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Obstacles for Growth of Small Businesses in Sri Lanka. (With Special Reference to the Colombo District)

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ABSTRACT

Small businesses play an important role in the development of an economy and are identified as the backbone or the engine of an economy as it contributes to the economic development by providing new employment opportunities, promoting innovations, reducing regional divergence and many more ways. Although small businesses play a crucial role, the failure rate of small businesses is comparatively high in Sri Lanka. Therefore, this study aims to identify the obstacles for the growth of small businesses in the Colombo district, Sri Lanka. The scope of this research is the small businesses in Sri Lanka and the finding of this research will confine to the small businesses particularly in Colombo District, Sri Lanka and may partially applicable to small businesses all around the globe. Data were collected through a self-administrated questionnaire which was built based on literature. A sample of 375 small businesses was drawn from the registered small businesses in the Colombo District. Under this study, four main factors that act as obstacles for the growth of small businesses were tested among the many obstacles that a business might face in its operations. The findings indicate that there is a negative relationship between the independent variables; lack of finance, market challenges, regulatory issues, lack of infrastructure and the dependent variable; small business growth. This implies that these factors act as barriers for growth of small businesses in Colombo District, Sri Lanka.

Keywords

lack of finance, market challenges, regulatory issues, lack of infrastructure, small business growth

1. Introduction

Along with the development of entrepreneurship and with the dissemination of entrepreneurial knowledge, many people have started their ventures even on a small scale due to the need to be independent, and to stand unique in society (Doern, 2009). Small businesses are identified as the heart of an economy (Ng & Kee, 2017) due to the vital contribution for the economic development, job creation and general health and welfare of the economy. Like in any other country, in Sri Lanka too small businesses play a crucial role in the development of the country's economy. This is considered as the ideal platform for the country to remove poverty and reduce inequality. According to the National Policy Framework for SME development (2017), SMEs account for more than 45% of the employment in the country. Their contribution to the country's Gross Domestic Production (GDP) is over 52%. Even though, SME plays a crucial role there are obstacles that hinder the growth of these firms.

According to Amaradiwakara (2016), about 80% of small and medium enterprises fail at the growth stage due to their inability to cope with the dynamic environmental changes. Only around 20% of the businesses survive through the first five years after commencement (Priyadharsan & Lakshika, 2012). Therefore, this study's preliminary focus is to analyse the effect of obstacles for growth, faced by small enterprises in Sri Lanka with special reference to Colombo District.

2. Literature Review

2.1. Small and Medium Enterprises (SMEs)

The definition of SMEs changes from country to country based on different dimensions (Quader & Abdullah, 2009). The definition of an SME has evolved over time and at present, different institutions have forwarded different definitions with regard to SMEs. According to the information gathered by the survey done by the Department of Census and Statistics in 2013/14, Small and medium enterprises are identified based on the number of persons actively engaged in an economic activity either paid or self-employed and if the number of employees is between 1 and 24 it is identified as a small business.

2.2. Growth of Small Businesses

Growth is a dynamic process and it's not just the increase in size. It also encompasses development and change within the organization and changes in the way the organization interacts with its external environment. According to Gunatilake (2016), different measures of profitability such as absolute profitability, profitability per employee, profitability as a percentage of turnover, and percentage change in profitability can be used to measure the growth of small businesses.

2.3. 2.3 Obstacles for Growth

2.3.1. 2.3.1 Lack of Finance

Financial obstacles are financial barriers that hinder the growth of a small business and is identified as the unavailability of finance to grow the business. According to Olawale & Garwe (2010), lack of access to finance is the main financial obstacle faced by small businesses. Lack of financial support from the government, difficulties in getting business loans, lack of sufficient collaterals to secure bank loans, and the lack of money to operate the business comes under financial obstacles.

2.3.2. Market Challenges

Market challenges are different obstacles or barriers that the market or industry an enterprise exists put forward in the course of running the business. Studies done by Olawale & Garwe (2010) and Gill & Mand (2013) highlight that market challenges hinder the growth of small businesses.

2.3.3. Regulatory Issues

Regulatory issues are barriers that an organization faces due to adherence to law and regulations put forward by the government (Gill & Mand, 2013). Robson & Obeng (2008) engaged in a study of small businesses in Ghana and identified that regulatory issues affect the growth of small businesses negatively and that high taxes, high licensing / registration fees, red tape challenges, and corruption composes regulatory issues.

2.3.4. Lack of Infrastructure

Infrastructure refers to the physical utilities that an organization needs to operate or engage in its daily operations. According to Robson & Obeng (2008), the infrastructure of an organization plays a critical role in determining the success as well as the growth of the business.

3. Methodology

The main focus of the research study was to find out what are the obstacles for the growth of small businesses in Sri Lanka with special reference to the Colombo District. Robson & Obeng (2008) model was used in this study.

The independent variables are; Lack of Finance, Market Challenges, Regulatory Issues, and Lack of Infrastructure, whereas the dependent variable, is the Small Business Growth.

The formulated hypothesis are as follows;

H1: There is a relationship between the lack of finance and the growth of small businesses

H2: There is a relationship between market challenges and the growth of small businesses

H3: There is a relationship between regulatory issues and the growth of small businesses

H4: There is a relationship between the lack of infrastructure and the growth of small businesses

3.1. Research Method

The population for this study has been identified as 14,670 registered small businesses in the Colombo District. (Economic Census 2013/14). The calculated sample size is 375 small businesses and the unit of analysis in this study is an individual small business.

Convenient sampling which is a form of non-probability sampling is used in this study due to the absence of a sample frame.

4. Results and Discussions

4.1. Data Analysis

A test of normality was carried out in order to identify the significance and Kolmogorov Smirnov test was used. According to the test, the p-values of the variables were lower than the recommended value of 0.05, thereby indicating that the data set is not normal. Therefore, nonparametric tests were used in this study by the researcher.

Further, the KMO and Bartlett's Test was used by the researcher to check the validity of the dataset. Accordingly, the KMO value of the data set is 0.836, which represented that the sample is adequate and the significance is 0.000 which is lower than 0.05 and thus, it depicted that the factor analysis is useful. The reliability of the data was analysed through Cronbach's Alpha value which exceeded 0.7 for all factors

4.2. Correlation

Since it was established that the data is not normally distributed, Spearman correlation was used by the researcher in this study in order to identify the strength of relationships between two variables.

The below table depicts the correlation between lack of finance (LOF) and small business growth

(SBG). It shows a value of -0.402, which implies that there a negative relationship between the two variables, lack of finance and small business growth.

Table 0.1: Correlation for LOF

		Lack of finance	Small business growth
Lack of finance	Spearman correlation	1	-0.402**
	Sig. (2-tailed)		.000
	N	336	336
Small business growth	Spearman correlation	-0.402**	1
	Sig. (2-tailed)	.000	
	N	336	336

** Correlation is significant at the 0.01 level (2-tailed)

Source: Compiled by the author, based on results generated by SPSS

The correlation between market challenges (MC) and small business growth (SBG) is presented in the table below. It depicts the value of -0.323. The significance value is less than 0.001. Accordingly, it can be concluded that there is a negative relationship between market challenges and small business growth.

Table 0.2: Correlation for MC

		Market challenges	Small business growth
Market challenges	Spearman correlation	1	-0.323**

	Sig. (2-tailed)		.000
	N	336	336
Small business growth	Spearman correlation	-0.323**	1
	Sig. (2-tailed)	.000	
	N	336	336

** Correlation is significant at the 0.01 level (2-tailed)

Source: Compiled by the author, based on results generated by SPSS

The below table depicts the correlation between regulatory issues (RI) and small business growth (SBG). It denotes a value of -0.291, which implies that there is a negative relationship between the two variables, regulatory issues and small business growth.

Table 0.3: Correlation for RI

		Regulatory issues	**Small business growth**
Regulatory issues	Spearman correlation	1	-0.291**
	Sig. (2-tailed)		.000
	N	336	336
Small business growth	Spearman correlation	-0.291**	1
	Sig. (2-tailed)	.000	
	N	336	336

** Correlation is significant at the 0.01 level (2-tailed)

Source: Compiled by the author, based on results generated by SPSS

The correlation between the lack of infrastructure (INF) and small business growth (SBG) is presented in the below table. It shows a correlation value of -0.403, and the significance (p-value) is less than 0.001. Accordingly, it represents a negative relationship between the two variables, lack of infrastructure and small business growth.

Table 0.4: Correlation for INF

		Lack of infrastructure	**Small business growth**
Lack of infrastructure	Spearman correlation	1	-0.403**
	Sig. (2-tailed)		.000
	N	336	336
Small business growth	Spearman correlation	-0.403**	1
	Sig. (2-tailed)	.000	
	N	336	336

** Correlation is significant at the 0.01 level (2-tailed)

Source: Compiled by the author, based on results generated by SPSS

As depicted in the above tables, small business growth (SBG) is negatively correlated with lack of finance, market challenges, regulatory issues, and lack of infrastructure. This means that the independent variables negatively impact on the growth of small businesses.

The above can be summarized as follows;

H1: *There is a relationship between LOF and SBG - Accepted*

H2: *There is a relationship between MC and SBG - Accepted*

H3: *There is a relationship between RI and SBG - Accepted*

H4: *There is a relationship between INF and SBG - Accepted*

4.3 Discussion

The findings of the study have indicated issues that need immediate attention in order to uplift small businesses as they act as the engine of economic growth by providing employment opportunities, promoting entrepreneurship, and innovativeness. Through the analysis, it was identified that a lack of finance acts as a major barrier to the growth of small businesses. Among the constructs used, difficulty to obtain loans from banks was highlighted. According to Olawale and Garwe (2010), small businesses should be able to produce business plans that forecast their financial requirements and should be able to demonstrate the sustainability of it in order to secure debt finance. It is essential that small business owners are given such knowledge on how to prepare a business plan. This can be done by the government along with private-sector collaborations through agencies such as National Enterprise Development Authority (NEDA), Small Enterprises Development (SED), Industrial Technology Institute (ITI), Industrial Development Board (IDB), and International Development Association (IDA). This will help to enhance entrepreneurial knowledge and skills and also will help them to secure debt finance. Furthermore, the government can give interest-free or low-interest loans and also grants to small business owners in order to develop their businesses which will help the owners to lower their debt burden (Olawale and Garwe, 2010).

Also, the government can provide tax incentives in favour of small businesses. This would give rise to healthy tax payments as well as it would benefit for new venture creation and development. Corruption in the public sector must be dealt with decisively (Wang, 2016). It is beneficial to the growth and sustenance of small businesses to have reforms in the regulatory environment in order to reduce lengthy procedures in registering a business.

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