

EXTENDED ABSTRACT

STUDY ON GOVERNMENT INTERVENTION ON SME DEVELOPMENT IN RURAL SECTOR (EVIDENCE FROM KURUNAGALA DISTRICT)

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Abstract

The SME sector is widely accepted as a seedbed for entrepreneurs in providing various socio-economic objectives such as unemployment, job creation, innovation, and the long-term economic development of the country. The contribution given by the government on SME inclusive growth of the country is quite impressive. This study attempted to identify the impact of Government intervention on SME performance in the rural sector in Sri Lanka and the perception of SME owners to evaluate the effective government intervention mechanisms. Both primary and secondary data were used. Face-to-face interviews were conducted with 50 SME owners using a structured questionnaire in the Kurunegala district. The study emphasized, there is a significant impact on government intervention programmes and the performance of SMEs in the rural sector. The study emphasized the Government intervention might be vital in supporting four areas i.e. financial inducement, Human resource building, and Brand building, and new trade opportunities.

Keywords: Entrepreneurship development, government intervention, SME

1. Introduction

Many successive governments have been identified the significance of SME and entrepreneurship development in terms of the job creation and economic development of the country. The growth of the SME sector is a vital component in the growth strategy of most economies and is of great prominence part today. Although there is no global definition of SMEs, each country has its own definition and may also decide to establish specific restrictions for specific industries. For instance, within the European Union (EU), a company with less than 250 workers is considered as SME, whereas within the United States, SME may have up to 1,200 workers. World Bank states that if any company has less than 99 representatives, it can be named an SME. Consequently, it is exceptionally clear that this can be one key policy decision taken for granted by Sri Lanka to ruminate as a nation given that concessionary budgetary facilities can be focused on as well as the availability of particular market can moreover be made accessible if there's a clear classification of an SME.

Much literature widely believed that SME development is a strategy that could support overcoming the persistent problem of unemployment in rural economies. Small Business makes considerable commitments to the national economy and assessed to represent 80% of worldwide financial development (Julta, Bodorik, & Dhaliwal, 2002). SMEs are identified as the foundation of both developing and developed countries' economies. (Vijayakumar, 2013). Sri Lankan economy is significantly

affected by the performance of SMEs with its strong contribution in different economic perspectives (Malawige, & Nanayakkara, 2014). Elisha and Chiware (2008) also underpinned that the SME segment plays an important role in developing economies not only in economic development but also in poverty alleviation and job creation. Hence the government has a vital role well look after the SME sector.

Table 1. SME classification manufacturing and service sector

Size Sector	Criteria	Medium	Small	Micro
Manufacturing	Annual Turnover	Rs.Mn.251-750	Rs.mn.16-250	Less than Rs.mn.15
	No. of Employees	51-300	11-50	Less than 10
Service	Annual Turnover	Rs.Mn.251-750	Rs.mn.16-250	Less than Rs.mn.15
	No. of Employees	51-200	11-50	Less than 10

Source: World Bank, Ministry of Industry and Commerce, (2016)

2. Theoretical Background

The Resource-Based View (RBV) has been widely used in the literature on business management and entrepreneurship. A few researchers contended “at present, the resource-based theory of the firm is perhaps the most influential framework for understanding strategic management” (Barney, Wright, & Ketchen, 2001). Pursuant to RBV theory, the deep competitiveness of a company depends on the resources it possesses, which distinguish it from its competitors and are difficult to imitate and substitute as a value for certain market segments (Zaridis, 2009). The company’s resources include all the assets, capabilities, organizational processes, company attributes, information, and knowledge controlled by the company. This information and knowledge enable it to conceive and implement strategies to improve efficiency and effectiveness (Zaridis, 2009). He further classified resources into 3 categories: Physical Capital Resources; Human Capital Resources and Organizational Resources. Physical resources include physical technology used in a firm, a firm’s plant and equipment, its geographic location, and its access to raw materials. Based on this classification, the Authors used 6 Entrepreneurial drivers pertaining to SME performance in the rural sector identified as Brand Building, Organizational Planning, Financial Inducement, Physical Resource Provision, New trade Opportunity, Human resource development.

3. Objectives of the study

Main objective

- Identify the effectiveness of Government intervention on SME performance in the rural sector in Sri Lanka.

Specific objectives

- Study, SME owner’s view points with regard to Government intervention mechanisms.
- Identify the relationship between entrepreneurial drivers and SME performance in the rural sector.
- Make relevant recommendations for relevant authorities based on the research findings.

4. Methodology

The study is more towards exploratory design with a deductive approach which attempts to provide insights with a deeper understanding to determine the effectiveness of government interventions on SME development. Due to the above assertion, the primary data was collected using a self-structured questionnaire using a 5 point liker scale. The population of the study includes all officially recognized small-scale enterprises(275) which are located in Kurunegala District and the sample was drawn using a stratified sampling technique. Face-to-face structured interviews were conducted with 50 SME owners. (25 manufacturing establishments and 25 service establishments). The study was conducted to ensure the anonymity of all participants/respondents and gaining informed consent from all participants. Secondary data was collected mainly from the official publications of government departments and Institutions. Processed data were analyzed by using a descriptive and inferential statistical method such as correlation, Regression, Tabulations, tables, graphs, and measures of central tendency and Factor Analysis using SPSS software.

5. Results and Discussion

This section contains the analysis of the data resulting from the fieldwork and there were 40 Small enterprises and 10 medium organizations in the sample.As the respondents of the sample 35 respondents were owners and 15 were managers or Accountant.

Table 2. Reliability Test

Reliability Statistics	
Cronbach's Alpha	N of Items
.728	7

Source: Compiled by the author based on the survey,2019.

The reliability of the measurement indicates the degree to which there is no random error in the measurement and therefore produces consistent results (Zikmund et al., 2007). The results showed that the Cronbach scores of 73% of all constructs used in this survey indicated that all variables are closely related and internally consistent.

Based on the results of Principal Component Analysis(PCA) independent variables were classified into 6 segments in line with RBV theory.

Table 3. Regression Analysis

Model Summary b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.813a	.661	.613	.70436	2.45

- a. Predictors: (Constant), Brand Building, Organizational Planning, Financial Inducement, Physical Resource Provision, New trade Opportunity, Human resource development
- b. Dependent Variable:Effectiveness of government intervention on SME performance

Source: Compiled by the author based on the survey, 2019

To evaluate the proposed model researchers have tested Durbin Watson test statistics which indicates 2.45 denoting that there is no Auto correlation and R square, which indicates the proportion of variance of the effectiveness of government intervention on SME performance is 66% explained by predicted entrepreneurial drivers.This model suggests that the data fit very well.

Table 4. Relationship between Government Intervention and SME Performance

ANOVA b					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	41.547	6	6.924	13.957	.000a
Residual	21.333	43	.496		
Total	62.880	49			

a. Predictors: (Constant), Brand Building, Organizational Planning, Financial Inducement, Physical Resource Provision, New trade Opportunity, Human resource development

b. Dependent Variable: Effectiveness of government intervention on SME performance

Source: Compiled by the author based on the survey,2019.

ANOVA table shows that $F=13.957$ which means variation among group means is closed to the expected level and based on the p-value(0.000) it indicates that the overall model is statistically significant. Moreover, it is considered to be a good fit as the significance value falls 0% to 5% which means that the effectiveness of government intervention has a significant impact on entrepreneurial drivers.

Table 5. Overall Model Significance by Variables

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.148	.485		2.366	.023
Financial Inducement	.507	.119	.468	4.251	.000
Physical Resource Provision	-.318	.228	-.138	-1.395	.170
New trade Opportunity	.536	.109	.528	4.920	.000
Organizational Planning	-.159	.134	-.110	-1.184	.243
Human resource development	-.524	.225	-.526	-2.334	.024
Brand Building	.450	.174	.572	2.580	.013

a. Dependent Variable: Effectiveness of government intervention SME performance

Source: Compiled by the author based on the survey,2019.

Based on the coefficient table it is indicated that Government intervention on Financial inducement, New trade opportunity, Human resource development, and Brand building determinants are statistically significant which means to enhance rural sector SME performance it is required to focus on these specific segments by the government.

$$Y = 1.148 + .507X_1 - .318X_2 + .536X_3 - .159X_4 - .524X_5 + .450X_6 \quad (1)$$

Based on the findings intervention on human resource development and new trade Opportunities are mostly required driver sat this stage to enhance SMEs performance.

6. Conclusion and Policy Recommendations

The study assessed that effective government intervention contributes to enhancing the performance of SMEs in the rural sector and which has a significant impact on SME development programs

launched by the government. And the real effect of government intervention to shed light on the relationship between entrepreneurial drivers and the performance of SMEs. From the analysis, it can further be concluded that such intervention should concentrate on the following four areas.

Financial inducement: effective financial inducement on firm development is highly important to overcome financial challenges faced by SMEs to survive and expand business opportunities. Gamage (2003) has also concluded that “it is most considerate to give incentives, assistance, and tax concessions to SMEs on a regular and continuous basis while monitoring the assessment of SME which confirmed results”.

Building human capabilities: As intangible assets of SMEs, human capital and knowledge is an absolutely crucial factor. This confirms that the intervention should be made by the government in the implementation of human resource recruitment, selection and development procedures which Cardon and Stevens (2004) also confirmed that these methods that do not require very high standards and Cost that can directly be controlled by the owner /managers of the organization. Maintaining a business guidance center for SMEs is highly needed to uplift human resources and capacity building particularly in developing countries that are lacking development capabilities and infrastructure to make the most of their human productivity of labor. Strengthening inter-industrial linkages among micro, small, medium, and large scale industries is the need of the hour, establish of Vocational Education Training Centers in the rural level and vocational education curricula must be revised in order to enhance the creativity and innovation of the employees.

Brand building: The formation of a new supply-demand platform to promote their brands in line with global standards and market presence is a timely need. Based on the observation, Most SME brands are being built in a non-traditional way and when it compares with large organizations, minimum brand management, and limited resources were allocated.

New trade opportunities: It is an absolute necessity to form an entrepreneurial way to open up untapped markets for SMEs and acquainting new market openings with the SME owners to improve the selling limit which numerous business visionaries are perceiving the chances offered by internationalization, and accessing worldwide business sectors has become an essential instrument for their seriousness and their further turn of events. Admittance to worldwide business sectors for SMEs can offer a large group of business openings, for example, bigger and new specialty markets; potential outcomes to misuse scale and mechanical benefits; overhauling of innovative capacity; methods of spreading dangers, bringing down and sharing expenses, including innovative work costs; and much of the time, managing the cost of further developed admittance to fund. Accessing worldwide business sectors can assist with understanding their potential for imminent high-development firms (OECD, 2002).

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