

# ANALYSIS OF FACTORS INFLUENCING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NORTH CENTRAL PROVINCE IN SRI LANKA

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## Introduction

Small and Medium Enterprises (SMEs) play very significant role in the economies of both developed and developing countries, representing well over 90 percent of all manufacturing enterprises in the world. Over the years, SMEs have gained wide recognition as a major source of employment, income generation, poverty alleviation and regional development in Sri Lanka. While little empirical research has addressed the small firm performance, even few studies have concentrated in rural areas; this study aims to examine the factors influencing the performance of SMEs in North Central Province (NCP) in Sri Lanka. The study directs to SMEs owner Managers to examine their character traits, strategic capabilities and external environment influences and effect of them towards the firm performance.

## Materials and Methods

Data for the study were collected through standardized questionnaire distributed among 175 owner managers selected from manufacturing SMEs in the selected region. As there was no official list of SMEs established in the Province, 175 SMEs were selected through convenient sampling. Statistical Package for Social Sciences (SPSS) was used in data analysis. In addition to descriptive analysis procedures, bivariate and multivariate analysis of hierarchical linear regression, ANOVA and Chi square test procedures were used to determine general relationship between the variables.

## Results and Discussion

The results of the study show that the respondents have a high level of internal Locus of Control and need for Achievement (n-Ach) in their goal achievement process. Further, the results also prove that owner managers willing to take moderately high

level of risk in their business activities. The results revealed that owner managers are in lacking of strategy making behavior and facing high level of uncertainty in their business environment. ANOVA finds that significant statistical differences between male and female owner on LOC, n-Ach and risk taking propensity (RTP).

Table 1: Correlation Coefficients Matrix

Variable	Mean	A	B	C	D	E
A. LOC	7.75	1.00				
B. n-Ach	3.83	0.48**	1.00			
C. RTP	3.61	0.25**	0.19*	1.00		
D. Strategy Making	3.15	0.11	0.6**	-0.01	1.00	
E. Environment Uncertainty	3.64	0.04	0.36**	0.03	0.53**	1.00
F. Firm Performance	3.45	0.3**	0.50**	0.02	0.69**	- 0.28**

\*\* Significance at 0.01

\* Significance at 0.05

According to the correlation analysis (Table 1), positive significance correlations were found between LOC, n-Ach with firm performance. Literature relating the RTP suggests that RTP is positively influenced towards the firm performance, unexpectedly, no significant correlation found between RTP and firm performance. Significant positive relation was found between strategy making and firm performance and it also identified as a mediating variable strengthens the relationship between entrepreneur's traits and firm performance.

The moderated influence of environment uncertainty on strategy making and firm performance were evaluated using hierarchical regression. Table 2 shows the ability of business strategy in explaining higher variance of firm performance after inserting the variable of environment uncertainty to the model, that is, 47 percent to 48 percent. Partially, the influence of strategy making is positive toward firm performance, but the influence of environment uncertainty is negative. This means that business strategy implemented by firms will motive firm performance; however environment uncertainty will weaken the achievement of good firm performance. The results also show that the interaction variable is able to explain the change in firm performance significantly ( $R^2$  change by 0.029 and F change by -21.12,  $p = 0.00$ ). Therefore, it can be concluded that environment uncertainty is moderating variable towards the relationship between strategy making and firm performance.

Table 2: Regression Summary for the Moderator Variable

Independent Variable	Dependent Variable (Firm Performance)					
	$\beta$	p	$\beta$	p	$\beta$	p
Business strategy (BS)	0.69**	0.00	1.30**	0.00	6.44**	0.00
Environment Uncertainty (EU)	-	-	-0.36*	0.05	4.09**	0.01
Interaction BS x EU	-	-	-	-	-1.404	0.00
R <sup>2</sup>	0.47		0.48		0.509	
R <sup>2</sup> change			0.01		0.029	
F value	154**	0.00	80.25**	0.00	59.13*	0.00

\*\* Significance at 0.01

\* Significance at 0.05

## Conclusion

As whole, this study concluded that internal factors such as entrepreneur's internal LOC and n-Ach and strategy making are positively correlated with firm performance. Further, strategy making abilities of entrepreneurs are vital to achieve their desired business objectives and superior performance in the environment which is rapidly changing, competitive and hostility in present arena. As the study was limited to only manufacturing SMEs in the NCP in Sri Lanka, replication of the study in other industries as well as other regions in the country are needed to validate the current findings.

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