

Factors determining the development of SMEs in Jaffna District

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Introduction

SMEs play a prominent role in any economy through generating employment, contributing to Gross Domestic Product (GDP), embarking on innovations and stimulating of other economic activities (ESBA, 2011). This sector is said to be the backbone for all developed and developing nations. SME sector is envisaged to contribute to transforming lagging regions into emerging regions of prosperity (Ministry of Industry and commerce, 2015). End of the local war in Sri Lanka, SMEs in Jaffna district have been facing complex environment and the struggling to develop. At the same time, SMEs have plentiful opportunities to develop in the Jaffna district. There is need to identify the determining factors of development of SMEs. Financial development, growth and customer development were already investigated and empirically tested with the name of financial performance and market performance in SMEs. Organization development explains one of the dimension as the employee development which was not empirically analyzed in SMEs. Sustainable development reveals the social development which is also a unique concept for the SMEs. However, this combination of development concept for SMEs has still not been developed and empirically investigated in the SMEs in the Jaffna district, which is the gap of the study. There is a need to study how these SMEs have been growing and developing by managing external environmental challenges and the internal environment weakness. Therefore, the main aim of this study is to identify the determining factors of development of SMEs in Jaffna district.

Literature review

Development is the process in which someone or something grows or changes and becomes more advanced (Beard, 2000) and gradual growth of something in the organization (Cook, 1998). Ellerby and Taylor (2005) stated that "organization development is aimed at improving organizational effectiveness". Organizational development defined as a planned intervention of change for group, team or

organization to improve organization (Taute, and Taute, 2012). Further organization development is an approach to change in growth, enhancing human skills and resolving difficulties at both the personal and organizational levels (Dorn, 1994) and it is developing successful, productive organization what supplements are to the serious bodybuilder (Taute&Taute, 2012). Indicators of SME's development are also described as outcome-based as the success of SMEs, the performance, investment over five years and number of markets (AlMadhoun, 2006). According to Bennett and Brodie (1979) indicator of development is the roles a manager takes on performance and effectiveness and success of SMEs. Marin (2002) focus on the identification of the most relevant tendencies in the SMEs sector from the perspective of six indicators considered to be relevant: the number of enterprises, the number of persons employed, the gross value added, the apparent labour productivity, the rate of profitability and the propensity to invest. Among many dimension of development, financial perspective, customer perspective, people (employee) perspective, growth perspective and social perspectives were considered as major elements for this research. Financial perspective encourages to high-level financial performance as cash flow, total revenue, return on equity, return on assets, leverage ratio and liquidity ratio (Tsai and Chou, 2009; Yongvanich and Guthrie, 2006; Hudson, Smart and Bourne, 2001; Lavric, 2010). Customer perspective encourages the identification of measures important to our customers as a number of new customers, product return rate, customer retention rate, on time delivery, share of important customer purchases, customer satisfaction and ranking by important customers (Yongvanich and Guthrie, 2006; Tsai and Chou, 2009; Hudson, Smart and Bourne, 2001). Employees' development was the foundation for organization development which includes sustainable job and benefit, worker development, innovation and training and leadership. Sustainable jobs and benefits are to concentrate on getting people into work, sustain them and allow to increase their hours and pay to a point where they no longer need the state to top up their earnings and **moving people into sustainable work, improve lives and the benefit**(Hubbard, 2009). Worker development emphasis on teamwork and group activities, employee involvement, learning, quality of work life, human resource capacity utilization and productivity (Olaru, Dinu, Stoleriu, Şandru, and Dincă, 2010). Leadership includes employee care, equal and fair treatment, building the confidence and information to employees (Yongvanich and Guthrie, 2006). Growth of organization was indicated by the development of number of branches or sales centres, increased information transfer speed, number of employees, turnover and capital growth, new product introductions, advances in technical, financial, marketing and another field of competence, develop new generation of products and the mentality to face risk (Lavric, 2010; Navickas and Malakauskaite, 2009; Stubblefield Loucks, Martens, and Cho, 2010). Social perspectives are related to benefits for the community, sell products related to the natural, historical and cultural environment, involvement in

the community's ecological projects, contribution to the local infrastructure development, education for the community and reducing risk to human health and safety (Yongvanich and Guthrie, 2006; Prud'homme and Raymond, 2016; Olaru, Dinu, Stoleriu, Şandru, and Dincă, 2010)

Methodology

Quantitative analysis was conducted in this study. The population of this study is SMEs in Jaffna district. SME in Jaffna district is 2323 and micro, small and medium are 2066, 215 and 42 respectively (IDB report, 2016, Hotel association report, 2017, PDHS report,2017). The data were collected from 343 SMEs in Jaffna district and the respondents are the managers/ owners of SMEs. The research instrument was questionnaire which was finalized after the literature review and interviews with managers of SMEs. Exploratory factor analysis utilized to confirm the development factors of SMEs with SPSS statistical package.

Result and discussion

The Kaiser-Meyer-Olkin measure of sampling adequacy tests was constructed for checking out the sample adequacy of the data.

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.855
Bartlett's Test of Sphericity Approx. Chi-Square	7633.612
Df	561
Sig.	0.000

The value of KMO came out to be 0.855(Table 1) indicating that the factor analysis test can proceed correctly and the sample used is adequate the minimum acceptable value of KMO as supported by Othman and owen(0.5). Bartlett Test of sphericity and correlation were conducted to test the multidimensionality of the variables. The results of the Bartlett Test of sphericity turned out to be highly significant of 0.000 (Table 1) which indicate that the factor analysis processes were correct and suitable for testing multidimensionality. The correlation matrix also depicted a high correlation among the variables certifying the suitability of application of factor analysis technique on the data

Total thirty-four items were considered for the development of SMEs. Initially, factors loaded for all thirty-four items. Eleven items were low factor loading. They are Liquidity rate (0.436), Market share (0.347), Product return rate(0.469), Getting people into work(0.253), Retaining employees(0.127), **Improve lives and the benefit(0.187)**, Quality of work life(0.371),Increased information transfer

speed(0.130), Benefits for the community(0.095), Involvement in the community’s ecological projects(0.154) and Contribution to the local infrastructure development(0.023). After deletion of eleven items, the remaining twenty-three items were analyzed. The researcher used the Principle Component Analysis as an Extraction method. There were six components to be extracted for these items. The cumulative proportion of variance criteria was met with 6 components to satisfy the criterion of explaining or more of the total variance. These factors explained 70.56% of total variance, which is very much acceptable for the Principle Component Varimax Rotated factor loading procedure. These twenty-three factors and the variables loading on these factors have been summarized in Table 2.

Table 2: factor loading of variables

Factors	Factor name	Loading
Financial development	Cash flow	0.840
	Total revenue	0.780
	Return on equity	0.834
	Gross profit	0.755
	Return on assets	0.776
Customer perspectives	Number of new customers	0.754
	Customer retention rate	0.685
	Customer satisfaction through on time delivery	0.746
Worker development and training	Employee involvement	0.672
	Productivity	0.786
	Promoting constructive group/ teamwork	0.703
	Developing multi-skilled and new method by initial and continuous training	0.773
Leadership	Employee care	0.705
	Equal and fair treatment	0.578
	Building the confidence	0.507
Growth perspectives	Increased branches or sales centres	0.523
	Number of employees	0.565
	Turnover	0.794
	Capital growth	0.819
	New product introductions	0.741
Social development	Sell products related to the natural, historical and cultural environment	0.654
	The education for the community	0.584
	Reducing risks to human health and safety	0.756

Conclusion and recommendation

This paper discusses the deepest and new insights into the development of SMEs. Six factors emerged and fitted for the development of SMEs. The SMEs in this challenging environment emphasis more on the financial development. Financial performance was mentioned as a major factor in sustainable measurements and earlier researches (Tsai and Chou, 2009). However, almost equal weight is given to customer development. Customer satisfaction and retentions are the major reason for the higher market share (Yongvanich and Guthrie, 2006). Even though SMEs wish the financial performance but they also care about the growth of the organization. Hence they wish to increase investments, employees and branches. Marin (2002) explained increasing employees, branch development and productivity is the major factor of SMEs development. Moreover, worker development is also given due weight age, more emphasis on productivity and promote teamwork. Employees training, sustainable jobs, further sustainable job and benefits were also important with getting, keeping and improving lives and the benefits. This study will have useful implications for theory as well as for the practices for SMEs in the Jaffna district. The findings of this study would contribute to the literature of development in the postwar market of SMEs. Particularly this finding will help to view differently the development of SMEs by applying various factors of development. Therefore, it can be concluded that the development of SMEs will be determined by all the above-mentioned factors.

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