Hindering and fostering factors SMEs performance in the Western Province of Sri Lanka

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Abstract - *It is very significant to understand what factors affect the failure of Small and Medium Scale Industries (SMEs). The study is to empirically identify factors effecting on SMEs for the success and it's an exploratory using a sample form Western province in Sri Lanka. To study the failure factors of SMEs in Western province in Sri Lanka., forty six (46) samples were selected through systematic random sampling throughout the year of 2010 to 2016. A questionnaire is used for collecting primary data for this study and it includes five point of Likert scale questions. Researcher gives more weight to failed ventures because this research main objective is find out factors affecting the rate of failure of small business enterprises. Reliability of dimensions is test using with the support of Cronbach's Alpha Value. Validity of dimensions is test using convergent validity using KMO values. The results of the study revealed that out of eight factors affecting to failure such as Owner manager's attitude, Financial Issues, Raw material availability, Labor Availability, Technology Issues, Entrepreneurial knowledge, Feasibility study and Government Support ; the raw material availability and the government support are the most important factors for the success.*

Keywords - *Small and Medium Scale; Success; Failures*

1. BACKGROUND OF THE STUDY

Small and Medium Scale Enterprises (SMEs) contribute a major part of Sri Lanka's economy. SMEs are an essential source of employment opportunities and are estimated to contribute about 35 percent of employment and the SMEs play an important role in promoting inclusive growth. The focus on SMEs in policy discussions emanates also from their role in developing entrepreneurial skills, innovation and promoting economic growth. All governments have clearly recognized the role of SMEs in Sri Lanka. However failure rate of SMEs are very significant in the Sri Lankan context. Thus, the project focuses on the reason for failure in the SMEs sector with special focus on Western province in Sri Lanka..

The growth and expansion of SMEs are constrained by problems emanating from product and factor markets and the regulatory system they operate in. These problems fall into broad areas of access to finance, physical infrastructure, level of technology, regulatory framework, access to information and advice, access to markets, business development services, industrial relations and labour legislation, intellectual property rights, technical and managerial skills, linkage formation and environmental issues. This exploratory study aims to identify certain factors critical to the failure of the SMEs in Western province in Sri Lanka.

2. PROBLEM AND OBJECTIVE OF THE STUDY

As per the SME Development Bureau, State Ministry of Youth Affairs, 80% of the SMEs are failed within the five years of started and operation in Western province in Sri Lanka. Therefore, the study problem is to be studied in this study is what factors contributed to failure of small scale businesses in short period of operation in Western province in Sri Lanka. Thus, his study proposes to investigate the factors that lead to small business failures with particular attention to all SMEs. The study will be limited to the Sri Jayewardenepura Divisiontal Secretarial area. The main drive will be to investigate the reasons that led to all SMEs.

2.1 Objectives Of The Study

The research is to identify factors affecting the rate of failure of small business enterprises, to identify whether the factors of failures are different from one enterprise to another, to find out the motives which compel the entrepreneurs to wind up their businesses.

3. METHODOLOGY AND SCOPE OF THE STUDY

To study the failure factors of SMEs in Western province in Sri Lanka., forty six (46) samples were selected through systematic random sampling throughout the year of 2010 to 2016. The proportion for 20% surviving and 80% failure venture. Researcher gives more weight to

failed ventures because this research main objective is find out factors affecting the rate of failure of small business enterprises. SPSS will be used for analysis purpose. The study is limited to small-scale entrepreneurs who have failed their own businesses partly or fulltime within the Western Province in Sri Lanka and why became unsuccessful. SMEs are defined in variety ways by various counties using many parameters such as the number of persons employed, amount of capital invested, amount of turnover, and nature of the business or a combination of the two or more. According to developed and developing country category, there may be number of definitions. This study was utilized number of employees as the criteria foe select businesses in the category of SMEs. White paper (2002) defined 5-29 employees for small enterprises and30-149 employees as medium enterprises. The number of employees as the criterion for size appears reasonable because it distinguishes between enterprises regardless the line of business, and the amount of capital investment must be revised frequently due to inflation (Ponnamperuma, 2000)[9].

4. SUMMARY OF LITERATURE REVIEW

According to the Stokes and Blackburn (2002)[14] business closure and owner manager exists is known about the discontinuation of enterprises. Further, failure is generally regarded as the discontinuation of the business due to a lack of adequate financial resources. Reason for failure has considered the role of the owner in business closures, thus a distinction is made between the business that closed and the owner exited from it.
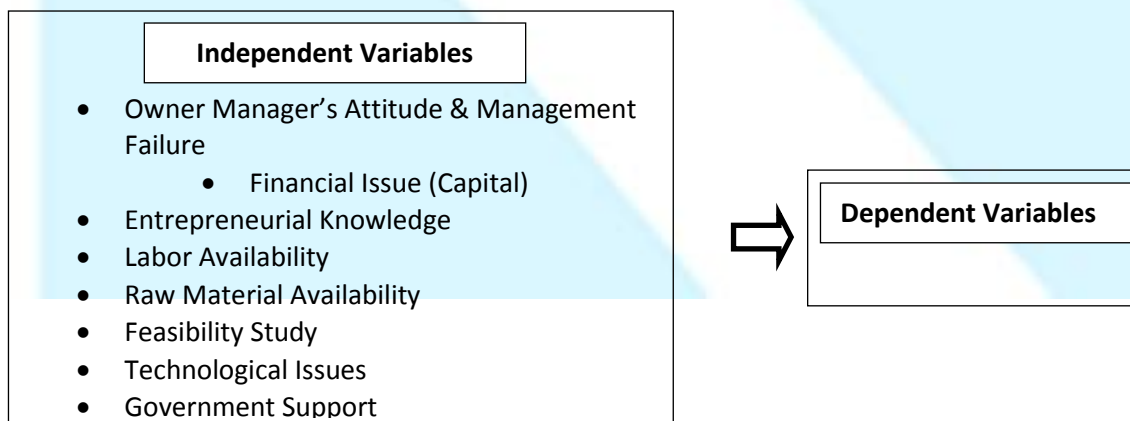
Kirkham, Richbell and Watts (1998)[7], explored in a single plant firm, plant closure is usually associated with business failure whereas, in a multiplant firm, plant closure may be a route to business success. In addition, they mentioned many closure decisions are not based on financial parameters as such but are usually a response to

a number of plant based characteristics. Latha and Murthy (2009) identified that high price of raw materials, lack of marketing information and marketing of products are major problems faced by the entrepreneurs, followed by completion from small industries and absenteeism of labor. Ghosh, et al. (2001)[5] identified small retailers in Singapore, like their counterparts in many European countries and Japan; find it difficult to compete with multiple retailers and chain stores. Fernández and Nieto (2005) [4]emphasized both internal and external challenges which impact negatively on sustainability and employment generation were the main reasons. Corruption and crime; multiple taxation; high competition and infrastructural base are identified as external factors. Everett and Watson and Everett (1993) explored the impact of various key macro-economic variables on small business failure rates. They identified variables of failure rates were positively associated with interest rates and the rate of unemployment. Based on the litterateur ten key factors are possible to identify and these factors are disaster & crises, fierce market competition, infrastructural inadequacy & lack of social support, multiple and high taxes, poor accounting and book keeping, management Inability, poor marketing and sales efforts, poor Economic conditions, improper and poor planning and financial problems. This study attempted to identify the most crucial factor influencing SMEs failure in the Western Province in Sri Lanka.

5. CONCEPTUALIZATION OF CONCEPTS

The objective of this study is to examine the "factors affecting the failure of SMEs in Western province in Sri Lanka. Division". To achieve the objective of the study uses eight variables and the expected relationships are shown below. Base on the literature survey of the study, conceptual framework is presented as in Figure:1 which this study is going to investigate.

Figure: 1 Conceptual Frameworks

6. RESEARCH METHODOLOGY

The methodology of a study is a critical phase in the researching process. The purpose of this study is factors affecting the closure of SMEs in Western province in Sri Lanka. Division. Thus the population of this study is all the SMEs operated in Western province in Sri Lanka. Division. Sample is a sub set of population where the researcher draws conclusions and generalize the conclusion to the population of interest Establishment year was taken into account in selecting the sample of the study. Accordingly, ventures that have less than 5 years of operations were excluded from the sample and the special attention was given to numbers of employees in ventures when it is a respondent venture for the study. For this study 46 sample has been selected using systematic random sampling. A questionnaire is used for collecting primary data for this study since the measurement scale for constructs are adapted from existing literature. It includes five point of Likert scale questions where, the respondents allow to specifying their level of agreement and scores are ranging from 1 to 5 respectively for the level of agreements.

7. DATA ANALYSIS AND PRESENTATION

The data collected from the structured questionnaire is tabulated and prepared for the analysis. The data were summarized and presented as general information about the respondents. The age of firm was taken in to consideration and the majority of respondents in the sample were from business between 5-10 years of operation (56.5%) and this is given in Table 1.

7.1 Validity and Reliability of the Variables

For analysis data we must check whether data are reliable and valid. If data are not reliable or not valid, our final answer also not reliable and not valid. Reliability of dimensions is test using internal persistence.

Table 1: Year of Established

Year of Established					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	1-2	2	4.3	4.3	4.3
	3-4	9	19.6	19.6	23.9
	5-7	11	23.9	23.9	47.8
	8-10	15	32.6	32.6	80.4
	More than 10	9	19.6	19.6	100.0
	Total	46	100.0	100.0	

Source: Author Compiled (2016)

Thus with the support of Cronbach's Alpha Value we are in a position to identify the co-relation statistically. The reliability tests statistics are shown in Table 2.

Table 2: Reliability of Variables

Dimensions (Variables)	No. of Items	Cronbach's Alpha
Owner manager's attitude	4	0.920
Financial Issues	5	0.871
Entrepreneurial knowledge	4	0.888
Labor Availability	4	0.909
Raw material availability	4	0.932
Feasibility study to start business	4	0.869
Technology	4	0.929
Government Support	4	0.882
Failure	6	0.873

Source: Author Compiled (2016)

If we use above indicators to measure dimension all Cronbach's Alpha Values of dimensions are greater than 0.85. Then we can say that all dimensions are reliable. Validity of dimensions is test using convergent validity under construct validity. Construct validity means that adequacy of the indicator to measure the construct, sufficient indicators have we. The researcher KMO values and Bartlett's test for this purpose.

Table 3: Calculation of Validity of Variables

Dimensions	No of Items	KMO	Bartlett's Test		AVE	Factor Loaded
			Chi	Sig		
Owner manager's attitude	4	0.625	161.664	0.000	0.80681	√
Financial Issues	5	0.733	130.221	0.000	0.6781	√
Entrepreneurial knowledge	4	0.781	109.609	0.000	0.754	√
Labor Availability	4	0.813	126.461	0.000	0.7855	√
Raw material availability	4	0.673	205.119	0.000	0.83224	√
Feasibility study to start business	4	0.683	115.588	0.000	0.7328	√
Technology	4	0.847	144.05	0.000	0.83	√
Government Support	4	0.761	105.159	0.000	0.744	√
Failure	6	0.759	194.990	0.000	0.6493	√

Source: Author Compiled (2016)

In accordance with the table all KMO values are greater than 0.5. Likewise, all Sig values also persistently maintain the condition of values being lesser than 0.05. So we can safely conclude that the validity of this research lies at a higher position.

7.2 Descriptive Statistics of Variable

To achieve the research objectives of this study nine construct and the descriptive information about the variables are given in Table 4.

Table 4: Descriptive Statistics of Variables

	Questionnaire	Minimum	Maximum	Mean	Std. Deviation
Failure	46	1.83	3.67	2.9638	.44847
Owner manager's attitude	46	1.00	4.00	2.5109	.73211
Financial Issues	46	1.60	4.20	3.1130	.77132
Entrepreneurial knowledge	46	1.00	4.00	2.7228	.75504
Labor Availability	46	1.00	4.00	3.2337	.76631
Raw material availability	46	1.00	3.75	2.6685	.78891
Feasibility study	46	1.00	4.00	3.0000	.75462
Technology Issues	46	1.00	4.00	2.6250	.65564
Government Support	46	1.75	4.00	3.2174	.66376
Valid N (list wise)	46	-	-	-	-

Source: Author Compiled (2016)

7.3 Relationship between SME failure and factors that affected to the SME Failure

The study tests whether there is relationship between SME failure and factors that affected to the SME failure by using Correlation analysis. The data indicate the raw material availability and the government support have the highest correlation with the failure and this was shown in the Table 5.

Table 5: Relationship between SMEs Failures

Dependent Variable	Pearson Correlation	Sig.
Owner manager's attitude	.483**	.001
Financial Issues	.522**	.000
Entrepreneurial knowledge	.276	.063
Labor Availability	.303*	.041
Raw material availability	.601**	.000
Feasibility study	.509**	.000
Technology Issues	.485**	.001
Government Support	.540**	.000

Source: Author Compiled (2016)

8. DISCUSSION AND CONCLUSIONS

The results of the study revealed that out of eight factors affecting to failure such as Owner manager's attitude, Financial Issues, Raw material availability, Labor Availability, Technology Issues, Entrepreneurial knowledge, Feasibility study and Government Support ; The raw material availability and the government support have the highest effect on failures. It is in line with the previous research done by Lavanya Latha and N. Murthy, (2009)[8]. Positive relationship between SME failure & Owner manager's attitude and it is in line with the research discussed by David and Blackburn (2002).

It also found that there is weak positive relationship between SME failure & labor availability. The foregoing analysis makes it clear that the most important problems faced by the Entrepreneurs are related to raw materials, government support and finance issues. The problem of availability of raw material and government support appeared to be of special significance to the entrepreneurs in the University of Western province in Sri Lanka. Raw material is a main concern of this industry, if it is difficulty find cheap and quality raw material. The government or local authority should take necessary steps to make available row material in good quality for SMEs in Western province in Sri Lanka. or they should take necessary steps to coordinate the government suppliers for the SME sector.

Government financial system is urged to extend credits facilities with minimal interest rate as a means of resolving the challenges of credit not often assessable and empowering emerging small scale industries through stimulus packages. Further, there is need for the various tiers of government to deal decisively with crime and corruption in both public and business community coupled with streamlining the multiple taxation and finally improvement in infrastructural facilities. Government policies need to be streamlined and simplified. Effective coordination among all the government and non-government is essential and their emphasis should be more on results rather than on more numerical targets.

9. REFERENCES

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