

# **The Impact of Marketing Strategies and Behavior of Small and Medium Enterprises on their Business Growth**

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## **Abstract**

As per the scholars, the economic growth of developing countries can be sustained by the expansion of private sector, as they are the engine of growth. According to the previous studies it has been observed that the SMEs have become a crucial segment and a major section of private sector in developing countries consists of SMEs. As such, it is important to accelerate the growth of SMEs in order to gain sustainable development in the country. But, according to the past research studies there is a high failure rate of SMEs in Sri Lanka. According to the literature, there are several reasons affect for this high failure rate. Implementation of the correct strategies and the behavior of entrepreneurs are important factors to be considered for the growth of SMEs. As per the white paper 2002, the implementations of the correct marketing strategies are vital factor for the growth of SMEs. Therefore the problem centered in this research was to identify the impact of marketing strategies and behavior of SMEs on their business growth in Sri Lanka.

This study was based on secondary and primary data. Primary data was collected through the method of sample survey and for this purpose a structured questionnaire was used as the research instrument. Data was gathered by the sample of 100 entrepreneurs in Gampaha district who were engaged in the manufacturing sector.. Both descriptive statistics and inferential statistics such as correlation, and partial correlation were applied through SPSS to test the validity of formulated hypotheses.

The findings revealed that there was no significant impact of marketing strategies on their business growth. Moreover, there was no impact of the behavior of the entrepreneurs and the business growth.

**Key Words:** marketing strategies, behavior of entrepreneurs, SME, Business growth

## **1. Introduction**

Small business plays a central role in everyone's life because much of our day today economic activities based on small business. It provides various service, professional practices and merchandisers filling immediate needs of their customers and clients, so small business contribute to the high quality of life that we enjoy. Small business enterprises have been identified as an important strategic sector for promoting growth & social development of Sri Lanka. Over the years, small businesses have gained wide recognition as a major source of employment, income generation, poverty alleviation & regional development. The small business enterprises cover broad areas of economic activities such as manufacturing, service, trading, professional services & others. Within the manufacturing sector, small & medium scale industries account for about 96 per cent of industrial unit, 36 per cent of industrial employment & 20 per cent of value added (White paper, 2002).

First step of entrepreneurial process is starting a small business. Here entrepreneurs incubate ideas, gather resources, take individual risks and they make effort to success their venture. Innovation and creativity helps to success this start up stage. As the owner-and the originator of the business, entrepreneur plays all managerial roles and he who starts small learns from the

experience. Entrepreneurship is the core of economic development. It is a multi dimensional task and essentially a creative activity. Now not only men, women also have been recognized as successful entrepreneurs as they have qualities desirable and relevant for entrepreneurship development. First step of entrepreneurial process is starting a small business. As the owner and originator of the business, entrepreneur plays all managerial roles and he who starts small business learns from the experience.

There is no clear state policy for the development of SMEs in Sri Lanka, neither is there an authority with statutory powers to assume responsibility to co-ordinate the development of this sector. However the Governments "New Industrialization Strategy for Sri Lanka" set out by the Ministry of Industrial Development in November 1995 recognizes that Small and Medium industries need development. Some of the areas that have been identified for attention are facilitating expansion, access to funds, infusion of new technology, improving products, skills training, local and export marketing, promoting linkages with large firms and improving productivity.(Nirmala,2004)

Therefore it is visible that there are several factors which challenge the success of small business. Apart from these challenges, there are several strategic options which will help entrepreneurs to overcome these challenges. Awareness of these issues and challenges and the strategic options in this field is very important factor to both men and women entrepreneurs in Sri Lanka for the development of this sector.

## **1.1 The Problem statement**

Small and Medium Scale Enterprises (SMEs) appears to be governed by the perceiver and the nature of the environment in which the definition is to be employed. Consequently there is no single definition. Some organizations adopt the criteria of employment while others adopt a criteria based on the value of fixed assets.

Defining SMEs by the number of employees has also been widely used. This method is usually straightforward, but can also face some problems due to factor intensity of different industries. Moreover, part time workers and family workers, who function both as managers and workers, create some definitional problems. In Sri Lanka when measuring size by employment the following definitions are often used: micro < 5 employees, small 5-29 employees, medium 30-149 employees, and large 150 employees and above. For the purpose of present analysis the above definition is used by the researcher.

According to the “National strategy for small and medium enterprise sector development in Sri Lanka (white paper, 2002), they have found out that small business enterprises are less dynamic and underdeveloped as against large scale enterprises in the national economy. The growth and expansion of Small Business Enterprises (SBE) are constrained by problems relating to both product factor markets, lack of institutional support and policy inertia have further reduced the potential contribution of SBEs to the national economy.

Firm growth is a central focus area in strategy, organizational and entrepreneurship research. Much research effort has been targeted particularly at investigating the factors affecting firm growth, but to date there is no comprehensive theory to explain which firms will grow or how they grow (e.g. Garnsey, 1996). It seems that not even very strong explanatory factors have been identified, though various explanatory approaches have been presented. Firm growth and performance are much affected by strategy, which involves choices along a number of dimensions

and can be represented by a firm's overall collection of individual business-related decisions and actions (Mintzberg, 1978; Miles & Snow, 1978). Though there is a variety of definitions of the term of strategy, it can accurately be conceptualized as *a pattern of strategic variables*, because the elements of strategy – the individual business-related decisions and actions – are interdependent and interactive (Galbraith & Schendel, 1983). It is argued that the identification of strategy patterns permits a more complete and accurate depiction of overall strategic behavior (see e.g. Hambrick, 1983; Robinson & Pearce, 1988).

Storey (1994: 158) claims that there are three key influences on the growth rate of a small independent firm: (1) the background and access to resources of the entrepreneur(s); (2) the firm itself; and (3) the strategic decisions taken by the firm once it is trading. The most important factors associated with an entrepreneur are motivation, education, the firm having more than a single owner, and the firm having middle-aged business owners. The growth of the smallest and youngest firms is the most rapid. The location and industry sector also affect the growth. The most important strategic factors are shared ownership, an ability to identify market niches and introduce new products, and an ability to build an efficient management team. Storey argues that these three components need to be combined appropriately for growth to be achieved.

Gibb and Davies (1990: 16-17), on the other hand, have grouped the factors explaining growth into four types of approach (Gibb, 1997: 2-3; Pistrui et al., 1997; Poutziouris et al., 1999). These are: (1) personality-dominated approaches, which explore the impact of personality and capability on growth, including the entrepreneur's personal goals and strategic business aspirations (e.g. Chell & Haworth, 1991; 1992); (2) firm development approaches, which seek to characterize the growth pattern of the firm across stages of development and the influence of factors affecting growth process (e.g. Scott & Bruce, 1987); (3) business management

approaches, which pay attention to the importance of business skills and the role of functional management, planning, control and formal strategic orientation in terms of shaping the growth and performance of the firm in the marketplace (e.g. Bamberger, 1989; 1983); and (4) sectoral and broader market-led approaches which focus largely on the identification of growth constraints and opportunities relating to small firm growth in the context of regional development or the development of specific industrial sectors such as high-technology small firms (e.g. Smallbone et al., 1993).

The growth barriers characteristics of small firms in peripheral locations have been presented by Birley and Westhead (1990: 538). In the study carried out by the Cambridge Small Business Research Centre (1992), the most common growth barriers were related to factors on the macro level. The most important growth barriers were related to difficulties in obtaining finance and the price of money, the level of and decrease in demand (also Perren, 2000), and tightening competition (also Hay & Kamshad, 1994). Other growth barriers were caused by restrictions determined by authorities, problems in obtaining a skilled workforce, and the small number or lack of potential cooperation partners in the area. The firm-internal factors affecting unwillingness to grow include the entrepreneur's fear of losing her or his autonomy, difficulties in fitting together personal and the firm's goals, and weak managerial or marketing skills (see also MacNabb, 1995; Perren, 2000). These issues are particularly typical when an entrepreneur "transfers" from the role of entrepreneur to that of manager, or when the firm hires a new manager.

In this setting researchers have identified number of strategies that have contributed to the growth of this sector. Some of them are finance, marketing, human resources, production and entrepreneurial strategies. If SMEs follow these strategies in their business operations there

should be a growth in the business. But according to the previous studies there is a high failure rate in SMEs and they are not following much functional strategies in their business activities. In addition to the strategies, the behavior of entrepreneurs such as skills and attitude also affect for the growth of the business. Hence the researcher has identified the gap as the impact of level of functional strategies followed by SMEs and their behaviour on the growth of SMEs. In this study the researchers considered only about the marketing strategies adopted by SMEs and its impact on business growth. Therefore it is important to measure the impact of marketing strategies and behaviour of entrepreneurs on the growth of SMEs in Sri Lanka.

## **1.2 Limitations of the Study**

Several limitations can be seen due to the time and cost constraints. The major limitation is the sample size. Here the sample size of the researcher is limited to 100 respondents out of total 1750 entrepreneurs registered in selective districts in 2006.

Since the data collection will be done only in Gampaha district and ignoring the contribution made by the other districts, the researcher fined this as another limitation of the study.

The other limitation of the study is this is only focused on the manufacturing sector due to its significant contribution to the national economy. Therefore in this study agriculture, services and other sectors contribution is not considered.

## **2. Literature Review**

### **2.1 Small and Medium Enterprises in Sri Lanka-An Overview**

Since the introduction of the liberalized economic policies in 1977, the Small & Medium Enterprise sector in the country experienced a major advancement contributing to an almost 3

fold increase in the number in 1997 in comparison to the number of units that was in existence in 1977. Liberalization enabled the higher utilization of capacities due to the free availability of equipment, plant and machinery, tools and raw materials. This in turn contributed towards setting up of new businesses, expansion of existing enterprises and also improvement of quality standards of goods and services provided by SMEs. However there has never been any targeted development of this sector even though the ability of SMEs to generate socio-economic benefits, add value to indigenous raw materials and generate employment has been recognized by successive Governments. This non targeted development may also be the reason for there being no national definition for SMEs in Sri Lanka. Different agencies used and continue to use different criteria to identify SMEs. Among these criteria are the number of employees, the size of fixed assets and the total and export turnover.

The most commonly used recent definition that is used in the country is the one set out by the National Development Bank (NDB) where SMEs are described as enterprises with fixed assets excluding land and building >SL Rs. 20mn (US \$ 0.27mn). Other definitions use the total number of employees as less than 200 and still others identify SMEs as those whose annual turnover does not exceed SL Rs. 25mn (US \$. 0.34mn) and export turnover does not exceed SL Rs. 8mn (US \$ 0.11) annually.

In the absence of a standard definition for SMEs in Sri Lanka, hardly any statistical information on SMEs is available at a national level. However various sample studies have been carried out from time to time. In the most recent study carried out in 1997, it is reported that, proprietorships and partnerships account for 70% of SMEs in the country with the rest being limited liability companies.

Almost 73% of SMEs in Sri Lanka are involved in manufacturing. At present about 50,000 registered and 125,000 unregistered manufacturing units are in operation in comparison to the approximately 1000 large industry units. These SMEs operate in almost all areas of manufacturing industry other than in the area of Petroleum processing which is predominantly carried out by a large public sector enterprise. The major area of manufacturing is light engineering followed by textiles and apparel, food and beverages, rubber and plastics, wood and wood products and leather and leather products. The other major sectors in which SMEs contribute are in sectors of metal products, construction material (mineral based), printing and paper products, agro products, animal husbandry and horticulture and chemical products. Since the majority of SMEs in Sri Lanka operate in the manufacturing sector, this paper will concentrate on these SMEs.

In the manufacturing sector of the country, SMEs constitute 86% of the industrial establishments. SMEs contribute to almost 18% of industrial output, 17% of value added and account for about 24% of industrial sector employment. SMEs in services constitute approximately 17% whilst 8% of SMEs concentrate on exports. Most of the service oriented SMEs are in the engineering sector. SMEs operating in the export sector concentrate mainly on textiles and apparel.

A major threat to the viability of SMEs has been the unfair competition of leaks of duty free goods from export oriented and Free Trade zone industries, under invoicing, smuggling and dumping. No protection has been afforded to SMEs from such abuses neither is there any protection afforded to SMEs until such time new enterprise gains competitiveness. Further removal of protectionism duties for local industries and the imposition of the Goods and Services tax that is presently in operation may produce an unfavourable situation in some sectors of SME

operation. However, this will give SMEs the advantage of competitive development within the open economic system.

The concept of incubators is still in its infancy in the country with various steps now been initiated for the development of incubators. The Ministry of Industrial Development set up a Steering Committee on Industrial incubators about a year ago. Subsequently, UNIDO funding is now to be provided for an International Consultant, for the preparation of an overall study on the feasibility and options for using business incubators as a tool for economic development of the country. The Consultant will also be responsible for the preparation of an implementation work plan for the start-up of one pilot business incubator in Sri Lanka. (Nirmala M., 2004)

## **2.2 Importance of small business entrepreneurship in market oriented developed and developing countries.**

Small business play a vital role in the economies of both developed and developing countries, representing well over 90 percent of all manufacturing in the world ( Wijewardena and Cooray, 1995). Nevertheless, the folklore is that some of these enterprises collapse within a few years of their start up of those operating some grow rapidly, while many others lag behind or grow slowly. Therefore it is important to causes of failure as well as factors contributing to the success may vary from country to country , depending on their on economies, geographical and cultural differences. Therefore , empirical investigation and considering theoretical background into these aspects of men and women small business entrepreneurs in different countries is important because the finding of such research are useful to economic development planners as well as to individual entrepreneurs in the countries concerned.

In the USA, small enterprises began their revival in the 1960s. Since the late 1960s , the creation of new jobs has shifted from the countries largest organizations to small and medium sized firms, many of them new business. Forty million new jobs were created in the two decades to 1985 by small and medium sized business.

Politicians of defining ideologies in many countries developed a remarkable enthusiasm for the small firm. All three major political parties in the UK supported policies promoting small business. In the 1980s leaders on both sides on the Atlantic proclaimed the dawn of a new age of enterprise, led by army of entrepreneurs working in small firms. In 1985s, Peter Drucker, one of the most influential writers of the era when management theory was based on big business practice, acknowledged the new climate by welcoming the shift from a managerial to an entrepreneurial economy in which growth was being fuelled by small and medium sized enterprises.

According to Bolton report, 1971 in UK small enterprises made a special contribution to the economy identifying eight important roles such as productive outlet, sales outlet, supplier or sub contractors to large companies, competition to the monopolistic companies, innovations, the breeding ground for industries and the seedbed from which tomorrow's larger companies will grow, providing entry points for entrepreneurial talent.

Regardless of small business, the small businesses are the backbone of the economic and social structure. The rationale for the development of micro, small and medium enterprises lies in the important contribution that they make towards

- Poverty alleviation;
- Employment generation. The strength of the micro and small enterprises lies in the fact that they can provide full time employment or absorb part time labour. The surplus

labour from agriculture can be successfully absorbed into this sector providing additional income.

- Generation of new product ideas and innovation;
- Distribution of wealth in society. If well managed these could form a barrier against concentration of wealth;
- Development of the private sector and enhancing private sector initiatives
- Development of an entrepreneurial class. Experience has indicated that many of the larger more successful entrepreneurs have grown from small beginnings.
- Rural industrialization and social development. SMEs can be effectively operated in urban and rural settings;
- From the point of view of the government, new businesses and enterprises render increased revenues, reduce poverty, social tension and improve the standard of living;
- For industries, SMEs offer specialized skill in particular areas, sub-contracting facilities and even function as primary customers. Economically, they mobilize savings, utilize indigenous resources and contribute towards fostering an indigenous entrepreneurial class;
- Small and medium enterprises, by the very fact of scale bring in flexibility. Due to the global pressure in terms of quality, price reduction, environment, standardization of products enterprises have to change. SMEs also have the ability to adjust themselves to the changes imposed in international trade. The inherent flexibility of SMEs enables them to reorganize and re-position to these needs
- They also form the incubators for the development of larger enterprises

(The Master Plan for the Development of Rural Industries. ILO, 1998)

Considering the developing countries, they face continuing heavy unemployment and underemployment problems. The labour intensive nature of small business creates employment opportunities particularly in the informal sector. Creation of employment in rural areas reduces migration from rural to urban areas. In developing economies small business entrepreneurs provide solution to the heavy unemployment problems. These job opportunities are provided for the unskilled labour as well as cost per job generated in small business sector comparatively low and it provides self employment opportunities.

Most of the Asian countries have of late adopted a deliberate policy of promoting and encouraging small enterprises as a strategy for the overall development of their countries. For a example , during the past three decades , India has been engaged in the task of promoting and developing small business entrepreneurship. Priority has been accorded to small scale industries and stimulating and finding entrepreneurs.

Small scale business considers as the engine of industrial growth of an economy. Industrial development could be said to be a major component of economic development investigates entrepreneurial development, leading to industrial development and the later leading to economic and so the emphasis on entrepreneurial development. During the recent past, we could see that efforts have been taken to promote entrepreneurship with emphasis on small scale industries in many developing countries. In addition to this sector can easily engage with socio cultural factors in any country creating forward and backward economic linkages. Small business entrepreneurs are flexible with consumer desires and they are the consumer native needs and wants suppliers.

Not only do small companies lead the way in creating jobs, but they also bear the brunt of training workers for them. One study by the small business Administration concluded that small

are the leaders in offering training and advancement opportunities to workers. Small companies offer more general skills instruction and training than large ones, and their employees receive more benefits from the training than do those in larger firm. Although their training programmes tend to be informal, in house, and on the job, small companies teach employees valuable skills, from written communication to computer literacy. (Stock, 2002)

Small sector is essential part of large scale industries. Providing supportive services like supplying raw material or assembling some part of product etc.. This is complimentary linkage between both parties. Foreign investors also hope strong local body when they select location. In some cases, foreign direct investment is coming through local partners. Here small business sector performs an integral part of poverty alleviation and regional development programs. Most of government in developing countries uses small business development programs as a tool of reaching their economic development.

### **2.3. Defining Small Business**

Small and Medium Scale Enterprises (SMEs) appears to be governed by the perceiver and the nature of the environment in which the definition is to be employed. Consequently there is no single definition. Some organizations adopt the criteria of employment while others adopt a criteria based on the value of fixed assets.

The National Development Bank (NDB) adopts single criteria in defining both small and micro enterprises for the operation of Small and Micro Industries Leader & Entrepreneur Promotion Project SMILE II loan scheme. They are defined as those where the fixed assets at original cost (excluding land and buildings) does not exceed Rs.14 million. This definition varied in the case

of SMILE I where the cost was fixed at Rs.10 million. The problem arises when trying to establish a lower limit for defining the two categories – micro and small.

The Export Development Board, (EDB) which also has programs for the development of export oriented small and medium enterprises uses the definition adopted by the NDB. Further the definition of export turnover of Rs.25 million is used to identify small and medium exporters.

On the other hand the Industrial Development Board, (IDB) which is the premier organization in the development of SMEs classifies medium scale enterprises as those where the investment in fixed assets excluding land and buildings is between Rs.10-20 million and small enterprises as being between Rs.5- 10 million. One assumes that anything below Rs.5 million would be grouped as micro enterprises.

The Department of Census and Statistics, (DCS) bases its classification on employment and accordingly those establishments employing less than 25 persons is grouped under small and those employing over 25 persons is grouped as large scale.

Small and Medium Enterprise Developers (SMED), a project implemented by the Federation of Chambers of Commerce and Industry, (FDCCI) uses a classification based on employment where those that employ less than 150 are grouped under small and medium enterprises.

The World Bank (WB) in a study of SMIs (1997) categorized small as those that had 1-49 workers as small, 50 – 99 as medium and above 100 as large. As is evident from the foregoing classifications, there has been no effort in recent times to provide a clear definition for identification of the SMEs for development and research purposes, thus making all analytical studies of SMEs a difficult task. Further more it has also been observed that there is no definition of micro enterprises, which is generally categorized under the umbrella of ‘Informal Sector’. However from the point of view of policy formulation and evaluation of the contribution of the

sector, it is important that attention is paid to the definition of the sector while ensuring flexibility.

Defining SMEs by the number of employees has also been widely used. This method is usually straightforward, but can also face some problems due to factor intensity of different industries. Moreover, part time workers and family workers, who function both as managers and workers, create some definitional problems. In Sri Lanka when measuring size by employment the following definitions are often used: micro < 5 employees, small 5-29 employees, medium 30-149 employees, and large 150 employees and above. For the purpose of present analysis the above definition is used by the researcher. (White paper, 2002)

#### **2.4 Access to information and markets**

Linked with the technology upgrading and quality control is the issue of availability of timely information and services that enhance the market access to SMEs. Information is expensive and not widely available and yet it is the most powerful competitive edge for business success. More specifically, this refers to information and support services required for selecting target markets, product development and packaging, distribution and sales promotion. This is yet another obstacle affecting the growth and expansion of SMEs in developing countries. In the context of Sri Lanka, this is of special significance in view of its commitment towards pro-market and liberalized economic policies.

Small firms virtually have no sources of information on other markets or opportunities outside their immediate surroundings. The lack of knowledge and limited access to information on market opportunities have used small sector enterprises to depend on judgment and speculation. In a competitive business environment, this is very costly and limits their ability to expand the

market. Existing arrangements to supply such information to SMEs are gross inadequate and the lack of access to modern information technology (IT) has further aggravated the situation.

Most SMEs service regional or local markets. Their market information is often limited to their specific market segments. Quite often, information relating to developments in market demand and innovation is received through word of mouth. The information requirements of SMEs depend on the size of the enterprise, stage of growth and type of business.

In addition to lack of information, the absence of marketing skills at enterprise level has led to SMEs being more production oriented rather than becoming more market oriented. Many of the SMEs especially small scale enterprises lack skills on product design, packaging and sales promotion which are vital for being attractive and competitive in the market. The typical selling method of SMEs especially small scale enterprises is to operate through their own outlets. Many of them are also not in a position to promote their products and services through advertising and sales promotion mainly due to lack of skills and high cost. In fact, the absence of marketing skills has resulted in the early demise of business enterprises. (White paper, 2002)

It is questionable whether small businesses need to practice marketing at all to survive and grow (Hogarth-Scott et al, 1996). However, the study by Hogarth-Scott et al (1996) concluded that small business owner-managers were often generalists, not marketing specialists and complex marketing theories may not be appropriate for small businesses and probably would not aid in the understanding of their markets. Nevertheless, marketing was practiced to some degree by small businesses. In most cases competitive advantage was based on quality and service, while those competing on price were in the highly competitive markets with little or no product differentiation and low entry barriers (see also Campbell- Hunt, 2000). Product differentiation was a source of competitive advantage in some businesses while others were looking for niche

markets (Hogarth-Scott et al, 1996). It would appear from that study that marketing did contribute positively to small business success and the ability to think strategically.

Marketing is the demand by nearby areas and it tells where their output sell. Marketing or market forces determine the best combination at goods and services to fulfill customer needs and wants. In a small business, the marketing function cuts across the entire company, affecting every aspects of its operation from finance and production to hiring and purchasing as well as the company's ultimate success.

Sometimes entrepreneurs make the classic field of dream mistake. Like Kevin Costerns character in the movie, they believe that if they “build it, customers automatically will come”. Although the idea makes for a great movie plot, in business, it almost never happens. Building a growing base of customers requires sustained, creative marketing effort. But small business entrepreneurs have a lack of desire to spend enormous sums of money to sustain a successful marketing effort (Zimmer, 2006).

## **2.5. Empirical Evidences**

### **2.5.1. Access to information and markets**

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### **2.5.2 Infrastructure**

Lack of adequate infrastructure, particularly in the fields of power, water, telecommunications and road access affects production, its cost, delivery and finally market competitiveness of any enterprise irrespective of its size. The SMEs, specially, find it difficult to compete with existing firms when they do not even have access to essential common facilities that are required for a business to run efficiently. The severity of this issue needs to be analyzed in terms of availability, quality, reliability and cost of supply. Similar to many other developing countries the situation is worse for SMEs located in the provinces. For example, in many districts outside Colombo, still lack electricity and pipe borne water. This hinders the development of certain types of potentially prosperous industries, like brassware, silverware, furniture, coir products etc. It also prevents industries from using simple power tools, which can improve the quality of the finished product and raise productivity and value added. As revealed during the public hearings, access to 3-phase electricity is still a problem in Kandy and Trincomalee districts.

### **2.5.3. Enabling legal and Regulatory Framework**

In spite of various policy reforms introduced by successive governments during the post liberalization period, the degree of bureaucracy inherent in business government interaction is reported to be very high in Sri Lanka. This is due to both direct and indirect state interventions in economic activities through legislative and administrative regulations. It is widely accepted that outdated regulations and rigid administrative procedures imposed by public sector institutions raise costs and discourage dynamism in trade and industry.

#### **2.5.4. Industrial Relations and the Labour Environment**

A range of regulatory and institutional structures complicate the relationships between employer and employees. As viewed by the National Employment Policy Statement, the weak tripartite partnership between the government, employers and trade unions has been a deterrent to Sri Lanka's economic growth and social progress in the past. The rigidities of our labour relations framework and the adversarial approach of our industrial relations system have generally been looked upon as negative factors in our labour market. In fact, investors and the business community have repeatedly expressed their concerns over rigidities and inappropriateness of laws governing manpower issues in Sri Lanka.

#### **2.5.5. Entrepreneurship Skills, Retraining and Management**

The acquisition of relevant vocational training, technical skills and business skills is generally regarded as one of the critical factors for success in SMEs. Management and entrepreneurial skills are crucial for enterprises to become dynamic and growth orientated. Most of the SME owners have not been trained in business management and lack a proper book keeping system to facilitate vital financial decisions. As a result, they face many management problems including

under estimation of required funding, use of out dated technology, over estimating of target markets and marketing capabilities.

According to the available literature several factors can be used to measure the growth of SMEs. In fact, previous research reveals that firm growth is a multidimensional phenomenon. There is substantial heterogeneity in a number of factors associated with firm growth and related research (Delmar et al., 2003). The most recent research on firm growth has increased our understanding of different growth patterns. As Delmar et al. (2003) have shown firm growth patterns are related to the demographic characteristics of firms such as firm age.

SME growth is often closely associated with firm overall success and survival (Johannisson, 1993; Phillips & Kirchhoff, 1989). Growth has been used as a simple measure of success in business (Storey, 1994). Also, as Brush and Vanderwerf (1992) suggest, growth is the most appropriate indicator of the performance for surviving small firms. Moreover, growth is an important precondition for the achievement of other financial goals of business (de Geus, 1997; Storey, 1994; Reynolds, 1993; Day, 1992; Phillips & Kirchhoff, 1989). From the point of view of an SME, growth is usually a critical precondition for its longevity (Storey, 1994). Phillips and Kirchhoff (1989) found that young firms that grow have twice the probability of survival as young non-growing firms. It has been also found that strong growth may reduce the firm's profitability temporarily, but increase it in the long run (McDougall et al., 1994; cf. MacMillan & Day, 1987).

However, there are several conceptual and empirical challenges in the study of firm growth (Davidsson & Wiklund, 2000; Delmar, 1997). Firm growth in general refers to increase in size. In research, firm growth has been operationalized in many ways and different measures have been used. This may be one reason for the contradictory results reported by previous studies

(Weinzimmer et al., 1998), though other explanations have also been presented (Delmar et al., 2003; see also Davidsson & Wiklund, 2000).

The most frequently used measure for growth has been change in the firm's turnover (Weinzimmer et al., 1998; Hubbard & Bromiley, 1995; Hoy et al., 1992; Venkatraman & Ramanujam, 1986). Another typical measure for growth has been change in the number of employees. However, it has been found that these measures, which are frequently used in the SME context, are strongly inter-correlated (North & Smallbone, 1993; Storey et al., 1987). Such an inter-correlation may not exist among capital-intensive large companies.

Growth in SMEs is often used as if it were synonymous with both growth in company size - quantitative growth - and developments within managerial practices and systems - qualitative growth or organizational growth. Such studies adopt a deterministic approach, which implicitly assumes that the qualitative dimension increases step by step parallel to quantitative growth, i.e. with the ability to adopt more rational management techniques and to develop a managerial culture able to deal with complex phenomena. There is evidence that qualitative development does not necessarily coincide with company growth and, in SMEs, these processes often take place at different times. A study carried out by Boldizzoni et al. (2000) pointed out that, in the Italian context, more than 90 per cent of the companies studied did not increase in size whereas some did improve their organizational levels. Many companies go through non-linear evolutionary development, i.e. they follow a strategy based on qualitative growth without increasing their business size. Indeed, size as an indicator of growth becomes less important when companies start to externalize key processes.

An SME could also have a structure suited for small dimensions and consequently choose a "no-growth" strategy. Trau (1999) calls this an unwillingness to grow:

Most studies of firm growth have focused on large companies or new venture, while the growth of established, long-lived SMEs seems to have attracted much less attention. In fact, many organizational life cycle models present growth as one stage of development in the organizational life cycle. On the other hand, it has been shown that most new jobs are created by existing, not new, SMEs (Davidsson et al., 1993; see also North et al., 1992). However, previous studies of SME performance have focused on the performance of new ventures rather than on existing SMEs and on the factors behind their longevity and growth (Tsai et al., 1991; Duchesneau & Gartner, 1990; Keeley & Roure, 1990).

Life cycle models are frequently related to company growth, i.e. the growth of volume of business, also called business growth. Several authors have carried out empirical research on factors influencing SME growth - for example, age, location, legal status and industry, region-specific resources, external relationships and network configurations (Storey, 1994; Glancey, 1998; Hall, 1987; Hall and Adams, 1994; Davidsson et al., 2002). In these studies, the evolution of managerial systems is presented as a consequence of company growth. The literature on management control systems describes formal changes in management accounting and control systems as being essential to organizational change across life-cycle stages (Moores and Yuen, 2001; Davila and Foster, 2005).

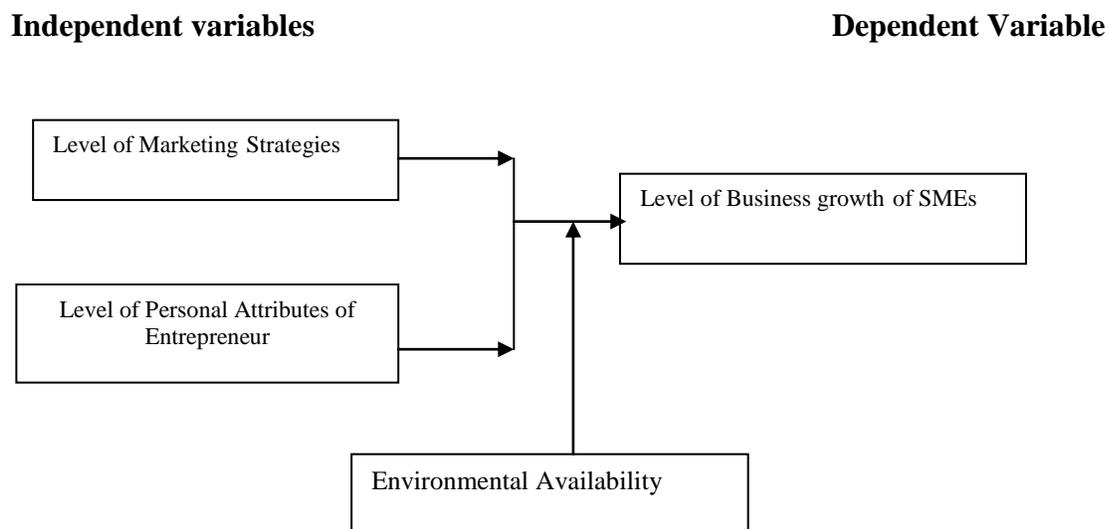
### **3. Conceptual Framework**

According to the problem statement, the researcher tries to measure the impact of marketing strategies and behavior of entrepreneurs on the success of SMEs in Sri Lanka. Therefore as per the problem statement, the marketing strategies and the behavior of entrepreneurs will impact on

the growth of SMEs. The conceptual framework was developed by considering the problem statement and after the detailed analysis of prevailing literature. The dependent variable of this study is the level of business growth of SMEs and there are mainly two independent variables identified to support the dependent variable. The identified independent variables in this study are the level of marketing strategies adopted by entrepreneurs and the level of personal attributes of entrepreneur. The level of personal attributes of entrepreneurs will consist with level of usage of entrepreneurship skills and their attitude. Also there is a moderator variable which moderates the relationship between the independent variable and the dependent variable. It is identified as the environmental availability. This moderator variable consists with level of usage of infrastructure, level of usage of legal and regulatory framework, and level of environmental regulations.

Supported by the above literature the following conceptual framework is proposed.

Figure 01.



## **Moderating Variable**

### **3.1 Hypotheses of the Study**

According to the above conceptual framework the following hypotheses was derived.

H1: The level of business growth of SME is dependent on the level of personal attributes of entrepreneurs.

H2: The level of business growth of SME is moderated by the level of usage of infrastructure, legal and regulatory framework and the environmental regulations.

## **4. Methodology**

### **4.1. Selection of the Sample**

The researcher was interested in investigating whether there is an impact of marketing strategies and behaviour of SMEs on their business growth, rather than establishing definite cause – effect relationships among the variables. The type of the investigation of this study was therefore correlation rather than causal. Because this study attempted to analyze the relationship between the dependent variable and the independent variable, this study was analytical or in hypotheses testing in nature or purpose.

The study was conducted based on survey methodology. For this purpose data was collected in Gampaha district where the second highest number of industries is established in Sri Lanka (**See Appendixes B**). In Gampaha district there is not a valid source to gather the population data on

SME sector. Among the sample frame hundred respondents will be selecting in Gampaha district and specially manufacturing entrepreneurs were selected. According to the statistics majority of SMEs accounts for the manufacturing sector. The sampling method is coming under non-probability sampling method and this is also referred to as convenience sampling.

The study will utilize both primary and secondary data and the primary data will be collected from the field survey. Information will be gathered through semi-structured questionnaire, which will administer by the researcher. Secondary data also will be used for the study and most of this information will be gathered from the relevant authorities and from different sources including the internet.

#### **4.2. Data Analysis**

Data will be analyzed using both descriptive statistics and inferential statistics. Descriptive statistics such as mean, median, mode, percentage analysis and graphs will use to analyze the personal profile of entrepreneurs, general profile of entrepreneurs and the level of marketing strategies used by entrepreneurs. In addition to this descriptive statistics correlation analysis, regression analysis and partial correlation coefficient test was used for the further analysis of the data. The impact of functional strategies on the growth of SME and the hypothesis one which is the level of business growth of SME is dependent on the level of personal attributes of entrepreneurs will be tested by using the correlation coefficient. The second hypothesis which is

the level of business growth of SME is moderated by environment availability, will be tested by using the partial correlation coefficient.

## **5.Data Analysis and Presentation**

This part devoted to analyze and present the data gathered from the field survey. Data was analyzed by using the statistical package of SPSS 14.0 version. This part consists with descriptive analysis of data relating to hypotheses and finally the testing of hypotheses.

### **5.1. Descriptive Analysis of Data**

In this research the main objective is to measure the impact of entrepreneurial strategies and behavior of SMEs on their business growth. The following information has been gathered through the questionnaire.

- i. The personal profile of SME entrepreneurs
- ii. The general profile of entrepreneurs.
- iii. The level of marketing strategies used by entrepreneurs.
- iv. The level of personal attributes of entrepreneurs.

#### **5.1.1.The Personal Profile of SME Owner/Manager**

This section, presents the SME owner/managers' characteristics and it contains gender, business experience and education level. These characteristics of SME owner/manager help understand the nature of the people who are engaging in the business. The table 5.1 illustrates the personal profile of entrepreneurs.

*Table 5.1 Personal Profile of Entrepreneurs*

Gender	Male	89%
	Female	11%
Educational Level	Below O/L	4%
	Passed O/L	49%
	Passed A/L	44%
	Degree	1%
	Professional Qualification	2%
Business Experience	Less than one year	5%
	1-2 years	5%
	2-4 years	7%
	4-5 years	22%
	More than 5 years	61%

Source: Primary

According to the table 5.1 above the majority of entrepreneurs are male which is 89% and female entrepreneurs are only 11%.

When consider about the educational level the highest qualification of the majority of respondents is G.C.E.(O/L) which is the 49%. Also 44% of respondents passed G.C.E.(A/L) and only 1% is having the degree and 2% having professional qualifications.

As far as the business experience is concern the majority of 61% have more than five years business experience. Only 22% poses 4-5 years business experience but other categories are less than 10%.

### 5.1.2. The General profile of Entrepreneurs

This section illustrates the characteristics which are needed to identify the nature of these enterprises. The general profile consist with nature of the business, legal form, number of employees, asset value, turnover, the recruitment of new employees after the start-up of the business and the stage of the business in the business life cycle.

All the enterprises are belongs to the manufacturing sector and within this manufacturing sector nine business categories were identified by the researcher. These nine business categories are shown in the figure 4.1 below.

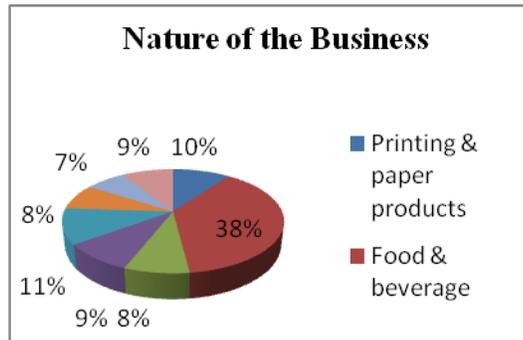


Figure 5.2: Nature of the Business

Source: Primary data

According to the above figure 5.2 the major category of business belongs to the food and beverage which represents 38% of total sample. The next highest categories are printing and paper products and construction which are 10% and 11% respectively. Other categories represent less than 10% of the sample.

When consider about the legal form of the business 89% of the sample are sole proprietors. The rest of 11% consist with partnerships and companies which are 4% and 7% respectively. This illustrates the figure 4.2.

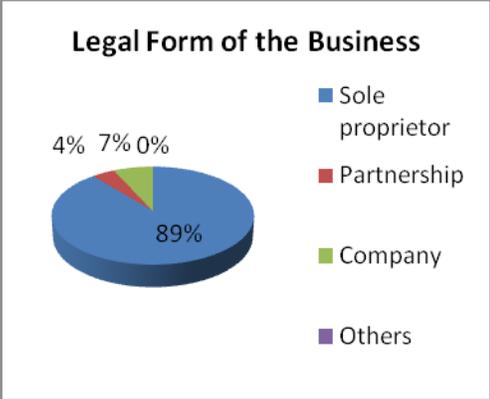


Figure 5.3: Legal form of the Business

Source: Primary data

In this study the SME growth is measured by the asset value, turnover and the number of employees in the organization. According to the table 5.2 the mean of the asset value of the sample is 1.36. It represent that the average sample belong to the 10-20 million category. The mean value of turnover is 1.44 and it represent average respondents belongs to 500,000 to 1,000,000 category of the turnover. According to the sample the minimum number of employees in an organization is one. Most of the time he is the owner of the business. The maximum is sixty employees. The mean value of employees are 6.47. It means according to the sample the average employees in the organization is six

Table 5.2: Descriptive Statistics of Asset Value, Turnover and Employees

	asse	turnov	
	t	er	employee

		valu e		
N	Valid	100	100	78
	Missin g	72	72	94
Mean		1.36	1.44	6.47
Median		1.00	1.00	4.50
Minimum		1	1	1
Maximum		4	5	60

Source: Primary

The stage of the business in the business life cycle is another important criterion to measure the growth of the business. According to the data gathered in the survey majority of the respondents were in the view that they are in the growth stage of their business. This situation illustrates the figure 5.4. and it is 60% of the total sample. The second highest value is 16%, which are in the introductory stage of the business. Only 3% were belong to the maturity stage and 9% said that they are in the declining stage. In addition to this 12% of the sample did not have an idea about the stage in business growth.

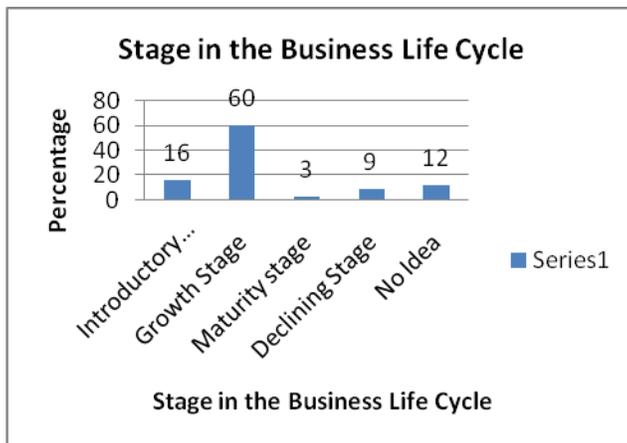


Figure 5.4: Stage in the Business Life Cycle

Source: Primary

**5.1.3. The Level of marketing Strategies Used by Entrepreneurs**

Table 5.3: Level of Marketing Strategies Used by Entrepreneurs

Having a marketing department	Yes	0%
	No	100%
Having specific brand name for the product	Yes	41%
	No	59%
Method of distribution	Direct to the customer	66%
	Retailer	15%
	Whole seller	18%
	Export Agency	1%
Method of Promotion	Advertising	31%
	Sales Promotion	5%

	Personal Selling	40%
	Direct marketing	5%
	Public relation	20%
Pricing method	Cost based pricing method	71%
	competitor based pricing method	28%
	Break-even analysis method	1%
	Perceived pricing method	0%
New product development	Change the product formula	14%
	Change the design of the	42%

	product	
	Change the packaging	21%
	suit for new markets	17%
	Other	6%

Source: Primary

None of the sample has a separate marketing department. But 59% used brand names as an important marketing tool to distinguish their products from those of competitors. When consider about the majorities behavior towards the major marketing strategies, they directly sell their products to the customers, mostly use sales promotion strategies, practice cost based pricing method and only do little changes to the design of the basic product as new product development strategies.

#### **5.1.4.The Level of Personal Attributes of Entrepreneurs**

To measure the level of personal attributes of entrepreneurs, researchers used mean values as one of the descriptive statistical method. There were fifteen questions asked from the respondents to check the personal attributes and these questions organized according to the five point Likert Scale rating system. According to the mean values out of fifteen questions twelve questions close to the mean value of four(4) and other three questions close to the mean value of three(3). Since these mean values were much closed to the highest value of five, most of respondents have higher personal attributes as a successful entrepreneur.

## **5.2 Hypotheses Testing**

**H1: The level of business growth of SME is dependent on the level of personal attributes of entrepreneurs.**

*Table 5.4: Correlation between personal attributes and growth*

**Correlations**

		Personal	Growth
Personal	Pearson	1	-.060
	Correlation		
	Sig. (2-tailed)		.554
	N	100	100
Growth	Pearson	-.060	1
	Correlation		
	Sig. (2-tailed)	.554	
Model	R	Adjusted R Square	Std. Error of the Estimate
1	.060(a)	.004	-0.007
			1.80589

Source: Primary

*Table 5.5: Regression between personal attributes and growth*

**Model Summary**

a Predictors: (Constant), Personal

Source: primary

As pointed out by the Table 5.4 there is a negative impact on personal attributes of entrepreneurs and growth of SMEs. Also there is a very weak relationship between personal attributes of entrepreneurs and growth of SMEs because the relationship measured as -0.060. This is evidence by calculating the R square which is .004 in table 4.9. This implies that 0.4% of the variation in

growth is explained by the personal attributes of entrepreneurs. Since this value close to zero (0), there is no correlation between these two variables. Therefore hypothesis one is not accepting. Hence the level of business growth of SME is not dependent on the level of personal attributes of entrepreneurs.

**H2: The level of business growth of SME is moderated by the level of usage of infrastructure, legal and regulatory framework and the environmental regulations.**

*Table 5.6: Partial correlation coefficient of environmental availability and growth*

**Correlations**

Control Variables		Growth	Environment
Personal & Growth Functional	Correlation	1.000	.037
	Significance (2-tailed)	.	.717
	df	0	96
	Environment		
	Correlation	.037	1.000
	Significance (2-tailed)	.717	.

df	96	0
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Source: primary

The table 5.6 pointed out the partial correlation coefficient of environment availability and the growth of SMEs. According to the correlation coefficient there is a positive correlation between environmental availability and the growth. But this value is not significant and it is close to zero (0). Therefore there is no correlation between the environmental availability and the growth. Therefore hypothesis two is not accepted and the level of business growth of SME is not moderated by environment availability.

## **6. Discussion of Findings**

Here the researchers discuss the findings relating to the initial hypotheses and by comparing the previous studies as well.

### **6.1. Findings**

As per the data analysis in the previous chapter, the following research findings were derived. Based on the personal profile of SME owner/manager, majority were male and most of them have passed G.C.E.(O/L) and G.C.E.(A/L) examinations. Further majority of respondents have more than five years business experience.

When consider about the general profile of entrepreneurs, majority of the sample engaged in food and beverage business category and most of them are sole proprietors.

The next finding is based on the stage of the business in the business life cycle. According to the analysis 60% of the businesses in the sample were in the growth stage of the business life cycle.

None of the respondents have a separate marketing unit or department in their business organization. They always follow preliminary marketing techniques and not much focus on the aggressive marketing techniques.

By considering the impact of marketing strategies used by entrepreneurs on the growth of SMEs, it was found that there were no such significant impact of above strategies on the growth of SMEs.

The level of personal attributes of entrepreneurs was another important finding. According to the analysis most of respondents have higher personal attributes as a successful entrepreneur.

The two hypotheses testing have contributed two major findings. The hypothesis one was not accepted and it was found that the level of business growth of SME is not dependent on the level of personal attributes of entrepreneurs. The hypothesis two was also not accepted and it was found that the level of business growth of SME is not moderated by the level of usage of infrastructure, legal and regulatory framework and the environmental regulations.

## **6.2. Discussion**

According to the findings 89% of entrepreneurs were males and there were lower level of female participation in SME. But as per the literature there is an increasing trend of female entrepreneurs in the world. The education level of most of entrepreneurs is limited to G.C.E. Ordinary Level or G.C.E. Advanced Level. Very few people have completed the professional courses or the degree. Out of the total sample size 61% of respondents have more than five years business experience. Therefore the majority of respondents were more knowledgeable about their business activities.

When consider about the general profile of the entrepreneurs, it is interesting to note that majority of 38% engage in the food and beverage businesses. Though the sample is limited to the

manufacturing entrepreneurs, the other categories of manufacturing sector such as printing and paper products, textile and garments, metal and metal products etc. are not significant and these are less than 10% of the entire manufacturing sector. When consider about the legal type of the business, 89% of respondents is sole proprietors. According to the literature also it is a known fact that most of SMEs are sole proprietors.

The stage in the business life cycle is another important criterion to measure the growth of a business. In this study it is significant that 60% of sample is in the growth stage of business life cycle. As per the literature also lifecycle models are frequently related to the company growth. Further the most frequently used measure for growth is turnover, asset value and number of employees. In this study the mean value of asset value of the sample is 1.36. It represent that the average sample belong to the 10-20 million category and the turnover belongs to 500,000-10,00,000 category among the average sample. This does not imply the significant growth in SMEs. Sometimes this finding arises because of the unwillingness of revealing the actual business growth data due to legal reasons.

When consider about the marketing strategies, many respondents do not pay much attention on the implementation of the marketing strategies in their organizations. The main reason for this is the less awareness and the knowledge about the new methods and techniques available in the business world. Therefore this is a huge drawback for the growth of SMEs in Sri Lanka.

One important independent variable in this study is the level of marketing strategies used by entrepreneurs. According to the findings the correlation between the level of marketing strategies and the growth is very less and almost it seems to be no correlation though there was a positive relationship between the two factors. This finding is contradicted with the literature. There might be two reasons for this situation. As stated earlier SMEs are not revealing the actual growth

figures and on the other hand the levels of use of marketing strategies by SMEs are very less. Therefore according to the findings there was no correlation between the level of marketing strategies and the growth of SMEs.

The other important independent variable in the study is the level of personal attributes of entrepreneurs. The findings pointed out the most of criteria which were selected to measure the personal attributes closed to the mean value of four. Since the researcher used five point likert scale rating and having mean value of four was a significant indicator of entrepreneur's personal attributes. When calculating the correlation between personal attributes and growth the findings revealed that there was no correlation between these two variables. But according to the prevailing literature this is very unrealistic situation. Therefore hypothesis one is not accepted by the sample data.

As a moderator variable environmental availability consists with current support provided by the government, prevailing legal and regulatory framework and the current environmental regulations. When consider about the impact of environmental availability and growth, it seems to have no correlation between these two variables. This finding is also somewhat deviate from the existing literature. Therefore hypothesis two is also not accepted with the sample data.

## **7. Recommendations**

Several recommendations are identified to develop SME growth in Sri Lanka. To encourage the innovations, it is important to create a market for local R&D. It should broadly involves recognition of SME friendly innovations, establishing link between state run R&D institution and SMEs and educating SMEs on property rights of innovations.

Another recommendation is to encourage universities and other technical institutions to participate in SME development by providing access to information and appropriate technology.

In order to expand the markets government should provide opportunities for SMEs to participate in trade promotion exhibitions and these exhibitions should be held in all over the country.

Another important recommendation is to release SMEs from labour and tax regulations for the first three years of business operation. The survival rate of SME is very less and if government offer such release it will help them to develop their business.

Most of SMEs do not have proper training or guidance to implement the business strategies. Therefore it is vital to conduct proper training programs on the areas of financial management, quality controlling, marketing, HR etc.

In order to meet industry specific skill requirements of the SMEs it is also recommend to conduct skill development programs tailor made to specific industry sub sectors. Here the government should play a facilitative role and encourage more private sector participation on providing skills development programs.

## **8. Conclusion**

Proper implementation of marketing strategies leads the business to capture new markets. But in this study it was found that SMEs follow very primitive marketing strategies rather than aggressive marketing campaigns. They are not encouraged in new product development or branding strategies which are important to capture new markets. The study revealed that there was no significant impact on the level of marketing strategies and the growth of SMEs.

The personal attributes of entrepreneurs and its impact on the growth of SME is another important aspect of the study. It was found that there was no such significant impact on the personal attributes of entrepreneurs and the growth of SMEs. When measuring the personal attributes alone, most of entrepreneurs mentioned that they poses high level of entrepreneurial

skills to operate business. But on the other hand when measuring these skills with the growth of business it was found that there was no impact on these two variables.

The environmental availability has identified as the moderating variable for the growth of SMEs.

As per the study the environmental availability is not moderated the growth of SMEs.

The analysis of impact of marketing strategies and behavior on the growth of SME revealed that there was no significant impact of entrepreneurial strategies and behavior on the growth of SMEs.

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