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Contemporary analysis of small and medium business failure in Sri Lanka

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ABSTRACT: Small and Medium Enterprises (SME) businesses are most important for Sri Lanka because they make large contribution for the national economy of the country. SME contribute 45% of national income and 52% of total Gross Domestic Product (G.D.P) in Sri Lanka. SMEs represent the 80% of all businesses in Sri Lanka. As a source of employment SMEs contribute 35% of employment of Sri Lanka. According to the statistics of the industry, SMEs are engaged to the different business in the country such as manufacturing, trading, mining, education, apparel, tourism support services, export and imports, agriculture and different other sectors. In Sri Lanka village based and city-based SMEs are operating around the country. due to the higher value of the SMEs, recent researchers have paid attention on the SME development and related problems of them. With the recent globalization trends and complex economic scenarios SMEs have to face to the different kind of failures.

Introduction

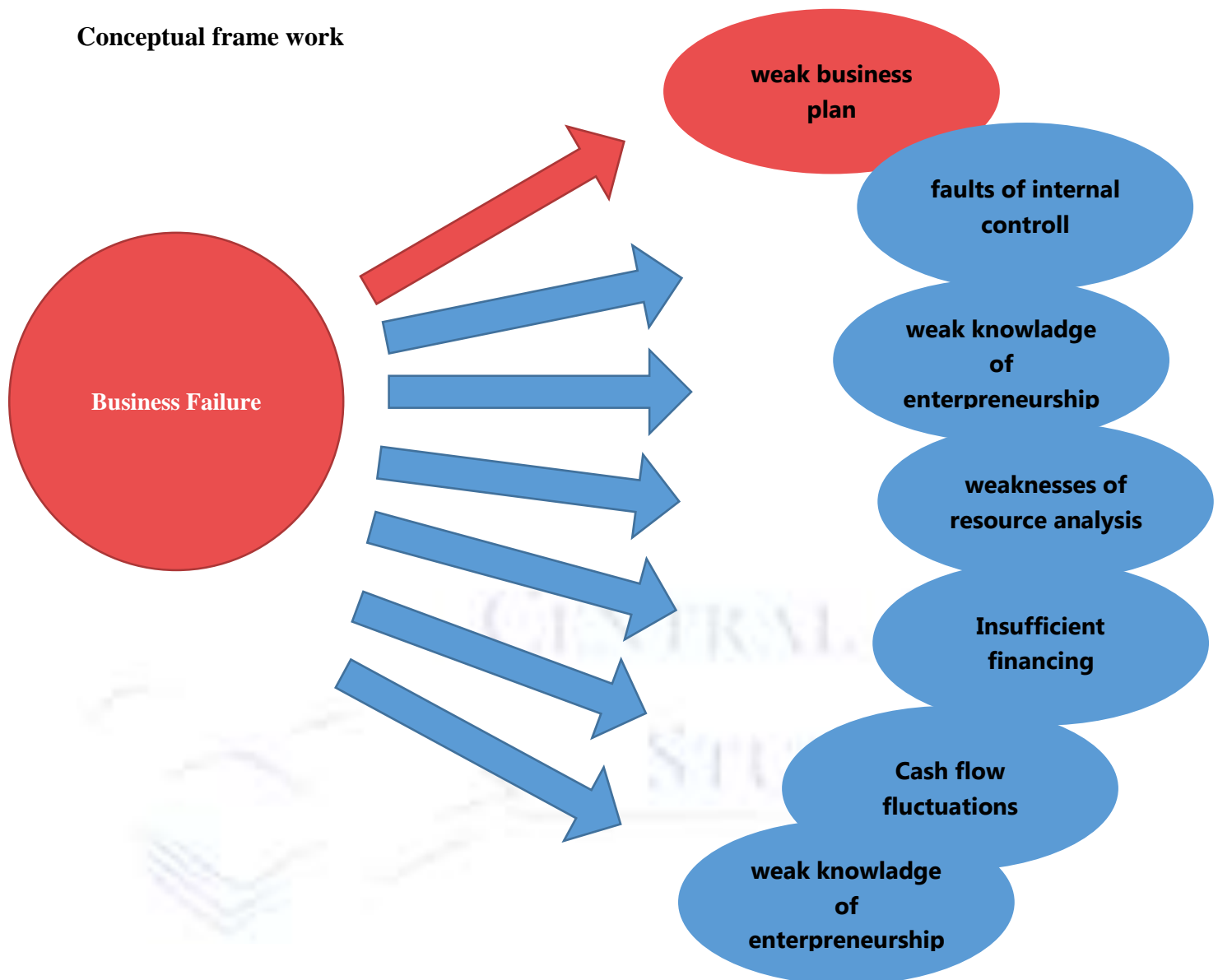
There are lot of SME failures in the economy but they don't have properly maintained records for them. Business failure is a general incidence of the developing economies (Bosma, 2009). Failure of the business entities are unavoidable factor in the economy because some businesses are unable to face the different kind of economic and social changes. Finding and analyzing the factors for SME failure, build up the new knowledge for the business failure and this knowledge will be useful for the future SME owners.

Understanding of the business failure provides facts for future investors and policymakers (Liao, Welsch and Moutray, 2009). There are different kinds of factors for the business failure such as incorrect decision making, insufficient financing, lack of financial knowledge, high competition for the products, lack of market knowledge or political and socio-economic problems of the country. Entrepreneur has to avoid those drawbacks to continue the business because those are similar to every country and every SME business of the world but it is more complex to identify the exact reason for the business failure.

Literature review

There are different factors which became as causes to the business failure and different kind of believes and faiths as well as research findings of this topic but still there don't have any standard method to identify the business failure. There don't have special science to explain the business failure (Pretorius, 2009) different academics and entrepreneurs indicate difference meanings and interpretations for the business failure such as insolvency, liquidity crisis, bankruptcy, however due to the business failure owners has to clear all the liabilities or has to file at the court. Business failure means inability to generate profit and continue the business (Gaskill and Auken, 1993) business failure is common situation to every kind of businesses such as Listed companies to small businesses when the firm shows bankruptcy situation and signs of organizational death including merger or acquisition is failure of that organization (Watson and Everett, 1996) a business failure is the termination of an entrepreneurial initiative that has fallen short of its goals (Shane, 1996). And addition to those ideas Gaskill and Auken (1993) stated that business failure occurs when firm's incapability to raise the new capital or funds and insufficient return on their investments. Several researchers were conduct to the explore the reasons for business failure or find the answer for why SME business fail? According to the previous research's findings researches had revealed several reasons for the SME business failure. Burns (2001) stated that heavy tax regulations of the country, volume of bank lending are major reasons for the business failure. As an example, Sri Lanka is one high tax charging country and businessmen has to pay more tax on their income and other transactions. Due to this lot of small and medium companies has to bankrupt and addition to that volume of bank lending also causes the business bankrupt because of higher lending of the bank avoid the business failure because businesses can get the money from the banks and they can use them for the business development. Business owner's financial management knowledge, qualifications and experiences of the business management are directly influence for the business failure because basically business owner should have knowledge about the working capital management, capital structure, cash flow management of the business because short time and longtime business knowledge more important to the future growth and liquidity of the business because today lot of Sri Lankan businesses failure due to the bad financial management. Knowledge, experiences and business management skills of the business owner directly impact on the business failure because people management, credit and debit management, facing competitors, client relationship management and every administrative knowledge of the business. Lack of managerial skills, Insufficient financial background, incorrect accounting records, limited access to necessary information are the major cause for the business failure (Gaskill and Auken, 1993) Research in Canadian firm revealed that half of the businesses failed due to the inexperience of the management (Baldwin, Bian and Dupuy, 1997). European federation of accountants (2004) also confirmed that failure of the management and poor management skills cause to the business failure. Lack of the product knowledge and industry experiences cause the business failure because owner failed to have the relevant knowledge of the particular service or product which he is going to serve. If not, he has to face several difficulties. Lack of product knowledge and experiences in the business causes the inefficient of the firm and business failure (Keats and Bracker, 1988). Poor business planning also major influential factor for the business because business plan decides the overall future of the business and business plan shows the way for future of the business.

Conceptual frame work



Source: By Author

Today, SME businessmen do not have any idea about the business plan or related other things. Then due to this, the situation became unfavorable for the businesses because without proper planning companies are unable to record the future growth. Good business plan helps to identify the short term and long-term financing methods, competitors' strategies, strength and weaknesses of the business, marketing plan, operating plans of the business. Nine out of ten business failures in the United States are caused by a lack of general business management skills and planning (National Policy Framework for S.M.E.,2016). In Sri Lankan context people have psychological influence to start business as a competitor for others. As an example, communications and beauty salons are excessively open in the cities of the country. Within 3,4-months lot of shops have to face to the business failure. Poor management skills, inappropriate marketing plans, inability to compete with the other businesses, inappropriate location, failure of the customers and suppliers cause the business failure (Wu, 2010). Lack of entrepreneurial skills also causes the business failure because entrepreneurial skill comes with the business experiences and academic knowledge but every entrepreneurs don't have education knowledge. Due to this, entrepreneurs are unable to identify the

risk-taking behaviors or other basic factors of the business then this situation causes the SME business failure. if anyone doesn't have basic entrepreneurial skills like high risk taking, social awareness, personality characters, these will cause business failure (Amboise, 1992). According to above literature business failure occurs due to the both inside and outside factors of the business.

Conceptual framework of the study represents the relationship between each variable such as weak knowledge of entrepreneurship, cash flow fluctuations, insufficient financing, weaknesses of resource planning, weak knowledge of entrepreneurship, faults internal control, weak business plan and the business failure.

Methodology

This research paper used the survey design. Primarily, it explored entrepreneur background and business failure knowledge of the participants. secondly, identified the relationship between the relationship of the business failure and weak knowledge of entrepreneurship, weak business plan, faults of internal control, weaknesses of resource analysis, Insufficient financing, Cash flow fluctuations, Insufficient financing. This survey selected the small and medium businessmen to get their ideas on the contemporary analysis of business failure in Sri Lanka. The data for this study were obtained from the Primary data source using the structured questionnaire. Primary data were collected through the surveying the one hundred and three (103) respondents from Colombo district representing the total number district population. The research questionnaire consists of seven (7) parts with the demographic details. There are the sixty-seven (67) quantitative questions contains in the questionnaire. For measuring the relative performance of the resonance all questions were asked to be rated on a seven-point Likert scale where (4= Strongly disagree 3=disagree 2=agree 1=strongly agree). Descriptive statistics, Chi square, Person correlation, were used to data presentation and analysis. SPSS and Micro soft excel used to above data presentation and analysis.

Result and discussion

To continue the descriptive analysis the demographic details of the respondents of the study. were used. Total interviewers 103 were pick out for the survey and 63.1 percent were sole proprietors, 30.1 were and 6.8 were limited liability companies. among 103 of total participants 39.8 percent were female and rest 60.2 were male respondents.

Table 01. Demographic of the Respondents (N=103)

Characteristics		Percentages
Gender	Male	63.1
	Female	39.9
Age	11-20	18.44
	21-30	40.77
	31-40	23.3
	41-50	13.5
	51-60	1.94
	60>	1.94
Education	Primary	38.2
	Diploma	57.69
	Secondary	2.5
	Degree	1.6
Business Category	Sole Proprietor	63.1
	Partnership	30.1
	Company	6.8
Income	500,000<	61.16
	500,000-1000,000	26.2

	1000,000-1500,000	6.7
	1500,000>	5.8

Source-Survey Data, 2019

Table 02, shows the results of contemporary analysis of business failure in each attribute. According to These results the highest mean of 3.218 recorded for the cash flow fluctuation. This value explains that mostly cash flow fluctuation related to the business failure.

Insufficient financing was recognized on business failure from respondents at 2nd rank with score of 3.129. Consequently, it shows that weaknesses of resource planning with business failure of 3.099 at 3rd rank. Consecutively, faults of internal control and weak knowledge of entrepreneurship records 3.030 and 3.020 values. The lowest mean records weak business plan with mean of 2.892 however, all variables are perceived by respondents at agreed level on business failure. While business failure with score of 3.005 which reveals that respondents generally aware with the business failure.

Table 02- Mean and Standard deviation of the Business failure

	Mean	Standard Deviation
Weak knowledge of entrepreneurship	3.020	1.0581
Weak business plan	2.892	0.9941
Faults of internal control	3.030	3.9635
Weakness of resource planning	3.099	0.9644
Insufficient financing	3.129	1.0641
Cash flow fluctuation	3.218	0.8438

Source-Survey Data, 2019

To find the relationship, each variables and Small and medium business failure, this research applies the Pearson correlation for analysis. According to the result, the gender and fault have positive relationship ($r = 0.09945$) consecutively business registration and weak enterprise knowledge has positive relationship ($r = 0.3028$), Age and faults of internal control record positive relationship ($r = 0.2178$), weak enterprise knowledge and weak business plan have positive relationship ($r = 0.26872$), weak entrepreneurship knowledge and faults of internal control have positive relationship ($r = 0.1863$), weak business plan and insufficient financing positive relationship ($r = 0.144$) are also corelated with the small and medium business failure.

Table-03 Chi-Square test

	Business Type	Gender	Education Level	Savings
Chi Square	49.476a	4.282b	30.553	102.680d
Df	2	1	3	4
Asymp.sig	.000	.039	.000	.000

(.0%) have expected frequencies less than 5

Source-Survey Data, 2019

According to the chi-square there has statistically significant relationship in gender and business failure.

4.0 Conclusions and recommendation

In this research author attempted to analyze the business failure of Small and medium enterprises through the measurement of business failure and weak knowledge of entrepreneurship, weak business plan, faults of internal control, weaknesses of resource analysis, Insufficient financing, Cash flow fluctuations,

Insufficient financing the analysis result reveals that business failure and above factors has positive correlation. Findings of the study reveal that gender and business failure have significant relationship. And person correlation test revealed the positive correlation among business failure and seven attributes. Specially cash flow fluctuation, Insufficient finance have highly corelated with the business failure. To avoid the business failure entrepreneurs should concern for the financial management of the firm, cash flow management, enhance the academic qualification and internal management. For further studies, we suggest researchers should study the business failure paying attention to the internal business factors and external factors. This will avoid the loss-making factors of the businesses.

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