



A FRAMEWORK FOR THE SME DEVELOPMENT IN THE WESTERN PROVINCE OF SRI LANKA

Ponniah Phelps Jeganathan¹ⁱ,

Sunanda Degamboda²,

Don Prasad³

¹PhD, MBA, MIET,

Management Consultant,

J & S Management Consulting,

Sri Lanka

²Professor (Retired),

University of Kelaniya,

Sri Lanka

³Vice President, Dr.,

Aldersgate College,

Philippines

Abstract:

The purpose of this research is to propose a framework for SME development in the Western Province of Sri Lanka. The study shows that the SMEs in developed countries such as Singapore, South Korea, Australia and Canada are able to perform very well due to the effective supporting schemes in those countries and such effective supporting schemes are not available in Sri Lanka. The study identifies many factors that affect the SME development other than the supporting schemes. Some of them are: ineffective transport system, corruption, inflation, unstable power supply, lack of management skills of the managers, lack of innovation, high interest rates, lack of linkages with the larger enterprises, lack of business networks, appointing unqualified and inexperienced people to management positions, lack of capital and lack of a central institution to manage SMEs like SPRING Singapore. The study proposes some measures to rectify the situation. Finally, it proposes a suitable framework for the SME development in the Western province of Sri Lanka.

Keywords: small and medium enterprises, SME development, framework, SME capabilities, SME links, owners' attitudes and capacity, government policies, socio-economic environment

ⁱ Correspondence: email ppjega@gmail.com

1. Introduction

Good performance and development of SMEs are crucial factors for the economic development of any country. In Sri Lanka too, SMEs play a vital role in the economic development. The performance level of SMEs in Sri Lanka are not up to the level of SMEs in developed countries according to the SME white paper (p1, Para 2). When comparing the SMEs in Sri Lanka with that of foreign countries, many factors that affect the performance level of Sri Lankan SMEs could be found.

NEDA (2015) states that according to the SME white paper (2002, pp1,18) formulated in December 2002, policy inertia, high interest rates, low level of technology, lack of technical and managerial skills, non-availability of market information, lack of marketing skills, lack of infrastructure, inappropriate labour rules, competition using low standard goods and an unfriendly SME regulatory system were identified as factors affecting the SME growth in Sri Lanka (NEDA, 2015).

Further, NEDA states that according to the 1997 World Bank report, within a period of eight years from receiving a Small and Medium Industry loan, 20 percent of the Small and Medium industries only survived in Sri Lanka. According to the white paper (2002, pp1,18) the SME sector in Sri Lanka is less vibrant and not developed enough compared to large enterprises and due to products and factors markets, the SME growth and expansion are affected. Even today the SMEs are continuing in the same level (NEDA, 2015).

If a third world country such as Sri Lanka could achieve a better state of economy, the citizens will enjoy a better life. Due to various factors including the policies of the government and the thirty-year internal war in the country, the SMEs did not grow to an acceptable level of a developed country. If the factors that hamper the performance and development of the SMEs could be identified correctly and proper actions are taken to address the short comings, Sri Lankan SMEs can definitely perform better and contribute to the development of the country than what they do at present.

When we analyze the per capita GDP of the developed countries and Sri Lanka, it is evident that some countries enjoy a per capita GDP many times that of Sri Lanka. Singapore enjoys a per capita GDP of 15 times that of Sri Lanka. Similarly, Malaysia's per capita GDP is about 3 times that of Sri Lanka. SMEs in Singapore and other developed countries contribute about 50% to the GDP. Sri Lankan SMEs also contribute almost 50% similar to that of developed countries to the per capita GDP. From this, it is evident that Sri Lanka with its natural resources can easily achieve at least 50 % of the per capita GDP of Singapore, if we identify the exact factors that affect the SME performance and development and find suitable solutions to them. This cannot be done overnight. Systematically, over a period of time Sri Lankan government and other stakeholders interested in improving the economy of Sri Lanka should create the necessary environment for it. It will help SMEs to earn high profits and develop fast. Also, this will encourage many foreigners to set up SMEs in Sri Lanka as it happens in Singapore and other countries where SMEs are performing very well.

2. Literature review

Wijewardena and De Zoysa (2005) found that the following six factors determine the success of SMEs in the manufacturing sector in Sri Lanka:

- 1) Effective management,
- 2) Good marketing strategy,
- 3) Customer orientation,
- 4) Good supportive environment,
- 5) Accessibility of capital,
- 6) Quality of products.

When considering 'Effective management', a factor that determines the success of SMEs as indicated by Wijewardena and de Zoysa (2005), it could be found that Ahamed and Pi-Shen (2009) also confirms that effective management is an important aspect for SME success. Smallbone et al. (1995) agrees with Wijewardena and de Zoysa (2005) on 'Good marketing strategy' by stating that high growth firms were not production oriented instead they were able to make necessary changes in their production line in order to support a vibrant marketing growth strategy (Ahamed & Pi-Shen, 2009; Smallbone et al., 1995).

A study performed in the UK confirmed that 'Customer orientation' is positively correlated to SME performance (Appiah-Adu & Singh, 1998) which supports the point mentioned by Wijewardena and de Zoysa (2005). As per Smallbone and Welter (2001) 'good supporting environment' will help SMEs to grow and at the same time necessary support should be provided by the government by the creation of suitable framework conditions and bringing in proper legislations and regulations. This confirms what Wijewardena and de Zoysa (2005) have found in their research (Smallbone & Welter, 2001).

Also, government can support SMEs by facilitating venture capital funds and providing suitable infrastructure through partnership with private sector (Smallbone & Welter, 2001). Abor and Quartey (2010) also confirmed that "accessibility of capital" is as an issue that affects SME development in Ghana and South Africa along with many other factors (Abor & Quartey, 2010). This again confirms that "accessibility of capital" could be an issue for SMEs in Sri Lanka as mentioned by Wijewardena and de Zoysa (2005).

Accessing finance has been found to be a major issue for SMEs due to the defensive attitudes of banks and the high risks involved in financing SMEs. Nanayakkara (2011) says that the collateral requirement of the banks is the very common system which the banks are using for their convenience and avoidance of risk and due to this, many SMEs find it difficult to develop their businesses. Due to lack of proper financial documents and business plans from SMEs the banks are not willing to evaluate the business viability. To solve this issue, Nanayakkara (2011) suggests that the banks should create the future markets by developing industry knowledge through setting up research units which can study the trends, success stories and involve in collecting and analyzing the data related to local and international businesses. He further suggests that banks should concentrate on studies of innovation and technical aspects of SMEs. Also, project evaluation

capability of bank employees should be upgraded according to him (Nanayakara, 2011). This is a completely different perspective of the problem of loans without collateral. According to Nanayakkara the banks should educate themselves so that they will be in a position to determine whether a loan without collateral will be repaid considering the worthiness of the business. For this to happen, banks should invest some money to educate their staff in SME business knowledge and engage in SME business related research. Otherwise, the government of Sri Lanka can support banks to obtain such knowledge and engage in research through support schemes.

Neupert et al. (2006) confirmed that SME exporters experience product quality issues in the transnational economy (Neupert et al., 2006). This supports the argument that quality of products is an issue in Sri Lanka for SMEs as indicated by Wijewardena and de Zoysa (2005). Sub- standard products of SMEs have been identified as a factor affecting SME development in the world. Chittithaworn et al. (2011) also confirm that quality of SME products affects SME development. According to Abdulla and Baker (2000) quality of products has a link to new technology and to achieve high quality in their products, SMEs should be in a position to obtain new technology for their operations. For the SMEs to have access to new technology, the government of Sri Lanka should help them through similar support schemes such as Capability Development Grant (CDG) of SPRING Singapore (SPRING Singapore, 2014 o).

At the same time, Joseph (2014) identified following challenges that need to be addressed to improve SMEs' performance in Sri Lanka.

1. Providing common innovative infrastructure facilities,
2. Employing skilled persons in institutions related to finance to identify potential business environment,
3. Creation of knowledge and innovation,
4. Identifying the trends in the global markets,
5. Accessing venture capital and services,
6. Using proper policies to protect the local producers,
7. Ensuring protection of knowledge related to different SMEs from their competitors,
8. Manageable charges of electricity, phone and water,
9. Making the process of obtaining certifications easy,
10. Creating a structure for business development services,
11. Creation of proper network among SME clusters,
12. Identifying proper SME clusters for catering to the global demands,
13. Strengthening the existing networks with the clusters of SMEs and channels for subcontracting with large enterprises (Joseph, 2014).

When analyzing about providing common innovative infrastructure facilities as indicated by Joseph (2014), it could be seen that providing such facilities are happening in the developed countries such as France, Ireland, Germany, Netherland, Korea, UK Sweden, Singapore and Finland. In France, French Research and Promotion Agency (ANVAR) is responsible for providing support for innovative start- up SMEs. ANVAR supports up to 70 % of the project cost. This fund can be used by the innovative SMEs to

obtain services from financial councilors, IP specialists and lawyers who deal with patent matters. ANVAR has got a country wide network in France. Similarly, ADI Program is another support by the government which provides soft loans to innovative SMEs. In addition, RDT (Technology Diffusion Network) does the coordination for promotion of innovative SMEs in France. More than 2000 SMEs benefit from the Support of ANVAR every year (Arnold & Kuusisto, 2002; Mustar & Laredo, n.d.).

Similarly, there are innovation support schemes in Germany for SMEs. Bavaria, a state in Germany supports SMEs which are engaged in risky investments throughout its development stage. BayTOU is a program which supports setting up of high technological ventures that carry high commercial risk. This support is given by the state government to encourage setting up of high technology-based businesses that can create jobs with high quality products and make the Bavarian industry more competitive. Also, there are support schemes for SMEs engaged in innovative projects such as biotechnology, aviation, nanotechnology, energy, environment, IT and transport (Arnold & Kuusisto, 2002; Eickelpasch, 2012). Similar innovation support programs for SMEs are available in other countries too.

Gunapala (2011) agrees with Joseph (2014) that banks can play an important role by setting up of branches for research and concentrate on studies with regard to the trends, success cases and gathering of local as well as international data. He further says that banks should develop the competencies of staff with regard to technology, commercialization, innovations and technological management (Gunapala, 2011).

It was found that Knowledge management promotes innovation performance and could be considered as an important source for continuous competitive advantage of any company in a study of SMEs based on High Technology (Alegre et al., 2011). Dagogo and Ollor (2009) contends that SMEs supported by the venture capital services grow to a high level compared to SMEs which did not obtain the support of venture capital services (Dagogo & Ollor, 2009). This supports the finding of Joseph (2014).

Dassanayake (2011) confirms that Sri Lankan government's policy to attract foreign multinationals for the development of the country which has resulted in multinational companies engaging in the traditional business of SMEs in Sri Lanka such as retail businesses, food processing etc. has adversely affected SMEs. So, it is evident that the Sri Lankan government policies should be changed to protect local producers as indicated by Joseph (2014).

The issue of manageable charges for electricity has been confirmed in the SME white paper (2002). According to SME white paper (2002) included in NEDA (2015), high electricity cost is an issue SMEs face in Sri Lanka. For the issue of manageable telephone and water charges there is no literature available to compare the charges with other counties. Also, there is no article to support this notion of high telephone and water charges in Sri Lanka that affects SME development in Sri Lanka (NEDA, 2015).

According to SME white paper (2002), setting up an SME and leaving from SME operation is not easy in Sri Lanka. To commence business of a SME, various certifications are needed. So, SME white paper (2002) supports the issue indicated by Joseph (2014).

Sri Lankan Government is engaged in some business development services through its banks and institutions such as BOI, Industrial Development Board etc. In addition, few private enterprises are operating for provision of business development services (BDS). Mazani and Faloki (2011) note that many start – up SMEs do not have good knowledge of business development services and the central government must work with the private sector to set up effective BDS services. They further state that commercial banks and other institutions also can help to make the SMEs aware about the BDS services. UNCTAD secretariat (2005) says that business development services should be handed over to the private sector and the private sector institutions performing business development services should be subsidized and managed by the governments (Mazani & Faloki, 2011; UNCTAD Secretariate, 2005).

With regard to the creation of proper networks among SME clusters as recommended by Joseph (2014), UNCTAD secretariat (2005) also agrees that networking, partnership and exchange of information among SMEs to be strengthened. So, creation of proper networks among SMEs will help SME development in Sri Lanka.

The proposal of Joseph (2014) of identifying proper SME clusters for catering to the global demands is supported by SME white paper (2002). It notes that there is lack of cooperation among SMEs and recommends that clusters of SMEs can benefit SMEs like in many developed countries for competing with the global products internationally.

SME white paper (2002) supports the proposal of Joseph (2014) for strengthening the existing networks with the clusters of SMEs and channels for subcontracting with large enterprises. According to the White paper (2002) Competitiveness could be developed by linkages with other SMES or with big enterprises. So, this is again a valid point to note which can help SME development in Sri Lanka. Miller et al. (2007) also affirms that networking is critical for the success of businesses of small businesses in USA (Miller et al., 2007).

IFC (2007) states that the following constraints are faced by SMEs in Sri Lanka:

- 1) Difficulty in borrowing money from banks,
- 2) Lack of management and technical skills,
- 3) Marketing limitations,
- 4) Not enough infrastructures for production of items,
- 5) Using outdated technologies (International Finance Corporation, 2007)

Dasanayaka (2011) found that the following factors impact SME development:

- 1) Globalization is one of the main hurdles for the SME growth and sustainability in Sri Lanka.
- 2) Trade liberalization removes restrictions of governments with respect to imports. This restricts governments granting subsidiaries to SMES. Also, World Trade Organization (WTO) controls governments to keep the tariff rates according to the stipulated boundaries. In addition to these, WTO restricts the governments' ability to restrict the quantity of imports. These measures greatly affect the SMEs.
- 3) Due to globalization local SMEs are forced to engage in a competition with the large enterprises from developed countries in terms of quality and technology.

Also, this often creates a situation to compete with the low-priced products with reasonable quality from developed countries. This affects local SMEs severely.

- 4) According to a clause on national treatment, any enterprise can have access to both market and resources beyond the national boundaries. The member countries cannot extend any special treatment to their local enterprises including SMEs.
- 5) Due to increased competition among transnational companies, to ensure low prices of raw materials, the number of suppliers are reduced. This has affected SMEs whose main business is supplying to large companies (Dasanayaka, 2011).

SME white paper (2002) indicates the same concern with regarding to the liberalization policies of the government mentioned by Dasanayaka (2011). It says that Government's liberalization policies have adversely affected many SME sectors while supported some SME sectors. So, globalization followed by trade liberalization has created negative effects for SMEs. But Tambunnan (2007) notes that even though many SMEs were affected on overall level due to globalization, globalization again has restricted abuse of local market of SMEs and made them to compete and penetrate into markets abroad while improving their technology, efficiency and productivity. (Tambunnan, 2007). It shows that globalization has negative and positive effects on SME development.

Kapurubandara and Lawson (2006) explored that the level of SME owner/manager with respect to adoption of ICT and e-commerce in Sri Lanka is very much below the level of SMEs in developed countries. Also, the SMEs are faced with internal barriers and external barriers with the adoption of ICT and E-Commerce. Internal factors include security fears with regards to transaction over the internet, awareness of staff and training while external factors include low internet facility availability in many parts of the country, low speed of internet, lack of telecommunication facilities in all parts of the country etc. (Kapurubandara & Lawson, 2008).

Rafi and Murtaza (2008) found in a study involving SMEs in Oman that main purpose of investing in ICT is to improve customer service and to be able to perform better than the competitors. They further state Omani SMEs are investing in a reasonable level in ICT with a focus on strategic and operational aspects of the SME business. Olatokun and Kebonye (2010) found that SMEs should be supported to perform better through Ecommerce adoption in their firms. They further state that creating widespread awareness of Ecommerce, training and upgrading of existing knowledge will make more SMEs to adopt ICT. So, it could be seen that ICT and Ecommerce adoption is an important factor for SME development. But factors that affect the ICT adoption in SMEs in Sri Lanka cannot be concluded from the research of Kapurubandara and Lawson (2006) only as internet penetration level of the country has increased due to many recent telecommunication projects in Sri Lanka and the rapid development of Information Technology in the world especially during the last 10 years (Rafi & Murtaza, 2008; Olatokun & Mogotesi, 2010; Kapurubandara & Lawson, 2008).

Pushpakumari and Watanabe (2006) established that Proactive business strategies will lead to enhanced sales volume and annual profits. Teece (2010) asserts "*Every new product development effort should be coupled with the development of a business model which*

defines its 'go to market' and 'capturing value' strategies. Clearly technological innovation by itself does not automatically guarantee business or economic successes far from it." (Pushpakumari & Watanabe, 2006; Teece, 2010). Therefore business strategy is an important factor for the success of an SME.

Adoption of management accounting practices is very important for SME management. Nandan (2010) argues that management accounting information play an important role with regard to monitoring and controlling the SME activities and SMEs require high level management accounting systems and methods for efficient management of resources. Karunaratne (2013) found that the use of management accountancy practices affected SME efficiency to a certain extent while other factors also contributed to efficiency of SMEs in Sri Lanka. The study revealed that most of the SMEs didn't give much importance to the management accountancy practices such as product costing control, budget ratios analysis, variance analysis and control of inventory etc. (Nandan, 2010; Karunaratne, 2013).

3. Conceptual Framework

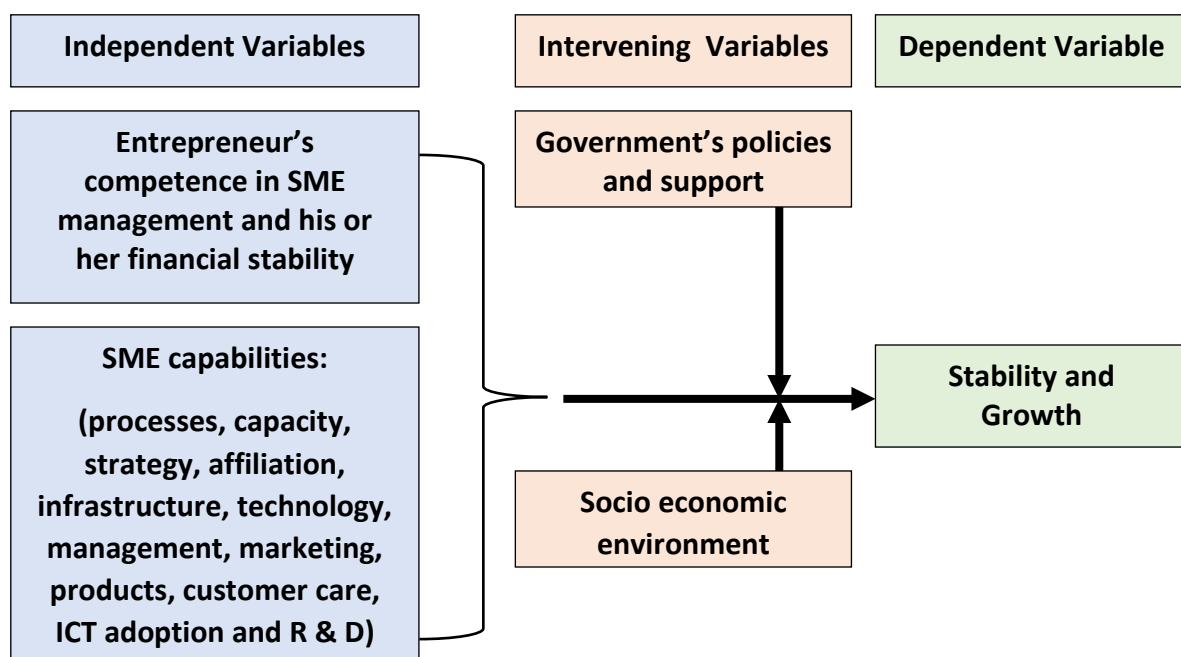


Figure 1: Conceptual Framework

3. Material and Methods

3.1 Questionnaire design

The questionnaire was a good instrument for this research as this was done by quantitative method with a view of using a statistical package to analyze the data. So, the questionnaire had to include all factors that were needed for the research. The factors that affect SME development and the factors that support SME development in Sri Lanka and selected countries were used when preparing the questionnaire. The questionnaire

contained ten questions on the demographic profile in Part 1. Part 2 and part 3 contained the questions of the main survey document. Part 2 questions were on Independent variable and Intervening variables (Entrepreneurs' Capacity and Competence, SME Characteristics, Government Policy and Support and Socio – Economic environment). Questions were on the following order: Under Entrepreneurs' Capacity and Competence-questions from 1 to 3, under SME Characteristics questions from 4 to 13, under Government Policy and Support- questions from 14 to 46, under Socio – Economic environment- questions from 47 to 57. All questions were coded. In part 3 there were open ended questions (from 58 to 63).

3.2 Pilot study

Blessing and Chakrabarti (2009) warn that the pilot study in a research is a must to verify the research as a whole and should not be avoided. They further state that a Pilot Study is done to check the research approach and the potential issues that could affect the validity and the quality of the research. So, a pilot study was done with ten known SME owners/executives. Some of them informed that certain questions were difficult to understand. Such questions were reworded to avoid complexity. Few of them wanted to include some more aspects. So, the researcher had to go back to the theoretical review to find out more about what they informed and include those aspects also in the questionnaire. As per the opinion of some of them few questions were removed, and new questions were included.

3.3 Data analysis methods

SPSS software was used to analyze the data collected through various methods. All returned survey documents were checked carefully for mistakes and missing data. Some questions of few survey documents were not filled. So, as a general rule such questions were marked under Likert Scale '3' which means neutral as advised by Sekeran (2003 f).

4. Results and Discussion

4.1 Analysis of the demographic profile

The collected data from total of 190 respondents were analyzed with the help of SPSS software.

The SPSS analysis revealed the following about the demographic characteristics of the respondents.

Analysis of gender profile of the total participants of 190 is as follows. males: 143; female: 47; the percentage of males: 75.3%; females: 24.7. The crosstab analysis showed that 128 respondents were either sole proprietors or partners. 17 respondents were directors and 45 of the respondents were senior executives. This crosstab analysis further showed that there were more sole proprietors or partners possessing education up to G.C.E. (Advanced Level) or G.C.E. (Ordinary Level) qualifications compared to those possessing qualifications up to Diploma or Degree level. 27 senior executives had either a diploma, degree or post graduate degree or above the post graduate degree. The

analysis showed that 61.6 % of the total companies from where the data were collected were sole proprietorship companies and 14.7 were family businesses. 66.7 % of the companies were owned by sole proprietors or partners. 16.7 % of the firms were public limited.

4.2 Reliability analysis

The reliability analysis of the 190 responses of 57 questions in the questionnaire on five-point Likert scale was done and the reading of Cronbach's Alpha is given below:

Table 1: Reliability Statistics

Cronbach's Alpha	N of Items
.830	57

Cronbach's Alpha is 0.830. If the Cronbach's Alpha is close to 1 it shows high reliability. In this research the Cronbach's Alpha reading of 0.830 shows the reliability to a greater level of the research.

4.3 Analysis of Survey questions

The descriptive analysis shows that out of the 57 survey questions, except the following 8 questions all other 49 questions were having mean of more than 3. So, it could be taken that the respondents agreed or strongly agreed to all other 49 questions. The following 8 questions have a mean less than 3.

Table 2: Analysis of Survey Questions

	Survey Question Number	Mean
1	Q37	2.9684
2	Q38	2.9947
3	Q42	2.7263
4	Q43	2.8158
5	Q45	2.6421
6	Q46	2.8684
7	Q56	2.6158
8	Q57	2.4947

Table 3: Descriptive statistics: Entrepreneurs Capacity and Competence

Factors	Descriptive statistics: Entrepreneurs Capacity and Competence					
	Question No	N	Minimum	Maximum	Mean	Std. Deviation
SME development is seriously affected due to the fact that most of the SME owners do not possess enough capital to run their business.	Q1	190	1.00	5.00	3.9895	1.03887
Appointing relatives and friends to management positions who do not possess required qualifications and	Q2	190	1.00	5.00	3.2421	1.35862

experience by SME owners seriously affects SME development.						
SME owners' previous experiences in SME management positively impact SME growth.	Q3	190	1.00	5.00	4.2053	.74534
Valid N (listwise)		190				

Table 4: Descriptive Statistics-SME Capabilities
(processes, capacity, strategy, affiliation, infrastructure, technology, management, marketing, products, customer care, ICT adoption and R &D)

Factors	Descriptive Statistics- SME Capabilities					
	Question No	N	Minimum	Maximum	Mean	Std. Deviation
Inability to invest on research and development compared with large enterprises affect the development of SMEs.	Q4	190	1.00	5.00	3.7316	1.05738
Lack of management skills hampers the progress of many SMEs in Sri Lanka	Q5	190	1.00	5.00	4.0526	.87733
Not adopting Ecommerce due to security fears with regards to transaction over internet.	Q6	190	1.00	5.00	3.3421	1.16556
Lack of entrepreneurial orientation (Innovativeness, Pro-activeness and Risk taking) affects the development of SMEs.	Q7	190	1.00	5.00	3.7105	.78031
Management accountancy practices (such as Product costing, budgetary control, variance analysis and inventory control) play an important role in SME development.	Q8	190	1.00	5.00	4.0579	.82412
Enhancing of competitiveness, development of skills, entrepreneurship etc. are crucial for SME development.	Q9	190	1.00	5.00	4.0737	.80661
For an SME to achieve good development, it should earn high profits	Q10	190	1.00	5.00	3.5632	1.06593
Affiliation of SMEs with respective industrial organizations helps them in systematic development and growth.	Q11	190	1.00	5.00	3.7316	.91232
A common definition for SMEs is essential and many definitions as at now in the country will impede SME development	Q12	190	1.00	5.00	3.6105	.98984

Lack of linkages of SMEs with larger enterprises is an issue that affects the growth of many SMEs.	Q13	190	1.00	5.00	3.5000	1.00132
Valid N (listwise)		190				

Table 5: Government Policies and Support

Factors	Descriptive Statistics- Government's Policy and Support					
	Question Nos	N	Minimum	Maximum	Mean	Std. Deviation
Sri Lankan government's inability to restrict imports of items that could be produced in Sri Lanka due to its trade liberalization affects SMEs development in Sri Lanka	Q14	190	1.00	5.00	3.8053	1.06357
Sri Lankan government's policy to attract foreign multinational companies affects SMEs development in Sri Lanka	Q15	190	1.00	5.00	3.6789	.97432
Improving purchases of public sector from SMEs will help to develop and sustain SME businesses	Q16	190	1.00	5.00	4.0789	.80939
Government should support SMEs by different methods such as Bid Price Preferences and Set Asides as in USA and South Africa.	Q17	190	1.00	5.00	3.4789	.85268
Government should facilitate formal business networking as in Germany.	Q18	190	1.00	5.00	3.6474	.82094
Present Support programs of Government for SME development are not satisfactory and need great improvement.	Q19	190	1.00	5.00	3.9895	.97584
Sri Lankan government's failure to establish a single institution like SRING Singapore to concentrate on SME development	Q20	190	1.00	5.00	3.4105	.68998
Sri Lankan government should follow the Korean scheme of guaranteeing purchase of the new products of SMEs that were earlier imported from other countries through the purchasing institutions.	Q21	190	1.00	5.00	3.3421	.73016
SME forum in Switzerland formed mostly with entrepreneurs as members by the government deals with the federal government to solve various issues affecting SMEs. Sri Lanka should set up a similar institution.	Q22	190	2.00	5.00	3.5947	.76218
Sri Lanka should introduce similar programs of TEKES of Finland such as Kitto funding which supports	Q23	190	1.00	5.00	3.7263	.76900

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SMEs that wish to enter international markets with a clear business plan and target markets.						
Sri Lanka should introduce similar programs like the Youth Support Program and Youth green of Canada to help youth from 15 to 30 years to find employment in SMEs by supporting SMEs with a portion of the Young candidates' salary.	Q24	190	2.00	5.00	3.8947	.72701
Providing common innovative structure facilities for SMEs by the Sri Lankan government will improve SME development.	Q25	190	2.00	5.00	3.9000	.80046
Sri Lankan government should ensure the availability of business development programs such as business incubator, business angel programs etc.	Q26	190	1.00	5.00	3.6211	.76537
Sri Lanka should introduce strong policies in matters like competition, regulation, taxing, labour, finance and laws related to bankruptcy.	Q27	190	1.00	5.00	3.8211	.76951
Sri Lanka should make every effort to keep costs related to setting up of new SMEs low.	Q28	190	1.00	5.00	3.8789	.92071
Sri Lanka should create a society with entrepreneurship culture by educating and training in all levels	Q29	190	1.00	5.00	4.0421	.74771
Sri Lankan government should ensure availability of proper SME data- base and other related indicators with highest accuracy, so that government institutions and other agencies could use them for SME related researches.	Q30	190	1.00	5.00	3.8526	.82255
Sri Lanka should remove or ease all barriers of risk finance including foreign capital venture funds for SME growth and development in the country.	Q31	190	1.00	5.00	3.8684	.84111
Sri Lankan government should ensure that SMEs have enough access to regional and national SME related agencies for information.	Q32	190	2.00	5.00	3.9632	.64546
Sri Lankan Government should increase the knowledge of the intellectual property rights among SMEs	Q33	190	1.00	5.00	3.9263	.81315
Sri Lankan government should provide incentives to SMEs for	Q34	190	2.00	5.00	4.3421	.63730

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innovative products to attract global markets.						
Sri Lankan government should establish a network similar to PLATO of Belgium for company owners and managers to be connected through a formal business network and share experiences and knowledge in a voluntary.	Q35	190	1.00	5.00	3.5579	.81280
Sri Lanka should support SME development through ICT based services such as Digital library, ICT For health, energy efficiency, multi-language web, internet evolution and smart mobility etc.	Q36	190	1.00	5.00	3.7737	.71739
Activities of the National Enterprise Development Authority (NEDA) for the SME development in Sri Lanka is satisfactory.	Q37	190	1.00	5.00	2.9684	.87834
Board of investment of Sri Lanka (BOI) provides all necessary supports to a foreign investor to set up an SME in Sri Lanka and continues its support throughout the process.	Q38	190	1.00	5.00	2.9947	.91141
Industrial development board (IDB) of Sri Lanka provides maximum support for small and medium level industries to develop their businesses.	Q39	190	1.00	5.00	3.1000	.94028
SME Exporters receive all the needed support for their business through export Development Board (EDB).	Q40	190	1.00	5.00	3.1947	.86003
Industrial Technical Institute (ITI) and National Science Foundation (NSF) give effective support to SMEs based on new technology.	Q41	190	1.00	5.00	3.1000	.87014
Support provided by the western provincial council for business is satisfactory.	Q42	190	1.00	5.00	2.7263	1.10738
Ministry of Industries and Commerce provides meaningful support to SMEs for their business and development.	Q43	190	1.00	5.00	2.8158	.99882
Sri Lankan government owned banks such as Bank of Ceylon, Peoples Bank, Regional development Bank etc. provide genuine support when applying for loans.	Q44	190	1.00	5.00	3.1158	1.20724
The interest rates of the state banks are reasonable for SME loans.	Q45	190	1.00	5.00	2.6421	1.24225

Sri Lankan government departments or institutions related to my business (such as Tea Board, Fisheries department, Coconut development board etc.) support effectively to develop SMEs.	Q46	190	1.00	5.00	2.8684	1.03819
Valid N (listwise)		190				

Table 6: Socio- Economic Environment

Factors	Descriptive Statistics- Social-Economic Environment					
	Question No	N	Minimum	Maximum	Mean	Std. Deviation
High speed internet connectivity is available round the clock in all areas of the Western province.	Q47	190	1.00	5.00	3.2316	1.14506
SME development is affected due to globalization which has compelled the SMEs to engage in a competition with large enterprises in terms of quality and technology.	Q48	190	1.00	5.00	3.9789	.72709
SME's in Sri Lanka are affected due to higher interest rates than larger enterprises.	Q49	190	1.00	5.00	4.1105	.92776
Corruption should be uprooted from the all levels in Sri Lankan society for the smooth SME business and development.	Q50	190	1.00	5.00	4.0211	.97567
Introduction of a special system to charge electricity, telephone and water on a reduced rate to SMEs will help in SMEs growth and development.	Q51	190	1.00	5.00	4.3526	.76764
Unreliable power supply due to frequent power cuts in many areas of western province affect SME development.	Q52	190	1.00	5.00	3.8684	1.09281
Accessibility of funds for expansion is a serious issue for many SMEs due to lack of collateral always demanded by banks.	Q53	190	1.00	5.00	4.0105	.80336
Inefficient transport system in Western province hampers SME development.	Q54	190	1.00	5.00	3.7526	1.05753
Inflation in Sri Lanka should be controlled effectively for SME development.	Q55	190	1.00	5.00	4.0158	.79333
The present Sri Lankan environment is conducive for SME development.	Q56	190	1.00	5.00	2.6158	1.12911
Sri Lankan judiciary system under the present government is impartial	Q57	190	1.00	5.00	2.4947	1.13505

and safeguards all local and foreign entrepreneurs in Sri Lanka.						
Valid N (listwise)		190				

4.4 Discussion

4.4.1 Factors connected to Sri Lankan government with respect to SME development

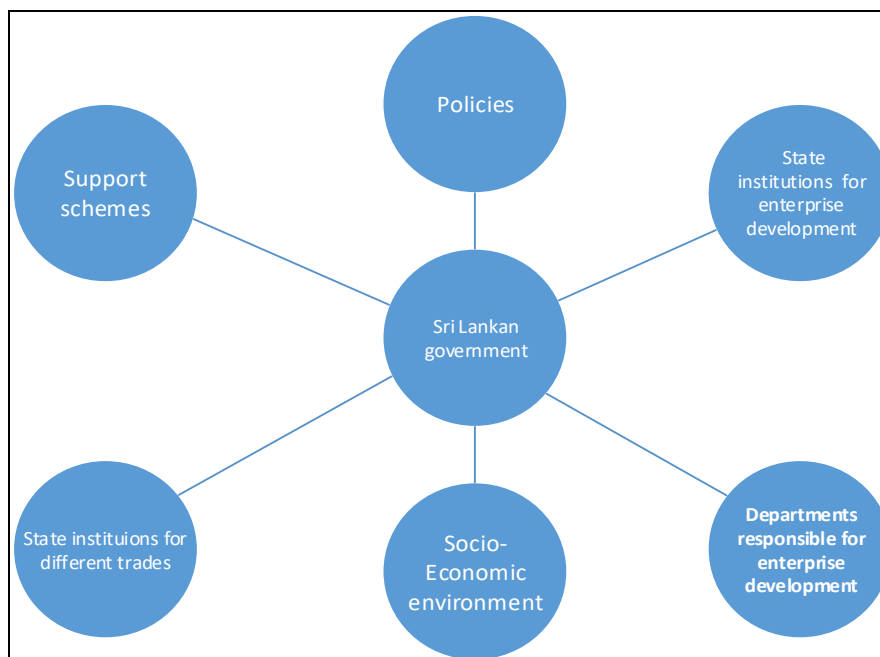


Figure 2: The factors connected with the Sri Lankan government with respect to SME Development

4.4.2 Strong government policies that are needed for SME development

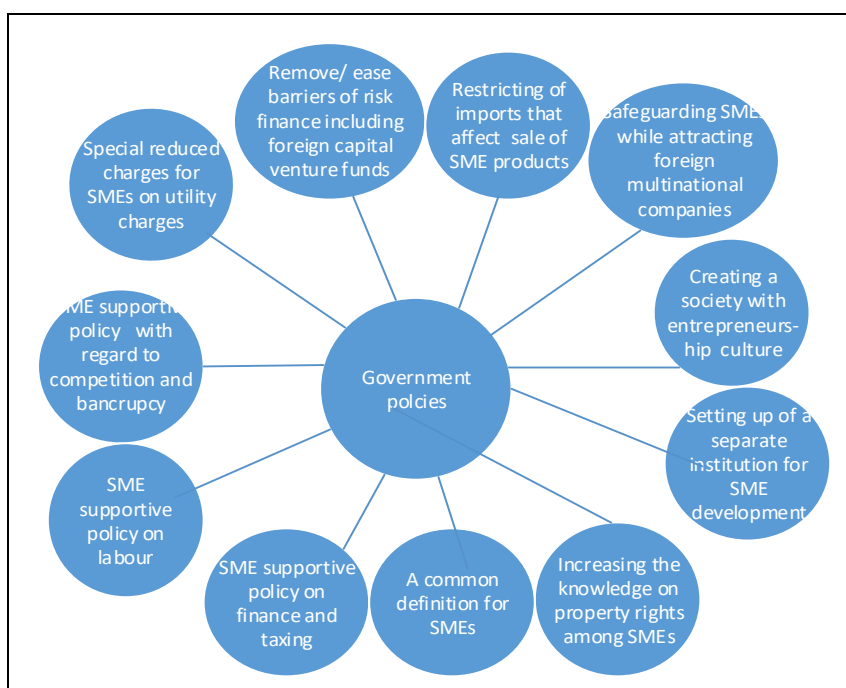


Figure 3: Policies of Sri Lankan government and connected factors

When considering the government policies, it could be found that the trade liberalization policy of the Sri Lankan government affects SME businesses adversely. It is very difficult to restrict imports of many items that could be produced in Sri Lanka due to other benefits for the country through the trade liberalization policy. The Sri Lankan government and many other countries in the world are continuing this policy although there is a negative impact to SMEs due to this policy. This affects SMEs as the SMEs are unable to sell the locally produced items due to the cheaply available important items from other countries. The government should restrict at least some items that could be produced by the local SMEs, to help SMEs develop their businesses.

Sri Lanka has a policy to attract multinational companies. This is needed to develop the country. When multinationals establish their businesses in Sri Lanka, they produce many items with high quality. SMEs cannot compete with multinationals due to their shortcomings such as lack of new technology, lack of training, etc. This impacts the SME development adversely. The government should support SMEs by restricting some items that could be produced by SMEs from being produced by multinational companies and at the same time help the SMEs to produce items with high quality through needed training and technology.

There are no strong policies with regard to competition, regulation, labour, finance, and laws related to bankruptcy in Sri Lanka. A strong government policy in this regard is necessary. Without such a policy, it is difficult to achieve SME development in Sri Lanka. The strong laws help healthy competition. Similarly, regulation is another important matter which affects SMEs. Labour rules and financial regulations should be strong and be on par with developed countries. Similarly, laws related to bankruptcy should be introduced to safeguard all related parties when an SME goes bankrupt (OECD, 2004). The answers of the respondents to the open-ended questions also confirm these matters.

Sri Lankan government should take a policy decision to create an entrepreneurship culture through education and training in all levels of the society in the country. Normally people take up jobs rather than becoming entrepreneurs due to the responsibilities involved in being an entrepreneur. By creating an entrepreneurship culture more people can be encouraged to become entrepreneurs (OECD, 2004; European Commission, 2014; European Commission, 2007; NEDA, 2015).

Sri Lankan government should take action to remove all barriers of risk finance including foreign capital venture funds. If barriers to risk finance are not addressed by the government, it will demotivate creation of new SMEs. Addressing this issue will open up avenues for new financial investments for SMEs (European Union, 2017). According to Perera (2015), during the period from 2009 to 2013, a total of rupees of 25.7 billion foreign direct investments were made in food processing industry in Sri Lanka. Similarly other industries also can attract foreign direct investments if all barriers are removed.

The survey results confirm that providing special concessions to SMEs on utility charges such as electricity, telephone and water will help SME development. Such reduced rates for SMEs on utility charges will help SMEs to reduce their overheads. Government should consider a policy on reduced utility charges for SMEs to boost SME

growth in the country. Many countries provide different types of supports to SMEs using special schemes.

The great development of SMEs in Singapore is due to its single powerful institution by the name SPRING Singapore. The main purpose of SPRING is to support SMEs with all governmental schemes. In Singapore, SPRING Singapore was able to create a great development in SME sector through different support schemes. In Korea, there is a similar institution by the name SMBA (Small and Medium business Authority). Singapore and Korea were able to achieve a very high level of SME development due to having single powerful institutions for SME development. Sri Lanka also should set up a powerful single institution to develop SME sector to develop its SMEs more effectively. (SPRING Singapore, 2015; Stefan, 2011 b).

Safeguarding intellectual property rights of SMEs is very important for SME survival. Increasing the knowledge of SMEs on intellectual property rights is very important because SMEs should know the importance of safeguarding their intellectual properties and as to how to protect them. Otherwise, the innovative ideas of a particular company, developed through great efforts could be just copied by another company (Business Dictionary, 2017). Knowledge of intellectual property rights is an important thing for any SME for its growth. If an SME fails to protect its intellectual rights, its businesses could be seriously affected. Sri Lankan Government should take action to create enough awareness among the SMEs about the importance of protecting the intellectual property rights (Olander et al., 2009).

Many definitions are used in Sri Lanka for SMEs. Using different definitions by various institutions creates confusion among institutions engaged in developing SME sector in Sri Lanka. So, a common definition is essential for SMEs in Sri Lanka. The government of Sri Lanka should announce a proper definition for SMEs.

According to the answers provided by the respondents to the qualitative questions, following actions should be taken by the government to ensure SME growth. They are: setting up of additional industrial zones, helping SMEs to reduce the cost of production, establishing training centres for SME trades, supporting during a calamity, discouraging people leaving abroad for employment by suitably training youth in SME trades, allowing labour from foreign countries when there is a need, regulating quality of SME products, controlling unlimited competition, etc.

4.4.3 Meaningful support Schemes of government for SMEs



Figure 4: Support schemes of Sri Lankan government proposed for SME development

If the government intends to develop SMEs and thereby plans to take the country forward, it should seriously consider supporting SMEs with special schemes. Although there are some programs from the Sri Lankan government's part in place, they are not at satisfactory level when compared to countries like Singapore, Canada and Australia where there are many effective support schemes for SMEs. The government and the Western Provincial council must follow the schemes available for SMEs in those countries and introduce suitable support schemes.

There is special arrangement in countries such as USA and South Africa to purchase items for public sector from SMEs under schemes such as "Bid Price Preference" and "Set Asides". This is to help SMEs which cannot compete with large enterprises due to their limitations during the normal tender processes. Unfortunately, there is no such system available in Sri Lanka. The Sri Lankan government can introduce such systems in Sri Lanka to help SMEs (Asian Development Bank, 2016)

Sri Lankan government should follow the Korean support scheme for SMEs in Korea by guaranteeing the purchases of the new products that were imported from other countries through its purchasing institutions. In Korea, there is a special scheme for the new products that were imported from other countries previously. The Korean government guarantees the purchases of such new items from the SMEs that produce such new products through purchasing institutions. So, the SMEs can fearlessly invest

money in producing such items due to the governmental guarantee. There is no such scheme in Sri Lanka at present.

Government should facilitate SMEs to form a body which will have regular communication with it so that all issues affecting SMEs and any support needed to them for their business could be effectively communicated to the government on a regular basis. "SME forum" in Switzerland was formed by the federal government which consists entrepreneurs as its members. It deals with the federal government of Switzerland to find solution to various issues affecting SMEs. "SME forum" consults with the federal government about the laws that affect SMEs, limitations of SMEs and administrative burdens and suggest solutions to the issues. Sri Lankan government can form an institution similar to it to support SME development.

In Belgium, the provincial Flemish government implements a scheme for formal business networking of SMEs by the name PLATO. Many company owners/ managers are connected through this networking in that province. They share their knowledge and experiences in a voluntary manner which has helped business development in that province. Sri Lankan government or the Western Provincial council can create a similar system for SMEs in the Western province of Sri Lanka. (Schoonjans & Cauwenberge, 2013).

Also, the loan interest rates for SMEs should be further reduced to support existing SMEs and encourage those who intend to set up new SMEs in the country. The government can support banks by providing a portion of the interest as a special support for SMEs. The government can follow the schemes available in Australia such as 'Contribution program repayable' where the government grants loans with no interest and even repayment is not required unless the SMEs really become successful (Australia Business Financing Centre, 2017 f).

It is essential to keep the cost of registering an SME in any country low so that new people will find it easy to start businesses. Sri Lanka also should keep the cost of setting up of SMEs low to encourage new people entering into businesses.

It is very difficult for SMEs to enter the global markets for exports. Governments in other countries provide various supports for SME exporters. Sri Lankan government should provide more incentives to encourage SME exporters. Sri Lankan government provided support for fruit and vegetable industry through 50 % of the tax concession in 2015 interim budget. This is a very good supporting measure by the Sri Lankan government for SMEs in the fruit and vegetable sector. Similarly, Sri Lanka provides tax concessions for various exports as per the 'Fiscal incentives available to Sri Lanka Exporters (Non BOI)' document of Export Development board. Besides, EDB provides various supports by way of many other methods. But still there is need for the export industry to improve according to Sanderatne (2011). It shows that more support and encouragement is needed for Sri Lankan SMEs to increase their export capacity (Export Development Board, 2014).

Unemployment is one of the major issues in Sri Lanka like other developing countries. At the same time, it has been found that SMEs suffer due to 'lack of skilled workforce' in Sri Lanka according to NEDA (2015). To fill this gap, the Sri Lankan

government can support youth to find employment in SMEs by providing a portion of the salary of the candidates to SMEs. This will support both SMEs and the youth. This type of scheme is available in Canada by the name Youth Employment Program (YEP) and Youth Green. These schemes support youth to get employment in technical or technology related jobs. The first one supports employment of young post-secondary graduates in SMEs while the second one supports other young people to find employment in SMEs with green concepts. This is done by granting a portion of the young candidates' salaries to the SMEs. While the youth acquire needed skills, the SMEs also benefit through this program. It encourages employing young people from 15- 30 years in SMEs. If Sri Lanka could implement a similar support scheme, it will not only help the unemployed educated youth but SMEs too in a greater level. This will help a qualified young person to acquire needed technical skills in various disciplines of SME activities. This will solve the shortage of skilled workforce problem of SMEs. The answers to open ended questions also indicate that there is a big need for skilled and unskilled labour in SMEs. In fact, many respondents proposed to restrict youth leaving for employment abroad or bring down employees from other countries for SME jobs.

Common innovative facilities to SMEs by the government will support SME development in the country. Already in the literature review, this has been discussed in detail. Many countries provide such common innovative structures for SMEs. In Korea, SMBA provides common infrastructure facilities to SMEs. Korean government is supporting its SMEs by arranging proper networking among SMEs for the innovations to be converted into viable ventures through SMBA, its main institution for SME development. This type of common innovative structure has helped the SMEs to help each other and progress towards growth. Sri Lankan government also can set up a common innovative network for SMEs so that SMEs in Sri Lanka will benefit more (SMBA, 2014 a).

Business Incubators and Business Angels are very important for SME development. Singapore government is supporting SMEs with business incubators, business angel programs, etc. which are very effective supporting schemes through its institution for SME development SPRING Singapore. It has some special support schemes for Business incubators and Business Angels. Through a scheme by the name Incubator Development Program (IDP), it supports financially Business Incubators. Similarly, through a scheme called Business Angel Scheme (BAS) it supports Business Angels. Due to the government's financial support for Business incubators and Business Angels, SMEs receive many benefits in Singapore, and it helps the Singaporean SME development in a greater level. Sri Lanka also can follow this.

SME development depends on various factors including the support of the government and other world-wide agencies. These worldwide agencies or non-governmental organizations (NGOs) need an updated database to provide support to SMEs. An updated data base of all the SMEs and other related indicators is a must for planning the needed support for SMEs. So, Sri Lankan government must ensure that an updated SME data base of all SMEs is available in the country for such agencies to access (OECD, 2004).

One way to increase the profits of SMEs is to engage in producing innovative products that have export opportunities. In Korea, SMEs that are involved in innovative technology-based ventures are protected through a special act. So, to support SME development in Sri Lanka Sri Lankan government should encourage the SMEs that produce innovative products that could be exported to foreign countries by providing incentives through a proper support scheme (SMBA, 2016; Storey, 2008 a).

Competitive and Innovative Framework program (CIP) of European Union promotes ICT based services such as digital library, ICT For health, energy, efficiency, multi-language web, internet evolution and smart mobility, etc. for SME development. Sri Lankan government also can support SME development using the same types of services (European Commission, 2014).

For an SME to move forward it should have its management level employees with enough management skills. If the people who are appointed to management positions of an SME do not possess the needed skills to manage other employees and its businesses, it will not be able to survive or grow. SMEs should develop management skills for them to be successful.

4.4.4 SME capability improvement for development

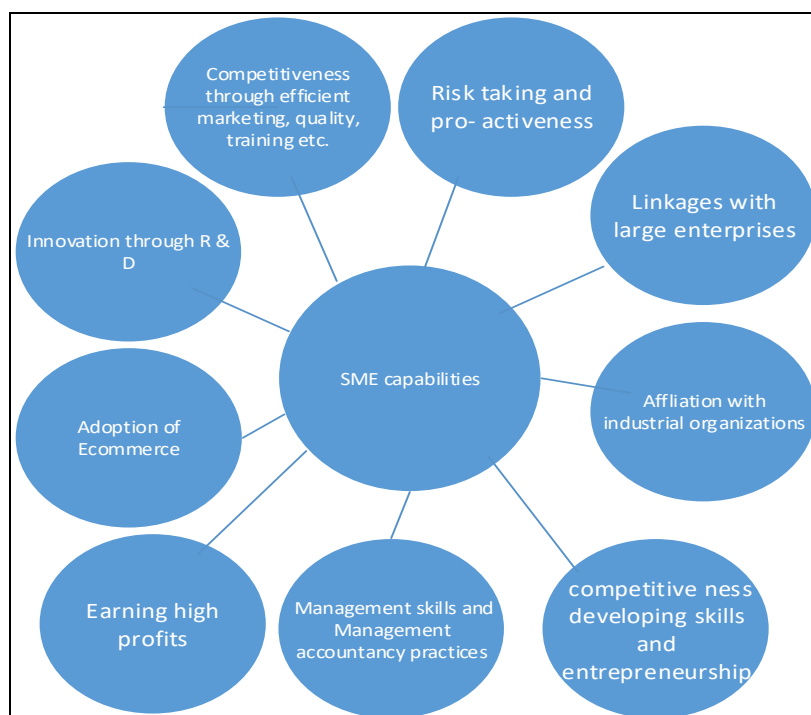


Figure 5: SME capability improvement needed for development

Research and development (R & D) are very important for businesses for their existence and development. Large enterprises spend much money on R & D activities because product innovation, product development, market knowledge, etc. depend on R & D. SMEs generally do not have the financial capacity to engage in research and development activities compared to large enterprises. The survey results reveal that SMEs in the western province of Sri Lanka do not engage in R & D compared to the large

enterprises. The government of Sri Lanka can help SMEs through suitable schemes for innovation as in Korea and Finland. In Korea, SMBA supports R & D projects and similarly in Finland, TEKEs supports such projects.

Management skills are very important for the sustainability and growth of the SMEs. The survey has revealed that lack of management skills hampers the progress of many SMEs. Therefore, SME owners or partners should ensure that its employees in the management positions possess enough management qualifications and skills to run the day-to-day business of the SMEs and make the SMEs grow.

For any enterprise to move forward it has been found that Entrepreneurial Orientation is an important factor. Entrepreneurial Orientation includes Innovativeness, Pro-activeness and Risk Taking. If an enterprise is not innovative it cannot develop, as the present-day customers demand new products with better quality. Pro-activeness means to be ready before the competitors commence similar operations to grab the market. Risk taking means willingness of the enterprises to take an amount of risk when engaging in new ventures. So, for growth of SMEs, they should develop entrepreneurial orientation.

Today due to globalization and rapid development of information technology, Ecommerce has become an important tool for enterprises. Adoption of Ecommerce will help the SMEs to leverage many advantages. It has been revealed that some SMEs are reluctant to use Ecommerce due to security concerns with regards to transaction over internet. So, for the SMEs to be competitive they should use Ecommerce. The SME staff should be trained with the use of Ecommerce.

Also, the answers to the open-ended questions reveal that SMEs should use new technology in their businesses. Using new technology will help to increase quality, reduction of time, increase of productivity, cost reduction, increased communication with the customers, more sales, etc.

Management accountancy practices involve product costing, budgetary control, variance analysis and inventory control. For an SME to go forward it has to adopt management accountancy practices in its businesses. This is also very important for a SME to run its business effectively.

For an enterprise to grow and sustain its business, increasing competitiveness, skill development and knowledge of entrepreneurship are vital. SMEs should concentrate on these factors for them to be competitive and develop.

A company which does not earn enough profits will die off slowly. Therefore, to be successful and grow further it should not only be in a position just to earn some profits but to earn enough profits. This is also an important characteristic for an SME to achieve good development.

SMEs are small enterprises. It is very difficult for them to grow on their own. By maintaining proper affiliations with the related industrial organizations, they will receive various types of assistance as the industrial organizations are funded by the governments to help enterprises to grow. Such organizations usually help SMEs for networking with other SMEs, marketing knowledge, export opportunities, etc. Therefore, SMEs should have affiliation with related industrial organization for their growth and sustainability.

Most of the SMEs die off every year due to various reasons. Creating linkages with large enterprises is one way to sustain the business of the SMEs and grow further. Many SMEs survive as suppliers to large enterprises. So, for SMEs to grow they should establish linkages with larger enterprises.

According to answers to the open-ended questions SMEs can develop their businesses and manage completion by the following measures. They are: better pricing, producing quality items or providing services with high quality, keeping of SMEs products at reasonable prices, maintaining customer satisfaction through better customer services, introducing new innovative products, better management, etc.

4.4.5 SME owners' capabilities and attitudes for SME development

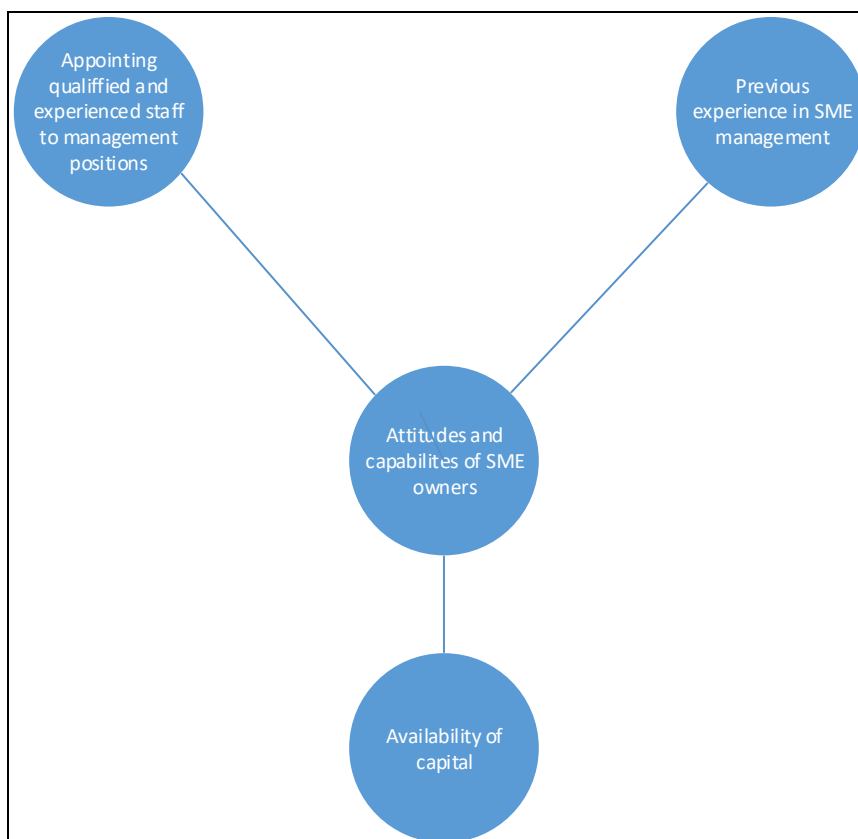


Figure 6: SME owners' attitude and capabilities needed for SME development

Entrepreneur's financial capability is an important factor for SME development. SME owner should be able to obtain loans if he or she does not possess enough wealth for developing his or her SME. SME owner should be able to convince the financial institutions with the viability of the projects if he does not have necessary collateral.

For the success of SMEs, entrepreneurs should be competent. For them to be competent, they should have some previous experience in SMEs. The experience could have been gained through a number of years of work experience in SMEs or the entrepreneurs could have been born in families that were running businesses where they would have got themselves acquainted with various issues related to businesses. So, it is

better for an SME owner or partner to acquire needed experience before setting up a SME, if he or she does not possess enough exposure to SME businesses.

For a SME to be successful the entrepreneur should be in a position to manage it effectively and lead it to grow. For this to happen, the entrepreneur should appoint talented employees who can help him or her to run the SME effectively to management positions. The employees should be qualified and experienced people. SME owners should refrain from appointing relatives and friends without qualifications or experience to management positions in SMEs.

4.4.6 Better environment for SME development

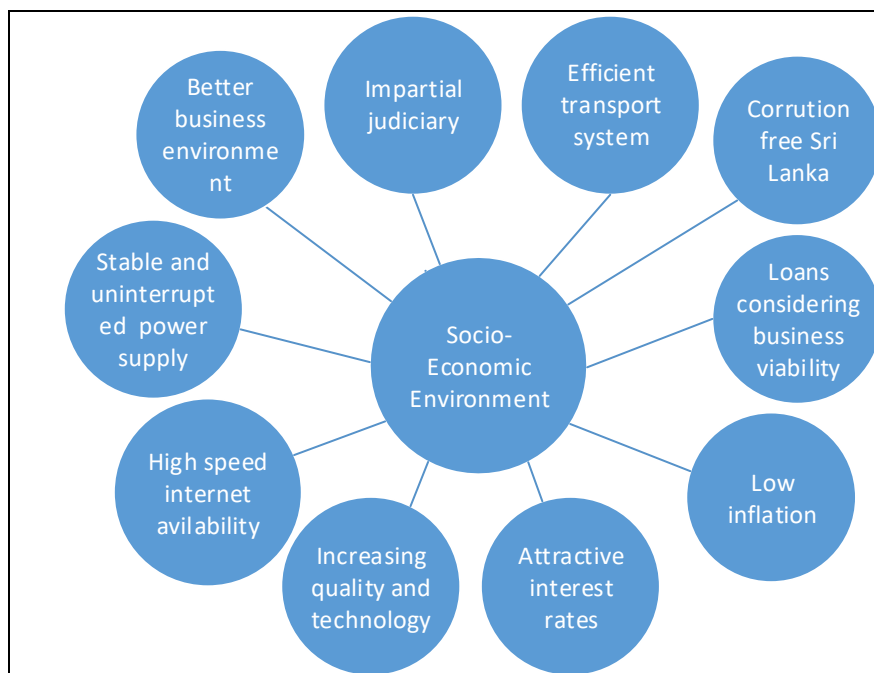


Figure 7: Improvement in SME Environment needed for SME development

Any SME business is not confined to one city or country under globalization. SMEs have to be connected to internet for their needs. The internet should be of high speed and should be available throughout day and night without any interruption for SMEs to carry out their day-to-day businesses. For this to happen, all western provincial areas should be equipped with high internet services. Majority of the respondents agreed that high speed internet is available in all Western province areas round the clock. So, if there is any area not having this facility, the government should take action to provide it.

Due to globalization, SMEs have to compete with large scale enterprises to sell their products locally or internationally. Many SMEs find it difficult to introduce new technology like large enterprises. Similarly, they are unable to compete with the large enterprises in terms of quality too. This is also a factor affecting SME development in the country. To solve this issue, SMEs should increase the quality of their products using new technology. As discussed earlier, government also should provide necessary support in this regard.

Due to high risks involved with financing SMEs, the financing institutions such as banks are charging high interest rates when compared to larger enterprises. This factor also has an adverse impact on SME development (NEDA, 2015). The government should support SMEs by providing necessary insurance or it can help them using a cooperative network as in some countries. Loan Insurance Scheme (LIS) is a very good support scheme of SPRING Singapore to solve this issue (SPRING Singapore, 2014 p). Loan guarantee co-operative is another system available in Switzerland which supports loans of SMEs through co-operatives (SECO, 2016).

SMEs need additional funds for expansion. Due to lack of collateral, banks refuse to provide funds to SMEs in Sri Lanka. This issue seriously affects SMEs. The solution for this is the loan insurance scheme and co-operative loan system discussed in the previous paragraph.

Corruption is a factor identified as a root cause for various issues in developing countries. There is corruption to a certain level in Sri Lanka too. Due to corruption, SMEs find it difficult to do their businesses in a straight forward manner as in developed countries. Therefore, corruption should be uprooted from the Western province of Sri Lanka for SMEs to grow effectively. The Sri Lankan government and the Provincial Council of Western province should take action to eliminate corruption.

Electricity is an important commodity for the activities of SMEs. In Sri Lanka many parts of the country experience frequent power failures. Some areas experience prolonged power failures too. Power failures impact SME activities adversely. Majority of the respondents agreed that unreliable power supply in the Western province affects SME development. Therefore, to ensure SME development in the Western province, power failures should be minimized, and the restoration time should be shortened. The responsibility lies with the government of Sri Lanka which is responsible for providing power through the Ceylon Electricity board and Lanka Electricity Company. The government can take action in this regard by setting up a system to ensure that areas where SMEs are in operation to experience minimal restoration times during power failures or preference in restoring service.

Efficient transport system is a must for enterprises to sustain their businesses and grow. Western provincial transport system is very inefficient compared to the developed countries. Even within Sri Lanka, more traffic congestions are experienced in the Western province as it is the capital city and most of the government and private offices are situated in the western province. The public transport systems such as bus transport and railway should be completely revamped to make the transport system effective. This can be done by the government only (Weerawardena, 2011).

The government is unable to control inflation in Sri Lanka due to many factors. Due to inflation, prices of imported raw materials are increasing day by day. This creates an unpredictable situation for raw materials used by SMEs. Many respondents have indicated that increased prices of raw materials affect their business in the open-ended questions. Controlling inflation is a major task for the Government.

For SME businesses to thrive, the business environment should be better. The majority of the respondents stated that the environment for business is not conducive.

So, the government and the provincial council of Western province have to take action to correct this situation.

For people to invest and set up SMEs there should be an impartial judiciary in the country. Majority of the respondents are of the view that the Sri Lankan judiciary system is impartial and does not safeguard all Sri Lankan and foreign entrepreneurs in Sri Lanka. Therefore, it is again the responsibility of the government to create an impartial judiciary in Sri Lanka.

4.4.7 Important state institutions involved with SME affairs

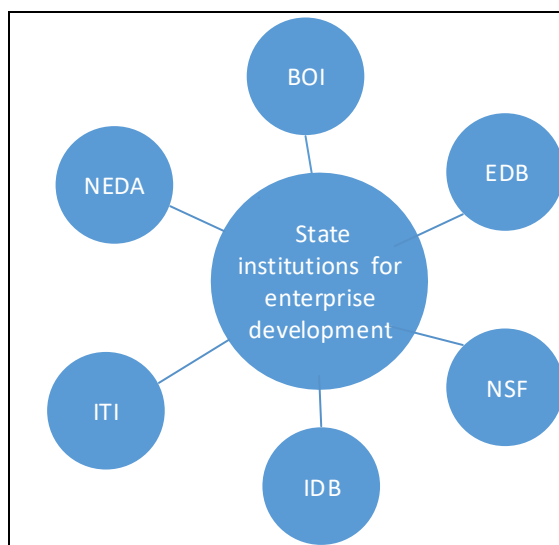


Figure 8: Important state institutions involved with SME affairs

The research reveals that some of the government institutions such as IDB, EDB, NSF and ITI support SME development to some level. BOI should be made to offer more support for SMEs like it supports large enterprises. NEDA should be reorganized to get actively involved in the SME development of the country.

5. Conclusion

5.1 Defining barriers for SME development

Every research is done with a specific purpose. So, the research should be able to bring some new knowledge to the world. The purpose of this study is to propose a suitable framework for SME development in the Western Province of Sri Lanka. For proposing a framework, the following matters were studied:

- 1) The factors affecting SME development in Sri Lanka,
- 2) The drawbacks in the Sri Lankan laws and regulations that need to be corrected
- 3) Putting in place some solid government policies with regard to SME development,
- 4) The actions needed to make a suitable environment for SME development,
- 5) The duties with regard to the SME development by the Western province,
- 6) The duty of the government institutions that are supposed to support SMEs,
- 7) The institutions that support different categories of industries, etc.

The following Fish Bone diagram explains the reasons for the low level of SME performance in the Western Province of Sri Lanka. The facts are based on the survey results outcomes and the comments of the respondents through the open ended questions of the questionnaire.

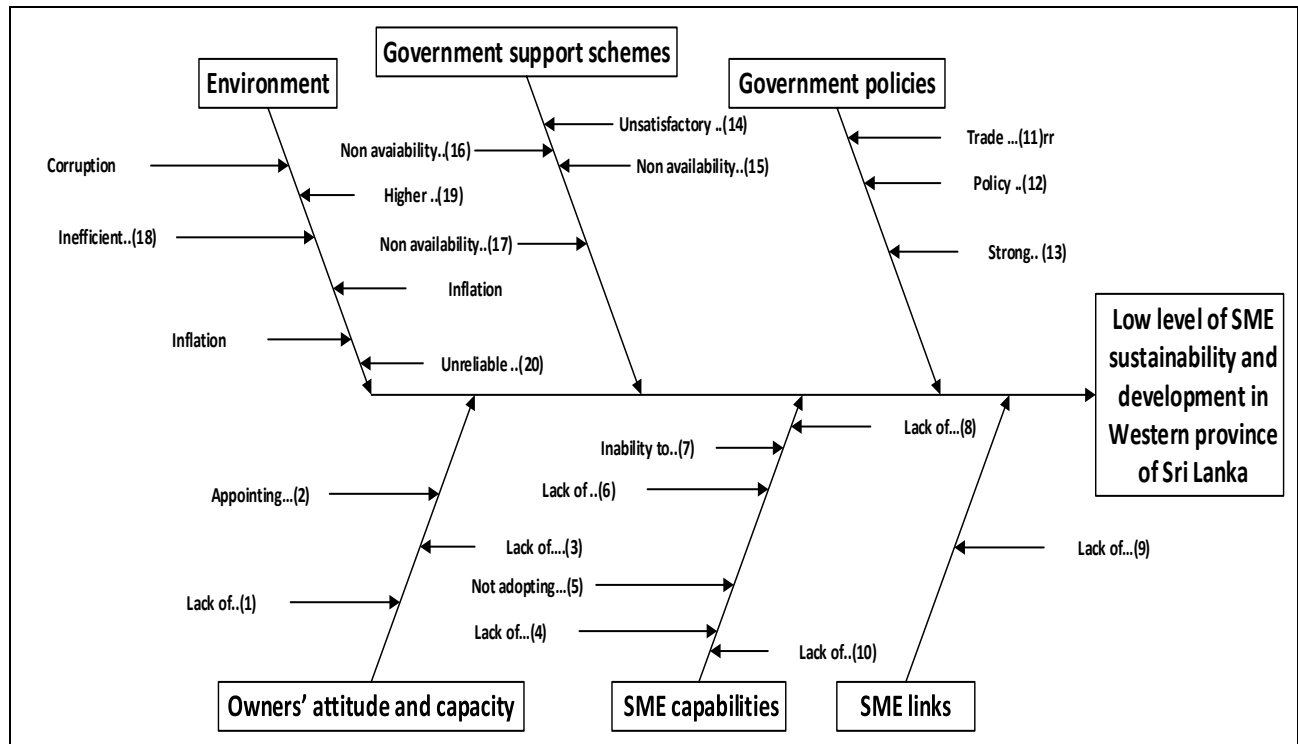


Figure 9: Fish bone diagram- The drawbacks of the SMEs in the Western Province of Sri Lanka

Factors mentioned in the fish bone diagram according to the numbers indicated above are given below.

- 1) Lack of previous experience in SME management,
- 2) Appointing of friends and relatives without qualifications and experience to management positions in SMEs by SME owners,
- 3) Lack of capital,
- 4) Lack of entrepreneurial orientation,
- 5) Not adopting of Ecommerce in SMEs,
- 6) Lack of managerial skills,
- 7) Inability to invest in research and development,
- 8) Lack of management accountancy practices,
- 9) Lack of linkages with large enterprises,
- 10) Lack of a common definition for SMEs,
- 11) Trade liberation policy of the government,
- 12) Lack of affiliation with industrial organizations,
- 13) Policy of the government to attract multi-national companies,
- 14) Lack of strong polices for SME development,
- 15) Unsatisfactory support schemes for SME development,

- 16) Non-availability of single powerful institution like 'Spring' to concentrate on SME development,
- 17) Non-availability of strong SME supportive government policies,
- 18) Inefficient transport system,
- 19) Higher interest rates,
- 20) Unreliable power supply.

5.2 Framework for SME development in the Western province of Sri Lanka

According to the survey and secondary literature review, SME development mainly depends on the government of Sri Lanka. Western province council also can implement suitable support schemes for the SME development. In addition, the environment, SME capabilities and owners' attitudes and capabilities can play important roles. Sri Lankan government's policies and its support schemes can play a vital role in bringing about a robust SME development in Sri Lanka.

Taking into account of all the facts revealed through the survey and the detailed study of SME support schemes in developed countries, the following Framework is proposed for SME development in the Western province of Sri Lanka

The framework shows the requirements that should be fulfilled for the sustainability and development of the SMEs in the Western province of Sri Lanka. All stakeholders involved in this and what each of the stake holder should contribute has been explained with figures in the preceding paragraphs. The following framework clearly explains the benefits associated with SME development such as increased per capita GDP of the country, increased benefits for the SME employees, more employment for the people and more profits for the owners/partners.

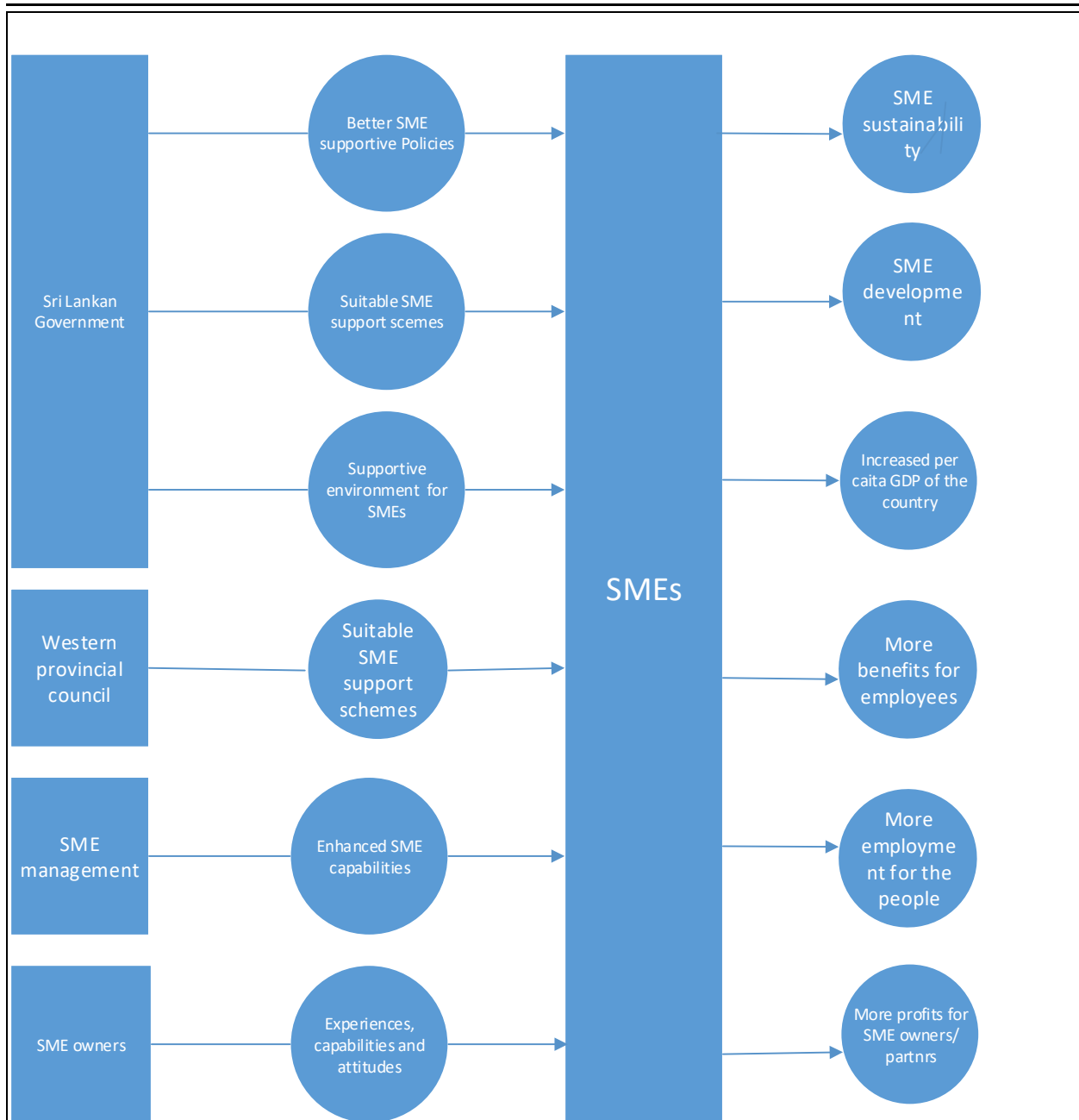


Figure 10: Framework for SME development in the Western province of Sri Lanka

5.3 Concluding remarks

The literature review gives a detailed view of the issues affecting SMEs in general. Also, it deals in detail of the factors affecting SME development in Sri Lanka. The empirical research analyses the lacking aspects for the SMEs in the western province of Sri Lanka compared to the foreign countries where the SMEs perform in high level and support their countries to achieve higher GDP levels.

Further, it reveals the shortcomings of the SME capabilities and the SME owners in general and it proposes how they can be corrected. Also the study deals with the suitable socio - environment which is another necessity for SMEs to sustain their businesses and grow further. The responses obtained through the questionnaire reveal how the Sri Lankan government can do more to develop SMEs.

Finally, the framework clearly shows what actions each of the stake holders involved in SME development should take to achieve a high level of SME development in the Western Province of Sri Lanka.

Conflict of Interest Statement

The authors declare no conflicts of interests.

About the Authors

Dr. Ponniah Phelps Jeganathan is a Business Management Consultant and COO at J & S Management consulting and a visiting lecturer in business management and research in few higher educational institutions in Sri Lanka. His past experience includes telecommunication engineering management in Sri Lanka Telecom, Sri Lanka. He is a member of the Institution of Engineering & Technology (MIET) of UK. He holds a PhD (Aldersgate-Philippines) in business management together with an MBA (Wolverhampton-UK).

Prof. Sunanda Degamboda is a retired professor of University of Kelaniya, Sri Lanka. He is a visiting professor in few state and foreign universities now.

Dr. Don Prasad is the vice president of Aldersgate College, Philippines and Chairman – Aldersgate International Consortium. He obtained his PhD from Curtin University.

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