

# Factors determining the development of SMEs in Jaffna District.

V.Sathana.<sup>\*a1</sup>, T.Velnampy<sup>b</sup> and S.Rajumesh<sup>c</sup>

<sup>a</sup>University of Jaffna, [svaikunthavasan@gmail.com](mailto:svaikunthavasan@gmail.com)

<sup>b</sup>University of Jaffna, [tvnampy@yahoo.co.in](mailto:tvnampy@yahoo.co.in)

<sup>c</sup>University of Jaffna, [rajumesh3@yahoo.com](mailto:rajumesh3@yahoo.com)

## Introduction

SMEs play prominent role in any economy through generating employments, contributing to Gross Domestic Product (GDP), embarking 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 transform 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 unique concept for the SMEs. However these combination of development concept for SMEs has still not been developed and empirically investigated in the SMEs in Jaffna district, which is the gap of the study. There is need to study how these SMEs have been growing and developing by managing external environment 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 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 body builder (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 labor 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 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 foundation for organization development which includes sustainable job and benefit, worker development, innovation and training and leadership. Sustainable jobs and benefits is 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, Șandru, 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 centers, increased information transfer speed, number of employees, turnover and capital growth, new product introductions, advances in technical, financial, marketing and other 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 is 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, Șandru, and Dincă, 2010)

## Methodology

Quantitative analysis was conducted in this study. 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 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 were 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 be proceeded 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 high correlation among the variables certifying the suitability of application of factor analysis technique on the data

ata

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, remaining twenty three items were analyzed. Researcher used the Principle Component Analysis as 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

<b>Factors</b>	<b>Factor name</b>	<b>Loading</b>
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 to constructive group/ team work	0.703
	Developing multi-skilled and new method by initial and continuous training	0.773
	Employee care	0.705
Leadership	Equal and fair treatment	0.578
	Building the confidence	0.507
	Increased of branches or sales centers	0.523
Growth perspectives	Number of employees	0.565
	Turnover	0.794
	Capital growth	0.819
	New product introductions	0.741
	Sell products related to the natural, historical and cultural environment	0.654
Social development	The education for the community	0.584
	Reducing risks to human health and safety	0.756

## Conclusion and recommendation

This paper discuss the deepest and new insights of 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 major factor in sustainable measurements and earlier researches (Tsai and Chou, 2009). However, almost equal weightage 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 growth of 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 was 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.

## Reference

- AlMadhoun, M., 2006. Training under fire: The relationship between obstacles facing training and SMEs' development in Palestine. *Journal of European Industrial Training*, 30(2), pp.100-116.
- Beard, M., 2000. Organizational development: An EAP approach. *Employee Assistance Quarterly*, 16(1-2), pp.117-140.
- Bennett, R. and Brodie, M., 1979. A perspective on managerial effectiveness. *Brodie, M. and Bennett, R.(Eds), Managerial Effectiveness*, pp.12-31.
- Cook, M.J., 1998. Quality improvement through organizational development. *Total Quality Management*, 9(4-5), pp.35-37.
- Ellerby, N. and Taylor, B., 2005. Organisational development, the oasis approach: A human relations perspective.
- Hotel associations, 2017. Internal report of Hotel association of Northern Province.
- Hudson, M., Smart, A. and Bourne, M., 2001. Theory and practice in SME performance measurement systems. *International journal of operations & production management*, 21(8), pp.1096-1115.
- IDB, 2016. Internal Reports of Industrial development Board.
- Lavric, V., 2010. The Development of the SMEs Sector in Romania. An Approach Regarding the Dynamics and the Perspectives. *Review of International Comparative Management*, 11(5), pp.931-939.
- Marin, D., (2002), *Economia României: întreprinderile mici și mijlocii - cu ce ne integrăm?*, Editura Economică
- Navickas, V. and Malakauskaite, A., 2009. The impact of clusterization on the development of small and medium-sized enterprise (SME) sector. *Journal of Business Economics and Management*, 10(3), pp.255-259.
- Olaru, M., Dinu, V., Stoleriu, G., Șandru, D. and Dincă, V., 2010. Responsible commercial activity of SMEs and specific values of sustainable development in terms of the European excellence model.
- PDHS, 2017, Internal Reports Provincial Director of Health Service.
- Prud'homme, B. and Raymond, L., 2016. Implementation of sustainable development practices in the hospitality industry: A case study of five Canadian hotels. *International Journal of Contemporary Hospitality Management*, 28(3), pp.609-639.
- Stubblefield Loucks, E., Martens, M.L. and Cho, C.H., 2010. Engaging small-and medium-sized businesses in sustainability. *Sustainability Accounting, Management and Policy Journal*, 1(2), pp.178-200.
- Taute, W. and Taute, F., 2012. Organizational development: A supplement for the effective organization. *Journal of Workplace Behavioral Health*, 27(2), pp.63-78.

- Tsai, W.H. and Chou, W.C., 2009. Selecting management systems for sustainable development in SMEs: A novel hybrid model based on DEMATEL, ANP, and ZOGP. *Expert systems with applications*, 36(2), pp.1444-1458.
- Yongvanich, K. and Guthrie, J., 2006. An extended performance reporting framework for social and environmental accounting. *Business Strategy and the Environment*, 15(5), pp.309-321.