

A COMPARATIVE STUDY OF TWO SME'S IN SRI LANKAN CONTEXT

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ABSTRACT

A compressive study was conducted to investigate the factors affecting to success of SMEs' performance such as educational level, capital availability and etc. Initially through our literature review, we identified several vital factors which affect to the performance of SMEs. The scope of the research is vested with these factors. We examined the intervention of these factors for the performance of SMEs.

Further the study examined the nature of these factors in term of internal and external. We categorized the personal factors as internal and the factors from the outside environment as external factors. We are going to analyse which factors have more influence over the performance of SMEs. For this investigation interviews were conducted to gather information as the main data collection method. Other than the interviews we used documentary analysis to gather more information.

The research population was the SMEs in Sri Lanka. The sample was the purposive sample to convenience of study. Through our data analysing part we hope to identify to what extent the personal factors affect the management and successful of the business.

INTRODUCTION

This effort is to figure out the Factors that influence the performance of SMEs. There have been many attempts to assess the relative importance of a range of factors which may affect performance of SMEs.

This was drafted by analysing both internal and external factors, technical, communication and functional skills, commitment, financial feasibility, attitudes and language proficiency, internship requirement, competitiveness of obtaining professional qualifications, resources and facilities and family background that would discuss much in detail in later chapters. There are numerous reasons that influence performance of SMEs.

Therefore we believe what is discussed in later would possess much value and would be a good guidance for all the parties who need to identify relationship between educational level and success of business. We selected a purposive sample due to convenience of study.

PROBLEM STATEMENT & RESEARCH QUESTION(S)

Overview

The study is aimed to determine social evidences of the factors affecting the performance of SMEs.

Due to the complexity and the competitiveness of current business world, today it is difficult to continue a business for every person. Lot of businesses start and ceased within a short period of time. In this study we have selected two businesses which have achieved success under different criteria.

The person that enter into the business world come from different social backgrounds in Sri Lanka have different life experiences, different educational opportunities, expectations, needs and varied academic potential. It can be identified factors as personal and external factors basically affecting to the performance of SMEs. The successful performance of SMEs is influenced by technical, communication and functional skills, commitment, financial feasibility, attitudes and language proficiency which are internal to the person. In addition, there can be

identified several external factors; internship requirement, competitiveness of obtaining professional qualifications, resources and facilities. Through this research it is tried to find to what extent those factors affect to the successful performance of SMEs.

Research Question/Hypothesis

The research questions posed whether the above variables which are personal and external to the successful performance of SMEs.

RESEARCH OBJECTIVES

Overall Objective

With this study it may able to identify various factors that have been affected on the successful performance of SMEs. Throughout the study it will be discussed the both negative and positive perspectives of the factors that affect the performance of SMEs. Overall objective of this study is to identify which factors are highly affected on successful performance of SMEs.

Specific Aims

Specific aim of this study is to identify relationship between educational level and performance of SMEs. And also to find the reasons why some organizations performing superior while others are growing slowly or became failure.

SIGNIFICANCE OF THE STUDY

When we consider about this topic, we think that this research provides better understanding of how different factors influence successful performance of SMEs. Once SMEs have entered to the business industry, a number of factors may affect their performances. Here, we are not going to look into every SME in the industry, but two different SMEs. Finding out how different factors affect successful performance of SMEs would help SMEs to improve the quality in their industry. This study attempts to examine factors affecting the successful performance of SMEs.

This study is to be conducted with the objectives of identifying the most significant variables affecting the successful performance of SMEs. The data for the study is to be gathered from a selected sample of two different SMEs through semi-structured interviews and documentary analysis. We have recognised the factors in terms of internal factors and external factors. Internal class factors, for this study purpose, we take education, family background and so on. External factors represented the outside factors such as capital availability, business opportunities and so on. Categorizing the factors into two groups will easier to find out what factors have more impact and what are not. Therefore, considered as whole, it can be concluded that awareness of the factors impacting the successful performance of SMEs.

LIMITATIONS OF THE STUDY

There are several limitations associated with this study. One of the identified limitations was the restrictions imposed on the feelings of the owners based on their family backgrounds. The researcher could not able to gather real data because owners don't like to reveal the facts that affect to their privacy. In here we intended to explain about only two SMEs within the industry. Therefore, the findings are not claimed to be generalize.

Finally, the study relied on the use of semi-structured interview to collect the required data. As is well known, there are many drawbacks associated with the use of interviews as a means of collecting data; hence the validity of the results may be impacted.

LITERATURE REVIEW

Many researches have been carried out for identifying factors which both negatively and positively affect to performance of SMEs in different countries and contexts. Business crisis is a tragedy. SMEs are an important sector that supports the economic growth and social development. Thus, failure of SME sector companies is an economic and social cost to the economy. There are various causes found by scholars for business failure. These causes differ from country to country, region to region, and business to business, but there are common factors such as lack of managerial skills, lack of or improper accounting, lack of financial controls, lack of internal control systems, lack of business experience etc. Apart from these mentioned causes, integrity and business policies as disciplines are critical. The lack of these critical factors can bring misfortune to business (Chamara Bandara, Chief Executive Officer SCB Corporate). Also government authorities introduced national policy framework to development of SMEs. SMEs are the backbone of our economy. In light of that the Government of Sri Lanka is seeking to create the best possible general conditions for SMEs with an SME Policy Framework. Government strongly believes that the policy will foster small enterprises to grow into medium enterprises and medium enterprises to grow into large enterprises. The private sector should take full advantage of the basic provisions and realize their full potentials (Ministry of Industry and Commerce).

Business crisis is a painful circumstance that affects everyone, directly or indirectly. Many SMEs fail in early stage of their life cycle. In Australia, 7.5% of businesses in SME sector fail (Bickerdyke, I., Lattimore, R., & Madge, A. 2000). Similarly, in the UK, between 350,000 and 400,000 closures are recorded annually representing 10% their business operations (Pratten, 2004). In Canada, almost half of the firms become bankrupt not because of exogenous factors, but due to internal deficiencies (Baldwin, J., Gray, Sabourin, D. 1997). (Ahmad and Seet, 2009), in a qualitative research on the behavioural aspect of business leaders identified that wrong behaviours might have a negative impact on business success. Among such behaviours is the failure to formulate strategic plans resulting in the lack of business direction. If business runs without strategic direction, it will lose the focus and will end up doing various unrelated things. If the focus is lost, it creates disputes among the management, employees and other key

shareholders. Possibility of increasing the actual monetary cost and the opportunity cost is higher.

It is no doubt; anyone can start a new business. An entrepreneur may start a business due to a unique reason or due to common reasons explored by scholars. “Need for Achievement”. (Gamage, H.R., Cameron, D., & Woods, E. 2003). The motivational factor of an entrepreneur is a social psychological drive among the people that leads to economic development. In the need for achievement, we can see why someone wants to start a business. It may be due to unemployment, the need for power and affiliation, prestige, security, financial self-sufficiency, self-confidence and self-actualization. Social intimacy also plays a major role in business start up. The need for social power, social relations and collectivism are elements of social intimacy. Someone can think that success of a business is purely a matter of capital investment and availability of a market. However, the world has witnessed that even with those basic ingredients, businesses still fail. Because it indicates to us that there are some other reasons that result in business success or failure.

Integrity is a basic element of business success. Cultivating business integrity among the business leaders and employees builds a trust-based culture. Therefore, businesses should practice integrity as a business strategy in order to achieve sustainable business development. If business leaders apply integrity as a strategy in the business place that will restrain illegal practices and unethical conducts, and will create a better human bond reputation. Integrity, It cannot be explained in a word. No doubt, it is beyond honesty. Integrity is the moral spirit of human being to practice disciplines in society. Andrew Leigh, stated in one of his articles “apart from staying honest, integrity is clearly about morality”. Small and Dickie (1999) have stated by Paine (1996) that Cicero and Benjamin Franklin had written about integrity, both of them arguing that integrity was the cornerstone of worldly success (cited in Werhane and Freeman, 1997, pp. 335-36).

RESEARCH DESIGN AND METHODS

Overview

The study is aimed to determine social evidences of the factors affecting the performance of SMEs.

Due to the complexity and the competitiveness of current business world, today it is difficult to continue a business for every person. Lot of businesses start and ceased within a short period of time. In this study we have selected two businesses which have achieved success under different criteria.

Population and Study Sample

The population for this study is the successful SMEs in Sri Lanka. The sample includes two different successful SMEs operated within the industry. We have selected this purposive sample for the convenience purpose.

Sample Size and Selection of Sample

The size of the sample is two. We are going to select two different successful SMEs operated within the industry for the convenience purpose.

Sources of Data

Sources of data in this research can be divided into two bases in terms of primary and secondary. Here, we are supposed to use primary sources on which to confirm our research and findings. Primary data is expected to collect from semi-structured interviews, documentary analysis and observations.

Collection of Data

The data will be collected through a semi-structured interview. A semi-structured interview will be created as a measuring instrument for the study. Interview is focused on some specific questions and other areas cover depend on answers and explanations given by the interviewee.

Data Management

All the team members will be responsible for data management. Each one will be assigned with the responsibilities on data management. Data will be collected and processed and use a tape recorder properly and data protection will be carefully planned and executed. Written product will be produced after carefully studying and transcribing all the recordings.

Data Analysis Strategies

When data analyze, it is given priority to concepts that are given by interviewee. Numerical relationship cannot be identified due to it is only collected qualitative data.

Ethics and Human Subjects Issues

The permission will be received from the authorized persons by personally creating contacts with them. The respondents will be acknowledged about the study and the purpose of the study and assure them the protection and confidentiality of the collected data.

DISCUSSION

Different factors affect the success of the SME's and mainly two factors are highlited. Those are education level and family background. It is significant to mention that in this study successful SME'S are only studied. We can see that educated person's developed their business in a short period than less educated persons. Educated persons identify their ability within a short period than others. We can see that educated persons establish their business in a specific filed and they develop their business. Less educated persons stared their business in a one filed and they change it with the time and result of the business.

SUMMARY AND CONCLUSION

The overall objective of this research study is to investigate factors that affect the successful performance of the SMEs. Throughout the study it will be discussed both negative and positive perspectives of the factors that affect on the successful performance of SMEs. The main focus is to identify which factors are highly affected on successful performance of SMEs. The successes of SMEs depend on various social factors.

This research hopes to identify the time duration that need different SME's to achieve success. It also depends on the various social factors that affect the successful performance of the SMEs. From that we hope to emphasise that specific factors such as educational level, social facts affect to the performance level of SMEs and also that facts affect to different level of time periods to accomplish the success and overall objective of SMEs. Therefore it is better to obtain an understanding about the highly affected social factors on successful performance of SMEs and grow, sustain within their industry.

Specific aim of this study is to identify relationship between educational level and performance of SMEs. And also to find the reasons why some organizations performing superior while others are growing slowly or became failure.

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Appendix

Machalam Greshan Almeda is employed as the current director of the MG medical. Although he was not lucky enough to get through to university, but he was courage enough to undertake this company while employing a lot of employees with his self-skills, talents as well as the courage to face to the risk with the a lot of obstacles. MG Medicals is not coming from generation with the spoon of his parents and relatives. It's a well-developed new company with a lot of courage of him.

Initially he was employed in various types of jobs but fitter job was the foundation for MG Medical. He initially employed in that job with another company. While he was employing, he developed and specialized in that area and then he started his own business. Gradually the company was being developing and as the order has been placed for hospital equipment's such as beds, tables and so on and also he was found what is market the goods should be supplied and who were the customers, who were the suppliers who would take strength to the company and they considered a lot about the quality of products as well. Then they were able to attract more customers to the company. Then also they started to distribute produced medical equipment of other companies and with it they started the company as a business company in 2002 named as MG Medical (Pvt) Ltd.

Gradually they become as the medical equipment supplying company to the most of the big private hospitals of the country. Mainly their products are subject to four categories.

- Hospital Furniture's
- Medical equipment
- Rehabilitation aids
- Medical consumables.

The speciality of this company is that the relatives have been appointed as top management and through that maintaining a good control over the company. They are working hard to be the best medical item provider in the country as well as to the world.