An Empirical Study on Factors Affecting Success of Small and Medium Enterprises with Special Reference To Elpitiya DS Division

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Abstract – Small scale businesses provide a greater contribution to the economic development in a developing country like Sri Lanka. However most of them fail within first few years. The problem statement in this research is that there is insufficient knowledge relating to the factors contributing to the failure or success of small businesses in Elpitiya divisional secretariat. The study was undertaken with the objective of identifying the key factors affect the success/failure of small business enterprises and create awareness of how people should initiate and lead their businesses by looking at factors influencing business which may help to reduce the risk of failure and raise probabilities for success. The study considered eight factors that influence the business success. These factors are: founder experience, socio economic background, skills and knowledge, values and expectation, industry characteristics, management and resources, labour and technology and financial base. The theoretical framework has been drawn out and questionnaire was designed based on the factors chosen. The data were collected from 200 respondents which comprise 100 successful and 100 failed entrepreneurs. Hypotheses were developed to study the determinants and tested with SPSS and few hypotheses were accepted. The analysis revealed that the most significant factors affecting success of businesses were education, management and resources, financial base, and socio economy. Findings of this study are useful for entrepreneurs and policy makers of the country.

Key Words: Business Success, Failure, Small Business, Developing Economy

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are vital in economic growth of countries. All developed and developing countries have recognized the importance of SMEs because they have the capacity to achieve rapid economic growth, while generating a considerable extent of employment opportunities [4] Promotion of SMEs results increase industrial output of a country and thereby increases the share of the industrial output in GDP and finally it may enable to maintain a significant economic growth together with rapid industrialization.

Table 01 shows that the percentages of total industrial employment and the total industrial establishments contributed by SMEs are very high in the selected group of countries.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Industrial Establishment</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>94.0</td>
<td>92.0</td>
</tr>
<tr>
<td>England</td>
<td>81.4</td>
<td>76.7</td>
</tr>
<tr>
<td>United Nation</td>
<td>76.3</td>
<td>81.7</td>
</tr>
<tr>
<td>Philippine</td>
<td>51.0</td>
<td>90.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>49.8</td>
<td>88.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>49.3</td>
<td>96.0</td>
</tr>
</tbody>
</table>

Source: Small Industry Bulletin for Asia and Pacific, United Nations publications

The importance of SMEs is significant not only for the developed countries but also for the developing countries, for instance, there are 1.7million units of SMEs functioning all over the country and they comprise half of the total industrial establishment. In 2012 a half of the industrial employment has been contributed by SMEs, and they contribute 22.6% of total export earnings [3] The function of SMEs in most of the developing countries is very important in generating employment and increasing national product, thereby increasing the industrial output.

Development of SMEs is significant in the developing countries like Sri Lanka, which suffered...
from problems of unemployment, lack of investment, balance of payment, poverty [1]. Growth of SMEs provides a solution for the complex economic problems of a country. They help to solve unemployment problem to a considerable extent and also create more employment opportunities than that of large industries, since they are labor-intensive industries [6].

Resources extended all over the country could be utilized efficiently and economically in developing SMEs and they help to improve the rural sector as well. Problem of income inequality, balance of payment, lack of capital, technology etc. could be solved by promoting SMEs, and they help to increase countries’ national income, thereby enhance the living standard of the people. So the development of SMEs in developing countries like Sri Lanka is very significant [1].

In the political and economic history of Sri Lanka after the independence, all the successive governments have recognized the importance of developing SMEs. In addition, a large number of government institutions and various non-governmental institutions pay attention towards the promotion of SMEs providing financial, technical, marketing, training and some other assistance. The deepening of financing facilities to SMEs sector remains a priority in the government development strategy. In 2013 approximately Rs 546.383 million was provided by both state and private sector commercial and development banks to promote SMEs [1] SMEs contribute 30% to the GDP, 35% of employment, & 30% of manufacturing activities and 20% of exports [2].

Although SME industries are so important to the economy, statistically most small business fails in the first few years. Statistically, approximately 66 percent of new businesses survive two years or more, 50 percent survive at least four years, and just 40 percent survive six years or more [5].

In Sri Lanka, Adaderana.lk conducted an interview in theme of “starts it up” programme for a guidance workforce for young entrepreneurs. It mentioned Start up business has a very high failure rate in Sri Lanka with almost 33% of business shutting down within their first two years.

According to Elpitiya divisional secretarial office report, in year 2014, 1062 small business ventures have been started during the period of 2010 to 2014. From those businesses only 820 small business are surviving in the market while rest of 242 has been failed during those years.

<table>
<thead>
<tr>
<th>Category of Small Business</th>
<th>Surviving Venture 2010-2014</th>
<th>Failed Ventures 2010-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverage</td>
<td>125</td>
<td>28</td>
</tr>
<tr>
<td>Textile</td>
<td>81</td>
<td>24</td>
</tr>
<tr>
<td>Metal Product</td>
<td>42</td>
<td>12</td>
</tr>
<tr>
<td>Construction Material</td>
<td>53</td>
<td>15</td>
</tr>
<tr>
<td>Wood and wood product</td>
<td>28</td>
<td>09</td>
</tr>
<tr>
<td>Polytheine and plastics</td>
<td>76</td>
<td>21</td>
</tr>
<tr>
<td>Printing and paper</td>
<td>54</td>
<td>20</td>
</tr>
<tr>
<td>Chemical</td>
<td>21</td>
<td>08</td>
</tr>
<tr>
<td>Agro Product</td>
<td>98</td>
<td>29</td>
</tr>
<tr>
<td>Fisheries</td>
<td>79</td>
<td>18</td>
</tr>
<tr>
<td>Services</td>
<td>72</td>
<td>21</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>91</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>820</td>
<td>242</td>
</tr>
</tbody>
</table>

(Source: - Elpitiya Divisional Secretarial Office report year 2010-2014)

The researcher intends to study the factors affecting the failure of small business.

I. RESEARCH QUESTION

What are the factors affecting the success of small business in Sri Lanka?

II. METHODOLOGY AND METHODS

While there is a mass of literature concerning small businesses and entrepreneurship there is no generally agreed theoretical framework for carrying out research in this field. In order to facilitate research and understanding of a vast literature on business formation researcher developed a research framework based on the extant literature. The framework has been designed specifically to aid research relating to very small or micro businesses and may not be considered useful where larger businesses are being investigated. The research framework is adopted from Watson et al., (1998). The conceptual frame work of the study has been shown in Figure 1.

#### Characteristics of the Founder

i. Experience
ii. Socio Economic background
iii. Skills and knowledge
iv. Values and Expectation

Available online: http://edupediapublications.org/journals/index.php/JSMaP/
Traditional analyses of small firm success/failure have used statistical models of financial characteristics taken from models of established businesses [8]. While this approach provides useful performance models for established businesses, it is inappropriate for assessing the viability of new ventures where the skills and aspirations of the entrepreneur are likely to be of paramount importance.

The factors identified were by a review of the literature on small businesses and entrepreneurs. Clearly there are many determinants of business success and growth even in very small businesses. Successful entrepreneurship is undoubtedly a complex phenomenon and both internal and external factors impact on business performance.

However, with small businesses and particularly new ventures, the influence of the founder in defining the business concept and mode of operation is of paramount importance. In this context business enterprise consists of both the founder and the business entity. Based on the theoretical framework, the following hypotheses were derived.

H10: There is no relationship between experience and business success in SMEs.

H20: There is no relationship between socio-economic background and business success in SMEs.

H30: There is no relationship between Skills and knowledge and business success in SMEs.

H40: There is no relationship between values and expectation and business success in SMEs.

H50: There is no relationship between industry and business success in SMEs.

H60: There is no relationship between financial base and business success in SMEs.

H70: There is no relationship between labour and technology and business success in SMEs.

H80: There is no relationship between management and resources and business success in SMEs.

A self-designed questionnaire was used to gather the research data. The questionnaire consisted of two parts. The first part comprised demographic characteristic and profile information of the respondents. Part two consisted of 41 questions which were intended to measure the factors of business success, using four point likert scale anchored by strongly agree to strongly disagree.

III. RESULTS AND DISCUSSION

Descriptive analysis shows that out of 200 respondents, there were more male than female respondents. The results show that 66.5% of the respondents are male. Among them 52.6% male oriented business were failed within few years 47.3% of males only succeed in their endeavor. 33.5% are female among them 55.2% of females are succeed in their undertaking whereas 44.8% failed.

The majority of respondents, a total of 106 (53%) were aged between 25 to 34 years of old, 21.5%were aged between 35 to 45, 19% (22) were aged below 25 years old, and 6.5% (13) of the respondents were from age above 45 years old. Considering the educational qualification, highest percentage 52% of entrepreneurs represent category of G.C.E. (O/L) among the failed ventures. But in the surviving ventures highest 57% represented entrepreneurs who have G.C.E. (O/L) education qualification. Very few graduates were involving to the small business. It represented only 2% & 7% for failed and surviving ventures respectively. Below grade 11 categories also represented small portion (9% & 6%) for failed & surviving ventures.

Duration of business is another personal factor. The highest percentages of 35% represent ventures which had existed below 2 years and lowest percentage of 16% represent business which had existed five years. 27% of business had existed only for 3 years and 22% of business had existed for 04 years. These percentages were for failed ventures.

When considering the surviving ventures, it was shown that highest percentage of 43% represented
business which had existing for 5 years. The lowest 10% represented business which had existed for 3 years. It represented 20% and 27% for those businesses less than 2 years and for 4 years.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.753</td>
<td>0.567</td>
<td>0.544</td>
<td>0.184</td>
</tr>
</tbody>
</table>

(Predictors: (Constant), Education, Value and Expectation, Socio Economic, Business knowledge, financial base, labour and technology, industry, skill and knowledge, management and resources.)

Value of R (0.753) shows the strong relationship between dependent and independent variables. Furthermore, the value of adjusted R Square (0.544) in the above table represent that the model used in this study explains 54.4% variation on business success cause by independent variables.

The results indicate that financial base, management resources, business knowledge, socio and economy, management and resources and education are the most significant determinants of business success of SMEs in Sri Lanka.

IV. CONCLUSION

The study attempts to find out the most significant factors that affect the business success of SMEs in Elpitiya divisional secretariat Sri Lanka and found out financial base, business knowledge, social and economy, management and resources and education are the most significant determinants of business success of SMEs in Sri Lanka.

V. REFERENCES


[7]. UNITED NATIONS INFORMATION AGENCY, (1994), Economists Challenge Claim Small Firms