject to considerable fluctuations as a result. Changes in the policies of purchasing firms or in their production structure, planning or sales processes will invariably affect the performance of this group of SSIs.

II) The stringent character of contracts that SSIs have to sign with large industries, as a result of their dependency upon large firms. Due to their power, larger firms deal with smaller companies in a one-sided manner and since the latter do not have access to alternative markets, they have no option but to acquiesce.

III) The existence of monopolized markets in various sectors. The smaller firms are not able to compete effectively, and hence must incur substantial financial losses or be satisfied with a small profit margin.

IV) Subsidized competition from state-owned firms. In the commodity market, the majority of large firms are state-owned and subsidized by the government. Through their lobbying they draw on a vast network of relations and can easily solve any problem in the market. In addition, as they monopolize the markets, they exert considerable influence in their own favour. They can manipulate prices by controlling production or storage/stock levels, thus governing the rules-of-the-market game. Smaller firms do not wield comparable economic power, and are hence left at the mercy of the larger enterprises.

V) Lack of marketing mechanisms and access to national and international distribution channels. The presence of advertising firms and distributors can play a considerable role in this area. In Iran, small firms often lack access to such support services and face obstacles when attempting to reach overseas markets. Nonetheless, existing facilities are made
available to all industries, for instance the rental cost of 1 square meter of exhibition space is the same for both small and large industries.

**VI)** SSIs purchase raw materials in a limited quantity and thus pay higher prices. Therefore, the production cost they incur is much higher than larger firms, thus affecting their competitive standing in the market. The problem is amplified when the SMEs have to import raw materials.

### 4.2 Financial Barriers

The financial problems faced by SSIs in Iran may be summarized as follows:

**I)** Commercial and specialized banks that would lend money to SSIs are absent and loan criteria for firms of all sizes are similar.

**II)** Smaller firms have a more difficult time making loan mortgages. The collateral policy of Iranian banks is geared predominantly towards fixed asset mortgages (in the form of land or buildings). Since smaller firms are not able to make fixed asset mortgages, they do not qualify for loans. Although a recent law prohibits banks from securing their loans with non-industrial assets, the banks still insist on this form of security. As a result of these difficulties, smaller firms have to turn to the far more expensive unofficial financial markets. The average interest rate in these markets is twice that of the official rate of 17%.

**III)** The adoption of contractionary macro-economic policies by the government has resulted in a significant increase in liquidity pressures on SSIs. In 1997/98-2000/01, the financial pressure on smaller firms was very high. During this period, firms sold their products in instalments, which in turn reduced their liquidity. Firms that are dependent on large industries are also beset by problems of late payment.

**IV)** Income from sales is not received in time, leading to an inability of the banks to secure loans, resulting to liquidity pressure on SSIs, driving them towards unofficial markets. This factor not only increases the production costs, but also damages the industrial base of these firms while hampering the organization of production and manufacturing. All manufacturing considerations ultimately depend on the question of liquidity, and liquidity problems generate considerable uncertainty for manufacturing firms. Delays in delivery are the first outcome of liquidity problems. The inability to secure raw materials contributes to
delivery delays, which in turn perpetuate the liquidity problems, thus trapping SSIs in a
vicious circle leading to the ultimate bankruptcy of small firms.

V) The absence of joint ventures and lack of governmental facilities for promoting joint ventures poses further problems. Small firms are not able to establish relations and ties with foreign investors, which necessitate familiarity with the international business culture and access to adequate infrastructure. Due to their lack of specialization and infrastructure, Iranian SSIs are not able to benefit from joint ventures and unfortunately there is no organization that could assist or support them in this area.

4.3 Barriers Arising from Government Policy Towards SSIs

I) Government interventions in business practices

The government interventions in the business domain should not lead to unfavourable situations for SSIs. An example of "error of commission" is the government's intervention in industrial affairs of subsidizing the activities of state-owned firms. With this type of support, the subsidized and protected state-owned firms will command absolute control in the national economy, which discriminates against the competitiveness of SSIs is hampering to a great extent private sector development.

II) Law and bureaucracy

i) SSIs face additional problems when it comes to government bureaucracy. In order to deal with their problems the SSIs have to refer to various agencies and since they lack the necessary workforce or bureaucratic skills to negotiate with these organizations, they remain unable to solve their problems.

ii) Dispersion of laws: In Iran, rules governing companies and their operations are scattered in various different laws, and have not been consolidated under a single Company Law. The lack of a Company Law has created a lot of problems for SSIs.

iii) Tax laws. Small firms have to comply with all legal stipulations and provisions concerning tax matters. The tax laws do not differentiate between large and small firms, and their provisions are to a large extent drafted with a view to taxing the operations of large companies. Therefore, compliance with these laws will be extremely costly for small firms that have to prepare legal documents and make tax payments accordingly. Their
documents are usually rejected and the amount of tax is decided upon by tax officers and therefore lacks an accurate basis.

iv) Labour laws. One of the characteristics of SSIs is their flexibility and ability to adjust to market conditions. Unfortunately, the labour law in Iran not only does allow the SSIs to operate flexibly, but has also imposed stringent limitations on them. A case in point is the law on hiring employees. When a firm hires a worker, it has to be in accordance with the labour law, and the firm cannot fire him/her without the approval of the Labour Organization. The absence of laws on part-time employment forces industrial executives to hire full-time workers.

5. THE PURPOSE OF THE STUDY

Small Scale Industries (SSIs) make a significant contribution to economic and industrial development in both developed and developing economies. For developing economies, like Iran, SSIs often offer the only realistic prospects for increases in employment and value-added. This applies equally to countries with economies in transition, where large inefficient state-owned enterprises are giving way to much smaller and more efficient private entities. The high advantage of SSIs in developing economies principally reflects the fact that they are more suited to the conditions prevailing in these countries than larger enterprises because they tend to be more attuned to the local resource base.

In order to arrive at that vision for SSI development in Iran, it may be particularly important to refer to the issue of financing of SSIs. For many SSIs in world, financing is becoming the single-most important factor for their successful implementation. Companies, many of which are having liquidity problems, are finding it difficult to provide the equity needed for the projects, much less to pay for the project costs from their internal funds only. This study has made an attempt to identify major issues in this regard.

6. THE PROBLEM OF THE STUDY

When asked to describe his main problem, an Iranian entrepreneur will almost certainly reply: “Shortage of finance”. He may, in fact, have a serious cash flow problem so that he has difficulties in paying his employees or financing the purchase of materials.
When starting a new business, most small enterprises, often beginning as micro businesses, are unable to obtain loans, or any form of financing from formal institutions. They start their business by investing their own savings and/or using funds obtained from relatives or friends. This might be supplemented by loans from informal lenders or by credit from suppliers.

The SSI’s financing also remains an important issue in Iran, therefore the essence of the problem of study lies on the fact that such an objective of development of small scale industries in Iran particularly is interdependent on the suitable financial support programs.

7. THE OBJECTIVES OF THE STUDY

The present research work was undertaken with the following aims and objectives such as:

1. General evaluation of the present status of small scale Industry in Iran and how these businesses meet their related financial requirements.

2. General illustration of problems and obstacles in the way of Small Scale Industry Development emphasizing the financial aspect in Iran.

3. Understanding the significance of the financial markets for the improvement of Small Scale Industry Development in Iran.

4. Understanding and analyzing the efficiency of the banking system to finance the small Scale Industry.

5. The assessment of government policy effectiveness in support of the small Scale Industry development.

6. Realizing the financial systems, proportionate to the small businesses' status, is a significant factor in promoting the effectiveness of financial reports for external users.

7. Noticing the significance of properly applied liquidity management in the small businesses can, to a large extent, reduce the small businesses' problems.

8. Efficiency assessment of the business and financial policies of small businesses with the respective businesses; and workable evaluation of consumption market
can be effective in decreasing the problems in the way of financing the small businesses.

9. Finally, presenting the necessary and useful information to small business policy makers in Iran to be applied in their decisions and offering new viewpoints to researchers in order to make good planning for the comprehensive survey of other important concepts of these industries which would all be based on the present research.

8. HYPOTHESES

A hypothesis struggles to set up a relationship between two or more variables. The researcher had considered the following eight hypotheses for his research work.

I) First Hypothesis:

Considering the present experiences in the industrial environments and their relevant complexities, the researcher has started a deep and scrupulous research over the problems in the way of financing the small industries. In this regard, the main objective is to find the principal obstructions and present the proper solutions in order to remove or, at least, to lessen the pressure of those problems. Regarding this, one of the major factors which seem to have had a direct effect on the matter of financing the small industries is the macro-economic policies of the government. Keeping this in mind, the next hypothesis is formed:

"The government has not attached a significant contribution to the small scale Industries in its macro-economic policies."

The purpose of this hypothesis is to measure and illustrate the level of significance attached to the small businesses in the government's macro-economic policies including the overall encouragements for the starting of small professions and the other supports which the government can provide in the position of an administrator, the extent of supports held by the government in granting subsidies, reducing tax rates, other charges or taking other similar encouraging measures.
II) Second Hypothesis:

Here, the researcher considers the matter from another angle and he assumes that even with some supportive rules regarding the financial aspects in the macro-economic and industrial policies, the assumption is that they are not executed properly and this is one of the factors which causes financial obstructions for small businesses. Hence, based on the above-mentioned explanation, the researcher has coined the following hypothesis: "The particular supportive rules with regard to financing the small scale Industries have not been implemented properly." Referring to this hypothesis, the researcher evaluates the rate of the executive competency of the government's particular supportive rules in relation to financing the small businesses.

III) Third Hypothesis:

After surveying the effects of the government's macro-economics policies in its sanction and implementation aspects in the levels of society and the related impacts in the financial support on the development of small businesses, the researcher has dealt with the banking system and procedures and the function of this system in the fair and reasonable distribution of financial resources among these businesses. In this relation, the researcher has put forward such a hypothesis: "The banking system, as the leading source of financing the small scale Industries, has attached little significance in the distribution of funds to the small businesses."

IV) Fourth Hypothesis:

After scrutinizing the credit allocation approach dealt with in the previous hypothesis, the researcher has focused on the issue from another angle which can be accounted for, on one hand, the low significance attached by the banking system to the reliable bases (including the profitability rate and capability of the economic entity, the present and future sales rate and capability of the entity, the credibility of the entity and justifiable reporting prepared by the Economic Management Department), while the banking system can take these bases as criteria whether to grant credit token or not and assign the amount in the case of approval. On the other hand, the difficulties appearing after the approval of granting the credit token (including the interest rate of the credit token
demanded, the amount and the type of the required collateral as security against the granted credit token and finally the period of the loan process which is relatively a long time from the demand up to the receipt of the loan) which is a great obstacle in the way of the small businesses when in urgent need for being financed by the banking system.

In the researcher's view, these difficulties (banking system's low consideration for the required bases and its unwillingness in facilitating the process of granting credit token) have lead to the inability of the small businesses in taking advantage of such facilities whenever they are in need of an immediate financial support. Taking this in mind, the researcher has presented the coming hypothesis, "Due to the low significance to the bases and process of granting credit token attached by the banking system (including profitability competency, market potentiality of the product, justifiable reports, interest rate, collateral security, entity's credibility and bureaucracy), the SSIs lose the opportunity to be financed immediately and in due time."

V) Fifth Hypothesis:

Here, the researcher has concentrated upon the issue from a different angle beyond the banking system. He has put forward the relationship of small businesses with other industries through which they can provide their required finance rather than using the outside operation resources and this will be possible when proper financial cycle is created with the relevant industries and this procedure will save them from cash deficiency. In this case, the researcher has supposed that one of the most significant factors which influences the financial status of the small businesses is the issue of financial cycle and cash flow between the small businesses and the relevant ones. This is due to the reason that if the small businesses couldn't provide the related industries with their required raw materials in due time, needless to say, those industries would not be able to manufacture their products in time. On the other, if the required raw materials would be delivered to the related industries out of the timing schedule, this would certainly cause problems for the small businesses in the cash collection. As a consequence, the researcher has analyzed the matter from the viewpoint of the small businesses and the related ones. Considering this, the following hypothesis has been put forward: "The financial cycle and the liquidity flow
lack the required order to provide the small businesses with raw materials on one hand, and the purchase of their finished goods by the respective industries, on the other."

VI) Sixth Hypothesis:

One of the most important resources available for economic activists in all countries is the capital market. Taking this into consideration, on one hand and the financial problems of the small businesses on the other, the researcher puts forward the query whether the small businesses can use the available capital market to fulfil their financial requirements? In this way, the researcher presents the hypothesis that: "The SSIs have not properly taken advantage of the securities exchange as one of the most important sources for equity financing."

VII) Seventh Hypothesis:

The creditors are always concerned about the return of the principal and the interest of the amount which they have granted to individuals or entities. To make their economic decisions in granting the credit token, these creditors require a series of information which would convince them the return of the principal and interest at maturity with the minimum risk. The most reliable information which the creditors' decisions can be based on is the audited financial statements of the concerned economic entities.

As regards this introduction and the existence of financial problems in the small businesses, the researcher supposes that the lack of financing the small businesses might arise from the internal problems of the entity such as the deficiency and weakness of the financial systems in all aspects providing reports which are not accountable to the financial creditors' requirements. As a consequence, the researcher presents the hypothesis that, "The applied Financial and Accounting Systems of the SSIs are not adequately accountable and responsive to the financial statement users' requirements."

VIII) Eighth Hypothesis:

A large number of the manufactured goods of the small businesses are shipped straight to the consumption market besides being sold to the dependent industries (large-scale industries). Nowadays; major interpersonal financial events are performed on accrual basis. To increase their profit rate as a consequence of their sales volume, the industries and
companies are in the wake of planning new credit policies to grow their sales and profitability volume on the one hand, and to minimize the risk of bad debts, on the other hand. The major concern with regard to the credit policy is that if there would not be a regular and strong liquidity management, a major part of the company's liquidity would be changed into claims which would incur liquidity crisis.

Considering the financial problems of the small businesses and taking the above point into consideration, the researcher has formed the presupposition that the small businesses might decide to make high volume sales on credit to earn more profit and, as a consequence, most part of their liquidity sources would be converted into the claims which would not be met timely and this would incur financial problems for these industries. With this presupposition, the researcher has put forth the following hypothesis: "The supply rate of the finished goods of the small businesses to the consumption market has not been arranged on the basis of the market demand and this has caused major difficulties in the financial capability of the small industries."

9. THE SCOPE OF THE STUDY

I) Data for the Study

This research presently encompasses the small businesses with the employees ranging from 1 to 49. It has been performed in East Azarbaijan, in the Northwest of Iran, which is the oldest industrial region having the longest record in small business industry in the country. In fact, it can be claimed that East Azarbaijan, in the northwest of the country, is the most significant and the first industrial pole of the country and considering the brisk development of the small businesses, this region has got an essential role in the preparation of the required basic raw materials for the industries of the country. Consequently, the researcher has chosen the samples from this region due to the deep knowledge which he has had concerning the environment.

II) Period Under the Study

The Period under the study is of 6 years starting from 1998 to 2003.
10. RESEARCH METHODOLOGY

Methodology is a set of methods and principles used to perform a particular activity. Modern research work has been concerned with gathering data that can help to answer questions about various aspects of an economy, trade, commerce and so on.

In this study, the researcher has used a systematic and statistical method (Descriptive Field method) for collecting and analyzing data as the information was gathered from various sources.

10.1 Population Universe

In every research, the selection of population universe is a very vital decision as it is the base for collecting data in particular area and selecting of the samples. In this research, population that was related to three small scale industries has been selected for this survey (1. the food manufacturing 2. the mineral manufacturing 3. the auto-parts manufacturing companies).

10.2 Selection of the sample

The total population of Small Scale Industries of Iran "according to Small Scale Organization of Iran" is 61786 units. Due to the high volume of statistical population, the present researcher has selected the East-Azarbaijan province, as the domain of his study.

The sample selection for this survey, on the basis of secondary data issued by the Ministry of Industries, has been accomplished. Generally, these samples have been randomly selected on the basis of a reasonable classification with regards to the importance and amount of beginning capital of the manufacturing units as explained below:

A) The group of food manufacturing companies: This group, out of which 1400 units have been selected and with less capital requirement in comparison with other groups, has got an important and vital role in the life of people.

B) The group of mineral manufacturing companies: This group, out of which 191 units have been selected and with the advantage of high employment, has got cheap minerals as its major resources.

C) The group of auto-parts manufacturing companies: This group, out of which
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378 units have been selected and being a key and strategic industry has got a very high role in the ground of backing up the heavy industries (car manufacturing companies).

Finally, among these groups the companies with capital less than 700 million Rials (with Iran's currency that approximately equals $78,000) have been considered insignificant and consequently have been set aside in statistical population. Therefore, the selected companies are 267 units out of auto-parts manufacturing companies, 333 units out of food manufacturing industries, and 117 units out of mineral manufacturing companies. In the end, due to the high volume of the statistical population, the 30% of the above-mentioned population has been randomly selected as 100 units from food manufacturing companies, 35 units from mineral manufacturing companies and 80 units from auto-parts manufacturing companies as the survey basis.

10.3 Methods of Data Collection

One of the important tasks of the researcher, after choosing the research topic and design is data collection. The methods of collecting primary and secondary data differ since primary data are originally collected, while in secondary data the nature is merely that of compilation. The researcher has used both the types of collecting relevant information in this study as follows:

10.3.1 Collection of Primary Data

The researcher has used interview and questionnaire methods for primary data collection.

10.3.2 Collection of Secondary Data

The researcher has used secondary sources of data collection such as Internet, Websites, Books, Journals, Relative thesis and reports of Government of Iran, etc.

10.4 Analysis of Data

The purpose of this section is to test the hypotheses and to analyze the objectives established in the chapter methodology. Therefore in this stage of research the collected data has been included the editing, coding, classification and tabulation of collected data. The analyzing stage has been consisted the hypotheses testing through statistical tests of significance to determine the validity in which the conclusions have been based on. As this
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Study is hypothesis-testing research, it is considered adequate by the researcher to conduct the T-Test and Chi-Square Test ($\chi^2$) as a non-parametric test.

10.4.1 T-test method

In this method first average, variance, standard deviation value for each question has computed and then its affect regarding each one with use from T-test formula has surveyed in order to accept or reject any question and also finally has conducted for each hypothesis separately pertinent the research topic; This test has been analyzed by T- Test with "n-1" degree of freedom and significance level ($\alpha = 5\%$) with confidence level $(1-\alpha) = 95\%$. As a result at a certain level of significance for a given degree of freedom it could be stated that:

If calculated "T" < table value then $H_0$ is accepted;
If calculated "T" > table value then $H_0$ is rejected.

In this case researcher has analysis of data with help of SPSS statistic tools as well as Excel.

10.4.2 CHI-SQUARE TEST

Chi-square test (as a non-parametric test) is a test which describes the magnitude of difference between observed frequencies and the frequencies expected under certain assumptions with the help of chi-square test, it is possible to find out whether such differences are significant or are insignificant and cold have arisen due to fluctuations of sampling. This test has been analyzed by $X^2$ - Test with "(1-C) (1-R)" degree of freedom and significance level ($\alpha = 5\%$) with confidence level $(1-\alpha) = 95\%$.

The logic of Chi-square test can be pursued as follows:

If calculated Chi-square > Table Chi-square: do reject $H_0$
If calculated Chi-square \(\leq\) Table Chi-square: do not reject $H_0$

In this case researcher has analysis of data with help of SPSS statistic tools as well as Excel.

10.5 Related Variable

These are variables that study the relation between the variable and the purpose of the research. These variables are as follows:
10.5.1 **Dependent variable**: If one variable depends upon or is a consequence of the other variable, it is termed as a dependent variable. In this research, dependent variable contains the Financing of Small Scale Industries.

10.5.2 **Independent variable**: The researcher had studied about independent variable as the result of changing of these variables. The variable that is antecedent to the dependent variable is termed as an independent variable. In this research, independent variables are:

- State policies supporting small businesses.
- The process of credit allocation by the banking system and the conditions of giving superiority to small businesses in this regard.
- The interest rates exerted on these facilities and the amount of satisfaction gained by the small businesses through these interest rates.
- The extent of small businesses' capabilities in providing the required securities for getting the facilities.
- The criteria and laws exerted in granting facilities to small businesses and the amount of satisfaction obtained for small industries in this process.
- The governing bureaucracy in the way of granting facilities to small businesses.
- The efficiency of the Stock Exchange Market of Small Scale Industries.
- The business flow of SSIs with relevant industries.
- The business flow of SSIs with Market
- The skills and experiences of the staff and the applied financial system in the small businesses.
- The cash management system and the ability of this system in small businesses.
11. LIMITATIONS OF THE STUDY

Generally speaking, every researching activity is, more or less, accompanied with some limitations and this one is not an exception. Therefore, those limitations which have been incurred over this research project can be outlined in the following:

1. Statistical and informational limitations, rising from the lack of on time or incomplete publication of the data issued by governmental departments, have been the most important undesirable factor in the present research.
2. The absence of exact and reliable statistical information concerning the number and activity composition of small businesses in Iran.
3. The researcher does not have any control over the behaviorus and manners of the people who respond to the questionnaires.
4. The researcher does not have any control over the environment in which the research is performed.
5. The researcher lacks the availability of the documents which might be considered as top secret.
6. The Final Limitation of the Research, which the researcher has encountered in the practical process of the research, is that a series of small businesses did not answer the questions recorded in the questionnaires. Following up the matter, the researcher could solve part of this problem by convincing the selected units not to refuse the cooperation but in a few units the reaction was not positive; therefore this can be considered as a limitation.

12. ASSUMPTIONS OF THE STUDY

The researcher also assumed that:

1. The distribution of variables is normal, for data analysis.
2. Chances of choosing all samples are the same or with the least bias.
3. Every questionnaire is important.
4. Analysis of data takes place by accepted statistical mathematical formula and software.
5. All the information has been obtained from the small businesses, that is, the researcher has pinpointed (made a thorough study of) the difficulties in the way of small business in providing financial resources from their own viewpoints.

13. CHAPTER SCHEME

This study contains six chapters. The researcher has presented the various highlights of the topic of his research that are included chapter wise as follows:

Chapter one: Introduction & Research Methodology

In this chapter the researcher has made an attempt to make a clarification about some concepts. These concepts are as follows:

Concept of small enterprises, Definitions of SSIs in the world as well as Iran, Characteristics of small enterprises, Role of small scale industries, Financial resources, Barriers to SSIs development, Definition of research, Research design, Objectives of study, Purpose of study, Problem of study, Types of Variables (dependent and independent variables), Population universe, Selection of sample, Methods of data collection (collection of primary and secondary data), Statistics of research (tools of analysis data with T-test and Chi-square test), Scope of study, Hypotheses, Limitation of study and Assumption of study.

Chapter two: Review of Literature

In this chapter the researcher has made an attempt to explain some concepts. These concepts are as follows:

Theory of the small scale industry, Theoretical framework on finance, Credit market theory, Theoretical literature of finance, Role of government, A new approach to financing small & medium enterprises in developing countries, and Role of banks in financing small & medium firms.

Chapter three: The Macro Economic Environment and status of SSIs in Iran

In this chapter the researcher has made an attempt to discuss some concepts. These concepts are as follows:

Introduction, Economic growth, Inflation, Public finance, Investment, wage and labour market, Foreign trade, Privatization, Information and communication technology, Physical
infrastructure, Definitions of SSIs in Iran, Birthrates and bankruptcies, Financial standing of forward and backward linkages of large scale enterprises with industrial SSIs, Environmental issues, Technology levels, Government policy towards SSIs, and Some of the root causes for the relative underdevelopment of SSIs.

Chapter four: Financial Management as a function of efficient financing of SSIs

In this chapter the researcher has made an attempt to present some concepts. These concepts are as follows:

- Finance and related disciplines, Finance and economics, Finance and accounting, Finance and other related disciplines, Financing decision, Dividend policy decision, Objectives of financial management, Sources of financing related to SSIs (Working capital financing, Sources of long term finance), and Especial sources of financing, Other sources of loans related to SSIs

Chapter five: Analysis of Data and Interpretation

In this chapter the researcher has made an attempt to explain some concepts. These concepts are as follows:

- Introduction, Data analysis-Testing of hypotheses, Analysis of statistical data by descriptive and inferential methods, Test of questions of hypothesis number one up to number eight by T-Test and Chi-square Test.

Chapter six: Findings, Recommendations and Suggestions

In this chapter the researcher has made an attempt to discuss some concepts. These concepts are as follows:

- Introduction, Findings, Conclusion, Recommendations of research work, and Suggestions for future research.

Bibliography

The relevant information was gathered through books from different libraries, publications and articles from various journals. Similarly information on the related topics was accessed through internet and arranged alphabetically.
14. FINDINGS OF THE STUDY

The collected questionnaires resulted in a total of 164 usable responses including 89 Food M.C, 25 Mineral M.C and 50 Auto-Parts M.C so the researcher has given the points in brief about the significant major findings of his study that are as follows:

1. A large segment of SSIs believe that the government's role in favour of the small businesses to be reinforced through presenting consultation, supportive policies and etc. has been too poor.

2. In government's macro-economic policy-making, specific facilities with respect to the creation of the SSIs on one hand, and in carrying out the macroeconomic policies on the other hand, the government has not shown any tangible and required flexibility, such as reducing taxes, limiting or omitting some charges, in favour of speeding up the small businesses' activities.

3. As regards the subsidies' policy and the reduction of the accounts payable to the State by the SSIs, the government has not shown any flexibility in order to support the small scale industries.

4. Most of the SSIs believe that not only have the government supportive rules acted poorly with regard to financing the small businesses, but also the execution and efficiency rate of the rules in the improvement methods of financing the SSIs has not been so much successful.

5. The government has not applied the rules and long-term policies for the development or support of immediate capital markets specific for SSIs to help the improvement of small businesses' financing methods; however, if such rules have been applied, their functions have been too poor.

6. Most of the SSIs believe that neither have there been any specific rules and banking system as regards the distinction of SSIs from the large ones nor have they been carried out properly in case of existence and the banking system has not regarded any priority on the small businesses as the essential element for the country's economic and industrial development.
7. Most of the SSIs believe that little significance has been attached to the essential factors such as profitability, market potentiality of the product and management innovation capability in providing finance regarded by the creditors in appropriating the financial sources.

8. The governing bureaucracy on getting credit token from the banking system has been too long and this has decreased the efficiency and effectiveness of the economic decision-making with respect to the obtained credit token.

9. Most of the SSIs believe that the collaterals and securities required by the credit granters are not proportionate and reasonable with the SSIs' conditions and potentialities. As a consequence, the SSIs can't provide the costly collaterals and securities and for this reason they lose the opportunity of quick and timely finance.

10. The determined interest rate in the loan contracts is not proportionate to the SSIs' conditions and capabilities; therefore, because of the limited profitability, the small businesses can not afford the payment of the high interest of the credit system.

11. Most of the SSIs believe that the lack of timely raw material supply by the respective industries on one hand, and the delivery of the products to these industries on the other, and consequently the financial cycle based on these financial events has not been performed on the orderly cash management basis which has finally caused a lot of grave financial problems for these businesses.

12. Most of the SSIs believe (hold the belief) that the present procedures of finance lack the required competency to remove the small businesses' financial requirements. Therefore, new procedures, proportionate to the SSIs' status, must be established.

13. The stock market function as a source of equity financing for small businesses has not been satisfactory; consequently, most of the SSIs have set forth that they have not taken proper advantages of stock market as an important finance procedure.

14. Most employees of the financial departments of the SSIs have not got the respective university education and this factor has caused weaknesses in the financial systems which have consequently led to the lack of proper accountability to statement users and especially the creditors.
15. The applied hard-wares and soft-wares in the financial units (departments) of the small scale Industries are mostly in low level and this has reduced the efficiency and eventually the system's inability in accountability to the statement users and especially the creditors.

16. Most parts of the financial statements as a decision-making basis for the statement users have not, on one hand, been prepared on the basis the Generally Accepted Accounting Standards and, on the other hand, most parts of these reports have not been audited (investigated) by independent auditors. In other words, most parts of these reports lack the quality specifications of the financial statements.

17. A high percentage of SSIs do not enjoy making reasonable uses of working capital management system and its related analysis in controlling their liquidity (cash). As a consequence, part of these industries' cash(liquidity) problems are involved in the lack of efficient management tools application inside the business entity.

18. In the process of manufacturing their products, major small scale industries have made limited use of the practical procedures in the case of market requirement measurement. Therefore, this has caused limitations in the product sales level and eventually in the small businesses' liquidity and finance.

19. Production and product supply rate of most SSIs do not comply with consumption market demand. This gives rise to the inventory which by itself increases the costs and consequently the timely finance becomes difficult since the financial resources are blocked as current assets.

20. Major small manufacturing businesses have had very low application of the prospective product market potentiality analysis which is directly related to the prospective expansion activity process and incoming cash flows.

21. The applied investment volume in the SSIs is not proportionate to the production, sales rate and eventually with profitability and liquidity rate.

22. Part of the SSIs' received financial resources from credit systems have been spent out of the determined credit fund issue due to the inappropriate inspection.
15. CONCLUSION

The conclusion of this research study could be that there is a greater scope for the growth of small scale industry in Iran, for the ultimate purpose of achieving high level of economic development as well as industrialization in Iran. The fact is that small scale industry in Iran has been in isolation from the national development priorities. No doubt that in the past there has been no need for the Government to concentrate its efforts on the growth of small scale industry due to low effects of import substitution. However as the economy is growing and large percentage of population getting educated, it has become an imperative for the government to encourage small scale industry particularly in financing of SSIs.

According to the finding of the research, the government has not attached a significant contribution to the small scale industries in its macro-economic policies, on the other it has not implemented the particular supportive rules with regard to financing properly.

The banking system, as the leading source of financing the small scale industries, has attached little significance in the distribution of funds to the small businesses and the bases of granting credit to the SSIs have not been suitable with the circumstance of these industries.

The financial cycle of SSIs with respective industries lack the required order and also the supply rate of the finished goods of the small businesses to the consumption market has not been arranged on the basis of the market demand and this has caused major difficulties in the financial capability of the small industries.

The applied Financial Systems of the SSIs are not adequately accountable (responsive) to the financial statement users' requirements.

Finally there is no security exchange properly in the situation of the Small Scale Industries in Iran that these Industries can use of financing sources.

Towards this, it is inevitable that the Islamic Republic of Iran should confer high priority to the growth and establishment of small scale industries. In this regard it can be
rightly stated that the Iran’s policy makers have to make use of the experiences of some countries such as India in solving the financing problems of SSIs.

To sum up, the specific conclusions about the result of the present research study on the hypotheses according to statistical tests in the last chapter are following:

I) First Hypothesis: The government has not attached a significant contribution to the small scale industries in its macro-economic policies.

“Proved to be correct”

II) Second Hypothesis: The particular supportive rules with regard to financing the small scale industries have not been implemented properly.

“Proved to be correct”

III) Third Hypothesis: The banking system, as the leading source of financing the small scale industries, has attached little significance to the distribution of funds to the small businesses.

“Proved to be correct”

IV) Fourth Hypothesis: Due to the low significance to the bases and process of granting credit token attached by the banking system (including profitability competency, market potentiality of the product, justifiable reports, interest rate, collateral security, entity’s credibility and bureaucracy), the SSIs lose the opportunity to be financed immediately and in due time.

“Proved to be correct”

V) Fifth Hypothesis: The financial cycle and the liquidity flow lack the required order to provide the small businesses with raw materials on one hand, and the purchase of their finished goods by the respective industries, on the other.

“Proved to be correct”

VI) Sixth Hypothesis: The SSIs have not properly taken advantage of the securities exchange as one of the most important sources for equity financing.

“Proved to be correct”

VII) Seventh Hypothesis: The applied Financial and Accounting Systems of the SSIs are not adequately accountable and responsive to the financial statement users’ requirements.
"Proved to be correct"

VIII) Eighth Hypothesis: The supply rate of the finished goods of the small businesses to the consumption market has not been arranged on the basis of the market demand and this has caused major difficulties in the financial capability of the small industries.

"Proved to be correct"

16. THE RECOMMENDATIONS OF RESEARCH WORK

The researcher after the findings gives his own recommendations to the Iran’s SSIs policy makers that are as follows:

1. Develop a national policy for the development of small scale industries and integrate the same with the policies of economic development.
2. Consider the small scale industries as priority sector, which are useful in converting public savings in to commercial activities and generating employment opportunities.
3. Rationalize policies and procedures for financing the small scale sector, particularly the industries.
4. Reserve some products for the exclusive productions of small scale industries.
5. Develop intermediately financing agencies for the purpose of providing finance to small scale industries.
6. Develop infrastructure facilities and provide the same custom design basis to small scale industries at subsidized rates.
7. Be proactive in understanding and evaluating the financial requirements of the small scale industries.
8. Make provisions to provide compulsory financing to small scale industries. Some quota in the total finance should be reserved for small scale industries.
9. Direct the bank system to adopt a friendly approach in dealing with and appraising the financial requirements of small scale industries.
10. Direct the bank system to develop professional orientation in financing the small scale industries.
11. Make it mandatory on the part of the bank system to accord high extent of importance in considering finance to the following factors:

A) The feasibility of the project.
B) The entrepreneurial skills of the borrower.
C) The credibility of the borrower.
D) The part profitability of the firms.
E) The net worth status of the firms.
F) The market ability status of the products.
G) The technology and product uniqueness.

12. Do not allow the bank system to consider the following factors in financing the small scale industries.

A) Political influence.
B) Favoritism.
C) Higher authority influence.
D) Collateral security.

13. Develop a proper mechanism to monitor the financing practices and procedures particularly associated with the small scale industries.

14. Rationalize the interest rates as well as moratorium on repayment with common standards and should not leave the same to the discretion of individual national banks.

15. Consider establishing a marketing assistance agency, to help the small scale industries to market their products.

16. Promote a flexible environment for the venture capital specific to SSI to flourish.

17. Give a greater emphasis on training programmes to help banks’ staff understand the unique requirements of SSIs better.

18. Promote harmonization of the financial policy framework across economies which will promote cross-border strategic alliances including SSIs and facilitate transfer of experiences between the regional economies.
19. Provide funds to BIM (Bank of Industry and Mineral) to enable it to set up increased credit lines for industrial SSEs;  
20. Allow tax exemptions in less developed areas in order to create employment;  
21. Modify customs tariffs, taxes and other dues in order to encourage the SSIs’ exports.  
22. Attract domestic and foreign investments;  
23. Develop domestic financial resources to increase investments, and creating more employment by introducing incentives for small savers and investors;  
24. Simplify the regulatory framework for investments in the manufacturing sector;  
25. Tax rate reductions and Prohibitions on the levying of any additional taxes or duties, such as municipal corporate taxes;  
26. Allow granting of foreign exchange facilities to the private sector;  
27. Increase loans and other financial facilities by simplifying the banking system;  
28. Exempt the governmental levies and duties for investors in under-developed areas;  
29. Grant reduction in the tax rate for firms operating in underdeveloped areas;  
30. Upgrade the skill level of labour employed in the industrial sector;  
31. And finally it could be suggested that the Government should establish a national standards board for small scale industries to make provisions for maintaining quality standards in small scale industries. This will help to maintain competitive edge among the small scale industries in Iran.

17. SUGGESTIONS FOR FUTURE RESEARCH

Along with the findings and the recommendations, the researcher also has some suggestions to make for future research. They are as follows:

1. The study of the topic of research be made the base of the other types of SSIs.  
2. The investigation of the Banking System of Iran and the difficulties faced by them in relation to SSIs.  
3. The survey of the Economy of Iran and Industrial Policy with special reference to SSIs.
4. The study of the Stuck Exchange of Iran and causes of its inefficiency in SSIs.
5. The study of the difficulties of financing of SSIs of Iran in comparison with the experience of other countries such as India.
6. The investigation of proper financial markets for SSIs according to the experience of other countries such as India.

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