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Thesis submitted in fulfillment of the requirements for the degree of Doctor of Philosophy

Faculty of Business and Enterprise
Swinburne University of Technology
2012
ABSTRACT

Introduction: Sri Lanka is a developing country situated in the South-Asian region. It is a war torn country that was greatly affected by the tsunami natural disaster in 2004. Since the country achieved independence from Britain in 1948, successive governments have been trying to establish an independent, highly participative democracy with a record of social development, as measured by health and education outcomes. Sri Lanka relies on a dual economy: agricultural and industrial. The country currently exhibits high unemployment rates and low economic growth compared to its neighbours. This has been of concern to policy makers and the international community for several decades. Contemporary government policies clearly stipulate that SMEs engaged in manufacturing are integral to the country’s future development. To address the prevailing socio-economic challenges and reduce poverty, the government is taking steps to strengthen and stabilise the SMEs in the manufacturing sector. There is evidence to suggest that the poor performance and failures of SMEs are, at least, partly due to their poor management practices. Management is a sophisticated process impacting on the performance of organisations by determining how organisational resources can be employed effectively and efficiently. Selecting proper strategies at the right time is also crucial to this process.

Objectives: Based on the imperatives of the government to stimulate SMEs in the manufacturing sector, and the paucity of research into the management of Sri Lankan SMEs, this study was undertaken with the objective of informing future government policy. Specifically, this research project investigated the key organisational characteristics of Sri Lankan SMEs in the manufacturing sector and the impact of these characteristics on the strategic behaviour and sustainability of these enterprises. This project also examined the extent to which SMEs were using formal strategic management techniques in their business.

Methodology: Being exploratory in nature, it was considered appropriate to combine quantitative (positivist) and qualitative (interpretivist) research methods in this study. A face-to-face survey was conducted to collect data from a sample of 150 SMEs (according to the SME definition in the White Paper 2002) in the manufacturing sector in Sri Lanka.
Qualitative data were collected through eight in-depth-interview-based case studies. Data collection was undertaken in July 2010. A gamut of management literature spanning from the early management theories to contemporary strategic management theories developed in the Western and Eastern hemispheres, informed the data analysis. In particular, the five-force industry analysis (Porter 1980, 1985), the resource-based view (Wernerfelt 1984; Barney 1991; Grant 1993), stakeholder analysis (Hillebrand 2009), strategic management modes (Ansoff 1988) and SME management literature, in conjunction with Asian business cultural traits and management practices, were used to analyse the data gathered.

**Findings:** More than 75% of participant SMEs were operating as Non-Formalised Strategic Planning (NFSP) SMEs, i.e. they were not utilising strategic management using well-articulated strategic plans. Only those owners who had a sound educational background or prior experience in business management employed sophisticated management practices and operated as formalised strategic planning (FSP) SMEs. A lack of formal business management education and experience were the main reasons given by NFSP SMEs for not having written strategic plans. It was very common for the Sri Lankan owner-managers to make decisions based on their own knowledge and experience. In many cases, however, they lacked sufficient capability to manage the core activities of their firms efficiently and effectively. Further analysis revealed that decision-making was mostly centralised, regardless of whether the firms were classified as FSP or NFSP SMEs. This reluctance to delegate decision-making, coupled with lack of management expertise, contributed towards a moderate level of performance. Furthermore, many of the owner-managers were trading in an environment in which Asian cultural traits, such as a dependence on ‘luck’ and ‘gut feeling’, were prevalent. As a result, there was a higher level of stagnation and failure. An understanding of the critical issues faced by the Sri Lankan manufacturing SMEs in the conduct of their business operations will facilitate the development of appropriate management education programmes and provide direction for important policy changes to strengthen and stabilise this vital sector.
ACKNOWLEDGEMENTS

First of all I would like to thank God Almighty for the great life He has given me. I believe that everything is happening according to His plan and, therefore, whatever the challenge He gives me, I am ready to accept. This is because I strongly believe that His invisible power is always with me to help in my all endeavors.

From my Masters Degree, I tried to investigate the issue of the sustainable development of Sri Lanka. In that investigation, I discovered that there is a close relationship between the country’s sustainable development and SMEs in the industrial sector, as they have powers to generate various advantages for the economy. However, their sustainability is suppressed and the reasons are still unrecognised. I started my PhD journey with the aim of investigating them by means of the management dimension. Now the time has come to thank those who helped me in this task in various ways.

I would like to take this opportunity to express my greatest gratitude to both of my Supervisors, Dr. Julie Foreman, who guided me most kindly and patiently throughout my candidature until the completion of this thesis, and the Principal Supervisor Dr. Evangeline Elijido-Ten for her valuable advice and assistance during my entire PhD journey. Without the continual academic support and professional guidance from you both, I would not have achieved this goal. My heartfelt thanks also go to Professor John Dalrymple, who made some crucial contributions to this study time to time, especially during my second year and in the final stage. I respect you and gratefully remember you all the time, not because I am from a respectful culture, but for the knowledge I have gained from you.

For my quantitative analysis, Associate professor Denny Meyer helped me like an angel. I greatly appreciate your guidance in this task, and thank you.

During this research project I had to seek assistance from a number of government officials, especially from the Central Bank, the Industrial Development Board and the Department of Census and Statistics of Sri Lanka. A number of professors and other senior academics of
Sri Lankan universities such as Colombo, Kelaniya and Sri Jayewardenepura also gave support in various aspects of this study. Therefore, my special thanks go to all of them for their valuable support in this task.

I also would like to mention my gratitude to all the participants in this study. Their voluntary, quick responses and participation helped me to complete my data collection process successfully within a very short time frame, and within my budget constraints. You make the future of our country. I thank you on behalf of all Sri Lankans. I hope the findings from this project will benefit you in the near future.

I would also like to acknowledge the Swinburne University of Technology for granting me a scholarship (SUPRA) and providing all the facilities to enable me to complete this task. In the Swinburne environment, especially when we were in BA 701, I never felt lonely or helpless. I remember all of you appreciatively before putting a full stop to my PhD journey.

There are a few other parties that I wish to thank here. To Dr. Geoff Vincent who is my thesis editor, Rossalyn Ivis, Jeff Philip, Graeme and Mary Crowden, Julie Gerstman, and my friend Mahesha Peiris, thank you so much for the valuable support you have given me during my study.

Finally, my most heartfelt ‘thank you’ goes to my beloved husband. Keerthi, there are no words to thank you enough for your support. Your patience and love gave me strength always. Our two lovable boys Deshan and Dulsan, my parents Edgar and Cicily Cabraal also gave me courage and support constantly to reach my goals and objectives. I love you all and, not only that, you are my life.
DECLARATION

This thesis:

- Contains no material which has been accepted for the award to the candidate of any other degree or diploma, except where due reference is made in the text of the examinable outcome;
- To the best of the candidate’s knowledge contains no material previously published or written by another person except where due reference is made in the text of the examinable outcome;
- Where the work is based on joint research or publications, discloses the relative contributions of the respective workers or authors; and
- Has met all the requirements of the Ethics Approval from the Swinburne University of Technology under SUHREC Project 2010/087.

………………………………
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<td>Asian Development Bank</td>
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<td>MBO</td>
<td>Management By Objectives</td>
</tr>
<tr>
<td>NA</td>
<td>Not Applicable'</td>
</tr>
<tr>
<td>NFSP</td>
<td>Non-Formalised Strategic Planning</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non Government Organisations</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organisation for the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>P</td>
<td>Partnerships</td>
</tr>
<tr>
<td>PEST</td>
<td>Political, Economic, Socio-cultural and Technological</td>
</tr>
<tr>
<td>PVT</td>
<td>Private limited companies</td>
</tr>
<tr>
<td>RBV</td>
<td>Resource-Based View</td>
</tr>
<tr>
<td>ROE</td>
<td>Return-on-equity</td>
</tr>
<tr>
<td>ROI</td>
<td>Return-on-investment</td>
</tr>
<tr>
<td>SAARC</td>
<td>South Asian Association for Regional Cooperation</td>
</tr>
<tr>
<td>SMEA</td>
<td>SME Authority</td>
</tr>
<tr>
<td>SMED</td>
<td>Small and Medium Enterprise Development</td>
</tr>
<tr>
<td>SMEPU</td>
<td>SME Policy Unit</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium-sized Enterprises</td>
</tr>
<tr>
<td>SP</td>
<td>Sole Proprietorships’</td>
</tr>
<tr>
<td>SSI</td>
<td>Small Scale Industries Credit Scheme</td>
</tr>
<tr>
<td>SUHREC</td>
<td>Swinburne University Human Research Ethics Committee</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities and Threats</td>
</tr>
<tr>
<td>TF</td>
<td>Task Force</td>
</tr>
<tr>
<td>TQM</td>
<td>Total Quality Management</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organisation</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
</tbody>
</table>
Part One

Introduction and Background to the Research

The aim of this section is to introduce the study and emphasise why this research is important to undertake in a country like Sri Lanka, and also to discuss the literature in order to support the conceptual framework. This part of the thesis comprises:

Chapter One: General Overview and Purpose of the Study

Chapter Two: Literature Review on Concepts of Management
CHAPTER ONE:
GENERAL OVERVIEW AND PURPOSE OF THE STUDY

1.1 Introduction

Poverty is the biggest hurdle to economic development in countries in the South Asian region. Ranger Nurkse (1952, p. 571) claimed that ‘A country is poor because it is poor’. He used the concept of the ‘vicious circle of poverty’ to explain how poverty is generated in a country. Motivation of the private sector to invest in the production of goods and provision of services is one means to overcome the drawbacks of the vicious circle of poverty. This is because new investments increase the available job opportunities and real income of the country. The stimulation of small and medium-sized enterprises (SMEs) plays a significant role in this economic development, as they can start with few resources (Gamage 2003; Ramawickrama 2011) but a high level of entrepreneurship. Therefore, SMEs, especially in the manufacturing sector, are the main policy focus of poor countries in the South Asian region.

For this reason, many researchers and organisations have highlighted the importance and contributions of SMEs in the arena of economic development (e.g. Storey 1994, 2006; Abdullah & binBakar, 2000; Organisation for Economic Cooperation and Development (OECD) 2004, 2005; Moktan 2007; Dzisi 2008; Pansuwong 2009; Asian SME Summit 2009; Amaratunge 2009; Ramawickrama 2011; Chancharat 2011). Recognising the contributions made by SMEs, the government of Sri Lanka has also put much effort into strengthening and stabilising this vital sector in the country. It has allocated resources to this end, but still has not recognised the problems it faces that are akin to those which exist in other emerging countries. Therefore, the policy makers are seeking empirical research on which to base their future plans and programmes (see Mahinda Chinthanaya 2005, 20101 the Sri Lankan governments’ budget proposals for 2012). This introductory chapter provides a general overview of the country in which this study was undertaken (section

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1 ‘Mahinda Chinthanaya’ is the presidential election manifesto submitted by President Mahinda Rajapaksha in 2005 and revised in 2010 as ‘Mahinda Chinthanaya Idiri Dakma’.
1.2). In addition, it stipulates the research background and motivation (section 1.3), the aim of the study (section 1.4), the research sector and the scope of the study (section 1.5), research objectives, questions and gaps to be filled (section 1.6), the research approach and methods (section 1.7), the significance and contributions of the study (section 1.8), and the research process and an outline of the organisation of the thesis (section 1.9).

1.2 Sri Lanka - in brief

The island of Sri Lanka, formerly Ceylon, is situated in the Indian Ocean, to the southwest of the Bay of Bengal and to the southeast of the Arabian Sea. It is separated from the Indian subcontinent by the Gulf of Mannar and the Palk Strait. It has a land area of 65,610 square kilometers and a population of 20.8 million people (Central Bank Report 2010; World Bank indicators 2010). For administrative purposes, the island is divided into nine provinces and 26 districts (see map of Sri Lanka in Appendix 1, p.329). The legislative and judicial capital of Sri Lanka is Sri Jayewardenepura Kotte, while the most highly populated and industrialised district is Colombo (Kapurubandara & Lawson 2007). Both are situated in the same district in the Western province of the country. As such, the population is concentrated in the Western part of the country, in order to obtain good education and employment opportunities, and to have better lives.

Sri Lanka had been referred to by many different names, in addition to Ceylon. Among these appellations are Thambapanni, Serendib and Seylan. These names reflect the fame achieved by Sri Lanka in the past. Because of its location on major sea routes, Sri Lanka was, and remains, a strategic naval link between West Asia and South East Asia. Historians believed that most of its former names might have come from the foreign merchants who visited the country for different business transactions. These foreign merchants introduced the trading or the business concept to the Sri Lankan community.

Even though foreign merchants visited the country, Sri Lanka has been a centre of Buddhist religion and culture from ancient times (Gamage et al. 2003a; Galahitiyawe & Rathnayake
Therefore, the Buddhist Singhalese community constitutes the majority of the population (74%). Tamils, who are mostly Hindu, are concentrated largely in the north and east of the island and form the largest ethnic minority (13%). Other communities include Moors, Burghers, Kaffirs and the Malays (Edirisinghe 2008). After independence from British colonial rule was achieved in 1948, the Singhalese majority attempted to remodel Sri Lanka as a Singhalese Buddhist nation. The domination and imposition of Singhalese Buddhist culture finally resulted in the civil war which raged intermittently from 1983 to 2009. The war between government forces and the Liberation Tigers of Tamil Eelam (LTTE), a separatist militant organisation who fought to create an independent state named Tamil Eelam in the north and east of the island, has significantly impeded economic development. Even though the president of Sri Lanka officially declared victory and an end to the civil war on 19 May 2009, economists believe that its negative impact on the country’s economy will continue for another few decades (The Sri Lankan government’s budget proposals 2010, 2011).

In addition to the civil war, Sri Lanka experienced a devastating tsunami on 26 December 2004. Altogether, 12 of 26 districts were affected by this tragedy, which resulted in both extensive losses of life and the destruction of US$ 1.5 billion worth of property (Ramawickrama 2011). Therefore, the tsunami had a significant impact on Sri Lanka, bringing untold misery and hardship to the people, while severely disrupting activities across the country (Kapuge & Smith 2007). Sri Lanka’s new development strategy, promulgated by the Department of National Planning, shows that this disaster also impacted heavily on small industries adding a new dimension to the socio-economic challenges facing the country. Kapuge and Smith (2007) noted that the government is continuously adopting a multi-faceted approach in terms of rebuilding disrupted areas and industries, to support affected families.

As in other developing countries, unstable political and economic conditions, corruption and poor maintenance of law and order are common problems in Sri Lanka. However, Sri Lanka is one of the first developing countries to recognise the importance of investing in
human resource development (Chandrakumara & Budhwar 2005). Due to the availability of free education and health systems, Sri Lanka displays a high level of literacy (94%). Its life expectancy of 72 years is much higher than those of other developing countries in the region (see Agrawal 2006). Sri Lanka achieves human development outcomes more consistent than those of countries with higher per-capita income\(^2\) (The World Bank 2000; Chandrakumara & Budhwar 2005), such as Bahrain and United Arab Emirates. However, the growth rate of the economy and per-capita income are still low\(^3\) and need to increase in order to improve the quality of life of the population and break the vicious circle of poverty (Nurkse 1952). According to the government budget proposal for 2012, the per-capita income is expected to increase to US$ 4000 by 2016. The Central Bank reports indicate that 70% to 75% of Gross Domestic Product (GDP) is contributed by the agricultural and service sectors (Central Bank reports 2006-2011). Nevertheless, this contribution is insufficient to eradicate the existing and rapidly increasing poverty in the country caused by the disparity in income distribution, the high level of unemployment and the foreign debt. Hence, policy makers emphasise that the future of the country essentially depends on improvements in the industrial sector (Mahinda Chinthanaya 2005, 2010; Government budget and the fiscal policy for 2012). The development trends in the industrial sector in Sri Lanka and government imperatives indicate how SMEs have emerged as the vital sector of the country’s contemporary economic development programmes.

### 1.3 Research Background and Motivation

It is useful to consider how the Sri Lankan industrial sector developed over the past few decades to highlight the motivation for this study.

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\(^2\) Per capita income is Gross Domestic Production (GDP) divided by total population. It serves as an indicator of a country's living standards.

\(^3\) According to the World Bank Development indicators (2010), the economy’s growth rate was 3.5 % and the per-capita income US$ 2068 in 2009, which is less than those of other emerging economies like the Maldives, Malaysia and China.
1.3.1 Development of the Industrial Sector in Sri Lanka

Every country has a unique history of industrial development (see Achyuthan 2004; Prouska & Kapsali 2011) which is closely linked to its economic policy reforms (Wijewardena 1989; Amaratunge 2009). The development of the industrial sector in Sri Lanka can be divided into two main phases, spanning the period from before independence and from independence to the present time. An examination of those phases enables the identification of the way in which SMEs are taken into consideration as an integral part of national policy and policy reforms.

1.3.1.1 Industrial Development: Prior to Independence (before 1948)

Sinha and Ray (1973) mentioned that the geographic location or profile of the country largely fashions its economic contours. Sri Lanka had always been an important port and trading post in the ancient world. As a result, the island came under the dominion of European powers at various times from 1505 to 1948, like other countries in the region, such as India, Pakistan, Nepal and Bangladesh.

The Europeans introduced different cash crops such as cinnamon, coffee, tea, coconut and rubber to Sri Lanka during their periods of rule. Three agricultural products, namely tea, coconuts and rubber, provided the export earnings that enabled Sri Lanka to import food, textiles and other consumer goods in the first half of the twentieth century. Sri Lanka developed little industry during this time, relying instead on the proceeds from agricultural exports to buy manufactured goods from other countries. However, this period can be seen as a model of a classical open economy (Amaratunge 2009). Almost all the economic and business activities were handled by the private sector and government intervention was very limited. Generally, industry during the colonial period involved processing instead of manufacturing. Therefore, the most important small industries were located in the agricultural sector, and the work processes within these firms were labour-intensive.
Amaratunge (2009) pointed out that those industries mostly used inefficient manufacturing techniques or methods established over generations.

1.3.1.2 Industrial Development: After Independence (after 1948)

The development of the industrial sector in Sri Lanka after independence can be discussed in terms of three time frames.

- **From 1946 to 1965**

Sri Lanka won its independence in 1948 and the economy of the country gradually became more diverse after the late 1950s, as a result of changes in government policy (Athukorala 2007; Amaratunge 2009). These changes in policy followed the recommendations of the World Bank experts on small scale development planning. They strongly recommended the encouragement and dissemination of small-scale industrial activities under government sponsorship instead of the development of large industries, in order to achieve the country’s overall development objectives (World Bank 1953; Amaratunge 2009). In response, the government introduced strategies for the development of small-scale industries through a Six-Year Investment Plan, and these were implemented during the period from 1954 to 1960. Financial facilities were offered to small industries through state banks to enable them to continue production. During this period the authorities also tried to reduce the dependence of Sri Lanka on the three major cash crops (tea, rubber and coconut), due to the long-term decline in the value of cash crops relative to the cost of imports. The authorities understood that income from agricultural exports was not sufficient to cover the increasing expenditure of the country on imports.

Private sector industrialisation was first emphasised in national policy from the late 1950s until the mid-1960s when the government adopted a policy of import substitution, producing goods for the local market that the country could not afford to import. Prior to this era, most industrial activity was limited to a few commodities such as biscuits,
cigarettes and soap (Padmini 2000). The endorsement of the State Industrial Corporations Act of 1957 provided for the improvement of existing state enterprises, as well as the establishment of new corporations to promote the development of large-scale and basic industries. Industrial diversification began in the 1960s with the production of consumer goods for the domestic market. The period from 1958 to 1963 was the first phase in the rapid growth of state industrial corporations. The manufacturing sector received a boost in the early 1960s when import controls, which were the result of shortages of foreign exchange, made it difficult for consumers to afford foreign products. By 1963, fourteen state industrial corporations were engaged in such fields as paper, textiles, cement and sugar. Although the government actively participated as principal investor and decision maker in the process of industrial development, the development of small- and medium-scale industry was left to the private sector. However, there were no specific policies to promote private sector organisations in Sri Lanka during this period (Karunathilake 1987; Amaratunge 2009).

- **From 1965 to 1977**

In the middle of 1965, the government had recognised the importance of having a special institution to support SMEs in the industrial sector in Sri Lanka. In 1969, the Industrial Development Board (IDB) was founded (Ramawickrama 2011) and, in the 1970s, the IDB paid special attention to developing labour-intensive small industries as a remedy for unemployment issues in the country. Financial credit facilities were further expanded in 1974 with the launching of the Small Scale Industries Credit Scheme (SSI), in order to improve the small-scale industrial sector and facilitate the achievement of the country’s economic development objectives (Amaratunge 2009; Ramawickrama 2011).

By 1974, there were 25 state-owned corporations in the country. From the early stages of their establishment, many of those industrial corporations struggled with issues such as management inefficiency, corruption and technical deficiencies, as well as problems with planning and over staffing. Unsurprisingly, these problems generated poor economic
results, when compared to expectations. In the period 1965-70, small private sector industries were rather neglected due to the promotion of state-owned large-scale manufacturing organisations. However, due to the poor contribution to national wealth being made by state-owned organisations, some private sector industries were established with full protection from international trade and competition. Some studies have identified this as ‘bureaucratic entrepreneurship’ (Kusnezova 1999; Smallbone & Welter 2001a). As a result, these private organisations used monopolistic powers to generate high profits without reducing their costs or improving the quality of their products.

By the mid-1970s, the Sri Lankan economy had become one of the most inward-oriented and regulated economies in the world, outside the communist countries (Athukorala & Rajapathirana 2000; Athukorala 2007). Therefore, industries noticeably started to produce low quality products for the local market and the country’s balance of payments started to improve from negative to positive.

- **Since 1977- Contemporary Sri Lankan Industries**

Even after three decades of the post second World-War era, with the most inward-oriented economic policies, the industrial sector had improved only slightly. In 1977 the Sri Lankan government decided to counteract the dismal economic outcome of the era of closed economy by embarking on an extensive process of economic liberalisation (Athukorala 2007). To enable this change in economic policy, the Sri Lankan authorities received assistance from the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF) (Amaratunge 2009). The liberalisation of the economy in 1977 was largely prompted by the perceived inefficiency and monopolies of the public sector, not by any ideological commitment to free enterprise. As a result, the government permitted private enterprises to compete with the state-owned corporations by introducing a privatisation policy and encouraging private investors. Padmini (2000) stated that this economic liberalisation had converted the private sector into the engine of growth. The ‘first wave’ of reforms during the period 1977 to 1979 removed tight controls, in order
to open the economy, and it shaped the trade and industrial structure of the country to a remarkable extent. These policy reforms included removing quantitative import controls, compression and reduction of the import duty structure, opening up the economy to foreign investment, and the establishment of a unified exchange rate.

In 1978 the government established the Greater Colombo Economic Commission, primarily to serve as the authority for the free trade zones that were to be set up near the capital city, Colombo, in the Western province. The first investment promotion zone consisted of a large region that was established in 1979 at Katunayake. The second zone was inaugurated in 1986 at Biyagama. Both zones are in the Western Province, close to the international airport and Colombo harbour.

The ‘second wave’ of open economic policy reforms was introduced in the early 1990s. These reforms carried forward reform of trade policies, realigned the exchange rate, freed up exchange controls on currency transactions, gave a major impetus to privatisation, and strengthened and stabilised the policy framework for foreign direct and portfolio investment (Athukorala 2007). Through these policies of liberalisation the hope within the country was for comparatively high levels of economic growth, low inflation rates, development of small industries, reduction of unemployment, and healthy external balances (Blackton 1983; Gunatilaka & Chotikapanich 2005; Athukorala 2007; Amaratunge 2009). However, most of the small entrepreneurs were unable to obtain the benefits of free market policies, due to financial and technological constraints.

The economic liberalisation allows foreign dumping without any quality control. Although the imported goods also were of low quality, consumers in Sri Lanka purchased them due to their low price levels compared to local products. This situation continues to affect small-scaled industries (Wijewardena 1989). Consequently, policy makers are continuously looking for remedies to help local industrial SMEs (see the government’s budget for 2012 - Table 1.2, p.15). The Sri Lankan government has recognised that, in order to obtain a greater contribution from the industrial sector (stimulate the economy’s production-
Nurkse 1952), it is important to place more emphasis on SMEs rather than the large industries. This is because industrial SMEs not only provide employment opportunities to the abundant labour force, but also generate dynamism by enabling entrepreneurial capabilities to be realised and creating better standards of living (Hussain et al. 2010a, b). Some researchers (e.g. Storey 1994, 2006; Harvie & Lee 2003; Spencer, Kirhhoff & White 2008;) have also noted that SMEs can stimulate levels of innovation (e.g. new products, models and styles), generate new export opportunities and become successful large enterprises in the future if they are managed with a clear business philosophy.

1.3.1.3 Sri Lankan Government’s Initiatives for the Development of SMEs

The Sri Lankan government’s initiatives can be summarised and presented in the following categories:

- **A White Paper for SMEs:** In October 2001, a *Task Force* (TF) was appointed by the Minister of Industrial Development. This unit consisted of business people, members of the Chamber of Commerce and Industry, members of academia, bankers and government officials. The duty of the TF was to inquire into the needs, problems and future requirements of SMEs in the industrial sector in Sri Lanka, and to develop measures to strengthen this group. As a result, in December 2002, a *White Paper* was produced. It constitutes the national strategy for the development of the small and medium enterprises sector in Sri Lanka, and was the first such national strategy for that sector (Gajanayake 2010; Ramawickrama 2011).

The White Paper (2002) identified several surveys which have been undertaken to investigate the problems facing SMEs. Over a substantial period, multilateral and bilateral agencies such as the United States Agency for International Development (USAID), the World Bank, the Japan International Cooperation Agency (JICA), the Asian Development Bank (ADB), the United Nations Industrial Development Organisation (UNIDO) and many others, have worked on the problems facing SMEs in Sri Lanka. Government ministries
have also carried out their own studies and programmes. The TF has considered all the published and unpublished work on SMEs as a major part of their role, and found that small business enterprises are underdeveloped and less dynamic when compared to large-scale enterprises in the national economy. Further, the growth and expansion of SMEs are constrained by various problems, including a lack of institutional support (Gajanayake 2010). Based on those findings and understandings, they have made some important recommendations through the White Paper (2002) to strengthen the SME sector.

The key recommendations of the White Paper include:

i) **Vision for policy direction** – in order to provide policy direction for future strategy and plans, the government needs a vision for the SME sector. Without a clear vision, it is impossible to create sustainable plans and strategies.

ii) **Standard definition for Sri Lankan SMEs** – to minimise the issues arising from the fact that there is no commonly agreed definition of SMEs, the Task Force suggested a standard definition. Proposed definitions are: firms with 5-149 regular employees are SMEs, while those with 150 and above are large firms; firms with an asset value (excluding land and building) not exceeding Rs. 50 million are SMEs. However, there are still some issues in this regard (see Athukorala 2010).

iii) **Establish institutes for SME development** - for example, establish a high-powered SME Policy Unit (SMEPU) and a SME Authority (SMEA).

iv) **Research programmes** - to launch further research programmes to find important areas that need to be addressed by government policies and institutions.

v) **Address critical issues facing SMEs** – address such matters as financial, credit, tax and technology, organise productivity enhancement programmes, minimise environmental issues. Absence of management in SMEs has also been identified as an important constraint affecting SME development. However, the given emphasis on management problems is insufficient and recommendations are quite general.
Low productivity, high unemployment, inflation and negative balance-of-payments continuously push the Sri Lankan economy towards an underdeveloped condition and poverty. Therefore, in order to overcome this unfavourable economic position, the Sri Lankan government faces an urgent need to strengthen and stabilise SMEs in the industrial sector (Mahinda Chinthanya 2005, 2010). This is because China, Japan and newly industrialised Asian countries such as Singapore, Taiwan, Korea and Malaysia, are the benchmarks for the economic development movements of other Asian countries like Sri Lanka. It is noteworthy that the industrial sector in China contributes 48% to the country’s national income (Fernando 2012) to have the current economic growth rate - 9.2% in 2011 (World Economic Outlook 2011).

- **Institutional Support for the development of SMEs:** The Sri Lankan government has been informed by researchers and policy makers that the country’s SMEs are struggling with some issues such as weak management, technology and marketing related problems (e.g. Gamage 2003; Sumanasena 2005; Munidasa 2008). On that basis, various institutions have been established (see Table 1.1, p. 14).

The Sri Lankan government has not been sluggish in implementing schemes and programmes. According to the White Paper (2002), the main objectives of the contemporary industrial policies of the government are the expansion, diversification and upgrading of the domestic industrial sector. It is expected that these objectives will be achieved by developing a supportive environment through established government institutions. Therefore, Sri Lankan SMEs are not without assistance or totally neglected.
### Table 1.1 Institutional Support for SME sector Industries

<table>
<thead>
<tr>
<th>Institution</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceylon Institute of Scientific and Industrial Research (CISIR)</td>
<td>Since 1955 the CISIR has facilitated the development and dissemination of appropriate technology to enhance the efficiency and productivity of industrial SMEs.</td>
</tr>
<tr>
<td>Provincial councils (PCs)</td>
<td>Stimulating small industries in local areas by providing supportive services. PCs established in 1987 but formally identified in different names such as District Minister System.</td>
</tr>
<tr>
<td>People's Bank and the Bank of Ceylon</td>
<td>Since 1961, both of these public banks have provided loans and financial support schemes, as well as supportive and advisory services for SMEs throughout the island.</td>
</tr>
<tr>
<td>Sri Lanka Handicraft Board</td>
<td>Established in 1964 with the aim of helping industrialists to solve their marketing problems.</td>
</tr>
<tr>
<td>Industrial Development Board (IDB)</td>
<td>Since its establishment in 1969, the IDB has focussed on, and functioned for the purposes of, the development and dissemination of appropriate technologies, marketing facilities and, in some cases, financial facilities, and conducting entrepreneurship and small business training for SMEs in the industrial sector. Most importantly, this organisation helps SMEs by launching research and survey activities, organising trade fairs or exhibitions and different competitions, district-, province- and nationwide (e.g. Shilpa Exhibition).</td>
</tr>
<tr>
<td>Department of Textiles</td>
<td>The Department assists SMEs through the improvement of craft design and the development of new designs, better utilisation of raw materials, the development of new production methods and techniques, the improvement of local design capability, assistance in market research and the organisation of training programmes in the fields of design, product development and market promotion.</td>
</tr>
<tr>
<td>National Development Bank (NDB)</td>
<td>The NDB was established in 1979 with the objective of ensuring that small industrialists are given access to project finance on the same terms and conditions as opened to large borrowers.</td>
</tr>
<tr>
<td>Small Enterprise Development Division (SEDD) of the Ministry of Youth Affairs &amp; Sports</td>
<td>Since 1982 SEDD encourages self-employment and small enterprises in the country, especially in rural areas.</td>
</tr>
<tr>
<td>Regional Development Bank (RDB)</td>
<td>By merging six main development banks in 2010, RDB was established. It strives to provide innovative yet simple financial services to the small-scale business sector.</td>
</tr>
<tr>
<td>Enterprise Promotion Bank (SME Bank)</td>
<td>The SME Bank promotes the SMEs through the provision of financial and technical assistance on a vigorous and sustainable basis. Its activities have been popular among rural SMEs since it commenced operations in 2005.</td>
</tr>
<tr>
<td>The Ceylon Chamber of Commerce</td>
<td>It was established in 1839, when Sri Lanka was known as Ceylon under British rule. The Chamber promotes investments in the country by means of various schemes.</td>
</tr>
<tr>
<td>The Central Environment Authority and the Urban Development Authority</td>
<td>These Authorities provide various supportive services to SMEs, in order to enable them to operate as environmentally friendly entities since its establishment in 1981.</td>
</tr>
</tbody>
</table>

(Source: Official Websites)
The Government Fiscal Policy Measures: The Sri Lankan government has allocated a considerable level of funding to demonstrate the importance of the development of the SME sector. The government fiscal policy for the year 2012 contained proposals as shown in Table 1.2.

Table 1.2 Budget Proposals to Enhance SMEs – for 2012

<table>
<thead>
<tr>
<th>Item</th>
<th>Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skill Development</td>
<td>A sum of Rs 8,617 million has been allocated for vocational education.</td>
</tr>
<tr>
<td>Research on SMEs</td>
<td>A research allowance to university staff and researchers to motivate them to conduct SME research. Income tax reduction on research income. Rs 300 million to the National Research Council to encourage special research that would facilitate economic development.</td>
</tr>
<tr>
<td>Investment Incentives</td>
<td>Tax holidays to both new and existing SMEs.</td>
</tr>
<tr>
<td>Financial Support</td>
<td>Establishment of special SME bank branches in all districts in the country to provide loan facilities. Government Guarantee for those banks providing loans to restructure SMEs</td>
</tr>
<tr>
<td>Shield from Unfair Import Competition</td>
<td>Some steps (details not available) will be taken to protect the SME sector from unfair import competition (foreign dumping)</td>
</tr>
</tbody>
</table>

(Source: Budget Speech on 21/11/2011)  

One of the proposals made in the budget was to improve vocational education opportunities in the country, because around 165,000 children fail the GCE Ordinary level exam (Year 10) every year, and the majority of those children then seek jobs or start their own businesses. Thus, the government’s proposal to develop vocational education will help current and potential entrepreneurs to obtain access to different vocational education programmes so that they can gain the necessary skills while working in or operating their own businesses.

Notably, government policy makers still seek more research on SMEs, to better frame their support for this sector. The 2012 budget has allocated a research allowance to university
academic staff and researchers to motivate them to engage in research on SMEs. Furthermore, a reduction in income tax on research income (from 24% to 16%) has been proposed, in order to ensure that SMEs would benefit from research-related knowledge. The government’s interest in research projects related to SMEs is also reflected in the allocation of Rs 300 million to the National Research Council, to encourage special research that would facilitate economic development.

1.3.2 Motivation for the Study

The previous sections have highlighted the importance of SMEs to the Sri Lankan economy and identified various initiatives aimed at securing improvements in the sector. However, the Central Bank of Sri Lanka reported that the industrial sector still contributes less than 30% to the national GDP which is well short of 2015 target of 35% (Central Bank Annual Reports 2003-2010; Economic outlook 2012). Further, the White Paper (2002) attests that although several surveys have been undertaken by different organisations to investigate the problems confronting SMEs, the combined results of these studies have still not discovered the root cause of the major problems confronting SMEs.

Recently, researchers (e.g. Gamage 2003; Sumanasena 2005; Munidasa 2008) have noted that the Sri Lankan SMEs have a weak institutional base due to a lack of management skills. According to Drucker (1999), management skills are a critical factor in the success of all businesses, and it follows that SMEs are no exception (Robinson & Pearce 1983, 1984; Scarborough & Zimmerer 2003). Scarborough and Zimmerer (2003) have suggested that a lack of managerial skills among owner-managers may hamper the progress of the business. This is because today’s business environment is changing at an ever-increasing pace (Verweire & Berghe 2004) and has become more competitive than ever before (Hussain et al. 2010 a, b). Formal management thought is evolving from Taylorism, which was introduced in 1911. Over the time frame of a century, numerous scholars have introduced a wide spectrum of theories in order to find remedies for managerial issues. These theorists recognised that to improve organisational success it is essential to address
the root cause of the inefficiency and ineffectiveness that are considered to be managerial problems of organisations (Drucker 1999). Therefore, the role of management is crucial and is the basis of this study.

Management practices, including strategic management and business performance, have been studied by numerous researchers for many years (e.g. Prouska & Kapsali 2011). Nevertheless, there is still a need to understand more about the various aspects, especially as they apply to the SMEs sector. Previous studies in this field have largely been conducted in Western countries (Huang 2009), or on large companies (Angkasuvana 2005), or without differentiating between the sizes of the firms being considered (for example, Achyuthan 2004; Edirisinghe 2008; Ko 2009). Theoretical and empirical studies on management practices in SMEs are still scarce and fragmented, particularly those related to emerging economies (Glueck & Jauch 1984; Haley & Tan 2000; Angkasuvana 2005; Huang 2009). Therefore, more research related to developing countries is needed, because SMEs are more crucial to the economy than large organisations in these nations (OECD 2004), and particularly in Sri Lanka (Gajanayake 2010).

Having said that, SMEs have, in recent years, increasingly been the focus of research (Pansuwong 2009). The majority of these studies are based on the entrepreneurship theory, innovativeness and practice (Sadler–Smith 2003; Pansuwong 2009; Fairoz et al. 2010; Islam et al. 2011), entrepreneurial and vocational education (Mitra & Matlay 2004), the importance of entrepreneurship for SMEs and economic development (Smallborne & Welter 2001 a) or the role of government in the development of SME (Smallborne & Welter 2001 b). Even though there is a close relationship between entrepreneurship and SMEs, the management practices of these enterprises do not totally align with entrepreneurship concepts and theories. This is because while entrepreneurship is crucial in SMEs, according to Schumpeter’s (1934) definition, not all business owners and managers are entrepreneurs. Although entrepreneurship research is readily available, contemporary

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4 Schumpeter (1934) defined entrepreneurs as individuals whose function is to carry out new combinations of means of production (Carland et al. 1984, p.354).
researchers claim that more empirical studies are needed on strategic decision-making, particularly those that are conducted in different national contexts, in order to fill gaps in the literature (Elbanna 2006; Huang 2009).

The aforementioned government intentions regarding the development of the SMEs in the industrial sector in Sri Lanka and the existing gaps in the literature, particularly on the subject of SME management, provided the motivation for the present study. Hence, the findings of the current research project will be important, in both practical and theoretical terms.

1.4 The Aim of the Study

As noted above, the industrial sector of Sri Lanka showed a boost in growth in the early 1960s when the control of imports, which occurred as a result of a shortage of foreign exchange, made it difficult for locals to afford foreign products. However, despite continued government intervention, this sector still does not contribute enough to the country’s GDP, with a resulting negative impact on the country’s sustainable development.

The aim of this study was to explore the literature from both the Western and Eastern contexts and to use those studies to inform an empirical study that is aimed at identifying the root causes of the poor performance of SMEs in Sri Lanka. This project was the first major national level investigation of the management practices of, and critical issues confronting, SMEs in Sri Lanka. Due to the civil war, neither government organisations nor private researchers have so far been able to undertake nationwide research on these subjects. This thesis presents a comprehensive study based on the two common research questions in the field of management.

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5 Sustainable development means ‘Meeting the needs of the present without compromising the ability of future generations to meet their own needs’ (WCED 1987). These needs include food, employment opportunities and reduced environmental degradation (Ramawickrama 2011).
‘Why do some organisations (SMEs) succeed while others fail?’, and ‘what are the processes that allow organisations (SMEs) to succeed in business?’ (see Porter 1991, pp. 95-117).

Based on these two management questions, four types of SMEs were recognised for this study: start-ups, growing, stagnating, and failed (these will be discussed in Chapter Four).

1.5 Sector and the Scope of the Study

The industrial sector of Sri Lanka, which accounts for less than 30% of GDP, includes four sub-sectors: 1) mining and quarrying; 2) electricity, gas and water; 3) construction; and 4) manufacturing. The present study is focussed on the context of the manufacturing sector in Sri Lanka. Although the government continuously indicates its intention to strengthen manufacturing by means of various incentives, the sector is currently underperforming and contributes less than 20% to GDP (see Table 1.3).

Table 1.3 Contribution of the Manufacturing Sector in Sri Lanka

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP growth rate</th>
<th>Manufacturing sector share of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-1959</td>
<td>4.5 average</td>
<td>Not available</td>
</tr>
<tr>
<td>1960-1977</td>
<td>3.9 average</td>
<td>8.3 % average</td>
</tr>
<tr>
<td>1978</td>
<td>4.5</td>
<td>18.4%</td>
</tr>
<tr>
<td>1978-1996</td>
<td>4.9 average</td>
<td>16.0 % average</td>
</tr>
<tr>
<td>1997-2000</td>
<td>5.2 average</td>
<td>16.0% average</td>
</tr>
<tr>
<td>2000-2005</td>
<td>5.4 average</td>
<td>16.2 % average</td>
</tr>
<tr>
<td>2006-2007</td>
<td>7.1 average</td>
<td>17.7 % average</td>
</tr>
<tr>
<td>2008-2010</td>
<td>5.8 average</td>
<td>17.5 % average</td>
</tr>
<tr>
<td>2011</td>
<td>8.3</td>
<td>17.3%</td>
</tr>
</tbody>
</table>


Table 1.3 indicates the rates at which GDP has grown and the manufacturing sector’s share of GDP since independence. In 1978, the contribution of the manufacturing sector to GDP

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6 The Central Bank Annual Report 2011 indicates that industrial sector have contributed 28.7% to the GDP in 2010 and 29.3% in 2011.
was 18.4%, and it has fluctuated from 16% to 17.8% in the wake of economic liberalisation. Even though the economic growth rate has been slowly improving after the civil war and the tsunami disaster, the manufacturing sector in Sri Lanka still provides indications of slow growth and underperformance compared with the expectations of the government.

Although the other industrial sectors together contribute less than 10% to GDP, according to Central Bank sources, policy makers do not pay the same attention to these other sectors as they do to the manufacturing sector. The reasons they provided for adopting this approach include, firstly, the fact that other sectors need more capital and infrastructure that should be provided by the government. For example, the Sri Lankan government has made investments in the construction and electricity sectors. However, the manufacturing sector is currently dominated by the private sector and, therefore, no such investments are needed from the government. Secondly, for the most part, other sectors create fewer employment opportunities and most of those opportunities are offered on a short-term basis. Thirdly, mining and quarrying are not available in all regions of the country. In order to reach to the government’s targeted per-capita income of US$ 4000 by 2016, 10% annual economic growth rate\(^7\) and 35% contribution to the GDP from the industrial sector by 2015 (Economic Outlook- Sri Lanka 2012) the SMEs in the manufacturing sector are the great hope and, therefore, the group on which this study is focussed.

1.6 Research Objectives, Research Questions, and Gaps to be Filled

The paucity of research into SMEs in general, and more specifically in Asia, was alluded to in Sections 1.3 and 1.4. One of the objectives of this study was to fill the current gaps in the literature. Specifically:

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\(^7\) The White Paper 2002 indicated that some government policy reforms target 10% economic growth rate for Sri Lanka.
1. Identification of the key organisational characteristics of SMEs in the manufacturing sector in Sri Lanka.

2. Identification of how these organisational characteristics may help or hinder SMEs engaged in manufacturing in Sri Lanka in their efforts to manage their business environments.

3. The extent to which SMEs are using formal management or strategic management techniques, thus providing a basis for the development of educational programmes.

In accordance with the objectives of this study, five research questions were developed.

1. What are the main organisational characteristics of the SMEs in the manufacturing sector in Sri Lanka?

2. What are the critical issues commonly faced by SMEs in the manufacturing sector in Sri Lanka?

3. Is there any relationship between the organisational characteristics of the SMEs in the manufacturing sector in Sri Lanka and the critical issues they face?

4. What strategic management tools are used by SMEs in the manufacturing sector in Sri Lanka?

5. How do the SMEs in the manufacturing sector in Sri Lanka manage their business operations when functioning variously with or without a formalised strategic management process or strategic planning system?

The research process of this study was designed to focus on answering the research questions by means of both the testing of theory and theory-building tasks, which will be presented in the following section.

1.7 Research Approach and Methods

Due to the exploratory nature of the study, it was found more appropriate to pursue a mixed methods approach, i.e. mixing both quantitative (positivist) and qualitative (interpretivist) research methods with their associated techniques (Creswell et al. 2007).
The literature attests that this approach (pragmatism) is commonly used by contemporary social researchers (Bryman & Bell 2007), as it enables them to use different paradigms according to their suitability for providing answers to research questions (Collis & Hussey 2009). According to the epistemology and ontology of the study, a face-to-face survey with a structured questionnaire and in-depth interview-based case studies were the methods adopted for data collection.

This research employed a commonly used definition suggested by the government of Sri Lanka (White Paper 2002) and present-day researchers, which is that firms with 5-49 workers are categorised as small firms and those with 50-149 employees as medium-sized enterprises (Sumanasena 2005; Cooray & de Silva 2007; Munidasa 2008; Ramawickrama 2011). The respondents in the study were the owner-managers or senior managers responsible for long-term planning and decision-making in SMEs engaged in manufacturing. However, in accordance with the objectives of the study, SMEs that were collaborating, or were in partnerships, with foreign companies at the time at which the survey was conducted were excluded from the research cohort.

The quantitative analyses comprised both descriptive and inferential statistical methods using Statistical Packages for Social Sciences (SPSS). To identify differences between the groups (e.g. small and medium), Chi-square tests and Fisher’s exact tests were conducted on the survey data. To analyse qualitative data gathered by means of in-depth interviews, the data analytical techniques suggested by Patton (1990, 2002), Miles and Huberman (1994), Yin (2003, 2009) and Creswell (2013) for within-case and cross-case analysis were applied. Particularly, in order to explore the management practices of the participants, theme identifying, pattern matching and explanation building were undertaken.

1.8 Significance and Contributions of the Study

Small and medium-sized enterprises cover a wide spectrum of industries and play an important role in both developed and developing economies (Sharma & Bhagwat 2006).
However, the most important issue is that the failure rate of SMEs is very high and the level of performance very low (Jocumsen 2004). Therefore, the role of contemporary researchers (e.g. Sharma & Bhagwat 2006; Moktan 2007; Kureshi et al. 2010; Hussain et al. 2010 a. b) is to study and understand the practices and activities of SMEs in order to add new expertise to the existing body of knowledge. Their ultimate objective is to help those enterprises to survive for longer periods. Policy makers, especially those active in developing economies, are still probing such empirical investigation-based information in order to initiate further appropriate policies to support SMEs in their economies.

As noted previously, the literature revealed that there remains a paucity of research on management practices in SMEs that is not entirely addressed by entrepreneurship research. For example, after reviewing about 134 of the most recently published research papers, Singh et al. (2008) mentioned that there is a significant gap in relation to research into the strategic decision-making practices of SMEs. Whether the research findings based on large business contexts (Cagliano et al. 2001) or gained from developed countries are appropriate for small businesses development in developing or emerging countries like Sri Lanka is also a question for contemporary researchers in this field (Huang 2009). This is because, SMEs deal with unique size-related issues (Welsh & White 1981). They behave differently in their activities and in their interactions with their environments. Therefore, an empirical study of this nature was crucial if the critical issues facing SMEs were to be revealed and their management practices identified, in order to strengthen and stabilise their operations through the policy measures implemented by the government. Given that a holistic study of this sector in Sri Lanka has not previously been undertaken, in addition to filling gaps in the literature, the following contributions from this study were envisaged:

i) SMEs fail for a variety of reasons. The literature emphasises that they face many issues and barriers, regardless of the level of development of the country in which they are located (e.g. Deimel et al. 2009). The findings from this study help to compare and contrast studies from other developing and developed countries. From that knowledge a collective effort can be made through international co-operative organisations such as...
the South Asian Association for Regional Cooperation (SAARC), the Organisation for the Petroleum Exporting Countries (OPEC), the European Union (EU), the Japan International Cooperation Agency (JAIKA) and the Asian Development Bank (ADB).

ii) Extensive identification of the management practices and strategic behaviour of SMEs to provide a ‘management lens’ for future research as well as providing a basis for the development of education programmes.

iii) To open up a new research forum on research into the management practices of SMEs in the South Asian region. The findings of this research will be extended to the neighbouring countries by means of conference papers and publications (see Appendix 13, p.378). Thus, it will provide an opportunity to share the Sri Lankan experience and increase the significance of this study.

Policy makers and government institutions related to SMEs, financial institutions, current and potential owners and managers of SMEs, researchers in this field and education providers and curriculum designers in Sri Lanka will all benefit from this study. Ultimately, the findings will help to create a sustainably developed country.

1.9 Research Process and Thesis Organisation

The entire research process can be illustrated as a research content map, which consists of the activities undertaken during the research project and their aims. Figure 1.1(p.27) is developed for the present research study from Pansuwong (2009).

This study comprises four parts and eight chapters:

Part One: Introduction and Background to the Research

Chapter 1. General Overview and Purpose of the Study
This chapter provides an essential context for the study by illustrating the complexities of Sri Lanka as a country and the development (or lack thereof) of its
economy. It identifies the criticality of SMEs to sustainable development and discusses government recognition of this significance. It contains a discussion of the point that potential reasons for the poor performance of SMEs may be the practices of those responsible for their management, and demonstrates the need for the research to be undertaken.

**Chapter 2. Literature Review on Concepts of Management**

The literature review chapter presents the existing literature that forms the conceptual framework of this thesis. It includes early management theories and practices from the Western and Eastern hemispheres, as well as contemporary strategic management theories such as industry analysis, stakeholder theory and resource-based view theory. Asian and Sri Lankan business management practices are also reviewed in this chapter.

**Part Two: Methodology of the Study**

**Chapter 3. Conceptual Framework and Research Questions**

This third chapter presents the conceptual framework developed based on the literature review. In addition to antecedents, the empirical study and expected outcomes are articulated. Under the empirical study, organisational characteristics, management process and performance are discussed. Further, the chapter provides research questions in detail.

**Chapter 4. Research design and Methods**

This study combines both quantitative and qualitative methods to achieve the objectives of the research. Hence, this fourth chapter presents an explanation and justification of the methodology employed in this study including data collection methods, population, research instruments, sample and data analysis techniques.
Part Three: Data Analysis and Findings

Chapter 5. Primary Data Analysis I.A - Survey
The primary data analysis phase I.A presents the background of 150 SMEs selected for the survey. Therefore, this chapter analyses and discusses key features of these SMEs, such as organisational characteristics, critical issues and their strategic direction. Descriptive statistics and inferential statistics, such as Chi-square, are used as quantitative data analysis techniques.

Chapter 6. Primary Data Analysis Phase I.B - Survey
This chapter elaborates the strategic planning behaviours of the SMEs surveyed. According to the findings, respondent firms are categorised as formalised strategic planning (FSP) SMEs and non-formalised strategic planning (NFSP) SMEs. The strategic behaviour of the participant SMEs is further analysed in order to investigate unique features.

Chapter 7. Primary Data Analysis Phase II - Case Studies
Chapter seven illustrates the eight case-studies and their findings based on the in-depth investigation of this study. Participant SMEs were coded according to their current business performance. Within-case and cross-case analysis were undertaken in order to investigate their critical issues and management practices in details.

Part Four: Synthesis of Knowledge Discovered
Chapter 8. The Discussion of Findings, Recommendations and Conclusions
The final chapter of this thesis synthesises the key findings of the entire research project according to the study aims, objectives and research questions. Based on the findings of the study, it discusses the reasons for the poor performance and unsustainability of SMEs in the manufacturing sector in Sri Lanka. Further directions and limitations of the present study are also mentioned, for the benefit of future researchers in this field.
Figure 1.1 Research Content Map

<table>
<thead>
<tr>
<th>Part</th>
<th>Research Activity Undertaken</th>
<th>Content</th>
<th>Chapters</th>
</tr>
</thead>
</table>
| 1    | Target: To develop research phenomena with the background knowledge, identify research problems and boundaries | 1. Literature review - To identify the research gap  
2. To specify research objectives and research questions  
3. To identify theoretical framework | 1 | General Overview and Purpose of the Study |
|      | | 1. Review of Sri Lankan government initiatives to uplift SMEs.  
2. Review of critical issues of SMEs.  
3. Review of early management theories (Western & Eastern)  
4. Review of contemporary strategic management theories/tools  
Porter’s industry analysis/ SWOT & PEST analysis, stakeholder theory and resource-based view theory in business management,  
Ansoff’s (1988) strategic behaviour modes  
5. Review of research in Strategic management, strategic management tools and techniques, strategic decision-making process and business performance | 2 | Literature Review on Concepts of Management |
| 2    | Target: To determine and design methodology for data collection of the research project | 1. Further review secondary sources - To select research methodology and design the research project | 3 | Conceptual Framework and Research Questions |
|      | | 1. Introduction of conceptual model  
2. Review of research methodology, methods and analytical techniques | 4 | Research Design and Methods |
| 3    | Target: To implement methodology for data collection and analyses of the research project | 1. Primary data collection and analyses - Survey – quantitative analysis  
- Case studies – qualitative analysis | 5 | Primary Data Analysis Phase I.A (Survey): Characteristics of Respondent Firms |
|      | | 1. Primary data collection via face-to-face survey and in-depth interviews in Sri Lanka  
2. Survey data analysis – Descriptive and inferential statistic (Chi-square Fisher’s Exact tests) were conducted  
3. Case study analysis – individual and cross-case analysis via thematic analysis. | 6 | Primary Data Analysis Phase I.B (Survey): Strategic behaviour of Respondent Firms |
| 4    | Target: Establish findings and significance of the study | 1. Discussion of findings and knowledge synthesis Recommendations and directions for future research | 7 | Primary Data Analysis Phase II: Case Studies |
|      | | 1. Discussion of findings and synthesis of knowledge discovered  
2. Note conclusions of the present study  
3. Note of recommendations as major contributions of the study  
4. Note of limitations of the study  
5. Recommendations for future research. | 8 | The Discussion of Findings, Recommendations and Conclusions |
1.10 Chapter Summary

This chapter presented a general overview to emphasise the importance of conducting a research inquiry into management practice. The main focus of this study is SMEs in the manufacturing sector, which is one of the industrial sectors of Sri Lanka that currently contributes less than 20% to GDP. The research background and problems were presented, and the objectives and research questions were articulated. Finally, the research organisation of the thesis was mentioned with the thesis content map. The thesis is organised into four parts, based on the activities undertaken, and eight chapters to present the entire research project and the findings. As this research addresses contemporary requirements in Sri Lanka, in addition to contributing to the existing knowledge, the findings will support immensely efforts to strengthen and stabilise the SME sector in the country in general, and in the manufacturing sector in particular.

The next chapter presents the literature review on concepts of management that form the theoretical framework of this study.
CHAPTER TWO:
LITERATURE REVIEW ON CONCEPTS OF MANAGEMENT

2.1 Introduction

As this study focuses on identifying the key management practices of small and medium-sized enterprises (SMEs) in Sri Lanka, with a view to performance improvement of the sector, it is necessary to define and discuss what constitutes management practice. Fortunately, throughout the past few decades, a large volume of literature has been produced on management. Most of this material discusses, directly or indirectly, how theory can be employed for the proper direction of business organisations, so that they might achieve long-term success and growth. This study examines the evolution of management theories in Western and Eastern cultures as a foundation for the investigation of the management practices of SMEs in Sri Lanka. Western management concepts emerged from Europe and America, and Eastern practices developed in Asian economies such as Japan and China. The objective of this chapter is to provide a theoretical context for the study and, to this end, it presents the evolution of business management theory (section 2.2), the evolution of contemporary strategic management theory (section 2.3), management practices and business performance (section 2.4), studies on the business management practices of SMEs (section 2.5), and studies on business management practices in Asia and Sri Lanka (section 2.6). This review provides the basis for the conceptual model of this study, which is presented in Chapter Three.

2.2 Evolution of Business Management Theory

Business organisations evolved from the replacement of the barter system with a monetary system for the exchange of goods and services. The literature states that those early businesses were mostly inefficient because their methods were based on ad hoc ways of doing things derived from traditions, a mode of operation that is identified as rule-of-thumb (Cole 2004). The owners were the main decision-makers and, therefore, they used their own methods to undertake business activities in order to obtain
maximum benefits for themselves. During that early era, the economy was impersonal and governed by objective economic forces (e.g. consumer’s demand in the market), rather than the behaviour of workers in the organisation. If there was a demand in the market, owners tended to allocate their resources to meet that demand, but they were not concerned about how to do so or how to organise that task (Drucker 1999). After the industrial revolution in the Western world, investigations began into how organisations could organise their activities in an efficient way. As a result, a continuum of management theories came into being. In the investigation of management practices in Sri Lanka, these early management ideas were identified as vital, and they have been represented as such in several relevant studies (e.g. Nanayakkara 1992; Gamage et al. 2003 a, b; Chandrakumara & Budhwar 2005; Fernando 2007).

2.2.1 Western Management Theories

The search for universally applicable principles of management started in the industrial heartlands of Europe and America in the final years of the nineteenth century. Consequently, classical management theories began to emerge at the beginning of the twentieth century.

Western management theories, as they have developed, can be summarised into three schools of thought: the classical management theories, behavioural management theories, and modern management foundations (Schermerhorn 2011). All of these theories are underpinned by different sets of activities and/or assumptions, which are considered to be universally applicable and were not limited to Western countries. As a result, their adoption became widespread. Table 2.1 and the following sections present the important contributions of Western management concepts.
<table>
<thead>
<tr>
<th>Western Theories</th>
<th>Contributors</th>
<th>Key aspects</th>
<th>Criticisms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Classical theories</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>● Scientific management</td>
<td>F.W. Taylor 1911</td>
<td>Management as a science or one best way for optimal performance</td>
<td>- man is not always economic, they also have social needs&lt;br&gt;- no one best method of doing a job&lt;br&gt;- separation of planning and doing is harmful as it produces monotony and reduces skills need for work&lt;br&gt;- advances in technology eliminate some workers causing workers fear for new technology and equipment.</td>
</tr>
<tr>
<td></td>
<td>Frank &amp; Lilian Gilbreth 1911</td>
<td>Motion study</td>
<td></td>
</tr>
<tr>
<td></td>
<td>H. Gantt 1921</td>
<td>Gantt charts</td>
<td></td>
</tr>
<tr>
<td>● Administrative principles</td>
<td>亨利·法约尔 1919</td>
<td>14 principles for administration and organisation of work</td>
<td>- Principles (14) are contradictory and have dilemmas&lt;br&gt;- Principles are based on few case studies and they are not empirically tested&lt;br&gt;- Forms mechanistic organisational structures which are intensive to employees social &amp; psychological needs&lt;br&gt;- Organisations are closed systems&lt;br&gt;- The rigid structures created&lt;br&gt;- Does not work well under unstable conditions</td>
</tr>
<tr>
<td>● Bureaucratic organisation</td>
<td>马克斯·韦伯 1947</td>
<td>Bureaucratic structure for better performance</td>
<td>- Not appropriate in the dynamic environment&lt;br&gt;- Eliminate workers participation and innovations&lt;br&gt;- Only an administration method but not a management theory&lt;br&gt;- Slow decision-making</td>
</tr>
<tr>
<td><strong>Behavioural Management Theories</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>● Human relation</td>
<td>恩尔顿·梅奥 1924-1939</td>
<td>Better performance through satisfaction of social needs of people.</td>
<td>- Hawthorne effect : changes in the productivity and morale of employees as a direct result of management interest&lt;br&gt;- Overlooked other important factors&lt;br&gt;- Adopted some unreliable methods for testing&lt;br&gt;- Too much emphasis on the human factor and its behaviour</td>
</tr>
<tr>
<td>● Theory X &amp; Theory Y</td>
<td>道格拉斯·麦克格雷戈 1960</td>
<td>Leaders’ positive and negative attitudes based Managerial styles</td>
<td>Only extreme forms of management styles are considered</td>
</tr>
<tr>
<td><strong>Modern Approaches</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>● Management Science</td>
<td>布莱克泰特, P.M.S 1968</td>
<td>Mathematical tools for management</td>
<td>- not all managerial processes can be rationalised and quantified</td>
</tr>
<tr>
<td>● System Theory</td>
<td>切斯特 I.巴纳德 1968</td>
<td>System thinking for management</td>
<td>- Conflicts between biological systems and information systems</td>
</tr>
<tr>
<td>● Situational /Contingent Approach</td>
<td>科伦瑞&amp;洛什 1967</td>
<td>Situational behaviour for better performance</td>
<td>- Situational management compromise planning. Plans help to organise and direct the firm. Situational behaviour make confusions and redundancies</td>
</tr>
<tr>
<td></td>
<td>伍德沃德, J. 1965</td>
<td></td>
<td></td>
</tr>
<tr>
<td>● Organisational Humanism</td>
<td>麦格雷戈, Rensis likert,切斯特 I.巴纳德, &amp;费里克 1966</td>
<td>Mechanistic and organic structures</td>
<td>- It assumes that change can best be effected by organic types of structure, when this is not at all certain.</td>
</tr>
</tbody>
</table>
Scientific management theory (Taylorism) was introduced by Frederic W. Taylor (1911) through the publication of The Principles of Scientific Management. Taylorism directed firms to develop a science for each job; remove all responsibilities from the workers except for his/her actual job performance; and to select, train and cooperate with workers. It also focused on creating the maximum prosperity, legitimisation of authority, rewards upon proof of competence and adherence to rules set out in a hierarchical firm to improve the productivity of people at work (Yiu 2008). Contemporaries criticised this theory, on the basis that it deliberately reduced the scope of an individual’s job, and turned people into automatons. Workers were not given a chance to think in a different way or to provide their opinions at work, potentially stifling innovation. Though criticised, Taylor’s ‘economic man’ concept - people motivated through financial incentives⁸ - is still applicable in ‘poor’ countries, as people are suffering from poverty and unemployment. Their main motivation factor is the pay and financial benefits. However, this theory identified workers as part of the management process, something that did not appear prior to Taylorism.

Frank and Lilian Gilbreth, together with Henry Gantt, contributed significantly to scientific management by practising or investigating scientific methods. Based on ‘motion studies’ of typical bricklayers, the Gilbreths determined that there is ‘one best way’ to undertake most tasks. On the other hand, with the aid of a Gantt chart, Gantt proposed that there is ‘only a way which seems to be best at the moment’. As such, Gantt’s approach to scientific management left some discretion and initiative to the subordinates, since there is no one best method that is scientifically designed for their jobs (Cole 2004).

The administrative principles approach is a part of classical management theory. Henri Fayol published Administration Industrielle et Générale in 1919 and introduced modern

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⁸ People tend to work hard if they perceive they can earn more based on their efforts.
operational management theory depicting ‘14 principles’. He also defined the functions of management as the planning, organising, leading and controlling processes of a firm. Fayol’s theory has been widely criticised by pointing out its weaknesses such as not empirically tested and it does not suit unstable environments (see Table 2.1, p.31), but his definition of management is still commonly accepted.

The bureaucratic organisation is the third classical management theory. Max Weber’s concentration on organisations was prompted by the question of why people in firms obeyed those in authority over them (Cole 2004). In 1947, the studies by Weber were published, and introduced the concept of ‘bureaucracy’ to management theory. He saw bureaucracy as an ideal, deliberately rational and very efficient form of organisation, based on principles of logic, order and legitimate authority (see Weber 1947). Clear division of labour, clear hierarchy of authority, formal rules and procedures, impersonality, and careers based on merit are the defining characteristics of Weber’s bureaucratic organisation. These features could be useful for theorising work in large groups and organisations (Robbins et al. 2009). The theories of Fayol and Weber emphasised administration rather than management as being fundamental to the success of business. Hence, their usefulness in turbulent environments was challenged by both researchers and practitioners. Contemporaries argued that, in turbulent environments, managers needed higher managerial skills and greater knowledge rather than capabilities in administration (Robbins et al. 2009; Schermerhorn 2011). The key criticisms of these theories were slow decision-making and lack of concern about the opinions or initiative of working people (see Table 2.1, p.31).

Although classical management theories were advanced in stable and production driven commercial environments, later demand driven situations created a more turbulent competitive environment. Hence, management scholars criticised classical approaches and presented a different theoretical perspective. Some Sri Lankan studies point out the

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9 These 14 principles include: division of work, authority, discipline, unity of command, unity of direction, subordination of individual interests to the general interest, remuneration, centralisation, scalar chain, order, equity, stability of tenure of personnel, initiatives, and esprit de corps (Fayol 1919).
human side of Sri Lankan managers\textsuperscript{10} using these behavioural management concepts. Therefore, those behavioural theories were considered useful for this study of management practices in Sri Lankan SMEs and are shown in the following section.

2.2.1.2 The Behavioural Management Theories

During the 1920s, an emphasis on the human side of the workplace started to influence management thinking and challenged the mechanistic approach of scientific management and the bureaucratic structures of classical theory. As a result, a neo-classical theory emerged with a more human-oriented approach.

The human relations approach was put forward by Elton Mayo who carried out the well-known Hawthorne experiments between 1925 and 1939 at the Hawthorne plant of Western Electric. Cole (2004, p. 4) stated that ‘the fundamental idea behind this human relations approach to management is that people’s needs are the decisive factor in achieving organisational effectiveness’. This fundamental idea of management practice inspired motivation and leadership theories\textsuperscript{11} with a focus on how leaders can motivate and direct subordinates. As such, Mayo’s empirical studies have made a significant contribution to management practice and organisational behaviour, but have been criticised based on the \textit{Hawthorne effect} - workers are more productive when they perceived that their performance is evaluated by close supervision (see Table 2.1, p.31).

Mary Parker Follett\textsuperscript{12} extended the human relations approach by pointing out that human problems were not just important, but were central to the success of organisations. According to her propositions, the role of the leader was to envision the future of the organisation and to give power to subordinates in order to achieve that envisioned fruitful future. Follett suggested that people would respond positively to greater responsibility at work, a consideration that was neglected by Taylorism. This

\textsuperscript{10} For example Nanayakkara 1992; Gamage et al. 2003 a, b; Chandrakumara & Budhwar 2005; Fernando 2007- will be discussed under the Sri Lankan business management practices.

\textsuperscript{11} Motivation theories include, for example: Maslow’s hierarchy of needs, Herzberg’s two-factor theory, Vroom’s expectancy theory and Leadership theories include, among others: trait theories, style theories, contingency theories.

\textsuperscript{12} Mary Parker Follett improved the work of the Hawthorne researchers. She died in 1933, but her \textit{Dynamic Administration} was published in 1941.
approach in the modern management context is identified as ‘empowerment’ (Cole 2004). However, the extent to which leaders are ready to empower subordinates was not discussed by Follett, but was recognised by McGregor.

McGregor (1960) introduced Theory X and Theory Y to classify the assumptions of managers about workers. He pointed out that these negative and positive theoretical assumptions underlie the behaviour of managers. The first set of assumptions were identified as Theory X, in which workers were regarded as being inherently lazy, requiring coercion and control, avoiding responsibility and only seeking security. These negative assumptions have a close relationship with scientific management, as they place an emphasis on controls and extrinsic rewards such as incentives and job security. In McGregor’s Theory Y, workers were viewed in a more favourable light. Theory Y assumes that people like work. As such, they are naturally committed to the organisation’s objectives and success and do not have to be controlled and coerced. Therefore, under proper conditions, workers will accept and seek responsibility (intrinsic needs of workers), and will exercise imagination and ingenuity at work. The management literature attests that Theories X and Y have made a considerable impact in the managerial world, as they help to determine ‘management styles’ and the level of ‘empowerment’ in organisations (Cole 2004; Robbins et al. 2009; Schermerhorn 2011; Daft 2012). In addition to Mayo and McGregor, Rensis Likert (1967), Chester I. Barnard (1968) and Frederick Herzberg (1959) have also contributed significantly to the human relations movement.

The primary concern of behavioural management theories was the human resources of the firm. These theorists believed that the efficiency and effectiveness of a firm depends heavily on how people behave at work and how adequately both their extrinsic and intrinsic needs are met by leaders. These theories are still in use in the managerial world and discussed in academic contexts. However, rapid changes in the business world, drove a focus on new management theories that could achieve business success in a more turbulent and competitive environment.

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13 Motivation theorists have differentiated between extrinsic and intrinsic needs and rewards. Extrinsic rewards are pay, pension, promotion, incentives and other economic benefits required to satisfy extrinsic needs. Intrinsic rewards are personal achievement and exercise of responsibility (Cole 2004; Schermerhorn 2011).
2.2.1.3 Foundations of Modern Management

After World War II, scholars were very interested in how managers could make use of mathematical tools such as linear programming and simulation to conduct quantitative and statistical analysis. As a result, management science and operations research methods developed as some modern management theories. Later, considering an organisation as comprising a set of interacting sub-systems, Chester I. Barnard (1968) presented systems theory. This theory concentrates on interaction, interrelationships and integration of sub-systems into a whole social system. As modern-day organisations are dispersed on functional, departmental or geographical base, system thinking has become vital for both managers and their subordinates. This theory warns that, if a problem occurs in one sub-system of an organisation, the entire organisation will be affected. Systems theory also sees organisations as open (social) and closed systems. Social system theory eliminates the vulnerability of an organisation as it is open and ready to interact with the parties on the outside, but close systems focus on only parties within that system.

Further Woodward (1965) and Lawrence and Lorsch (1967) introduced situational or contingency theory which posits that there is no one best organisational structure that suits all firms or situations. This theory holds that a manager’s response will depend on identifying the key circumstances in an organisational situation and finding a solution to that predicament. This approach suggests the use of reactive thinking in order to capture business opportunities. However, this theory has been criticised by some contemporary researchers who pointed out the importance being proactive and undertaking planning (see Table 2.1, p.31). Under the contingency approach, Burns and Stalker (1966) introduced mechanistic and organic management systems (structures). According to these scholars, a mechanistic structural design is appropriate for a firm that operates in a stable environment due to its outstanding features, such as a hierarchical system of centralised authority and communication, dominated by supervisors, and a design with many basic rules, regulations and standard operating procedures. On the other hand, organic systems permit organisations to respond quickly to environmental change, as they are flexible and decentralised, with low levels of formalisation. These decentralised or organic structures allow empowerment of subordinates. However,
Burns and Stalker admitted that the firms could operate using a hybrid of both systems or by changing from one to the other at any time.

As mentioned above, Western management theories started to influence the practice of management all over the world. The literature attests that, in parallel with Western theories or as a result of applying Western concepts, particular management practices have emerged in the East. Since Sri Lanka is an Asian country, Eastern management styles and concepts are also visible and appropriate in Sri Lankan management practices (see, for example, Chandrakumara & Budhwar 2005; Fernando 2007). The following sections will review the Eastern management concepts that are considered to be fundamental in the Eastern business environment.

2.2.2 Eastern Management Theories

After World War II, and in some cases the end of Western colonialism, some noteworthy theories and practices emerged in the Eastern hemisphere. These important innovations in management, especially those originating from within Japan and China, were immensely useful in improving the industrial sectors of their economies (Ouchi 1981; Wah 2001; Cole 2004; Dong & Liu 2010). Other countries in the same region also started to apply the same ideas in their own economies (see, for example, Warner 2003; Rowley & Warner 2007) to enhance business performance.

Table 2.2 Eastern Management Theories and Practices - Summary

<table>
<thead>
<tr>
<th>Eastern Theories</th>
<th>Contributors</th>
<th>Key aspects</th>
<th>Criticisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japanese management Theory Z</td>
<td>William Ouchi 1981</td>
<td>Collectivism, Shared responsibility, Mutual trust and loyalty, Quality circles and TQM</td>
<td>- The lack of risk-taking and slow Decision-making</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Reliance on small firms and part-time employees</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- The docile nature of the trade unions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Problems due to lifetime employment in one firm</td>
</tr>
<tr>
<td>Chinese management</td>
<td>Asian Culture (relationships networking) dominating management style</td>
<td></td>
<td>- Slow processes &amp; ‘Risky shift’ due to group decision-making</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- The interrelationship between management, ownership and entrepreneurship</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Must move from family management to professional management</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Should separate management from ownership without any significant loss of entrepreneurship</td>
</tr>
</tbody>
</table>
2.2.2.1 The Japanese Approach to Management - *Theory Z*

Western management theories have been applied differently in the Eastern world, especially in Japan (Debroux 2003). Over the past few decades, management researchers have paid considerable attention to investigating the success of Japanese manufacturing industries. Ouchi (1981) identified some key features of Japanese industrial organisations and their management practices, such as a high level of mutual trust between all those employed in an enterprise, respect and loyalty between employees and management, life-long job rotation as the central method of career development, shared forms of decision-making at all levels, collective responsibility, and cooperative and team effort rather than individual achievement. These features are strongly people-oriented and linked to national cultural characteristics. Therefore, like Theories X and Y, this Theory Z is close to behavioural management theories of Western classical theories. Japanese management tools such as the Five ‘S’ model, 14 lean manufacturing, Just-In-Time (JIT), Total Quality Management (TQM), and quality circles are recognised in management research. It is interesting to note that some of these were Western innovations, but were applied more successfully in Japan and then defined by Japanese practices. However, some criticisms have been levelled at this approach to management (see Table 2.2, p.37). Researchers and practitioners point out that it is perhaps too humanistic and, therefore, reduces the willingness of workers to take risks. The literature suggests that these criticisms should be considered seriously if attempts are to be made to extend Japanese management concepts into other socio-cultural contexts.

2.2.2.2 The Chinese Approach to Management

Culture 15 is treated as one of the main variables accounting for the management scenarios that have emerged in China (Warner & Joynt 2002; Child & Warner 2003).

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14 *Five S* is the name of a workplace organisation methodology that uses a list of five Japanese words, which are *seiri*, *seiton*, *seiso*, *seiketsu* and *shitsuke*. In English, these are sorting, setting in order, shining, standardising, and sustaining the discipline.

15 Hofstede (2007) claimed that management is a part of culture and differs among societies, but within societies, is stable over time.
Asian cultural traits, such as *familialism, paternalism*, relation orientation, insecurity and, hence, managerial defensiveness, are deeply rooted in Chinese managerial behaviour (Wah 2001; Child & Warner 2003; Ko 2009). The first three values of familialism, paternalism and relation orientation are closely connected to *Confucianism*\(^{16}\) (primary relationships are family centred and between the people and their rulers). Hence, Chinese people trust family members, friends and business partners, and have respect for elders, and in return expect protection from those elders. This confirms that *Guanxi* (relationships and networking), *li* (rite), *mianzi* (face) and *renquing* (obligations) are reinforced in the Chinese system of management as explained by Wah:

The unique characteristics of Chinese organisations include highly centralised decision-making, low structuring of activities, paternalistic style of leadership, strong emphasis on collectivism and group behaviour, and strong family management and ownership (Wah 2001, p. 77).

According to Wah (2001), traditional Chinese management displays collectivism or a strong family based management style. Nonetheless, the Chinese could achieve a highly industrialised economic status with their traditional management practice. However, Wah (2001) suggested to Chinese managers that they adopt some Western principles, such as a democratic leadership style, proper channels of communication and comprehensive organisational structures. Managerial behaviour in modern China has been deeply influenced by political circumstances, the institutional regime (Child & Warner 2003) and the Western management styles of the ‘Westernised Chinese’ (Yang 1997).

Key points and major criticisms of early management theories are presented in Table 2.1 and Table 2.2. These concepts will be used to assess the style of management in Sri Lanka throughout the study. An organisation’s efficiency and effectiveness depends on how its activities are planned, organised, directed and controlled (i.e. management according to Fayol 1919), regardless of the country’s geographic location. Generally,

\(^{16}\) Child and Warner (2003) define *Confucianism* as social harmony, various interpersonal behaviours, and personal and interpersonal harmony (p. 37). *Confucianism* is referred to the writings around the time of Socrates, in religious philosophies such as Judaism and Christianity (Child & Warner 2003; Ko 2009).
Western management theories have been developed through empirical investigations, but eastern management theories have been generated through exploration of patterns. However, it is clear that both Western management theories and Eastern management practices have their criticisms and searching for excellent management practices is an ongoing endeavour.

2.3 Contemporary Strategic Management Thought

In the 1970’s management practitioners and researchers identified significant changes in the business environment, which propelled management research into another important phase. The applicability of early management theories alone became less relevant in highly competitive environments. This resulted in a focus on studies into strategic or proactive approaches to management. The literature categorises this phase as contemporary strategic management and the relevant literature is presented in Table 2.3.
<table>
<thead>
<tr>
<th>Author(s)/ Period</th>
<th>Focus/ Approach</th>
<th>Principle(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940s to 1950s (First wave)</td>
<td>Budgeting</td>
<td>Make sure that budget is met, bills are paid, and costs are not overrun.</td>
</tr>
<tr>
<td>1960s (Second wave)</td>
<td>Long range planning</td>
<td>With longer time horizon, fluctuations in the market could be better managed. Focused on the firm’s internal environment</td>
</tr>
<tr>
<td>1970s (Third wave begins)</td>
<td>Strategic planning</td>
<td>Take into account the fundamental forces in the external environment, rather than reacting to them or simply ‘trending’ the past.</td>
</tr>
<tr>
<td>Porter (1980, 1985)</td>
<td>Competitive strategy and advantage (competitive forces approach)</td>
<td>• In formulating competitive strategies, management should consider five competitive forces: (i) competitors, (ii) suppliers, (iii) substitute products, (iv) potential entrants, and (v) customers. • Three generic strategies to gain competitive advantage: (i) cost leadership, (ii) differentiation, and (iii) focus.</td>
</tr>
<tr>
<td>Freeman (1984), Clarkson (1995), Donaldson &amp; Preston (1995)</td>
<td>Stakeholder Theory</td>
<td>• The corporation has relationships with many constituent groups. • The theory is concerned with the nature of these relationships in terms of both process and outcomes for the firm and its stakeholders. • The interest of (all) the legitimate stakeholders have intrinsic value, and no set of interests is assumed to dominate the others. • The theory focuses on managerial decision-making.</td>
</tr>
<tr>
<td>Prahalad &amp; Hamel (1990), Porter (1990), Teece, Pisano &amp; Shuen (1997)</td>
<td>Dynamic capabilities</td>
<td>This approach emphasises the development of management capabilities and difficulties in imitating combinations of organisational, functional and technological skills. It integrates and draws upon research in such areas as the management of R&amp;D, product and process development, technology transfer, intellectual property, manufacturing, human resources, and organisational learning.</td>
</tr>
</tbody>
</table>

Source: Kuncoro (1998), Manning (2009. p. 13) revised and updated by the Author
2.3.1 Evolution of Strategic Management

The concept of ‘strategy’ is not new. It is an ancient concept enunciated in *The Art of War*, the military classic written by Sun-Tzu, which was compiled in China around 300 B.C.E. (Hubbard 2000). Its essence is explained in the following quote:

> War is a matter of vital importance to the State. It concerns the lives and deaths of the people; and affects the survival or demise of the State. It must be thoroughly studied .... With careful and detailed planning, one can win; with careless and less detailed planning, one cannot win. How much more certain defeat is if one does not plan at all! From the way planning is done beforehand, we can predict victory or defeat .... Know the enemy, know yourself, and your victory will not be threatened. Know the terrain, know the weather, and victory will be complete’ (Wee, Lee & Hidajat 1991, pp. 16-17).

The replacement of key words indicates that this philosophy could be equally applied to business success. The field of strategic management (formerly business policy) was developed over many years into a distinct sub-discipline within management studies (Hofer & Schendel 1978; Shrivastava 1987; Preble 1997). The first focus on strategy-making occurred during the late 1940s and 1950s. During this era, researchers found that both the internal and external environments of organisations were relatively stable, and most Western countries were enjoying a high growth rate (Manning 2004; Cole 2004). Therefore, budgeting was a strategic tool in the business management process. The principal objectives were to ensure that, creditors were paid, costs were controlled and the budget was actually met (Gluck et al. 1980, p. 157; Manning 2004). Subsequent researchers and practitioners understood that the business environment became more competitive and that, consequently, budgeting alone was an ineffective. In fact it is a risky strategic tool if used in isolation, as it relied merely on past performance and did not consider future changes in the environment (Kahn 1994; Manning 2004). Budgeting is now an important management process, but represents the outcome of the strategy making process (see Figure 2.1, Wheelen & Hunger 2008; Chakrawarty & Lorange 1991; Blumentritt 2006).
Peter Drucker (1955) addressed the issue of the strategy of industrial enterprises that arose in the mid-1950s with the diversification of large corporations and the expansion into international markets. According to Drucker, the responsibility of top management should be the analysis of two crucial questions: ‘What is our business and what should it be?’ (Drucker 1955, p.77). These questions are still applicable to all business organisations, regardless of their size, as they endeavour to determine their future.

In the early 1960s the second wave of strategic management began to develop as a field of research with three main publications: *Strategy and Structure: Chapters in the history of the industrial enterprise*, by Alfred Chandler (1962), *Corporate Strategy*, by Igor Ansoff (1965), and *Business Policy: Text and Cases*, by Kenneth Andrews et al. (1965). Chandler’s (1962) research dealt mainly with how decision-makers in large businesses, such as General Motors, Sears, Roebuck and Company, the Standard Oil Company and DuPont, made long-term decisions and undertook *long-range planning*, and how they modified their organisational structures to make long-term decisions. Long range forecasting included the basic idea that if you are able to see ahead to a time horizon that was further away than the annual budget, fluctuations or changes in the market could be managed more effectively. However, the ongoing inability of firms to forecast market fluctuations, by means of the tools that were available to them at the time, continued to limit their growth (Kuncoro 1998; Manning 2004).

Strategy concepts then started to evolve into a different phase due to environmental changes, economic climate and competition in the industry. Increasing management sophistication led to the development of strategic tools and proactive thinking (refer Table 2.3, p.41). Business organisations started to practice strategic management explicitly or implicitly (Mintzberg & Waters 1985; Liedtka 1998 a, b). Hence, the strategic management concept is now much broader than traditional approaches to management. The ultimate objective of all of these changes has been to improve the performance of business organisations.
2.3.2 Strategic Planning, Strategy Formulation and Strategic Management

There is a great deal of confusion regarding the terms strategic planning, strategy formulation and strategic management. They have sometimes been used synonymously (De Kuyver 2000). Therefore, it is useful to clarify these terms and determine appropriate definitions for the context of this study.

2.3.2.1 Strategic Management Concepts Defined

Within the strategic management literature, the following concepts have been developed and used widely.

**Strategic planning:** Drucker (1974) stated that strategic planning is a continuous process of making present entrepreneurial decisions systematically and with the greatest knowledge of their future focus, organising systematically the efforts needed to carry out these decisions, and measuring the results of these decisions against expectations through organised, systematic feedback. According to this definition, the strategic planning process develops the mission and strategy of an organisation, and sets future direction and strategic performance targets by creating a plan.

**Strategy formulation:** Pettigrew (1977) explained that the formulation of strategy in organisations is a continuous process which includes both planning and decision making. Some strategic management authors emphasised the process of the evaluation of options and decision-making rather than merely constructing plans. Thinking, evaluation and acting upon these evaluations are the outcomes of the strategic process (Thomson & Strickland 2001). In this process, decision-makers establish a firm mission, objectives, strategy and policy for their organisations, but the result is not necessarily a plan.

**Strategic Management:** Lamb (1984, p. ix) showed that:

Strategic management is an on-going process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to
meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment (Lamb 1984, p. Ix).

This process includes strategic planning, strategic thinking, strategy formulation and implementation to gain strategic performance. However, according to the literature, this strategic management process can be formal or informal (Mintzberg et al. 1998). Obviously, strategic management is the more comprehensive process and will, therefore, be used to assess the strategic behaviour of the target group of this study. Each of the key elements will be discussed in sections 2.3.2.2 and 2.3.3.1.

Strategic performance refers to achieving acceptable financial and non-financial performance, such as achieving competitiveness and an advantageous overall long-term business position (Kaplan & Norton 1992; Neely 2002; Thomson & Strickland 2001).

There is also some confusion about business plans and strategic plans and both are widely discussed in business management contexts, especially in the small business management literature. Although there are some common features visible in business plans and strategic plans, they are not exactly the same (Honig & Karisson 2004). Therefore, business plans will be discussed under management and planning in SMEs (section 2.5.1).

2.3.2.2 Strategic Planning

Strategic planning replaced long-range planning, as the interest in strategy shifted in emphasis from a quest for performance to the sources of profitability (Grant 2002; Angkasuvana 2005). However, strategic planning developed into strategic management

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17 Strategic thinking is the emerging area of strategic management. Liedtka (1998 a) and Edirisinghe (2008) state that decision-makers should use strategic thinking in all the steps in strategic management processes. Strategic thinking will be discussed in section 2.3.3 under vision building.

18 Strategic performance will be discussed further in section 2.4.
before 1980, and several models and theories were espoused (see Table 2.3, p.41). For example, Mintzberg (1986) and Mintzberg et al. (1998) introduced the five P’s (plan, ploy, pattern, position and perspective), as well as the ten schools to describe strategic management concepts.

As noted by Verreynne (2006), the strategy-making processes have been described in various ways, ranging from Mintzberg’s (1973) adaptive and entrepreneurial model, to Hart’s (1991) generative and symbolic model. However, Verreynne (2006) indicated that most of those authors (e.g. Mintzberg 1973; Robinson & Pearce 1983; Hart 1991) have recognised the rational or planned mode as the predominant strategy-making process found in firms.

O’Regan and Ghobadian (2002) explained that strategic planning can be considered from a content or a process perspective. The content relates to the distinct elements of the strategic plan, which differ from firm to firm, and the process relates to the mechanisms for the development of the strategic plan and its subsequent deployment. This acknowledges that plans can be modified until they are implemented, and often results in changed or unrealised content (Mintzberg & Waterman 1985; Mintzberg 1987). Thus, in a dynamic business environment, the plans of many organisations are constantly modified, revised and refined, often in the minds of the top management (Henderson 1989; O’Regan & Ghobadian 2002).

Combining both the process and content viewpoints, formal strategic planning is defined as a process of determining the mission, major objectives, strategies and policies (long-range plans) that govern the acquisition and allocation of resources to achieve organisational aims (Thomson & Strickland 2001; David 2007; Wheelen & Hunger 2008). Planning assists in the effective management of environmental opportunities and threats, in the light of corporate strengths and weaknesses (Pearce et al. 1987, p. 658; Stonehouse & Pemberton 2002; O’Regan & Ghobadian 2004; Wheelen & Hunger 2008, p. 12). As mentioned previously, the strategic management process includes the entire strategic process within an organisation, with a set of highly interrelated components which function within a dynamic environment. Strategists have
proposed a model which embraces four integral elements (see Figure 2.1): environmental scanning, strategy formulation, strategy implementation, evaluation and control (David 2007; Wheelen & Hunger 2008).

**Figure 2.1 Strategic Management Process**

Crafting feasible strategies depends on many things. Wheelen and Hunger (2008) believed that a good strategy should be well-matched to the company's external and internal environment to ensure its viability. Diagrammatic approach available is used to illustrate the rigour needed for strategic management and hence, environmental scanning is the initial point (first step) in the process of strategic management. The following are two common techniques used in that process.

- **SWOT Analysis**: Coulthard et al. (1996, p.42) mentioned that ‘the SWOT analysis is a mechanism generally used to analyse the internal resources of a firm and the external environment in which it operates’. SWOT represents the internal strengths and weaknesses of a firm and the relevant opportunities and threats that exist in the external environments (Farjoun 2002). Both environmental factors are not usually within the short-run control of top management (Preble 1997; Wheelen & Hunger 2008). Although strategic management has grown in different directions, this strategic management tool is still used as a centre piece (Mintzberg et al. 1998). In addition to SWOT, another
form of analysis can be employed to identify favourable and unfavourable macro-environmental forces.

- **PEST Analysis:** PEST analysis can be used to analyse the political and legal, economic, social-cultural and technological factors in the macroenvironment that can affect a firm’s activities, and also to identify which of those are more important for the organisation (Johnson & Scholes 1999). Table 2.4 provides a simple checklist for PEST analysis.

**Table 2.4: Checklist for the PEST analysis**

<table>
<thead>
<tr>
<th>Political/legal Factors</th>
<th>Economic Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monopolies legislation</td>
<td>Business cycles</td>
</tr>
<tr>
<td>Environmental protection lows</td>
<td>GNP trends</td>
</tr>
<tr>
<td>Taxation policy</td>
<td>Interest rates</td>
</tr>
<tr>
<td>Foreign trade regulations</td>
<td>Money supply</td>
</tr>
<tr>
<td>Employment law</td>
<td>Inflation</td>
</tr>
<tr>
<td>Government stability</td>
<td>Unemployment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Socio-cultural Factors</th>
<th>Technological Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population demographics</td>
<td>Government spending on research</td>
</tr>
<tr>
<td>Income distribution</td>
<td>Government and industry focus on technological effort</td>
</tr>
<tr>
<td>Social mobility</td>
<td>New discoveries/development</td>
</tr>
<tr>
<td>Lifestyle change</td>
<td>Speed of technology transfer</td>
</tr>
<tr>
<td>Attitude to work and leisure</td>
<td>Rates of obsolescence</td>
</tr>
<tr>
<td>Consumerism</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Johnson & Scholes 1999, p.105)

Therefore, it is crucial for any organisation to investigate strategic environmental factors\(^\text{19}\) by using strategic tools such as SWOT and PEST before attempting any formulation of strategies.\(^\text{20}\)

As mentioned previously, *Strategy formulation (second step)* is the development of long-range plans, mission, objectives, and generation and choice of the best strategies and policies for the effective management of environmental opportunities and threats, in the light of a firm’s strengths and weaknesses (Preble 1997). A firm’s mission is the

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\(^{19}\) Several researchers, for example, Maier et al. (1997), Haque et al. (2006), have also recognised the importance of analysing the external environmental factors that can affect a firm.

\(^{20}\) Further external environment analysis tool (Porter’s industry analysis) will be discussed in section 2.3.4, pp. 57-61
purpose or reason for its existence. Objectives are the targeted results of a planned activity. The strategies of a company form a comprehensive master plan (or a game plan) that states how the company will achieve its mission and objectives. Andrews (1987) explained that, according to the hierarchy, there are three types of strategies in a firm: corporate, business and functional. Corporate strategy describes the overall direction of a company, in terms of its general attitudes toward growth and the management of its various businesses and product lines. Business strategy is normally created from an individual business in the same organisation. Functional strategy is the approach taken by a functional area to achieve corporate objectives and strategies by maximising resource productivity. However, in a single business organisation, only the corporate and functional levels are engaged in strategy formulation activity (Hax & Majluf 1991).

*Strategy implementation (third step)* is a process by which strategies and policies are put into action through the development of programmes, budgets and procedures. Some studies have emphasised that the strategy implementation process might involve changes within the overall culture, structure and/or management system of the entire organisation, in order to ensure that the intended results can be achieved (Lorange & Murphy 1984; Galbraith & Kazanjian 1986; Nutt 1986; Andrews 1987; Preble 1997). The literature also suggests that, in a single business organisation, action plans or operational plans can be implemented by lower level managers or through the method of management by objectives (MBO)21 (e.g. Chakrawarthy & Lorange 1991; Cole 2004; Robbins et al. 2009), which provides workers with an opportunity to be involved in both planning and implementation.

According to Wheelen and Hunger (2008), *evaluation and control (final step)* is also a process by means of which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers should use the resulting information to take corrective action and resolve problems when and where necessary. Several models have been developed by various scholars and

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21 Management by objectives (MBO) refers to a process of setting mutually agreed-upon goals and using those goals to evaluate employee performance (Robbins et al. 2009, p.254). It was first coined by Peter Drucker in the 1950’s (Cole 2004).
This study uses the above-mentioned strategic management process introduced by Wheelen and Hunger (2008), due to its simplicity and coverage of the main elements. The way in which they have explained the hierarchy or the process of strategic planning is useful for the investigation of the strategy making processes of organisations. Wheelen and Hunger considered all the seminal contributions to the strategy concept when they initially developed this model decade ago. Due to the thoroughness of their approach, other researchers also have adopted this model (e.g. Achyuthan 2004; Angkasuvana 2005). However, there is no significant difference between this model and the other strategy process models available.

2.3.2.3 Strategic Management and Written Plans

Strategic management, which includes strategic planning and thinking, has been recognised as a very important management tool for all kinds of organisations, but whether this instrument should be formalised is still the subject of controversy (Angkasuvana 2005). The issues of what should be included in formal strategic plans, and how relevant matters should be incorporated into such schemes, were addressed by O’Regan and Ghobadian (2007). By referring to some normative definitions of strategic planning, O’Regan and Ghobadian (2007) suggested that a formal strategic plan should:

- i. Consist of written plans;
- ii. Cover more than one year;
- iii. Be infused with an awareness of alternative strategic options;
- iv. Encompass shorter plans for major functional areas;
- v. Identify future resource requirements;
- vi. Encompass a procedure for ongoing monitoring and modification; and
- vii. Include environmental scanning data.

23 Johnson and Scholes (1999) developed a model which consists of strategic analysis, strategic choice, and strategy implementation. Thomson and Strickland (2001) identified five major tasks of strategic management that include developing a strategic vision, mission, setting objectives, crafting strategy, implementing, and executing and evaluating performance. Wright et al. (1996) proposed six tasks for strategic management.

Accordingly, a formal strategic planning process is a deliberate set of actions taken to include factors and techniques in a systematic way in order to secure the involvement and commitment of those principal interest groups affected by the plan (Pearce et al. 1987; Mintzberg & Lampel 1999; Falshaw 2006). However, Mintzberg and Waters (1985) claimed that there are two types of strategies, deliberate and emergent. In response to that assertion, many researchers (e.g. Johnson & Scholes 1999; Pietersen 2002; Angkasuvana 2005) stated that, even though strategies are being created through deliberate managerial intent, in most organisations such deliberately formed strategies are not fully or even partially realised. Furthermore, Moncrieff (1999) argued that there is no such thing as purely deliberate or purely emergent strategies, and all strategies need not be deliberately created. They can also emerge as a result of multiple decisions at many levels of the organisation (Grant 2002). Mintzberg (1987) mentioned that even intelligent strategists cannot always be sufficiently sharp to think through everything in advance. On the other hand, even an excellent plan may not give the results expected due to numerous unforeseen circumstances (Wijewardena et al. 2004), such as natural disasters, unexpected changes in government policy or problems related to labour.

Mintzberg (1994) described the benefits and problems associated with strategic plans in his book, *Rise and Fall of Strategic Planning*. He reviewed the evidence on the effectiveness of strategic planning in business from surveys, anecdotes, and case studies. He challenged the premise that strategic planning ever improved the financial performance of business firms, leading to his major thesis that strategic planning is fundamentally flawed because it does nothing to explain how to formulate good organisational strategy. Ansoff (1991) criticised Mintzberg’s notion that ‘strategic planning can work only in stable environments’, and asserted that strategic planning generally produces better alignments and performances than does learning by trial and error. However, De Wit and Meyer (2010) explained that deliberately formulated strategic plans provide a number of advantages:

1) Direction: Plans give an organisation a sense of direction.
2) Commitment: Plans make possible early commitment to a course of action.
3) Coordination: Plans have the benefit of coordinating all strategic ideas within an organisation into a single cohesive pattern, thus enabling the avoidance of overlapping, conflicting and contradictory behaviours.

4) Optimisation: Plans facilitate the allocation of scarce resources to the most promising initiative options.

5) Programming: Plans are a means of programming all organisational activities in advance, allowing organisations to be run and controlled like machines with high reliability and efficiency.

(Source: De Wit & Meyer 2010)

Kloot (1995) showed that developing strategies and long-term plans for an organisation is part of the planning and control process of management. Further, De Wit and Meyer (2010) suggested that ‘Where there are no written plans, or people divert from their plans but their behaviour is still strategic, it can be said that the strategy is emergent-gradually shaped during an iterative process of thinking and doing’ (p. 116), or, in other words, through minds and hands (Ko 2009). This is because, even without prior intentions, managers can explore, learn and piece together a consistent set of behaviours over time. From such an approach, strategy emerges with some major advantages like:

1) Opportunism: Organisations must maintain enough intellectual freedom to seize unforeseen and unpredicted opportunities.

2) Flexibility: Letting strategy emerge means keeping alternatives open as long as practically possible.

3) Learning: Feedback and knowledge gained by experimentation and pilot projects (hands - on ‘doing’) give a rich insight into what really works - it is learning.

4) Entrepreneurship: Provides a chance to pursue innovative initiatives within the firm.

5) Support: Managers can understand where enough support can be mustered to move forward, and where redirection or even reversal is necessary, which is directly attached to internal politics and culture, an ongoing process that cannot be predicted in advance.

(Source: De Wit & Meyer 2010)
The way in which an organisation conceives and generates strategy has a major impact on the outcomes of its strategy making process (Canales & Vila 2005). Thus, organisations can use a combination of intended and unplanned strategies simultaneously, in order to achieve success in business (Dess et al. 2005). De Wit and Meyer (2010) confirmed this contention by stating that, ‘While deliberateness creates commitment, emergence allows for opportunism; while deliberateness facilitates fixed programming, emergence allows for ongoing learning’ (p.116).

After due consideration of all the arguments presented here, a written strategic plan was used as a surrogate measure of a formalised strategic plan in this study. This decision underpinned by the suggestion by O’Regan and Ghobadian (2007) that a ‘written strategic plan approach’ is appropriate for strategic planning in smaller firms. This is also consistent with the work of other scholars (e.g. Bracker et al. 1988), because a written strategic plan can be considered to be the result of a strategy formulation process which demonstrates the intention of main decision-makers to undertake strategic management in their organisations. Furthermore, the process of formulating written plans does not suppress emergent strategies, as long as the decision-makers allow flexibility for strategies to develop and materialise. Some researchers (e.g. Wang et al. 2007) have investigated barriers associated with undertaking written strategic plans. This will be discussed later under the rubric of management practices of SMEs.

2.3.3 Vision Building through Strategic Thinking and Scenario Planning

The literature also suggests that the feasibility of a plan depends on a firm’s vision and the strategic thinking capabilities of the strategic planners involved. Ambitious entrepreneurs combine an intensive and sound vision with a sense of mission and build their company image thereon (Scarborough & Zimmerer 2003). Therefore, strategic planning must be based on strategic thinking if it is to be useful in assisting any firm to overcome its critical issues. Mintzberg (1994 b) showed that the most successful strategies are visions, not plans.
According to the literature, a clear and entrepreneurially smart strategic vision is a prerequisite to effective business creation and management. Collins and Porras (1996) described the essentials or components when articulating a vision as *core ideology* and *envisioned future*. The core ideology includes the core values and core purpose\(^{25}\) of the organisation, and provides the glue that holds the organisation together. On the other hand, the envisioned future consists of very long-term goals (e.g. to be achieved over a period of from 10 to 30 years) and vivid descriptions of what it will be like to achieve the goal. Strategies and practices can be adapted endlessly, according to changes occurring in the world, but in order to realise enduring success there must be a well-conceived vision. An effective vision can be built through strategic thinking (Ohmea 1982) and scenario planning (Schoemaker 1995). Therefore, strategic thinking and scenario planning are the tools of vision building and the origin of good strategies. Given the Sri Lankan government imperatives to understand SMEs and their performance, the extent to which SMEs in Sri Lanka use these strategic tools will form an important outcome of this study.

### 2.3.3.1 Strategic Thinking

The ineffectiveness of strategic management in the mid-1980s led to an emphasis on the necessity of strategic thinking (Ohmea 1982; Peters & Waterman 1982; Liedtka 1998 a; O’Shannassy 1999). However, Bonn (2005) affirmed that most of the preceding studies failed to address the cognitive dimension of decision-making, specifically, the question of ‘*how strategic decision-makers actually think?*’. Hence, thinking and planning in the process of strategy formulation are interrelated, and their relationship is unbreakable.

The literature on strategy indicates that a debate has emerged between the rational perspective and the generative perspective, in relation to strategic thinking practice. Ohmea (1982) opened the debate with his text, *The Mind of the Strategist*. He adopted a position on the right brain to left brain continuum, favouring the benefits of intuition and creativity over hard (rational, analytical and convergent) analysis because,

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\(^{25}\) **Core values** are the essential tenets of the organisation, such as cultural and religious values, and respect, but a firm must make the final decisions on these matters and ensure that they are shared among all within its ranks. **Core purpose** is the organisation’s reason for being (Collins & Porras 1996).
practically, strategic thinking is more divergent, generative, creative and intuitive. Ohmea’s (1982) generative perspective is supported by Peters and Waterman (1982) in their text, *In Search of Excellence*. Thus, strategic plans and planning should not damage strategic thinking.

Moreover, Heracleous (1998) also suggested that strategic planning and strategic thinking are interrelated in a dialectical process, and are equally important for effective strategic management. He recognised that strategic thinking and planning are ‘*distinct, but interrelated and complementary thought processes*’ (Heracleous 1998, p. 482) that must sustain and support each other in order to ensure the maintenance of effective strategic management. Further, Heracleous (1998, p. 482) observed that ‘Creative, ground-breaking strategies emerging from strategic thinking still have to be operationalised through convergent and analytical thought (strategic planning)’. Figure 2.2 depicts the distinct, but complementary, thought processes of strategic thinking and planning.

**Figure 2.2. Strategic Thinking and Planning**

(Source - Graetz 2002, p. 457)
As shown in Figure 2.2, strategic management includes both strategic thinking and planning. Without imagination, intuition and creativity decision-makers would not be able to find realistic and new strategies for their strategic plans. On the other hand, strategic plans are no longer simply long-term plans (see Table 2.3, p.41). Strategic plans should be logical, systematic, conventional, prescriptive and convergent. Therefore, to engage in strategic planning, people need to engage in strategic thinking.

Liedtka (1998a) saw strategic thinking as a ‘particular way of thinking, with specific attributes’ and, therefore, introduced a model containing five elements. Firstly, strategic thinking reflects a system or holistic view that appreciates how the different parts of the organisation influence and impinge on each other, as well as their different environments (internal and external). The strategic thinker has a mental picture of a complete system of value generation in the firm and his or her own small role within the larger system (Liedtka 1998a, b). Secondly, strategic thinking is driven by strategic intent. In contrast with the traditional strategic planning approach that focuses on creating a ‘fit’ between existing resources and emerging new opportunities, strategic intent deliberately creates a considerable ‘misfit’ between these two categories. In that sense, strategic thinking is about the shaping and reshaping of intent (Liedtka 1998a).

Thirdly, strategists need to think ‘in time’ (Liedtka 1998a), understanding and linking the firm’s past, present and future in their thought processes. Fourthly, Liedtka (1998a) sees strategic thinking as a ‘hypothesis driven process’, in which the generation and testing of scientific methods and hypotheses are the central activities. By raising the creative question ‘what if..?’, followed by the critical question ‘if ...then...?’, organisations gain an opportunity to continue their learning process. Finally, strategic thinking invokes the capacity to be intelligently opportunistic. It helps firms to recognise and take advantage of newly emerging opportunities in the environment.

Harper (1991) expressed a different aspect of strategic thinking and strategic planning. He explained that strategic thinking, creating a corporate vision and selecting the desired future position for the firm, must precede the development of the long-range plan. It is important to note that strategic thinking is not intended to replace long-range planning, but to improve it. Strategic thinking encourages people to direct their attention
toward the less certain future, which is crucial for business organisations if they are to operate in a turbulent environment. However, the quality of this thinking depends on the attributes of the people involved. As suggested by some theorists (e.g. Schoemaker 1995), scenario planning can be used in this process.

Scenario planning is a disciplined way of imagining possible future events that organisations could apply to a great range of issues (Schoemaker 1995). The importance of scenario planning is that managers who can expand their imaginations to see a wider range of possible future events would be much better positioned to take advantage of the unexpected opportunities that will arise. Schoemaker (1995) indicated that scenarios go beyond objective analyses to subjective interpretations. If the quality of strategic thinking is low, it is more beneficial for organisations to use scenario planning for vision building if the industry has experienced significant change or is about to do so. Therefore, scenario planning can be used as an aid to strategic thinking.

As stated above, written strategic plans are used as the yardstick of formalised strategic planning in this study. Consequently, this research is focused on the vision or the business philosophy and strategic direction of the participant organisations, due to the emphasis in the literature on the clear vision being crucial for the creation of a feasible strategic plan and strategies. As part of the process of formulating strategies, it is obvious that decision-makers need to consider their industry or the task environment, in addition to the internal factors, in order to decide upon the correct and feasible strategies to be adopted. The next section outlines strategic options that business organisations can implement for better performance, according to Porter’s (1980, 1985) leading contributions.

2.3.4 Generic Strategies and Industry Analysis

Michael Porter is a seminal author in the area of strategy. In the 1980s, Porter’s model of competitive analysis and his set of generic strategies dominated the area of strategic management. In his book, titled Competitive Advantage (1985), Porter proposed three kinds of generic strategies that can be adopted to gain competitive advantage.
Those strategies are cost leadership, differentiation and focus. Cost leadership strategy advances the idea that low-cost producer gains cost leadership in the industry. The sources of cost advantage are varied and depend on the structure of the industry. However, they may include economies of scale, available technology and access to raw materials. On the basis of cost leadership, a firm can gain competitive advantage and returns that are above the average (Porter 1985). By adopting a differentiation strategy, a firm wants or seeks to be unique in its industry by possessing some attributes that are valued highly by customers. This differentiation can be based on the product itself, the delivery mode, the marketing approach or on any other suitable characteristics. The focus strategy directs the firm to select a segment or group of segments in the industry and adjust its strategy toward serving that sector, to the exclusion of others, in order to gain a competitive advantage. Porter (1985) further argued that firms which fail to adopt one of these strategies are ‘stuck in the middle’ (p.16). However, some researchers, particularly Miller (1992) and Baden-Fuller and Stopford (1992), questioned this notion by pointing out viable middle ground between strategies.

All organisations have to function within an industry environment (Achyuthan 2004), as they are now social and open systems. Porter’s approach posits that strong competition is a part of the prevailing turbulent environment and is at the core of the success or failure of firms. Competition determines the appropriateness of the activities of a firm that can contribute to its performance, such as innovation, a cohesive culture or good implementation of its strategy. Hence, if an organisation has failed to organise its resources and activities to be consistent with the competitive environment, its bankruptcy is inevitable. Porter (1980, 1985) conceptualised that every industry environment is formed by five competing forces generated by customers, suppliers, substitutes, rivals and potential new entrants. These will be shown in diagrammatic form in Figure 2.3 and then briefly explained.

26 Economies of scale: the forces that reduce the average cost of producing an item as the firm expands the volume of its output in the long run. If new firms cannot achieve appropriate reduction in cost, this is considered to be a barrier to entry (Hubbard et al. 2009).
Figure 2.3 Five Forces Industry Analysis

**Potential New Entrants**: A new entry concerns the establishment of operations in an industry by a firm that did not exist prior to its entrance into that industry. Many firms enter new or related markets in an attempt to grow by introducing new or modified products or services, while some enter with products or services that are identical to, or close substitutes for, those already available in the market (Nayak 2006).
However, new firms enter with some resources and the intention of capturing the markets of other firms. This will bring pressure on the profits and profitability of existing firms. Porter (1985) identified numerous barriers to entry into an industry (see Figure 2.3).

- **Threats of Substitute Products**: If the industry is not a pure monopoly, consumers can find substitutes for their needs (Hubbard et al. 2009; Gans et al. 2012). When substitutes are commonly available in the market, they restrict the prices that firms can fix for their products and have a negative impact on the profitability of firms. In relation to such situations, firms should consider the propensity of buyers to purchase substitutes and their switching costs
  
  27 (Porter 1985). In addition, highly differentiated products reduce the threats of substitutes.

- **Bargaining Power of Buyers**: Satisfying the needs of buyers is a prerequisite for the viability of an industry and the firms operating within it. Buyers must be willing to pay a price for a good or service that exceeds the cost of production, or an industry will not survive in the long run (Porter 1985). When customers have bargaining power, they use it against the selling prices set by firms. That, in turn, reduces the profit margins and profitability of business organisations. To reduce the bargaining power of buyers, firms can concentrate on determinants of buyer power such as bargaining leverage and price sensitivity (Porter 1985, as shown in Figure 2.3, p.59).

- **Bargaining Power of Suppliers**: The power of suppliers, such as those who provide labour and materials, determines the extent to which value created for buyers will be appropriated by suppliers rather than by firms in an industry. When suppliers have bargaining power, they will demand or charge higher prices for their supplies, which will directly increase a firm’s costs and reduce its profitability. In that situation firms can concentrate on the determinants of their bargaining power (see Figure 2.3, p.59).

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27 **Switching costs** refer to the costs incurred when a customer changes from one supplier or marketplace to another. The higher these costs are, the more difficult it is to execute the switch.
Rivalry among Existing Firms (Industry Competitors): When there is intense rivalry in an industry, a firm will be under pressure to deal with it. In order to compete with others, firms must resort to price manipulations, launch research and development programmes and increase promotional campaigns. In that situation, firms can consider and concentrate on the determinants of rivalry (see Figure 2.3, p.59). This will increase the expenses and reduce the profitability of a firm.

Conducting an industry analysis helps decision-makers to consider various forces and the existing competition in the industry before determining their strategies. Therefore, this analysis can be considered to be another important strategic management tool. However, Porter's framework has been challenged by numerous academics and strategists, such as Stewart (1997), and Coyne and Subramaniam (1997). They argued variously that buyers, competitors and suppliers are unrelated and do not interact and collude, creating barriers to entry is not easy, and participants in a market somehow gain information and respond to competitive behaviour and strategies. Pitkethly (2006) indicated that a firm’s competitiveness in an industry depends greatly on the resources it brings to the industry. Accordingly, there is a suggestion that Porter’s five force industry analysis can be seen as closely linked to the Resource-Based View (Wernerfelt 1984) and dynamic capabilities (Prahalad & Hamel 1990). However, despite the criticisms, anecdotal evidence suggests that it is used significantly in practice.

As early management theories focused on internal organisational factors such as structure, management style, leadership, task and efficiency, Porter’s industry analysis made a seminal contribution to management knowledge and practice by expanding the organisational horizon to include all facts of the external operating environment. It identifies the influential groups, which need to be considered as well as owners and workers. These influential groups have been known as stakeholders. Therefore, stakeholder theory will be reviewed next even though the Resource-Based View (RBV) theory (Wernerfelt 1984) was introduced in the same time period and shows some links to the Porter’s industry analysis. As this study is being undertaken to inform a key stakeholder of Sri Lankan SMEs (i.e. the Sri Lankan government) it is useful to contextualise the study through the exploration of stakeholder theory.
2.3.5 Stakeholders and Stakeholder Theory

Following on from the five forces introduced by Porter (1980, 1985), various studies have suggested the adoption of an additional approach by which organisations can identify groups that have the power to influence the performance of a firm, and therefore customise strategic options accordingly (Freeman 1984; Polonsky 1995; Bryson 2003).

2.3.5.1 Origins of Stakeholder Theory

Polonsky (1995) noted that stakeholder theory has been increasingly used in the strategy development literature, but its popularity has grown following the publication of Freeman’s (1984) seminal book, *Strategic Management: A Stakeholder Approach*. According to Freeman (1984, p. 25), stakeholder theory is based on the principle that ‘the firm takes into account all of those groups and individuals that can affect, or are affected by, the accomplishment of organisational purpose’. This theory enables decision-makers to consider a wider range of influential agents when developing strategy or planning activities (Polonsky 1995). Foreman (2006, p. 25) summarised Freeman’s stakeholder management model into five key aspects, namely:

i. Identification of key stakeholders
ii. Determining the ‘stakes’ of selected stakeholders
iii. Using an understanding of stakeholders to assess the relative importance of each to the success of an organisation
iv. Formulation of strategies for stakeholders
v. Implementation and monitoring of stakeholder strategies

According to this summary, identification of key stakeholders is the first point of stakeholder theory.
2.3.5.2 Stakeholder Identification and Salience

Freeman (1984) introduced *Stakeholder view and Stakeholder map* to show different possible internal and external stakeholders such as owners, customers, government, suppliers, and employees (see Figure 2.4). This map illustrates possible interactions between different stakeholders and firms and their managers. These interactions happen in both ways, the firm with its stakeholders and stakeholders with the firm. This view can be used by any organisation that operates in a turbulent environment, regardless of size or level, to identify their key stakeholders.

**Figure 2.4 Stakeholder View of the Firm – Stakeholder Map**

![Stakeholder Map](Source: Freeman 1984, p. 25)

Even though Freeman (1984) introduced stakeholder theory, the literature indicates that, there was no agreement on ‘*who or what?’* the stakeholders of a firm actually are, or ‘*to whom or what?’* managers pay attention when determining their real stakeholders. This gap in the knowledge was filled with the publication by Mitchell et al. (1997) of a paper titled ‘Towards a theory of stakeholder identification and salience: defining the principle of who and what really counts’ (Verweire & Berghe 2004; Elijido-Ten 2006). According to this seminal essay, the first question, ‘*who (or what) are the stakeholders of the firm?’*, calls for a *normative theory of stakeholder identification*, to explain...
logically why certain classes of entities should be considered by managers to be stakeholders. The second question, to ‘whom or what do managers pay attention?’, calls for a *descriptive theory of stakeholder salience*, to explain the conditions under which certain classes of entities should be considered as stakeholders (Mitchell et al. 1997, p. 853). To answer these questions, Mitchell et al. (1997) introduced the notion of *stakeholder salience*, which has been defined as the degree to which managers give priority to competing stakeholder claims (Mitchell et al. 1997; Mitchell et al. 2011). According to this concept, three attributes, namely, (1) power, (2) legitimacy and (3) urgency are considered to be identifiers of stakeholders.

The *power* of the stakeholder can be defined as ‘the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance’ (Weber 1947). It is also defined as a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have done’ (Dahl 1957; Pfeffer 1992; Mitchel et al. 1997). Post et al. (2002) claimed that the power of stakeholders may arise from their ability to mobilise social and political forces, as well as their ability to withdraw resources from the organisation.

The *legitimacy* of the stakeholder is ‘a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions’ (Suchman 1995, p. 574). *Urgency* can be defined as ‘the degree to which stakeholder claims call for immediate attention’ (Mitchell et al. 1997, p. 867; Mitchell et al. 2011, p. 240). In this situation, both *time sensitivity* – the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder - and *criticality* - the importance of the claim or the relationship to the stakeholder - are considered (Mitchell et al. 2011).

Mitchell et al. (1997) categorised stakeholders into seven groups,²⁸ based on stakeholder salience. This categorisation is useful in attempts to identify who the stakeholders are.

²⁸ The seven stakeholder groups are: Dormant stakeholders (power), Discretionary stakeholders (legitimacy), Demanding stakeholders (urgency), Dominant stakeholders (power & legitimacy), Dangerous stakeholders (power & urgency), and Dependent stakeholders (legitimacy & urgency), Definitive stakeholders (power, urgency & legitimacy).
when managers are deciding on strategies for their organisations. However, this model is relatively complex compared to others that have since emerged.

Johnson and Scholes (1999) affirmed that it is not enough simply to identify stakeholders. Managers need to assess the interest of each stakeholder, to express the expectations of each on decisions and, if there is the power, to follow it through (Olander 2007). Johnson and Scholes (1999) proposed, the power-interest matrix\(^{29}\) (see figure 2.5), to map the different types of stakeholder groups.

**Figure 2.5 Stakeholder Power-Interest Matrix**

```
<table>
<thead>
<tr>
<th></th>
<th>High Interest</th>
<th>Low Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Power</td>
<td>Keep informed</td>
<td>Key players</td>
</tr>
<tr>
<td>Low Power</td>
<td>Minimal efforts</td>
<td>Keep satisfied</td>
</tr>
</tbody>
</table>
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(Source: Johnson and Scholes 1999, p. 216)

Stakeholders’ power and interest are the relatively important determinants of stakes. Compared to the typology proposed by Mitchell et al.’s (1997), this model is simpler and more useful in determining the strategy that needs to be employed in organisations. For instance, competitors can be perceived as harmful to the organisation, but still have high power and interest and, consequently, can be considered as a ‘key player’ group in the business. Thus, managers must consider the level of power possessed, and interest taken, by stakeholders, which will be reflected in their current and future actions, when deciding strategies for business organisations.

Obviously, firms have the ability to influence, and to be influenced by, various groups. Therefore, firms should monitor changes in their performance and stakeholder

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\(^{29}\) The power-interest matrix proposed by Johnson and Scholes (1999) has been changed by Ward and Chapman (2003) to the **impact-probability matrix** (power=level of impact, and interest = probability of impact).
expectations by continually conducting *stakeholder audits* (Freeman et al. 2010) or *social audits* (Polonsky 1995), which enable them to identify all important stakeholders, networks and interactions. However, this study concerns how stakeholder identification happens in SMEs, and that will be discussed next.

2.3.5.3 The Stakeholder Analysis in SMEs.

Various studies indicate that stakeholder models and views (e.g. Freeman’s 1984 stakeholder view, Mitchell et al. 1997 typology; Johnson & Scholes 1999 power-interest matrix) are equally applicable to SMEs, as they are also dealing with different stakeholders (Kusyk & Lozano 2007; Hillebrand 2009; Russo & Perrini 2010). One of the main objectives of SMEs is to create value for their interest groups (Perrini 2006). Hence, the success of SMEs also depends upon how their top management deal with different stakeholders and their respective stakes.

As stated by Kusyk and Lozano (2007), the SME sector is variable in character, in terms of size, experience, values, resources and stakeholder engagement, but firms within that sector still need to adapt themselves to their environments within the different industries and cultural contexts in which they operate. Therefore, from the stakeholder theory point of view, many SMEs may have a smaller portfolio of demanding stakeholders, relative to larger enterprises. Small and medium-sized enterprises are comparatively less concerned than larger businesses, or even completely unconcerned, about stakeholder groups such as the media (Olander & Landin 2005) and special interest groups, such as researchers, environmentalists and trade unions. This is because the scale and scope of their operations, and their organisational characteristics, differ from those of large enterprises (Jenkins 2004 a, b; Kusyk & Lozano 2007). In the case of SMEs, it is impossible to differentiate owners from management (Scarborough & Zimmer 2003). Table 2.5 presents a comparison between large firms and SMEs, in terms of key stakeholders, based on the literature and the practice.
### Table 2.5 Key Stakeholders - a Comparison

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Owners</th>
<th>Customers</th>
<th>Competitors</th>
<th>Lenders</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Government</th>
<th>Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large firms</td>
<td>Owners are mainly shareholders and they are not active managers</td>
<td>Customers are highly important</td>
<td>Have powers to control or to compete with their competitors</td>
<td>Lend money as they have confidence about the firm &amp; their securities</td>
<td>Employees jobs are secured</td>
<td>Suppliers depend on the large firms’ demand</td>
<td>Government earns income from large firms</td>
<td>Society expects fairness</td>
</tr>
<tr>
<td>SMEs</td>
<td>Owners are the managers &amp; main decision-makers of the firm</td>
<td>Customers are highly important</td>
<td>Difficult to compete or deal with strong competitors</td>
<td>Lenders have lesser confidence</td>
<td>Employees jobs are less secured</td>
<td>SMEs depend on suppliers supply</td>
<td>Government provides support for SMEs</td>
<td>Society expects SMEs survival</td>
</tr>
</tbody>
</table>

(Source: Author)

The majority of researchers investigating SMEs concentrate primarily on owner-managers or entrepreneurs (e.g. De Alwis & Senathiraja 2003; Pansuwong 2009). Hence, a separate model or method is useful for studying the stakeholder identification and management processes of SMEs which dominate over the personal ethics of owners or owner-managers.

Hillebrand (2009) introduced a model by filling the gap in the literature that enabled the stakeholders of SMEs to be identified and managed. However, this model was underpinned by, and was consistent with, previous scholarly theories and publications regarding stakeholder theory, such as those of Freeman (1984), Mitchell et al. (1997), and Donaldson and Preston (1995). Owners are the main stakeholder group in business organisations, and SMEs are operated primarily by their owner-managers (Scarborough & Zimmer 2003; Beaver & Jennings 2005; Fuller-Love 2006; Wang et al. 2007; Perrini et al. 2007; Hillebrand 2009). Hillebrand’s (2009) model (see Figure 2.6) can be used to analyse how various influences lead the owner-managers of SMEs to do the following:

i) **Perceive certain stakeholders as important**

ii) **Direct the management of their firms towards these stakeholders**

Hillebrand’s (2009) model is useful because it concentrates on the point of view of the owners of SMEs, instead of that of the managers. As noted earlier, SMEs are operated primarily by their owners. Therefore, the firm’s objectives and those of its owners, the owner-manager’s perceptions and the institutional logics, e.g. profits, productivity, and
customer service (as mentioned in Mitchell et al. 2011), are closely interrelated and sometimes difficult or even impossible to differentiate (Beaver & Jennings 2005).

**Figure 2.6 Model of Stakeholder Management in SMEs**

![Diagram of Stakeholder Management in SMEs](Source: Hillebrand 2009, p. 81)

In SMEs, the personal ethics of an owner-manager are shaped by his or her normative foundations (understanding of right and wrong) and cognitive moral or psychological development (values, beliefs, attitudes, etc.). Consequently, the stakeholder salience of SMEs occurs in the minds of owners. Therefore, Hillebrand’s model (see Figure 2.6) is more appropriate for an investigation of the stakeholder management process of SMEs.

Hillebrand (2009) further explained that the personal objectives of people are shaped by individual factors such as their moral beliefs and values (see Weiss 2001; Schreuder et al. 2006, cited in Hillebrand 2009). Hence, the model shows the influence exerted by the owner-manager’s personal ethics (**First step**), and the fact that those values influence the personal goals and objectives which that owner-manager sets himself or herself in life. Furthermore, the personal objectives and situational factors of an owner-manager determine their business objectives. Thus, the owner-manager’s perception of relevant stakeholders (**Second step**) is based, to a great extent, on personal
understanding of the stakeholders’ power, legitimacy and urgency of claims or interests (Mitchell et al. 1997). Therefore, while stakeholder salience within SMEs occurs in the minds of owner-managers, this perception is also shaped or changed by the internal characteristics of the firm such as organisational culture, structure and management style, and by external circumstances, including changes in political, economic, technological and socio-cultural macro-environmental factors. The actual approach of the owner in managing the stakeholders of the enterprise (Third step) can occur in a cooperative or competitive manner, or both (Hillebrand 2009), according to their differing stakes and importance. However, the choice of strategy depends on the extent to which the owner-managers understand those holding a stake in their firm.

Pajunen and Näsi (2004) describe stakeholder management as a game, due to the fact that there is a clear need for a creative approach to dealing with stakeholders. Therefore, an understanding of how Sri Lankan SMEs prioritise the demands placed on them by various stakeholder groups is important in both theoretical and practical terms. Freeman’s (1984) stakeholder view indicates a broad group of stakeholders. The typology designed by Mitchell et al. (1997) gives an understanding of ‘who or what’ the stakeholders of the firm are, and ‘to whom or what’ managers pay attention when determining the competing demands among stakeholders. The power-interest matrix designed by Johnson and Scholes (1999) simply identified stakeholders through their power and interest. However, stakeholder management in SMEs, as explained in Hillebrand’s (2009) model, is directly applicable to this present study. This study identified a few different possible stakeholders of the target group (see survey questionnaire in Appendix 2, Q. 12, p.334).

Thomson and Strickland (2003) indicated that ‘Good strategy and good strategy execution are the most trustworthy signs of good management (p. 4), a good strategy is well-matched to a company’s external and internal situation (p. 55) and, therefore, needs a solid analysis’ (p. 73). Thus, macro-environment (PEST), task environment (industry) and internal environment analyses are important in successful strategy and management. Therefore, the next section will review the literature on the internal environment and core competencies.
2.3.6 Resource-Based Theory: Internal Environment Analysis

Understandably, to satisfy stakeholders, firms must possess enough resources. Hence, Markides (1995) suggested that after conducting the analyses of the industry and external environment, a firm can analyse its internal environment to determine whether or not it has sufficient resources, skills, technology, culture, people and time to implement a strategy. This analysis is more internally focused and will facilitate the identification and leveraging of the core competencies and capabilities of the firm, to enable it to achieve success (Rumelt 1984; Hamel & Prahalad 1993).

Firm analysis provides a determination of whether or not an organisation has the important internal strategic features such as organisational structure, ownership, organisational culture, management style, stakeholder expectations and resources, capabilities and competencies in a positive manner (as a strength) to implement a strategy (Edirisinghe 2008). Early scholars in the field of strategy (for example, Ansoff 1965; Learned et al. 1965 - during the second wave of strategy) were concerned with identifying, the best practices of an organisation that contribute to its success. However, some researchers (for example, Selznick 1957; Penrose 1959; Angkasuvana 2005) stated that a firm’s unique internal competitive resources are more significant for its continued success. On the basis of this proposition, the Resource-Based View (RBV) theory was introduced. It is based conceptually on the definition of a firm by Penrose (1959) as ‘a collection of resources bound together in an administrative framework’, the boundaries of which are determined by the ‘area of administrative coordination’ and ‘authoritative communication’ (Penrose 1959, p. xi).

2.3.6.1 The Resource-Based View and Core Competencies

The resource-based view is one of the important theories advanced recently in strategic management (Wernerfelt 1984; Barney 1991; Corner 1991; Peteraf 1993; Collis & Montgomery 1995; Teece et al. 1997). According to this view, firms differ in fundamental ways because each possesses a unique bundle of resources. These resources cannot be accumulated instantly, but they act as an essence of firms’
sustainable competitive advantage. Resources that are valuable, scarce, inimitable and non-substitutable constrain the imitation of any successful strategies by competitors (Wernerfelt 1984; Barney 1991; Amit & Schoemaker 1993; Collis & Montgomery 2005). Despite the notion that resources underpin the sustainability of a firm’s competitive advantage, it is not an easy task for that firm to understand or evaluate its own resources and determine whether they constitute a source of strength or weakness. According to Collis and Montgomery (2005, p. 34), ‘The value of a firm’s resources lies in the complex interplay between the firm and its competitive environment along the dimensions of demand, scarcity, and appropriability’. If a firm possesses more appropriate and scarce resources that customers are demanding, it will achieve a higher value based thereon. This value can be used to generate competitive advantages in the market through sound strategies. This means, using internal strengths identified through the SWOT analysis, firms successfully respond to opportunities in the industry.

Wright et al. (1996) proposed three key internal resources, namely organisational resources, human resources and physical resources, that can provide continued competitive advantages to an organisation. Organisational resources include systems and processes such as structure, size, culture and ownership. The analysis of these organisational resources generally helps to determine whether the available organisational resources are properly aligned with the strategies of the firm, and whether they are sufficient to enable the implementation of those strategies (Angkasuvana 2005). The term human resources refers to the experience, capabilities, knowledge and skills of the decision-makers and of other employees. Physical resources include the premises, location and technology (Henri 2005). As this theory concerns resources that create the vibrant capabilities of an organisation, it forms the foundation of the dynamic capabilities approach (see, for example, Prahalad & Hamel 1990 - Table 2.3, p.41).

2.3.6.2 The Resource-Based View and Resource Analysis

Grant (1993) introduced the key stages of resource analysis through the medium of a flow diagram. This schema shows the relationship between a firm’s resource base, its
capabilities (potential competitive advantage) and its strategy (see Figure 2.7). This model clearly shows, in steps 1 to 4, how an organisation’s resources can form capabilities that generate competitive advantage to employ sound strategies in an industry. If there is any gap between the available resources and the strategy that a firm wishes to implement, that gap should be addressed by the decision-makers (step 5). This fifth step is stated in the literature to be a shift from strategic fit to strategy stretch and leverage (Hamel & Prahalad (1993).

Figure 2.7 Framework for Resource Analysis

According to Hamel and Prahalad (1993), leverage refers to concentrating, accumulating, complementing, conserving and recovering resources in such a manner that the scarce resource is stretched to meet an organisation’s requirements. The idea of stretch is the diametric opposite of the idea of ‘strategic fit’. Strategic fit means positioning the firm by matching its resources to its environment or strategy. However, leveraging resources is as important as positioning or, in other words, allocating.
Although RBV theory has remained an influential framework in the field of strategic management, it has been challenged by many scholars. For example, Mahoney and Pandian (1992) criticised this theory for its detachment from equilibrium analysis. Priem and Butler (2001) argued that RBV is fundamentally tautological in nature. Furthermore, they question how one can measure and compare a variable (resource) that is rare and valuable. However, Barney (2001) responded to these criticisms by pointing out that RBV theory was established by reversing several key assumptions in neoclassical microeconomics. For example, it debunks the equilibrium analysis. Moreover, Barney argued that if RBV theory is tautological, then all strategic management theories such as Porter’s theories can be viewed similarly. In addition, there is no value in the argument that rare and valuable organisational resources are difficult to assess. If that task cannot be performed using quantitative methods, then qualitative methods can be applied. This is one of the reasons that both qualitative and quantitative methods are utilised in this study.

Prahalad and Hamel (1990) claimed that the roots of competitive advantage lie in the core competencies that, first, provide potential access to a wide variety of markets and, second, should make a significant contribution to perceived customer benefits derived from the end products. Finally, these competencies should be difficult for competitors to imitate. Decision-makers within organisations must consider both the internal (resource base) and external, or industry, environments in order to gain a competitive advantage. On this basis, RBV theory was used to investigate what resources and capabilities the group targeted in this study possess, how they match their strategies and resources to gain a competitive advantage, and how they address any possible resource gaps in order to achieve better outcomes in the industry.

The above-mentioned contemporary strategic management theories furnish the context and concepts which shaped this study of SMEs in Sri Lanka, and the study in turn provided information on the universal applicability of these theories. These notions provided the basis on which to assess how the owners of SMEs identify and manage

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30 Equilibrium analysis of neo-classical microeconomics examines how market forces determine the quantity, quality and price of goods and services sold in a market (Barney 2001, p. 644).
their stakeholders, how they deal with different industry forces, and how they decide on their strategies for the achievement of long-term objectives. The next section contains a discussion of a model of strategic behaviour that will be used to evaluate the behaviours of the group targeted in this study.

### 2.3.7 Ansoff's Strategic Behaviour Modes

Ansoff (1988) introduced three modes to evaluate strategic behaviours of organisations; the *reactive, proactive-ad hoc*, and *proactive-systematic* modes. These modes differentiate strategic behaviour on the basis of how managers in an organisation prepare or respond to the organisational critical issues shown in Table 2.6.

**Table 2.6 Strategic Behaviour - Ansoff's Model**

<table>
<thead>
<tr>
<th>Management Mode</th>
<th>Types of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reactive</td>
<td>Incremental product, services or market development</td>
</tr>
<tr>
<td>Reactive</td>
<td>Trial &amp; error reaction to unsatisfactory performance</td>
</tr>
<tr>
<td>Proactive Ad Hoc</td>
<td>Bottom-up, episodic, logical incremental initiatives by R &amp;D and marketing</td>
</tr>
<tr>
<td>Proactive Systematic</td>
<td>Firm-wide periodic exploration of historical trends and performance (Long Range Planning: Strategic Planning)</td>
</tr>
</tbody>
</table>

(Source: Ansoff 1988, p. 229)

In the reactive approach to strategic behaviour, the strategy is generated and shaped by reacting to issues or circumstances such as ‘complaints’ or ‘suggestions’, or in response to a sales trend, reflecting a change in the tastes or preferences of customers. Reactive firms usually avoid drastic strategic changes until they are confronted by an imminent
crisis. When an organisation does change, it does not make plans or seek alternatives, but depends on a process of trial and error. If a series of solutions (trials) fails, the firm goes into bankruptcy.

The proactive-ad hoc mode of strategic behaviour is a more forceful and energetic pattern of managerial behaviour. There is no articulated or centrally guided planned strategy development. The organisation depends on perusing incremental strategic changes. The main difference between the reactive and ad hoc modes is that in the latter the requirement for strategic change is recognised, but the search for new strategies depends on trial and error, not on a written and well-articulated, comprehensive plan. Ansoff (1988) stated that this mode is similar to \textit{logical incrementalism}\textsuperscript{31} (see Quinn 1978) and it connects with Mintzberg’s \textit{implicit strategy}\textsuperscript{32} of a firm (see Mintzberg 1979). Further, in this situation, firms need incremental evolution of their strengths in strategic behaviour, through commitment from the bottom-up, research and development, and marketing.

Finally, the proactive-systematic mode pertains to a planned and systematic form of management. Formal plans make the rationale and the generation of new moves explicit and co-ordinate their proper implementation on a firm-wide basis. Ansoff explained that, in a turbulent environment, strategic planning is pitted against logical incrementalism, but by re-examining and reformulating the strategic logic (plans), a firm can ascertain its future development. He also mentioned that a written strategic plan does not conflict with entrepreneurship and creativity, because strategic planning and management also need novel capabilities, innovativeness and creative thinking.

The aforementioned Ansoff’s (1988) model helps to identify the most appropriate strategy making process as that proactive systematic method which includes written strategic plans and strategic thinking (defined as strategic management in section 2.3.2.1). Some Asian studies have identified reactive and ad hoc strategic behaviours

\textsuperscript{31} \textit{Logical incrementalism} means consciously trying to deal with precipitating events in an incremental fashion (Quinn 1978, 1980).

\textsuperscript{32} \textit{Implicit strategy} refers to strategy as a pattern. Gradually the successful approaches merge into a pattern of action that becomes our strategy (see Mintzberg 1979, 1987, p.13, or Quinn 1980, p.35).
among Asian entrepreneurs (this will be discussed later in this chapter). Therefore, Ansoff’s (1988) modes were used in this study to investigate the strategic behaviours and to compare the performance of SMEs in Sri Lanka.

2.4 Management Practices and Business Performance

The literature indicates that most business failures are the consequence of poor management (Murphy 1956; Scarborough & Zimmerer 2003; Manning 2004; Pansiri & Temtime 2008). Many authors have also found a positive relationship between management practices and firm performance (see, for example, Bracker & Pearson 1986; Bracker et al. 1988; Jones 1982; Robinson & Pearce 1983; Shrader et al. 1989; Bloom & Van Reenen 2010). If management is doing the right thing in the right way, this practice should help any organisation to achieve better performance. However, this practice can vary from firm to firm, for various reasons including the size, culture and objectives of the firm, and the attributes of its principal decision-makers. Adcroft et al. (2004) indicated that there is a causal relationship between organisational performance and management; the higher the quality of management, the more likely it is that the performance of the organisation will be better. Firms that are poorly managed often find themselves with a declining customer base and financial difficulties (Robbins et al. 2009). While some decision-makers are practicing management with sophisticated tools and techniques, others are not. This sophisticated management practice can be identified as strategic management (Wijewardena et al. 2004).

Venkataraman and Ramanujan (1986) articulated that performance improvement is at the heart of strategic management process. Many empirical studies (e.g. Jones 1982; Bracker & Pearson 1986; Bracker, Keats & Pearson 1988; Shrader et al. 1989; Ansoff et al. 1970; Karger & Malik 1975; Miller & Cardinal 1994; Phillips 1996; Andersen 2000; Harrison 2003; Gibson & Casser 2005) have also confirmed that enterprises that use strategic planning are more likely to have higher performance than those that do not. However, some studies have cast doubts on the value of strategic planning (Fulmer & Rue 1974; Grinyer & Norbum 1975; Kudla 1980; Leontiades & Tazel 1980; Lyndsay & Rue 1980; Klein 1981; Unni; 1981; Robinson & Pearce 1983). These doubts relate to the deficiencies of strategic planning, not to proactive management practice. Visionary
leadership and creativity can be considered a prerequisite or core component of better management practice (Bass 1990; Conger 1991; Conger & Kanungo 1987; Tichy & Divanna 1986; Kantabutra & Avery 2003). Therefore, according to the management literature, better performance will be achieved through better practices, which include well articulated plans (strategic plans), a vision for the organisation, strategic thinking and creativity. Ansoff (1988) identified this behaviour as proactive systematic strategic behaviour in his modes.

However, measuring performance is a controversial issue in management studies. The need for firms to align their performance measurement with their strategic goals is well documented in the literature (Kaplan 1983; Eccles 1991; Gregory 1993). To address this need, numerous approaches and systems have emerged. Hudson et al. (2001) noted that a popular method is the balanced scorecard (Kaplan & Norton 1992), which emphasises a balance between the use of financial and non-financial measures to achieve strategic alignment. Due to its popularity, it has acted as a catalyst for further research into the characteristics of, and approaches for developing strategic performance management systems such as performance prism (Neely 2002 - see table 2.3, p. 41). However, Hudson et al. (2001) sought to develop and apply a strategic performance management system which is appropriate for the SMEs, but concluded with a suggestion that there are substantial barriers to doing so. Those barriers include the style of strategy used by SMEs.

Neely (2002), introduced the concept of the performance prism. It is intended to be a holistic performance measurement framework. According to the author, it builds on the best of the frameworks already in existence and seeks to address their shortcomings. This model relates to strategic management concepts: stakeholder satisfaction, stakeholder contribution, strategies, processes and capabilities. As the ultimate performance of businesses is generated through all of these concepts, it is useful to examine them using a holistic approach rather than individually. Therefore, the performance prism can be considered as another seminal contribution to strategic performance management. This holistic perspective is useful when investigating the performance and expectations of the owners of SMEs.
While some researchers focus only on financial measures, others argue about the necessity of relying on both qualitative and quantitative measures (Kumarasinghe & Hoshino 2010) following Kaplan and Norton’s balance scorecard approach. Financial performance is usually measured by financial indicators, such as return-on-investment (ROI), return-on-equity (ROE) and earnings-per-share (EPS). These financial ratios can be computed from the financial reports issued by the firm. Storey et al. (1987) disclosed the importance of financial ratios as a predictor of small firm survival. According to Srinivasan, Woo and Cooper (1994), the most commonly used criteria for organisational performance are survival of the organisations, growth in the number of employees and profitability. Growth is an important indicator for the achievement of other financial goals of business, according to some scholars (Phillips & Kirchhoff 1989; Day 1992, p. 128; Reynolds 1994; Storey 1994; de Geus 1997, p. 53). However, while some firms exhibit growth, excellent financial outcomes and sustainability, other firms fail to do so.

According to management literature, the reason behind the success or failure of an organisation could be the practices employed by decision-makers to handle the tangible and intangible resources of their firms, as well as their interaction with various stakeholder groups. On the other hand, researchers engaged in the study of SMEs argue that the performance of these enterprises is determined by the expectations and business management practices of their owner managers. Since this study was undertaken in Sri Lanka, as emphasised by Storey (1994, 2006), socio-economic factors such as the attitudes and perceptions of owners, and tax-related issues, need to be considered in order to obtain reliable data regarding the performance of their firms.

### 2.5 Business Management Practice of SMEs

Sections 2.2 and 2.3 contained discussions of generic management theories and tools, both conceptual and practiced, which were assumed to be universally applicable. However, as this study is focused on SMEs, it is important to review the literature specifically on business management practices in SMEs in order to strengthen the foundation of the current study.
2.5.1 Management and Planning in SMEs

Since Welsh and White (1981) made their proposition that small businesses are not smaller versions of big businesses, the attention paid by researchers to small business management and practices has increased. The mainstream of research on SMEs focussed on various areas, such as success factors for SMEs (Longenecker & Moore 1987; Cook 1992; Storey 1994), examination of the day-to-day operations of SMEs (Bennett 1989; Tarkenton & Boyett 1991), defining different forms of innovation (Salavou et al. 2004; Oke et al. 2007), barriers to or importance of innovation (Mitra 2000; McAdam et al. 2004), entrepreneurship, vocational education and the role of government in the development of SMEs (Smallbone & Welter 2001), performance measurement for SMEs and benchmarking (Hudson et al. 2001; McAdam & Kelly 2002; Dalrymple 2004), and the drivers for SMEs for going global (Winch & Bianch 2006). Understandably, the objectives of all these studies were to support the growth and survival of SMEs in the interest of economic wellbeing, and they have mostly been undertaken based on the principles of management (early theories and contemporary strategic management) already reviewed in previous sections of this thesis.

Wiesner et al. (2007) stated that whether a small or medium-sized enterprise succeeds or fails is very often decided by external factors: economic, political, socio-cultural and technological. These factors are mostly beyond the control of owner-managers, though choices regarding matters of strategy and decisions on the employment of particular management practices in the firm are not. Further, in contrast to the situation in large organisations, the owner-managers of SMEs have much greater control over the employment of management and development of strategies. Scarborough and Zimmerer (2003, pp. 39, 40) suggested the employment of a strategic planning process focused on strategic thinking to enable small businesses to operate more efficiently and effectively. The literature also shows that formal strategic planning enables small firms to better prepare for, and to deal with, the rapidly changing environments that most of them face (Orpen 1993; Baird et al. 1994). Based on this, some scholars have investigated and developed models of strategy formation in small to medium-sized firms (e.g. Cooper 1979; Bhide 1994; Clark 1997; Vaitkevičius 2006).
In the strategy making processes of SMEs, vision and leadership play an important role (Kantabutra & Avery 2003). In the case of small entrepreneurial firms, the vision or the business philosophy of the owner-managers dominates the strategies of enterprises and, if they have not been articulated, there is no chance of others knowing them. Some researchers (e.g. Mintzberg 1991) saw this as strategy ‘locked in a single brain’ (Leitner 2007), but others have argued that by using personal skills owners can respond quickly to new opportunities (Hall 1995). Confirming this situation, some research has mentioned that the process of strategy formulation in SMEs is often informal, accidental and irregular (Michail 2011), and used only for such purposes as providing information to banks or other financial institutions in a manner similar to *business plans*. A business plan can be defined as a document that describes the current state and the presupposed future of an organisation, and is the most widely regarded aspect of pre-startup stage planning (Honig & Karlsson 2004). There are some similarities between business plans and strategic plans, as both use some form of analysis such as SWOT, PEST or industry analysis to plan the future of the new venture. Due to that, some small businesses sometime confuse the two terms or use them interchangeably.

McAdam et al. (2000) noted that smaller firms can compensate for their lack of strategic planning by being inherently flexible (using a contingency management approach) and close to the customer (one of the main stakeholders). It is clear that many small firms focus on day-to-day operational issues rather than long-term development, or that some even depend on luck (Mintzberg 1979; Hart 1992; Hamel 1996). This does not mean that SMEs should not use strategic thinking and proactiveness to find solutions to deal with the critical issues that confront them. Their deliberations can be reactive (Mintzberg et al. 1998; Mintzberg & Lampel 1999) and based on personal relationships (Mitra 2000; Harris et al. 2000 cited in Michail 2011), as owners tend to rely on their knowledge, and personal networks rather than using professional methods of management. Therefore, some studies have found that management activities in SMEs, are seldom formalised and are of relatively short duration, compared with similar activities in large firms (for example, see Gibb & Scott 1985; Mintzberg 1994; Vaitkevičius 2006; Balasundaram 2009). Table 2.7 presents the major propositions that will be useful in the study of management practices of SMEs.
Table 2.7 Strategic Management and SMEs – Major Propositions

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Proposition(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schwenk &amp; Shrader (1993)</td>
<td>Strategic planning/management has a positive effect on the performance of small business.</td>
</tr>
<tr>
<td>Scarborough and Zimmerer (2003)</td>
<td></td>
</tr>
<tr>
<td>Orpen (1993)</td>
<td>Formal strategic planning enables small firms to better prepare for and to deal with the rapidly changing environments that most of them face.</td>
</tr>
<tr>
<td>Lyles et al. (1993)</td>
<td>Small business owners adopt a more formal planning process. The breadth of strategic planning can most certainly influence the growth of the company.</td>
</tr>
<tr>
<td>Gibb &amp; Scott (1985)</td>
<td>The study of the data reported here indicates that most owner-managers of small firms have ideas, or a portfolio of ideas, of projected action in order to avail themselves of relevant opportunities and deal with the threats extant in the environment.</td>
</tr>
<tr>
<td>Mintzberg &amp; Waters (1985)</td>
<td>Owner-managers are aware of relevant events in the environment. They have available strategic courses of action to exploit any opportunity or deal with the threats therein. Although they are aware of the implications of their strategic courses of action, such deliberations are reactive and seldom formalised.</td>
</tr>
<tr>
<td>Mintzberg, Ahlstrand &amp; Lampel (1998)</td>
<td>In the entrepreneurial school, strategy is metaphorically envisioned; in the cognitive school, strategy has been conceptualised, but minimal progress has been made toward clarifying exactly how this is actually done.</td>
</tr>
<tr>
<td>Mintzberg &amp; Lampel (1999)</td>
<td></td>
</tr>
<tr>
<td>Berry (1998)</td>
<td>Neglecting strategic planning, SMEs may not attain their full performance and growth potentials, and their survival could be placed at risk.</td>
</tr>
<tr>
<td>Baird et al. (1994)</td>
<td>Firms which operate with more than five employees should consider engaging in the planning activities to enhance firm’s chances of survival and success.</td>
</tr>
</tbody>
</table>

(Source: Original Documents)

Schwenk and Shrader (1993) mentioned that strategic planning and management have a positive effect on the performance of small businesses. Similarly, Scarborough and Zimmerer (2003) indicated that strategic management helps to increase the effectiveness of small firms, but entrepreneurs must initially have a process designed to meet their needs and the special characteristics of their businesses. These special characteristics are formed through features such as organisational structure, culture, management style, ownership and relationships with interested groups. Therefore, this research focuses on
the management practices of the SMEs engaged in manufacturing in Sri Lanka, in order to identify aspects of strategic behaviour which are influenced by their organisational characteristics.

Although the need for strategic planning, including formalised planning, in SMEs has been discussed since the 1980s, research has consistently shown that most SMEs do not undertake strategic planning (e.g. Robinson & Pearce 1983; Sexton & van Auken 1985; Berman et al. 1997; Orser et al. 2000; Sandberg et al. 2001; Beaver 2003). This is an issue that has not been much investigated (O’Regan & Ghobadian 2002). Some researchers have suggested that the management techniques used to guide the affairs of large businesses are not appropriate for small businesses (Curtis 1983). Their arguments are based on the differences in the scale of operations (Jenkins, 2004 a, b; Kusky & Lozano 2007), the limited resources available and personal characteristics of the owner-managers of SMEs.

Wang et al. (2007) indicated that the thrust of research to explain the lack of strategic planning in SMEs has focused on identifying the ‘barriers’ that discourage or prevent planning. Accordingly, they have identified 10 barriers that account for the lack, or low levels, of strategic planning in SMEs, such as a lack of time, a lack of expertise, environmental uncertainty/ turbulence, size of the business and type of industry (see survey questionnaire in Appendix 2, Q 27 & 32, pp. 339 &340). Therefore, rather than searching for excuses or criticising the failure to use sophisticated management practices in SMEs, it is worthwhile to investigate the barriers that exist which prevent owners and managers from adopting them. Although, as argued by Berry (1998), the intuition and luck of the owners of SMEs might sometimes help them to succeed, by neglecting strategic planning, SMEs may not achieve their full potential for performance and growth, and their survival could be placed at risk. Similarly, Baird et al. (1994) concluded their empirical study with the recommendation that:

[I]f your small business employs five or more people, you should consider engaging in....planning activities....because doing so may enhance your chances of survival and success (Baird et al. 1994, p.206)
The advice proffered by Baird et al. (1994) provides considerable support for this study, as this research focuses on those SMEs in Sri Lanka which employ five to 149 permanent workers.

### 2.5.2 Entrepreneurship and Management in SMEs

The very nature and definitions of SMEs imply a clear relationship to the original founder or entrepreneur. According to the literature, this concept of entrepreneurship emerged in Europe in the Modern Economics field as early as the 17th century (Fayolle et al. 2005). Contemporary entrepreneurship research has been dominated by the economic thought introduced in 1911 by Joseph Schumpeter, in the *Theory of Economic Development* (Barringer & Bluedorm 1999; Ripsas 1998). The main idea advanced in this book was that entrepreneurs are the ‘change agents’ within an economy because they create new combinations, i.e. they introduce new products, methods of production and organisational forms, open new markets, and utilise new sources of supply of raw materials or other inputs, or implement a new style of management (Spencer et al. 2008; Jantunen et al. 2005; Ripsas 1998). Morris and Lewis (1995) stated that entrepreneurship is visible in any type or size of business, and depends on specific personal characteristics. Shane (2000) viewed entrepreneurship as the process of creating value by bringing together a unique packet of resources in order to exploit an opportunity. According to these definitions, entrepreneurs make efforts to turn their innovative ideas into successful businesses (Mitra 2000; Elfitasari 2010). Therefore, the success or failure of a business (especially those of small firms) depends on its entrepreneur (Chell et al. 1991; Storey 1994; Mitra 2000; Beaver & Jennings 2005; Rogoff et al. 2004; Elfitasari 2010).

Enterprises are generated through entrepreneurship, and there is a perpetual relationship between entrepreneurship and small firms. Some researchers and authors (e.g. Peiser & Wooten 1983; Scarborough & Zimmerer 2003) have identified the first stage of the business cycle as the ‘entrepreneurial stage’. Small business and entrepreneurial ventures have been differentiated by a few researchers (e.g. Carland et al. 1984; Stewart et al. 1998 - see Table 2.8). Conditions of environmental turbulence (dynamic, threatening and complex) can affect the intensity of entrepreneurship in a society and
can form threats as well as opportunities for organisations. Evidently, opportunities play a key role in entrepreneurship (van der Veen & Wakkee 2004).

Table 2.8 Small Business and Entrepreneurial Characteristics

<table>
<thead>
<tr>
<th>Source</th>
<th>Small Business</th>
<th>Entrepreneurial Venture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carland el al. (1984)</td>
<td>- Start small and remain small</td>
<td>- Start small and grow rapidly</td>
</tr>
<tr>
<td></td>
<td>- Do not take innovative actions</td>
<td>- Taking innovative actions</td>
</tr>
<tr>
<td></td>
<td>- Do not seek new markets</td>
<td>- Seeking new markets</td>
</tr>
<tr>
<td></td>
<td>- Focus on income for family needs</td>
<td>- Focus on profit and growth</td>
</tr>
<tr>
<td></td>
<td>- Do not use innovative planning</td>
<td>- Use innovative planning</td>
</tr>
<tr>
<td>Stewart et al. (1998)</td>
<td>- Lower in achievement motivation</td>
<td>- Higher in achievement</td>
</tr>
<tr>
<td></td>
<td>- Lower in risk taking</td>
<td>- Higher in risk taking</td>
</tr>
<tr>
<td></td>
<td>- Lower in innovation</td>
<td>- Higher in innovation</td>
</tr>
<tr>
<td></td>
<td>- Focus goals for family income</td>
<td>- Focus goals for profit and growth</td>
</tr>
<tr>
<td></td>
<td>- Do not use strategic planning</td>
<td>- Use strategic planning</td>
</tr>
</tbody>
</table>

(Source: Adapted from Elfitasari 2010, p. 22)

As mentioned previously, although firms are generated through entrepreneurship, not all of them are entrepreneurial ventures. Entrepreneurial firms demonstrate better performance than those that are not (Scarborough & Zimmerer 2003), due to the use by these firms of proactive approaches to find new opportunities with strategic and innovative planning (Mintzberg et al. 1998; Mintzberg & Lampel 1999). In other words, the entrepreneurial process is opportunity recognition and information search, resource acquisition and crafting business strategy (Ucbasaran et al. 2001) to survive in the competitive race (Mitra 2000). This suggests a close relationship between entrepreneurship, SMEs and strategic management.

As noted earlier, although owners and managers can be differentiated in large business organisations, in small and medium-sized enterprises, owners are more likely to be actively involved in all managerial activities. If a business owner expects to see his or her firm’s survival and growth, he or she needs to use the best management practices in combination with proactive thinking and planning, and engage in entrepreneurial activities. Therefore, management is a part of entrepreneurship. Successful
entrepreneurs can be considered effective managers and successful business leaders, but not all business owners are either entrepreneurs or efficient managers, unless they use proactive management in their businesses. This is because proactive thinking and planning is crucial for recognising unexploited opportunities (Hamel & Prahalad 1994; Prahalad 2010\(^{33}\)) and facing industry forces (Porter 1980, 1985). Therefore, both entrepreneurship and managerial capabilities should be present in SMEs, whether invested in the owner-manager, or in larger SMEs, shared between the owner and an appointed manager.

### 2.6 Asian and Sri Lankan Business Management Practices

As this study concentrates on Sri Lanka, some Asian business management studies will be useful for any attempt to understand Sri Lankan management practice. The following sections present a review of literature on Asian and Sri Lankan business management practices to support further the theoretical framework of this study.

#### 2.6.1 Business Management in Asia

Asia covers a wide range of geographical, economic and cultural spheres. As such, it also incorporates a variety of business cultures, with a variety of religious values, ranging from Buddhist to Islamic, and a multitude of ethnic identities (Rowley & Warner 2007). The literature shows that industrialisation which required two hundred years in the Western world was accomplished in less than fifty years in Asia (Achyuthan 2004).

As mentioned previously, the work of Sun Tzu highlighted the importance of strategies generally to Asian society. In recent times Asian businesses have started using strategic approach in their businesses. However, only a small number of studies have been conducted on the use of strategic behaviour and strategic planning by businesses in Asia (Ko 2009). Even though practitioners consider management to be a universal need, the literature shows that there is a noticeable difference between Western and Asian

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33 Prahalad (2010) stated that, practices are all about innovation: imagining what the future will look like; identifying the mega-opportunities that will arise; and building capabilities to capitalize on them.
business management practices. Some studies suggest that Western managers derive
insights (how to use ‘minds’ and ‘hands’) from their management education, while
Asian managers tend to rely on intuition (‘hearts’ and ‘gut feeling’) (Haley & Tan 1996;
Achyuthan 2004; Ko 2009).

Hofstede (1994) provided interesting insights into the variations in strategic
management by describing some of the cultural and ethnic differences in the practices
of strategic management worldwide. His main concern was how cultural differences
impact on strategy making in different contexts, especially in Asia, in which cultures
that are based on networking, familialism and collectivism establish the strategy-making
process in business organisations, regardless of the size of the firms. This subject has
been investigated by many researchers over the past decade (e.g. Chan 1999; Gipouloux
2000; Schak 2000; Wong &; Chan 2000; Wu 2000; Chan, Cheng & Szeto 2002; Sull &
Wang 2005; Buderi & Huang 2006; luo 2007; Gallo 2008).

Furthermore, Ghosh and Chan (1992, 1994) conducted empirical studies of strategic
planning behaviours in two Asian countries (Singapore and Malaysia) and explained
that their strategic behaviours are generally reactive and ad hoc. This means that
business organisations in these two countries were not commonly using systematic
strategic planning processes at the time the studies were undertaken. Similarly, Lee
(1986) found that, compared to American companies, SMEs in Japan were not
preparing written plans and were weaker in planning. Hitt et al. (1997) also revealed a
similar difference between American and Korean managers. These differences
prompted Nakamura (1992, 1997) to explain the importance of strategic planning in
East Asian countries, especially in Japan.

Further, studies point out that top management in Asia plays the dominant role in
strategic decision-making, with little participation from, and consultation with, lower
level managers or operational staff (e.g. Thomas & McDaniel 1990; Ghosh & Chan
1992; Wada 1992; Chan & Chiang 1994; Sull & Wang 2005). This situation is
identified by some scholars as the ‘information black hole’ or ‘information avoids
condition’ in Asian companies (see Haley & Tan 1996, 1999). On the other hand, the
industrial sectors of Asia (Japan, Singapore, Malaysia and China) were developed in the late 1990s and business owners and managers understand the importance of environmental scanning, personal knowledge of markets and success in planning and selecting strategies (Haley & Tan 1996). These two conditions have led to the development of a number of unique strategic management styles for Asian economies, all of which are based on local cultural values (Hofstede 1994).

However, it is very difficult in practice to differentiate Western and Eastern management practices in an Asian context, due to the convergence of some management practices. For example, ‘Westernised Chinese’ have realised the importance of individualism and professionalism in business management, and Japanese researchers have shown the importance of formal strategic planning (Wah 2001; Nakamura 1992, 1997).

The research related to management practices and strategic behaviour in Asia is mostly based on such characteristics as differences in culture, education and training, but it is decades old (e.g. Lee 1986; Ghosh & Chan 1992; Wijewardena & Wimalasiri 1996, cited in Fernando 2007; Hitt et al. 1997). Further, business management practices in adjacent countries will not be exactly the same. Therefore, it is important to conduct timely research to discover management styles and practices in Asian business cultures.

2.6.2 Business Management in Sri Lanka

Socio-cultural values in Sri Lanka are formed by the influence of Sinhalese civilisation, Buddhism, British colonisation and the subsequent period of independence and democracy. The heritage of traditional cohesive self-sufficiency, national pride, caste dignity and the familial system are embedded in the feudal system and the code of conduct of Sinhalese Buddhist civilisation. In the era of British rule, class identity, written rules and regulations, and the practice of working for a salary, influenced the feudalistic values. Both Sinhalese civilisation and Western colonisation (especially that of the British) have predominantly influenced the worldview and social structure of the Sri Lankans (Gamage et al. 2003a; Wickramasinghe & Hopper 2000).
Nanayakkara (1984) pointed out that the Sri Lankan education system prepares students for employment in the government rather than encouraging engagement in self-employment. Gamage et al. (2003a) have identified that the current education system in Sri Lanka does not facilitate and encourage personal drive or self-determination and independence, but does develop self-discipline. Therefore, the literature relating to investigations into the entrepreneurial characteristics of Sri Lanka suggests that most of the founders of successful businesses started their entrepreneurial culture with virtually nothing (Fernando 2007). These entrepreneurs have been forced to create extremely hierarchical organisations and management based on the history of feudal and colonial domination as the means of production extending over 2,500 years.

Chandrakumara and Budhwar (2005) stated that Sri Lankan entrepreneurs and managers are passionate believers in, and practitioners of, Western, especially American, management principles and methods. Several studies conducted in Sri Lanka have indicated that many Sri Lankan managers believe that subordinates fall into the X type category of people (Nanayakkara 1999; Chandrakumara & Budhwar 2005), as described earlier by McGregor’s Theories X and Y. As a result, managers are reluctant to empower their subordinates and, for the most part, they use financial incentives to motivate workers in a manner similar to Taylorism.

Hofstede (2007) asked, ‘if management is not universal, what is specific for Asian management?’ Religion is a major factor that shapes human thinking and decision-making (Fernando & Jackson 2006; Galahitiyawe & Rathnayake 2009; Kumarasinghe & Hoshino 2010). The majority of Sri Lankans are Buddhist, as is common in Asian countries. Therefore, the ethics and code of conduct of Buddhism guide each and every activity, including business operations (Gamage et al. 2003 a, b; Fernando 2007; Galahitiyawe & Rathnayake 2009). Even though Sri Lankan managers bear negative attitudes toward their workers (as specified in Theory X), they usually treat their subordinates according to the Buddhist perspective - Sigalowada Sutta34 (Kumarasinghe

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34 Sigalowada Sutta contains Buddha’s teaching on domestic and social duties. There are five ways in which a master should minister to his servants and working people: (1) by assigning them to work according to their strength; (2) by supplying them with food and wages; (3) by tending them in sickness; (4) by sharing with them any profits; and (5) by granting leave and special allowances. The master described here is a person who has more collectivistic values, and the servant is a hard-working man (Kumarasinghe & Hoshino 2010, pp. 9, 10).
& Hoshino 2010). Therefore normally, workers labour in a very friendly and helpful working environment and they do not try to bargain with or work against their superiors to secure their jobs.

Chandrakumara and Budhwar (2005) explained that Sri Lankans display hospitality and respect, not only for elders and superiors, but also in all business activities. Hospitality and respectfulness (Hofstede 2007) are the main features of Asian or Eastern business management practices in countries such as Japan, China, Vietnam and Thailand (see Rowley & Warner 2007).

Hofstede (1980, 2001) and Hofstede and Bond (1988) identified the influence of national culture on organisational background in a few dimensions: Power distance, Uncertainty avoidance, Individualism/Collectivism, Masculinity/Femininity, and Long-term/Short-term orientation. Hofstede (1980, 2001) described developing countries as more dependent and collective than developed countries. Kumarasinghe and Hoshino (2010) proved empirically that Sri Lankan leaders are collectivistic. However, Chandrakumara and Budhwar (2005) showed that many Sri Lankan managers maintain a distance from their subordinates, though they use a system of rewards based on individual performance that, according to Nanayakkara (1984, 1993), reflects a cultural trait of individualism. Nevertheless, Nanayakkara (1999) noted that in the Sri Lankan cultural context, child rearing practices and values transmitted by elders to children have formed a dependence syndrome. One of the key differences between individualistic and collectivistic values is the emphasis placed on individual goals, as opposed to collective goals. Individualists put more weight on self-interest, personal goals and personal achievement. Collectivists set group goals ahead of individual goals. Hofstede (1991) characterised collectivistic societies as exhibiting a large power distance, inter-dependence of the group members, extended family relations, and high levels of communication and group decision-making. Therefore, Sri Lankan managers and entrepreneurs are generally collectivistic in a manner that is similar to their Asians counterparts (Hofstede 2007; Fernando 2007).
Sri Lankan entrepreneurs are inherently risk-averse, unprepared for change and disinclined to adopt new ideas and methods (Wickramarathene 1977; Jayasinghe et al. 2007, cited in Galahitiyawe & Rathnayake 2009). This situation is reinforced by language barriers (most entrepreneurs use only the native languages - Sinhalese or Tamil), and the history of the country, which is common in developing countries in the Asian region (see Rowley & Warner 2007). As a consequence of these inherent characteristics, the principal decision-makers in business (owner-managers) face ‘information black hole’ or ‘information avoids’ circumstances, and the country’s regional entrepreneurs mostly use traditional methods rather than modern expertise to carry out their managerial activities. Carson (1996, cited in Fernando 2007) claimed that there is a lack of strong professional competence emerging in the field of management in Sri Lanka. Furthermore, some researchers show that current Sri Lankan management education and training is highly Westernised in style and that has not made a noticeable contribution to the success of Sri Lankan organisations (Fernando 2007; Gamage et al. 2003). This confirms that Sri Lankan managers follow early Western management concepts rather than contemporary strategic management. On the other hand, to improve Sri Lankan managers, Japanese management has also been introduced into educational and training programmes in Sri Lanka. However, Japanese concepts are not easy to practice in the Sri Lankan business context, due to the fact that the attitudes and values of some people are grounded in British colonialism.

Due to the above-mentioned socio-cultural factors, Edirisinghe (2008) has used characteristics such as commitment, mutual respect, team spirit and the multicultural informal values of groups to investigate organisational culture, and characteristics such as bureaucratic, participatory, collective, people-friendly and hierarchical approaches to study management styles in the commercial banks in Sri Lanka. Therefore, this study also considers those characteristics to study the organisational culture and management style of the manufacturing sector SMEs in Sri Lanka.

As a result of the prevailing problems in the management education systems and their cultural background, Sri Lankans in business management tend in practice to mix some Asian traits and practices with Western management philosophies (Chandrakumara &
Budhwar 2005). It is noteworthy that normative Western management and entrepreneurship theories based on the rationality of logical positivism have created unexpected socio-cultural conflicts in Sri Lanka (Perera 1990; Wickramasinghe et al. 2001, Gamage et al. 2003a, b). This is because the Sri Lankan family-based values system connected with Confucianism and religious ethics are not favourable to generating work ethics similar to those that predominate in the West (de Alwis & Senathiraja 2003). Thus, management confusions and conflicts are becoming common among Sri Lankan managers and business organisations. For example, strikes, work-to-rule action and industrial disputes are common in Sri Lanka at present, due to managerial problems.

If the role of management is to ensure the achievement of success in business, and of sustainability, it is worth investigating why some Sri Lankan businesses have not used it to find solutions to the critical issues that confront them and improve their sustainability. No matter whether it is Western or Eastern in style, better management should offer better performance (Adcroft et al. 2004). Noticeably, in recent decades, business organisations in Sri Lanka have not, for the most part, benefited from Western theories or Eastern practices of management.

This literature review helped to draw the research questions of the study. They are introduced in Chapter One (see p.20) and are further discussed in Chapter Three (see pp. 106-109).

2.7 Chapter Summary

Management practice includes the day-to-day management of activities and decision-making (operational activities), as well as the sophisticated management tools and techniques (proactive or strategic activities) employed in order to achieve better performance in business activities. Since the objectives of organisations must be achieved in an ever-changing competitive environment, the complexity of management

35 Wickramasinghe & Hopper (2000) identified this as ‘traditional Singhalese village culture’.
theory and practice has increased over the past few decades (see Table 2.1, 2.2 & 2.3). More strategies and tactics (proactive practices) are needed by business organisations to gain competitive advantage through available resources and core capabilities. Thus, strategic decision-making is crucial to the survival of the organisation because it eliminates, or at least mitigates, threats and effectively allocates resources for any organisation. Researchers have pointed out that management and managers are integral to all institutions. Further, the literature emphasises that in today’s global competitive environment, any business, large or small, that is not thinking and acting strategically is extremely vulnerable and will perform poorly. However, Asian management practices are based heavily on regional cultural and religious features, as well as on ‘gut feeling’. Sri Lankan managers tend to mix Western and Eastern management concepts, but the results of their doing so are not overwhelming. This study concentrates on the management practices of SMEs in Sri Lanka in order to discover why some organisations fail or stagnate while others perform well with their management practices. In this chapter, theories from early management (Eastern and Western) to contemporary strategic management theories were reviewed to assist in developing the theoretical foundation which will be presented in Chapter Three in the next part of the thesis.
Part Two
Methodology of the Study

The aim of this section is to introduce the research design of the project and its methodology. Therefore, it includes the following chapters:

Chapter Three: Conceptual Framework and Research Questions

Chapter Four: Research Design and Methods
CHAPTER THREE:  
CONCEPTUAL FRAMEWORK AND RESEARCH QUESTIONS  

3.1 Introduction  

Sri Lankan entrepreneurs tend to practice management in the Western style, but they inherently possess Eastern or Asian traits. These entrepreneurs face many critical issues similar to those that exist in other emerging countries. Therefore, this study is designed to investigate, by empirical means, the management practices and the nature of the strategic behaviour of small and medium-sized enterprises (SMEs) in Sri Lanka. This chapter presents the conceptual framework of the study (section 3.2), key components of the framework (section 3.3) and research questions (section 3.4).  

3.2 Conceptual Framework  

Radhakrishna et al. (2007) indicated that almost all research projects conducted in the social and behavioural sciences, regardless of the discipline, require a rationale. This rationale, or base, is often called a theoretical framework and researchers have provided different definitions (Tuckman 1999; Sekaran 2000; Camp 2001; Elliott 2005). Sekaran (2000) defined a theoretical framework as a conceptual model of how one theorises or makes logical sense of the relationships between several factors that have been identified as important to the research problem. This definition was used as the guideline for this study.  

The strategic behaviour and practices of different organisations have been studied by other researchers, such as Christodoulou (1984) and Bonn (1996) in Australian manufacturing organisations; Nimmanphatcharin (2002), in financial companies in Thailand; Achyuthan (2004) in manufacturing companies in India; Angkasuvana (2005) in hotel companies in Thailand; and Edirisinghe (2008) in commercial banks in Sri Lanka. Nevertheless, as emphasised in the first chapter, there is a need to study the management practices and strategic behaviour (Singh et al. 2008) of the SME sector, especially in emerging economies (Glueck & Jauch 1984; Haley & Tan 2000; Angkasuvana 2005; Huang 2009). Figure 3.1 presents the theoretical framework which gives an overview of this research project.
ANTECEDENTS (Conceptualism)

- Theories of Management and Strategic Behaviour
  - Eastern and Western management theories
  - Strategic behaviour Modes (Ansoff 1988)

- External Factors (Task and Macro Environmental)
  - Strategic Management Tools
    SWOT, Industry Analysis (Porter 1980, 1985) & PEST Analysis
  - Stakeholder Analysis
    Hillebrand 2009

- Internal Factors (Internal Environment)
  - SWOT Analysis
  - Resource-Based Perspective (Barney 1991; Grant 1993; Wernerfelt 1984)

THE EMPIRICAL INVESTIGATION

- Organisational Characteristics
  Ownership, Culture, Structure, Management Style
  Stakeholders’ Interest

- Management Process
  - Critical Issues
    - Core competencies: Strengths, Opportunities
    - Barriers to survive: Weaknesses, Threats
  PEST, Industry Analysis

- Strategic Direction, Behaviour, Management Practice & Barriers for Formal Strategic Planning
  Formal Strategic Management (Proactive Systematic mode): FSP
  Informal Strategic Management (Proactive Ad Hoc mode): NFSP
  No Strategic Management (reactive mode)

OUTCOMES (Study Implications)

- Identification of critical issues and business management practices of SMEs in Sri Lanka
  - Government policy Outcomes
    e.g. Recommendations and incentives for small business management education.

- Recommendations for practice.
The conceptual framework was developed predominantly based on the academic literature and some government documents, but it has been adapted according to the context, objectives and the research questions of this project. In essence, the conceptual framework of this study attempts to integrate key pieces of information, especially variables, in a logical manner, and thereby conceptualises the research problem so that it can be tested.

### 3.3 Key Components of the Framework

The conceptual framework consists of three main components; **antecedents, variables under study** and study **outcomes**.

#### 3.3.1 Antecedents

This section embraces the theoretical background derived from the literature review, and is vital to the conceptualisation of the present empirical investigation. By scrutinising and critically evaluating previous investigations into similar or related phenomena, an academic foundation or theoretical content for this research was formed. As mentioned previously, in this task, early management theories and practices (Eastern and Western), as well as contemporary strategic management concepts, were used.

Improving management practice is also associated with increases in productivity and output (Bloom et al. 2007). As mentioned in the literature review, many scholars find a positive relationship between management and business performance (e.g. Jones 1982; Robinson & Pearce 1983; Bracker & Pearson 1986; Bracker et al. 1988; Shrader et al. 1989; Bloom & Van Reenen 2010), and some researchers (for example, Jones 1982; Robinson & Pearce 1983; Bracker & Pearson 1986; Bracker, Keats & Pearson 1988; and Shrader, Mulford & Blackburn 1989) have identified a positive relationship between rational or sophisticated planning and performance. Therefore, management theories and practices provided the foundation for this study. For the purpose of analysing the strategic behaviours of participant SMEs, Ansoff’s (1988) strategic behaviour modes (reactive, proactive-ad hoc and reactive-systematic) were used. This
model allows the analysis and comparison of strategic behaviours and the performance of participant SMEs, in terms of whether they were growing, stagnating or had failed, in order to achieve the objectives of this study.

The second section of the antecedents considers the factors external to organisations. The term external factors refers to both task environmental and macro-environmental factors. Porter’s five-force industry analysis model (1980, 1985) and the stakeholder model (Hillebrand 2009) were used to identify important external environmental factors. Both models were used to identify the causes and the degree of possible competition or threats, as well as potential opportunities, in the industry. As noted in Chapter Two, Porter (1980, 1985) pointed out that the adoption of one of three generic competitive strategies - cost leadership, differentiation and focus strategies – will enable an entity to compete in a highly competitive industry. The extent to which the target group has utilised these strategies was examined in this study. Furthermore, stakeholder analysis helps to identify different stakeholders with different stakes, which is a crucial consideration when deciding the strategies of a firm. Enterprises are operated within a macro-environment and, consequently, macro-environmental forces, more particularly political, economic, socio-cultural and technological (PEST) factors, will impact on the management process of firms (see, for example, Hillebrand’s model for stakeholder management in SMEs – Figure 2.6, p. 68). The analysis of the external environment is the first step in the formal strategic management process (see Figure 2.1, p. 47), and that examination facilitates the identification of external factors affecting SMEs. Furthermore, in this external domain, the Sri Lankan government’s imperatives and initiatives are examined in order to discover the existing gaps and issues with regard to what further research is needed (see Chapter One).

According to Prouska and Kapsali (2011), the strategic behaviour of a firm is determined or shaped, not only by its external factors, but also by its internal factors. Internal environmental factors, including strengths and weaknesses, were evaluated from the resource-based perspective (Wernerfelt 1984; Barney 1991; Grant 1993). As mentioned in Chapter Two, this analysis generally facilitates efforts to determine whether or not the available organisational, human and physical resources are
appropriately aligned with the strategies of a firm (Grant 1993; Angkasuvana 2005). This analysis is given the appellation ‘strategic fit’ by traditional strategy researchers (Das & Teng 2000). Resources that are appropriate, scarce and in high demand (capabilities) create strengths and competitive advantage for the firm (Rumelt 1984; Grant 1993; Thomson & Strickland 2001). However, if there is a gap in relation to resources, that problem can be detected through resource-based analysis (Grant 1993). An unfavourable resource gap can be identified as a weakness or, in other words, a barrier to the particular firm to competing and growing in an industry (see Figure 2.7, p. 72).

In summary, management theories help to provide an understanding of the internal and external environments of organisations, as well as of possible strategic behaviours. As mentioned in Chapter Two, some literature emphasises that management concepts lead to improved business performance. Gamage (2003), Sumanasena (2005) and Munidasa (2008) have revealed that there are managerial problems behind the unsustainability of SMEs in Sri Lanka. However, they have not investigated in detail what kind of managerial issues are confronting Sri Lankan SMEs. Therefore, the empirical investigation of this study starts from the government initiatives and the work of previous researchers on the unsustainability and poor performance of SMEs in Sri Lanka. These key concepts underpin the study, and this is illustrated in the conceptual framework (see Figure 3.1, p. 95) by an arrow leading from antecedents to empirical investigation.

3.3.2 The Empirical Investigation

The antecedents helped to identify the variables that are important, in order to attain the objectives and find answers to the key research questions of the current study. The variables of this study are discussed in the following subsections.

3.3.2.1 Organisational Characteristics:

Previous researchers (for example, Boulton 1984; Cosier & Schwenk 1990; Papadakis & Barwise 2002; Baum & Wally 2003) have sought to discover the most important
organisational factors and their influence on the strategic decision-making processes of a company in various contexts. According to early management theories (see Tables 2.1 & 2.2), as well as contemporary strategic management theories (resource based view - e.g. Wright et al. 1996; stakeholder theory-Hillebrand 2009), a company’s size, ownership, structure, culture, and management style, and the nature of its stakeholders’ interests, are the main organisational factors. Christodoulou (1984), Bonn (1996), Nimmanphatcharin (2002), Angkasuvana (2005) and Edirisinghe (2008) have also used these organisational factors to investigate strategic behaviour in their research studies. While these factors are mostly internal, they are shaped by macro and task environmental factors.

**Size:** Many scholars have argued that the size of a firm can affect the strategic decision-making process (e.g. Fredrickson & Iaquinto 1989; Snyman & Drew 2003; Elbanna & Child 2007; Jocumsen 2004; Huang 2009). They stated that small firms rely mostly on intuition and normally use less complex planning and management processes. This study concentrates on small to medium-sized enterprises, and the outcomes of this research will discuss their strategic behaviours. Although firm size is not included in the conceptual framework, following previous studies, data will be analysed and presented according to the size aspect of the participant firms, where necessary with their corresponding significance (see Edirisinghe 2008). This study identifies the following organisational characteristics as being important to investigate.

i) **Ownership:** Huang (2009) stated that the ownership of firms influences their strategy-making processes significantly. Wang et al. (2007) identified the fact that owner aspirations are integral to whether or not SMEs engage in strategic planning. Therefore, they show the importance of owner motivation for strategic planning in SMEs. In line with previous studies (Dzisi 2008; Pansuwong 2009; Ramawickrama 2011), the present study identified possible ownership categories of SMEs as sole proprietorship, family-owned, partnerships and private limited companies. As owners actively participate in managerial activities in SMEs (Scarborough & Zimmer 2003; Beaver & Jennings 2005; Fuller-Love 2006; Wang et al. 2007; Perrini et al. 2007).

36 Refer to the data analysis framework - Figure 4.2 in p. 139.
Hillebrand 2009), ownership is a crucial organisational characteristic that is considered in this study. However, SMEs that were owned by, or in partnerships or collaborations with, foreign entities were excluded, as the objective of this study is to investigate management practices of SMEs that are purely Sri Lankan (fully owned and operated by Sri Lankans).

ii) **Culture:** This is the combination of underlying values, norms, beliefs, assumptions and principles that form the foundations of the management system, practices and behaviours of a firm (Henri 2006). Culture can also be identified as a strategic resource, due to its positive relationships with organisational performance through leadership (Carmeli & Tishler 2004), and personal effectiveness through distinctive support of employee fulfillment and satisfaction (Kwantes & Boglarsky 2007). Ussahawanitchakit (2008) stated that organisational culture is likely to help SMEs learn, understand and utilise the competitive situations and achieve outstanding performance and survive in competitive markets. Previous researchers (e.g. Edirisinghe 2008) have employed numerous characteristics of both Western and Eastern origins to investigate organisational culture in their studies. This study considers 10 characteristics including people-friendliness, commitment and greater flexibility (see questionnaire in Appendix 1, Q 8, p.333).

iii) **Structure:** Organisational structure shows how the whole organisation is assembled. According to Chandler’s (1962) dictum, ‘structure follows strategy’, the organisational structure should be matched to the strategy intended by the decision-maker (De Wit & Meyer 2010). Basically, there are three types of structure. A *Centralised* structure is defined as a decision-making structure in which all decisions regarding the commitment of resources are made by the top personnel and communicated down through the firm as a top-down strategy process (Daft 1982; Mintzberg 1983; Andersen & Knudsen 2007). A *Decentralised* structure allows important strategic influences to emerge from lower hierarchical levels, as a result of empowerment and experience (Andersen 2004; Andersen & Knudsen 2007). A *Hybrid* structure is formed by combining features of both the centralised and decentralised structures. Knudsen and Levinthal (2006) noted that hybrid organisational structures
may help to balance exploration (associated with decentralised structures) and exploitation (associated with centralised structures), and may constitute optimal organisational configurations (Becker & Knudsen 2004). According to Burns and Stalker (1966), a centralised structure is more *mechanistic* and a decentralised structure is more *organic*. This study considers all of these structural categories.

iv) Management style: In work-related settings, owners and/or managers influence their subordinates by using their superior power to accomplish the goals of the organisation, a phenomenon which can be identified as management style (Tripathi & Tripathi 2009). Tull and Albaum (1971) explained management style as a recurring set of characteristics that are associated with the decision-making process of the firm or individual managers (cited in Mikhailitchenko & Lundstrom 2006). Some researchers have indicated that there is no universal and globally acceptable management style, and that managerial practices in different countries have particular features specified by existing cultural differences (Poon et al. 2005; Hofstede 2001; Birnbaum-More et al. 1995; Mikhailitchenko & Lundstrom 2006). Furthermore, Lee et al. (2000) claimed that a national management style would be influenced by national culture and level of development. Edirisinghe (2008) has used a few characteristics to investigate the management style of the banking sector in Sri Lanka. That study combined both Eastern and Western management styles, including McGregor’s Theories *X* and *Y*. Therefore, characteristics of management style include autocratic (Lippit & White 1958; McGregor 1960), participative (Likert 1967), bureaucratic (Weber 1947) and collective (Ouchi 1981). Of those identified, nine characteristics with one category for ‘others’ were used in this study to investigate the management style of the target group (see survey questionnaire – Appendix 2, Q 9, p.334). The following key dimensions were used for the comparison of different management styles:

- *Supervision style* - the degree to which the main decision-makers participate in the routine workflow of subordinates;

- *Decision-making style* - the extent to which employees participate in managerial decision-making;
- *Information-sharing style* - the degree to which key information is accessible to subordinates, and the rate and method of information flow within the firm; and
- *Paternalistic orientation* - the extent to which the supervisor participates in the affairs of subordinates not related to work.

(Source: Mikhailitchenko & Lundstrom 2006)

v) *Stakeholders’ interest (internal & external):* As noted in Chapter Two, one of the main objectives of SMEs is to create value for their stakeholders (Perrini 2006). However, the activities of the main stakeholder group can affect the existence and persistence of firms, either positively or negatively (Freeman 1984; Maranville 1989; Savage et al. 1991). This study uses Freeman’s (1984) stakeholder view (see Figure 2.4), and identified ten groups including owner-managers (see survey questionnaire in Appendix 1, Q 12, p. 334). SMEs are mostly operated by owners and in their interests. Therefore, the objective of this question in the survey is to investigate the stakeholders who have the power to exert influence (Johnson & Scholes 1999) over the strategic behaviour of SMEs according to the owners’ perceptions (Hillebrand 2009). As such, Hillebrand’s (2009) model for stakeholder management in SMEs was used in this study as the basis on which to analyse stakeholders of SMEs in Sri Lanka.

### 3.3.2.2 Management Process

This process can be considered to be planning, organising, leading and controlling in accordance with Fayol’s administrative theory (see Fayol 1919). In this process, managers face critical issues and manage core capabilities as well as some barriers.

i) *Critical Issues* are the major problems that decision-makers in SMEs consider to have a big impact on the business activities of their firms. Ansoff et al. (1991) defined a critical issue as a forthcoming development that is likely to have an important impact on the ability of the firm to meet its objectives. These are the central issues that managers take into account when making long-term decisions, as they affect the growth and development of their businesses. The Asian SME summit (2009) pointed out that SMEs in emerging Asian countries primarily face issues relating to business regulation and restrictions, finance, human resource capabilities and technological capabilities.
Sumanasena (2005) explained that low levels of technology, marketing knowledge and management skills, and difficulty in obtaining financing due to various causes are the main issues confronting SMEs in Sri Lanka. This study identifies 10 issues through the literature review and pre-testing (e.g. focus groups - see Chapter four and survey questionnaire in Appendix 2, Q 4, p. 332).

ii) Core Competencies and Barriers to Survival create strengths and opportunities as well as threats to and weaknesses in the organisations. Firms thrive in a highly competitive market over time when they can be more effective than their rivals in satisfying the needs of their customers. The essence of smart and feasible strategy making is selecting the competencies and capabilities on which to concentrate and using them to underpin the strategy (Thomson & Strickland 2001). To build competitive advantage in the market place, core competencies and capabilities positively assist business organisations, while their absence can have the opposite effect. Therefore, in this section an analysis of strengths, weaknesses, opportunities and threats (SWOT) was undertaken regarding participant organisations (see survey questionnaire in Appendix 2, Q 13, 14, p. 335). In addition, as noted in the literature review, a political, economic, socio-cultural and technological (PEST) analysis was undertaken to investigate the macro-environmental forces in which SMEs in Sri Lanka operate (see survey questionnaire in Appendix 2, Q 15, p. 335).

This study considers both the core competencies and barriers to survival in order to investigate critical issues, and then to reveal possible relationships between the organisational characteristics of SMEs and the critical issues that confront them. A two-way arrow is used to indicate this task in the conceptual framework (see Figure 3.1, p.95).

3.3.2.3 Performance of Firms

According to the literature, the performance of firms is the consequence of the management processes, and most business failures are the consequences of poor management (Murphy 1956; Scarborough & Zimmerer 2003; Manning 2004; Pansiri & Temtime 2008). However, there is no commonly agreed definition of performance
management systems (Franco-Santos et al. 2007). Hence, as noted in section 2.4, business performance is gauged by financial as well as non-financial measures (Kaplan & Norton 1992). As such, Srinivasan et al. (1994) claimed that the most commonly used criteria for organisational performance are survival, growth and profitability. On the other hand, Islam et al. (2011) explained that it is difficult to gather information on, and measure the financial profits of, SMEs, especially in the South-Asian region. Based on this literature, and the findings of focus group discussions, this research used non-financial performance indicators such as growth and survival as the yardsticks of better performance.

This study presumed that management processes, organisational characteristics and strategic behaviours all impact on the performance of SMEs and, therefore, these are indicated by the arrows in Figure 3.1.

3.3.2.4 Management Practice

Management practice denotes how managers conduct their business activities and find remedies for critical issues (Ansoff et al. 1991) confronting their enterprises that are generated in the business environment. Strategic direction with a clear business philosophy (vision), strategic thinking and scenario planning are useful in this process. To identify the management practices of SMEs in Sri Lanka, both early management and modern strategic management theories were used. As noted before, in line with Ansoff’s (1988) strategic behaviour model, the present study has identified three management practices: formal strategic management with written strategic plans (proactive systematic mode), informal strategic management (proactive ad hoc mode) and no strategic management (reactive mode). Firms that operate in the proactive systematic mode or, in other words, maintain written plans, are designated formalised strategic planning (FSP) firms. Enterprises that operate in the reactive and proactive-ad hoc modes without written plans are designated non-formalised strategic planning (NFSP) SMEs. Furthermore, based on the literature, this study forecasts that proactive practice (with or without written plans) is better than reactive, and tends to produce

The phrase barriers to formal or sophisticated management refers to fundamental factors that hinder the formalisation of sophisticated management practices and formalised strategic plans. Some researchers (e.g. Lindsay & Rue 1980; Pearce et al. 1987; McKiernan & Morris 1994; Smith 2003) mentioned a lack of resources and knowledge as barriers to rational planning. More precisely, Wang et al. (2007) identified ten barriers to strategic planning in SMEs such as a lack of time, a lack of expertise and environmental uncertainty. This series of obstacles was used as a guide in this research (see survey questionnaire in Appendix 2, Q 27, & 32, pp. 339 & 340).

The above-mentioned main organisational characteristics have a considerable impact on the management processes that deal with critical issues, as well as core competencies. The extent to which firms achieve the outcomes expected depends on how their main decision-makers handle their organisational characteristics. In this process decision-makers can use either reactive or proactive systems, but the results depend on how they practice their chosen method. The arrows of the primary data section in the conceptual framework show this association (see Figure 3.1, p. 95).

### 3.3.3. Outcomes

Some contemporary researchers (e.g. Singh et al. 2008; Huang 2009) have suggested that there is a considerable gap in the existing body of knowledge in relation to the strategy-making process in SMEs. Therefore, this study aims to address this gap by contributing empirical findings on the critical issues confronting, and the strategic behaviour of, SMEs in Sri Lanka. As noted previously, although some researchers have pointed out a lack of management as a reason for slow growth and poor performance in SMEs in Sri Lanka, they have not investigated that issue in detail (see for example Gamage 2003; Sumanasena 2005). On the other hand, due to the civil war, no prior research has been conducted yet in this field that covers the whole country. As the civil
war has now ended, this is no longer an acceptable excuse. Therefore, it is important to address available gaps in the knowledge in this regards.

The practical importance of this empirical investigation lies in its ability to provide several recommendations for SMEs in the industrial sector and related institutional bodies by identifying the critical issues confronting SMEs in their struggle to remain sustainable. In particular, the findings of this research project contribute to the development of government policy related to the SME sector in Sri Lanka. The findings disclose the nature of the support and assistance that is expected by SMEs. The results are also useful for guiding government institutions and policy makers in their efforts to introduce suitable awareness and educational programmes, in order to enhance the managerial skills of current and future entrepreneurs. Moreover, this study presents some recommendations in Chapter Eight for the perusal of potential researchers in this field.

The next sub-section contains a discussion of the research questions developed, based on the research aims and objectives of this study.

3.4 Research Questions

The literature reveals the need for empirical studies that investigate the management practices and patterns of strategic behaviour of SMEs in the manufacturing sector in an emerging country like Sri Lanka. Therefore, the main research question seeks to determine the extent to which SMEs in Sri Lanka are employing formal management systems to address critical issues inherent in their business operations. Specifically, this study seeks to investigate the following five questions:

1. What are the main organisational characteristics of the SMEs in the manufacturing sector in Sri Lanka?

This question aims to examine the organisational features and their possible impacts on decision-making, strategic behaviour and long-term success of SMEs. As mentioned in section 3.3.2, five organisational characteristics - ownership, structure,
culture, management style and stakeholders’ interests - are recognised as being important to investigate in this study (see for example, Christodoulou 1984; Bonn 1996; Nimmanphatcharin 2002; Angkasuvana 2005; Edirisinghe 2008). As noted previously, the firms’ size characteristic was used for data analysis and for the purpose of interpretation (see, the framework developed for data analysis - Figure 4.2 in p. 139). Not all organisational characteristics have exactly the same impact on a firm’s strategic behaviour and performance. Some organisational characteristics can act as a resource, while others can be perceived as a weakness. Hence, the organisational characteristics which have a significant impact on the strategic behaviour of SMEs in Sri Lanka were examined by this research question.

2. What are the critical issues commonly faced by the SMEs in the manufacturing sector in Sri Lanka?

According to both the literature and practice, SMEs face many challenges and issues. Some are day-to-day operational issues, but others are critical issues (Ansoff 1991). Identification of critical issues will assist efforts to find appropriate remedies that will support the growth and sustainability of SMEs. The literature shows that a lack of resources, a lack of managerial skills and a lack of technology are the common problems faced by SMEs. However, the critical issues confronting SMEs vary from country to country, and from sector to sector. Therefore, this research question investigated the critical issues commonly faced by SMEs in the manufacturing sector in Sri Lanka that would compromise their viability.

3. Is there any relationship between the organisational characteristics of the SMEs in the manufacturing sector in Sri Lanka and the critical issues they face?

According to previous studies, organisational characteristics impact on a firm’s management process and strategic behaviour. If business organisations face critical issues, it is within the purview of managers to adjust them through their management practice and organisational characteristics (Quinn 1978). Thus, the objective of the research question was to examine whether there was any relationship between the
organisational characteristics of SMEs (other than size) and the critical issues that confronted them.

4. What strategic management tools are used by SMEs in the manufacturing sector in Sri Lanka?

The literature suggests that strategic management tools and techniques improve the performances of firms. PEST analysis, SWOT analysis, industry analysis and written strategic plans are considered to be strategic management tools. Numerous scholars (for example, Andrews 1965; Porter 1985; Ansoff 1988) have introduced those tools for the use of business organisations so that they might survive and grow in highly turbulent and competitive environments. This question sought to determine whether the majority of SMEs in the manufacturing sector in Sri Lanka used formal strategic management tools and techniques in their management processes, or whether they operated without formal and rational management planning processes. In this study, firms that operated with formal strategic planning (FSP) are referred to as FSP SMEs, and other firms engaging in non-formalised strategic planning (NFSP) are categorised as NFSP SMEs. According to Ansoff’s (1988) modes, FSP SMEs are proactive systematic strategic planning firms. NFSP SMEs can be engaging in either proactive ad hoc or reactive modes of strategic behaviour.

5. How do the SMEs in the manufacturing sector in Sri Lanka manage their business operations when functioning variously with or without a formalised strategic management process or strategic planning system?

This research question investigated further strategic behaviour of both FSP and NFSP SMEs. If firms operated without a formal, rational proactive management process and planning system, they should use strategies or methods of some variety. If this was the case, it was necessary to find out what kind of management processes or practices they used to manage their business organisations, in order to address the critical issues they face. It was also important to understand why they used the practice they had selected, and how it affected their performance. This research
question helped to identify whether growth, stagnation and failures among SMEs in Sri Lanka occurred as a result of the management practices they adopted.

This research investigated a large number of variables that can affect the strategic behaviour or the management practices of SMEs in the manufacturing sector in Sri Lanka. As noted in previous studies (e.g. Nimmanphatcharin 2002; Edirisinghe 2008), it is impossible and impractical to develop hypotheses for all these variables. On the other hand, Radhakrishna et al. (2007) suggested that descriptive research does not usually involve the testing of a hypothesis. Due to the exploratory and descriptive nature of this study, development of research questions was appropriate as it led to more reliable outcomes, as explained by Creswell et al. (2007) and Radhakrishna et al. (2007).

### 3.5 Chapter Summary

Research studies in social and behavioural sciences, regardless of the discipline, require a rationale for implementation. This rationale is often called the theoretical or conceptual framework. This chapter expatiated on the conceptual framework that underpins the seminal theories and literature. The conceptual framework has three sections; antecedents, empirical investigation and expected outcome. In accordance with the main objective of the study, five research questions were developed and the entire research project was based thereon. Finally, the rationale for why research questions were used has also been provided in this chapter. The research design and methods of this study will be discussed in the next chapter.
CHAPTER FOUR: RESEARCH DESIGN AND METHODS

4.1 Introduction

Business research does not exist in a vacuum. It is shaped by what is going on in the real world of business and management, as well as in the field of research in the social sciences. Having introduced the literature and the conceptual framework, it is now imperative to discuss and justify the research strategies employed in the present study. This chapter presents the research paradigms (section 4.2), research design and methods (section 4.3), research instruments (section 4.4), data collection process (section 4.5) and data analysis of this study (section 4.6).

4.2 The Research Paradigms—Epistemology and Ontology

Researchers talk about two main research approaches, deductive and inductive. This study utilised both deductive and inductive approaches through its conceptual framework. Whilst deductive research is a study in which a conceptual and theoretical structure is developed and then tested by means of empirical observations, in inductive research the outcome is a theory which was developed from an empirical study (Bryman & Bell 2007; Collis & Hussey 2009).

An epistemological concern exists regarding the question of what is, or what should be regarded as, acceptable knowledge in a discipline (Bryman & Bell 2007). Moreover, a philosophy or paradigm incorporates assumptions and stances about the social world and our ability to know it. A paradigm frames and guides a particular orientation to social inquiry, including what questions to ask, what methods to use, what knowledge claims to strive for, and what defines high-quality work (Patton 1990; Veal 2005). Since a philosophical paradigm influences both the selection of research methodology and research enquiry methods, there is a need to identify the philosophical research paradigm that informed this study.
The choice of paradigm is an explicit decision made by the researcher based on the ontology and epistemology of the research project. The research questions and the key research characteristics of this study were derived from different theoretical perspectives or paradigms. Generally, descriptive and correlation research studies derive from the **positivist paradigm** and exploratory research develops from the **phenomenological** or **interpretivist paradigm** (Bryman & Bell 2007; Collis & Hussey 2009). These two paradigms were well represented in the literature and are briefly discussed in the following subsections.

### 4.2.1 Positivist Paradigm

Positivism is a paradigmatic philosophy that originated in the natural sciences. It is based on the assumption that social reality is singular and objective, and is not affected by the investigator. This paradigm supposes that studies of human behaviour should be conducted in the same ways as studies in the natural sciences (Hussey & Hussey 1997). Moreover, it involves a deductive process with a view to providing explanatory theories to facilitate the understanding of social phenomena (Collis & Hussey 2009). The positivistic paradigm is typified by data collection using quantitative techniques such as experiments, surveys and mathematical evidence. The scientific methods associated with quantitative techniques are widely used in social science research to determine causal relationships and test theories. In this sense, the ontological orientation is **objectivist**, which means that social phenomena and the categories that are used in everyday discourse have an existence that is independent of, or separate from, the actors (Bryman & Bell 2007).

To examine the relationship between the identified variables and strategic behaviour of small and medium-sized enterprises (SMEs) in the manufacturing sector in Sri Lanka, the scientific methods associated with statistical analysis were applicable to a significant extent. For example, to find the relationship between the organisational characteristics of SMEs in Sri Lanka and the critical issues confronting them, quantitative techniques were appropriate, since correlation research studies are derived from a positivist paradigm.
4.2.2 Interpretivist Paradigm

The interpretivist or phenomenological paradigm is underpinned by the belief that social reality is not objective, but highly subjective. This is because social realities are shaped by human perceptions. This paradigm adopts a different framework of analysis and attempts to provide a subjective understanding of human behaviour by focusing on meaning rather than measurement. In other words, it involves an inductive process with a view to providing interpretive understanding of social phenomena within a particular context. An interpretivist paradigm is normally associated with qualitative research methods such as action research, case studies and ethnography. Moreover, these methods seek to describe, translate and come to terms with the meaning, not the frequency, of naturally occurring phenomena in the social world (Green 2002; Neuman 2006; Collis & Hussey 2009). In this sense, the ontological orientation is towards constructionism (often also referred to as constructivism), which asserts that social phenomena and their meanings are continually being made up by social actors and are in a constant state of revision (Hussey & Hussey 1997; Bryman & Bell 2007). This research is also based on research questions that are of a highly exploratory nature. As exploratory research is supported by interpretivism, it was necessary to adopt research methods that allowed subjective knowledge to be obtained in this study.

Table 4.1 presents the fundamental theoretical differences between quantitative and qualitative research projects, as well as epistemological and ontological orientations that researchers can use as a preliminary guide to design research projects.

Table 4.1 Fundamental Differences of Two Main Research Paradigms

<table>
<thead>
<tr>
<th>Orientation</th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal orientation (role of theory in relation to research)</td>
<td>Deductive; testing of theory</td>
<td>Inductive; generation of theory</td>
</tr>
<tr>
<td>Epistemological orientation</td>
<td>Positivism</td>
<td>Interpretivism</td>
</tr>
<tr>
<td>Ontological orientation</td>
<td>Objectivism</td>
<td>Constructionism</td>
</tr>
</tbody>
</table>

(Source: Bryman and Bell 2007, p.28)
There are a number of paradigmatic philosophies available to conduct research. Positivism and interpretivism are two extreme research paradigms, and continua of core research philosophies are available from these two purely objective and subjective views (Collis & Hussey 2009).

4.2.3 Research Paradigm of this Study- Middle Ground?

When conducting the literature review it was found that to study management practices and related activities of SMEs, especially in a South-Asian country, it is necessary to choose a methodology that suitably captures the relevant data in order to achieve the research objectives. Essentially, the social, cultural and economic factors (Storey 1994), such as the personal values, beliefs, attitudes and tax related issues of the participants, can have a negative impact on the data collection process in Asian contexts. Some Sri Lankan business owners naturally do not like to talk about their business activities and give important information, but others are entirely different and happy to discuss details. This shows the existence of a nature that avoids risk (Hofstede 1980, 2001), but is still hospitable (Chandrakumara and Budhwar 2005). Therefore, this research was designed according to both objective and subjective research philosophies, in order to minimise possible negative impacts as well as to collect important insights.

Many researchers (for example, Curran & Blackburn 2001; Creswell 2003; Dzisi 2008) have argued that pragmatism is the key factor in determining the methodology to be adopted for exploratory studies. Rather than be ‘constrained’ by a single paradigm, pragmatists advocate that social researchers should be ‘free’ to mix methods from different paradigms, choosing methods on the basis of their usefulness (Collis & Hussey 2009). Although positivism (quantitative) and interpretivism (qualitative) represent two extreme paradigms, both have been used in this study, due to the nature of the research context and the research questions. While the quantitative part of the study constituted an attempt to identify the main characteristics of the target group, the qualitative part probed more deeply into aspects that cannot be examined by the other method.
4.2.3.1 Mixed Methods – Methodological Triangulation

Denzin (1970) and, later, Easterby-Smith et al. (1991), distinguished four forms of *triangulations*. These include data triangulation, investigator triangulation, theoretical triangulation and methodological triangulation. Creswell et al. (2007) emphasised four major mixed methods of research design: triangulation; embedded; explanatory and exploratory. Due to the investigative nature of the current study, a mixed method research approach, in other words, data triangulation and methodological triangulation, was applied in order to discover answers to the research questions.

Mixed methods research combines both quantitative and qualitative research techniques with their associated methods, approaches, languages or concepts, in a single study. Therefore, this approach has been identified as *multiple operationalism* and *multi-method research* by previous researches (e.g. Campbell & Fiske 1959). Johnson et al. (2007) stated that mixed methods research is an intellectual and practical synthesis based on qualitative and quantitative research, and that it is the third research paradigm after positivism and interpretivism. Further, Johnson and Onwuegbuzie (2004), Creswell et al. (2007) and Bryman and Bell (2007) pointed out that the mixed methods approach has increasingly become the preferred method among social researchers, as it is ‘practical’. With this design, ‘words, pictures, and narratives (generally considered as qualitative data) can be used to add meaning to numbers (quantitative data)’ (Johnson & Onwuegbuzie 2004, p. 21). Therefore, this research approach improves the accuracy of research findings by collecting different kinds of data bearing on the same phenomena, and allowing research results to be generalised for future studies and examinations (Nagy & Biber 2010). Figure 4.1 presents the application of the triangulation strategy in the process of investigating the management practice of the target group in this study.

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37 There are many mixed methods research designs in existence. In the book by Tashakkori and Teddlie (2003) alone, approximately 35 mixed methods research designs are outlined. Most mixed method designs utilise time orientation dimension as their base. i.e. whether the quantitative and qualitative phases of the study occur at approximately the same point in time or whether these two components occur one after the other.
Creswell et al. (2007) discussed a few ways of applying the mixed methods research approach in different studies. One suggestion for researchers is to collect data using a
quantitative survey instrument and follow up with interviews with some of the individuals who participated in the survey, in order to learn in greater depth about their responses (Creswell et al. 2007 p. 11). Creswell et al. (2007) identified this method as concurrent triangulation strategy, and it is suitable for research associated with the Doctor of Philosophy (PhD) as data collection time is shorter compared with the other mixed method strategies. This research project followed this approach, according to the objectives of the research, in order to study the management practices of Sri Lankan small and medium manufacturers.

4.3 Research Design and Methods.

Research design is the constitution of an overall plan of investigation that will be used to obtain empirical evidence to address the proposed research problem. The plan contains detailed information related to the collection, measurement and analysis of data pertaining to a research project, as well as a discussion of ethical issues (Saunders et al. 2007; Cooper & Schindler 2008; Pansuwong 2009). Having established the research paradigms and the philosophical ideologies underpinning this research, it is acknowledged that appropriate methods must then be chosen to design the project.

4.3.1 Research Context

The research context depends heavily on the research objectives and the target group (Bryman & Bell (2007). In this research, the target respondents were the owner or a senior person responsible for long-term planning and decision-making within a manufacturing organisation with five to 149 regular employees.

When deciding on the SMEs to be targeted as respondents, special consideration was given to their current situation. Previous scholars have shown that SMEs usually pass through four stages consistent with the business life cycle, namely start-up; growth; maturity and decline or renewal (e.g. Marsden & Forbes 2003). However, many SMEs in the manufacturing sector in Sri Lanka do not go smoothly through those stages. Premaratne (2008) noted that the average lifetime of a small firm in Sri Lanka is eight
years. First, owners start their business operations, stagnate (Wijewardena 1989) for a while and then close down. This tendency toward inefficiency and failure was identified by the pilot-study for this research project. Only a few manufacturers exhibit growth in their business life cycle. On the other hand, Aldrich (1979), and Hannan and Freeman (1989), mentioned that it might be misleading to make inferences about the success of companies by focusing only on those that are in existence during the time at which an investigation is conducted. Similarly, McGrath (1999) explained that by carefully analysing failures, instead of focusing only on successes, scholars can gain insights and achieve better results. Therefore, in this study, four groups of SMEs in the manufacturing sector were investigated in order to collect generic and specific data. These groups are, namely, start-ups, stagnating, growing and failed.

When the survey was undertaken, firms that were actively operating were considered to be in the category of existing SMEs. Some researchers have identified these firms as ‘survivors’ (e.g. Bonn, 1996). In this research, existing SMEs have been categorised into three groups: start-ups, stagnating and growing firms.

4.3.1.1 Start-ups (new firms)

In the start-up stage, firms are small and new. They most probably focus on resource acquisition and finding new opportunities to exploit. They are more concerned with their external competitive environment than with their internal processes or structure (Marsden & Forbes 2003). Some researchers (e.g. Schayek 2011) have used firms with more than two years of experience in business to investigate the existing relationship between strategic planning and small business performance. This approach implies that those SMEs that are less than two years old could be considered to be start-ups or at the entrepreneurial stage (Peiser & Wooten 1983; Thagurathi 2007). Therefore, for the purposes of this research project, start-ups were defined as SMEs that had experience in business totaling less than two years during the time the investigation was conducted.
4.3.1.2 Stagnating SMEs

Stagnating SMEs were defined as firms which were more than two years old and that had been conducting business without any substantial growth in the number of their employees over a period of two to three years. Some researchers have identified business organisations of this kind as ‘non-growers’ (e.g. Hansen & Hamilton 2011). This study used the ‘number of employees’, rather than other definitions such as investments and turnover, to identify and categorise SMEs. This is because, if a manufacturing organisation is continuously growing, it should increase its labour force since Sri Lankan firms use labour-intensive methods (Chandrasiri 2004; Amaratunge 2009). In Sri Lanka, labour is relatively cheap (Kapuge & Smith 2007) and easily available due to high labour force growth and widespread poverty (Shaw 2007).

4.3.1.3 Growing SMEs

Growing SMEs were defined as firms which were more than two years old and had been engaged in business with a substantial growth in number of employees (Marsden & Forbes 2003; Nichter & Goldmark 2009) over the period of two to three years, prior to the time at which the investigation was undertaken. As noted by Nichter and Goldmark (2009), the majority of researchers studying the growth of small firms in developing countries rely on employment growth rather than financial data. The participants in this study were asked to provide details of the growth in their employment, such as an increase in the number of employees, as evidence that the firm was growing.

4.3.1.4 Failed SMEs (Closed firms)

Failed SMEs (non-survivors, according to Bonn (1996)) were defined as enterprises that have ceased to conduct business activities during the two to three years prior to the time at which the investigation was conducted. Since the present study seeks to investigate why SMEs in the manufacturing sector in Sri Lanka frequently fail, it is crucial for this category of business to be included in the project.
In late 2008, a global financial crisis occurred. When the survey was conducted, participants were asked whether this economic downturn had had a considerable impact on their organisations in terms of cutting their labour force, reducing their production level and/or forcing them to close down. This question was asked in order to provide an understanding of the possible effects of the global economic downturn on the real situations of the participant SMEs.

4.3.2 Data Collection Methods

In addition to the literature review, secondary information was collected from various sources in order to understand the initiatives taken by the Sri Lankan government regarding SMEs. These secondary data were gathered from various publications and websites maintained in both the Singhalese and English languages. These include the Central Bank of Sri Lanka, the Industrial Development Board (IDB), the Department of Census and Statistics (DCS), the Asian Development Bank (ADB), the United Nations Industrial Development Organisation (UNIDO), the Ministry of Industry and Commerce, the World Bank and the International Monetary Fund (IMF) (see Appendix 11, p. 377).

As the validity and reliability of the research outcome is highly dependent on the data being used, a special effort needed to be made to identify the most suitable data collection method for this study. As a result, two primary data collection methods, namely face-to-face surveys and in-depth interviews (case studies), were designed based on the context, objectives, and epistemological and ontological orientation of the study.

4.3.2.1 Primary Data Collection Phase I: Survey

The survey method is generally associated with the deductive research approach. Roxas and Lindsay (2012) explain that survey methods have become increasingly popular in conducting research in the small firm context. Babbie (1995, p.257) argues that ‘survey

The majority of the SMEs in the manufacturing sector in Sri Lanka concentrate on the local, rather than the foreign, market. The economic downturn directly impacted on Board of Investment (BOI) projects. These investment projects are not included in the sample, as they involve foreign collaborations and partnerships.
research is probably the best method available to the social scientist interested in collecting original data for describing a population too large to observe directly’. Depending on the study objectives and resources available, survey research has the capacity to collect data using different modes such as mail survey, telephone survey, face-to-face survey, drop-off or self-administered survey, and electronic surveys with the use of web or email-based questionnaires (Dillman et al. 2009).

The majority of Sri Lankan entrepreneurs operating small and medium-sized enterprises have a very basic level of education, lack time and do not have a positive attitude toward research projects. Therefore, the face-to-face survey method was employed in this study. This is because it helps to reduce the distance between researcher and respondent (Hill & McGowan 1999; Wijesinghe et al. 2011), thereby avoiding the possibility of ambiguities arising and discrepancies occurring while the survey is being conducted. The advantages of the face-to-face survey method over other survey techniques, such as mail surveys (either postal or e-mail) or telephone surveys, include the high probability that it will produce an adequate response rate (Faux 2010). Moreover, face-to-face surveys increase the likelihood that owners or managers will be willing to provide their information in a confidential and friendly discussion (Fairoz et al. 2010). These confidential and friendly discussions minimise limitations commonly associated with mailed surveys, with respect to reliability and accuracy of information (Wijewardena et al. 2004). In addition, this survey method enables the researcher to obtain feedback, use visual aids (company logo, annual reports and corporate mission statements) and be flexible in choosing a place in which to conduct the survey. Thus, this method is a useful way in which to achieve an adequate response rate by explaining the project and its value to participants (Wijesinghe et al. 2011).

4.3.2.2 Primary Data Collection Phase II: In-depth Interviews

The second phase of data collection was in-depth interviews, which were conducted in order to undertake case study analysis that is usually associated with the inductive approach. Yin defined the case study research method as:
an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin 1984, p. 23).

However, the use of case studies remains one of the most challenging methods in all of social science research (Yin 2003). This is because extra effort is needed to articulate research design and implementation, in order to ensure the rigour and objectivity of the research (Rowley 2002). Stake pointed out the advantages of this method by stating that:

Case study optimises understanding by pursuing scholarly research questions. It gains credibility by thoroughly triangulating the descriptions and interpretations, not just in a single step but continuously through the period of study (Stake 2005, pp. 443, 444).

Thus, some scholars (for example, Wijewardena et al. 2004) have suggested that in-depth case studies of individual firms be used to investigate and explore issues related to SMEs. Following those suggestions, the case study methodology is used extensively in many contemporary research projects on SMEs (e.g. Ghauri et al. 2003; Caldeira & Ward 2003; Sharma & Bhagwat 2006; Huang 2009). In this research project, a multiple case study design was employed in order to gather detailed qualitative data from different firms to obtain important insights and to strengthen the external validity of the outcome (Yin 2003).

4.4 Design of the Research Instruments

The survey questionnaire (see Appendix 2, pp. 330-341) was the principal instrument developed to facilitate face-to-face surveys. In addition, an in-depth interview question guide (see Appendix 3) was used to conduct case studies.

4.4.1 Development of the Survey Questionnaire

The principal survey instrument was a structured questionnaire. The objective of designing a structured questionnaire was to collect quantifiable data for this study.
before undertaking in-depth interviews. The survey questionnaire consisted of three sections. Section I comprises questions regarding the key organisational characteristics, critical issues and the business environment. Section II included questions focussed on strategic thinking and direction. Section III contained questions on strategic management practices and behaviours associated with both formalised and non-formalised strategic planning in SMEs. Appendix 12 (p. 377) presents the content of the questionnaire and the relevant sources.

In addition to ‘yes’ and ‘no’ questions and ranking questions, the survey questionnaire was designed with some Likert scaled questions, since they offer a high likelihood of eliciting responses that accurately reflect the opinions of respondents (Wong 1999; Zikmund 2000; Burns & Bush 2002).

However, in relation to the number of scale points, there is no clear rule suggesting an ideal figure. Some researchers show that a five-point scale is just as good as many other alternatives (Malhotra 1999; Sekaran 2000). This is because an increase in the length of the scale does not always improve the reliability of the ratings (Elmore & Beggs 1975, cited in AbHamid 2006), and may lead to more confusion among the participants in the survey (Aaker et al. 2000; Hair et al. 2003). Therefore, where necessary, a five-point Likert closed rating scale was used in this research.

4.4.1.1 Survey Questionnaire Translation: Singhalese version

Most Sri Lankan entrepreneurs use Singhalese, the main official language of the country. As mentioned previously, the level of education achieved by these entrepreneurs is often very basic. Therefore, the survey questionnaire was translated into Singhalese and subsequently back-translated to English, in order to verify its suitability. This technique required two translators, one translating the English questionnaire (known as the original English questionnaire) into the Singhalese version (known as the target questionnaire), and the other translating the Singhalese version back into English (known as the new English questionnaire). Both English questionnaires were then compared for the development of the final version. The back-
translation technique was used to overcome the problems of distortion and misinterpretation, and to minimise discrepancies (Bryman & Bell 2007). The original English, new English and final versions were revised and verified by a bilingual senior academician of Business and Management studies from a university in Sri Lanka.

### 4.4.1.2 Pre-Tests of the Survey Questionnaire

There is a plethora of research method texts that explain how surveys can be conducted, but few offer practical suggestions for pre-testing survey instruments (Faux 2010). Teijlingen and Hundley (2001) stated that pre-tests can be conducted based on quantitative and/or qualitative methods before the main survey is carried out. Thus, researchers can start with ‘qualitative data collection and analysis on a relatively unexplored topic, using the results to design a subsequent quantitative phase of the study’ (Tashakkori & Teddlie 1998, p. 47; Teijlingen & Hundley 2001). The first phase of a pre-test survey might involve focus groups to establish the issues to be addressed in a large-scale questionnaire survey.

- **Focus Groups:** Focus group discussion is a useful method in social science contexts, since it provides an opportunity for brain-storming. Prince and Davis (2001, p. 207) explained that the ‘Focus group method traditionally calls for an individual, trained moderator who personally elicits information in accord with some pre-defined purpose’. The literature states that this method is used for many purposes, including generating opinions and developing survey questionnaires (Malhotra 2008). Focus groups have also been widely used in research on SMEs (e.g. Blackburn & Stokes 2000; Kuster & Vila 2011). The purpose of using focus groups in this study was to investigate the critical issues confronting SMEs in Sri Lanka and their understanding of management as a practice, in order to further develop the survey instrument.

A number of authors have suggested that a focus group should consist of six to twelve participants (e.g. Morgan 1997; Prince & Davis 2001; Krueger & Casey 2000; Langford et al. 2002; Johnson & Christensen 2004; Onwuegbuzie & Collins 2007). Thus, two focus groups, each consisting of seven participants, were organised in Colombo, Sri
Lanka. One group consisted of owner-managers who were undertaking a small business management course offered by a leading university in Sri Lanka. The other group consisted of entrepreneurs from different backgrounds (e.g. less educated owner-managers who have business experience and non-owners who work as managers in SMEs). The following points, which were useful in developing an appropriate survey instrument for this study, were derived from the focus groups:

i) Their understanding of ‘management’ and its importance

ii) Their techniques of planning for unforeseen future events, and who is involved in that process

iii) Their expectations and levels of satisfaction

iv) The problems and challenges they have commonly faced over the past few years

- **Pilot Tests:** Zikmund (2003) suggested that pilot testing is a trial run with a small group of experts or participants. Such a process helps to detect problems, such as the ambiguity of participants in answering or understanding and questions that make respondents uncomfortable (Bryman & Bell 2007). Saunders et al. (2007) stated that pilot testing enables the researcher to improve the validity of the questions and the likely reliability of the data collected. However, the number of people involved or the number of pilot tests conducted depend on the research question(s), objectives, the size of the research project, available resources and how well the initial questionnaire was developed. The pilot survey for this study was undertaken in December 2009, with six participants from a *convenience sample*, as is common for pilot tests (Sekaran 2000; Zikmund 2003).

After the pilot survey and discussions with both focus groups, the initial questionnaire was further modified.

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39 *A convenience sample* is one that is simply available to the researcher by virtue of its accessibility (Bryman & Bell 2007, p.197)
4.4.1.3 Validity and Reliability of Survey Questionnaire

Pre-testing improves the validity of the content, as well as the face validity of the survey instruments. Content validity refers to the relatedness of the questionnaire to the content or theoretical constructs to be measured. In other words, it focuses on the representativeness and suitability of questions. Face validity refers to whether or not the questionnaire appears to measure the theoretical concepts being examined; in other words, whether the questionnaire appears to make sense (Cavana et al. 2001; Saunders et al. 2007; Pansuwong 2009).

The content validity was assessed by two senior Sri Lankan academics in the fields of entrepreneurship and strategic management. They also had working experience as management consultants for both private and government organisations. These scholars examined the representativeness and suitability of the questions prior to the actual pre-testing. The face validity of the survey instrument was tested, as mentioned above, by means of focus groups and pilot tests.

Most of the pre-test participants asked to be provided with definitions or descriptions of some of the terminologies that have been used. The expert group pointed out that some questions in the first and third sections were not clear and that, consequently, it was difficult to give a valid answer. They also indicated that the questionnaire could be made shorter through a slight change in its format. After making amendments based on suggestions made by the two groups, the questionnaire was sent to all pilot-test participants by means of emails. The pre-test concluded that:

i) The questionnaire can be completed in about 30 minutes or less;

ii) The questionnaire has a clear and logical format;

iii) Even though some questions used difficult terminologies, the interviewer can explain and simplify these during the actual interviewing process, if necessary.
4.4.2 Development of the In-depth Interview Question Guide

As noted by Yin (2009), a question guide (see Appendix 3), should be developed as part of the case study protocol, before undertaking in-depth interviews. This guide should cover important variables included in the survey questionnaire. Yin suggested that, in order to conduct an investigation that will yield significant insights, questions of the nature of ‘how’ and ‘why’ are needed due to the importance of probing for in-depth responses. Focus group discussions were also useful in refining the in-depth interview question guide.

4.4.2.1 Validity and Reliability of the Question Guide

Maxwell (1992) presents five types of validity concept for qualitative research (see Table 4.2). For the evaluation of validity and reliability of the qualitative phase of this study, Maxwell’s suggestions were considered when designing the question guide.

Table 4.2 Types of Validity in Qualitative Research

<table>
<thead>
<tr>
<th>Category</th>
<th>Description(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Descriptive validity</td>
<td>The extent to which the answers of respondents can be noted for the purpose of factual accuracy.</td>
</tr>
<tr>
<td>Interpretive validity</td>
<td>The extent to which both researcher and participant can understand questions and possible answers.</td>
</tr>
<tr>
<td>Theoretical validity</td>
<td>Match to the theoretical concepts of the study</td>
</tr>
<tr>
<td>Evaluative validity</td>
<td>The extent to which an evaluation framework can be applied</td>
</tr>
<tr>
<td>Generalisability</td>
<td>The extent to which results can be generalised (internally and externally)</td>
</tr>
</tbody>
</table>


In this regard, two pilot-case study in-depth interviews were conducted during the pilot-survey period. Further, the question guide was assessed by two senior Sri Lankan academics in the fields of entrepreneurship and strategic management. This helped to refine the data collection plan and provide further insights to develop a suitable in-depth interview question guide.
4.5 Data Collection Process

The data collection process of this study included a few interrelated steps.

4.5.1 Ethical Considerations

Prior to the collection of data, all the possible ethical issues in relation to the current study were considered. An ethics clearance guides researchers to avoid violations of ethical standards and privacy issues, and helps to properly obtain the consent of participants. These guidelines concern confidentiality, freedom of participation and the withdrawal and privacy of participants. In order to meet certain standards, the researcher must obtain prior written approval from an accredited ethics committee. Consequently, the data collection process of this study was undertaken with the prior approval of the Swinburne University Human Research Ethics Committee (SUHREC) (see Appendix 6, p. 348).

4.5.2 Introductory Letter and the Letter of Consent

An introductory letter (see Appendix 4, p. 345) and a letter of consent (see Appendix 5, p. 347) were presented to all participants before the commencement of the data collection process. The introductory letter was used to disclose the purpose of the research and the potential benefits accruing from their participation. This was done to facilitate the participants’ understanding of the issues to be addressed, and of the persons with whom they were about to engage, thereby making clear to them why they should participate in this study. Furthermore, it was made clear that participation was voluntary and that participants could withdraw at any time. Participants were also assured in the introductory letter that their privacy would be protected and that the information they provided would remain confidential. The participants were requested to sign the letter of consent as proof of their willingness to participate. All participants were coded according to their geographical location (the district) and allocated a number for the purpose of identification. For example, the first participant of the Colombo district identified as: CO-1; Gampaha District- GM-1 and so on.
4.5.3 Population and Sampling

Determining the population, the correct sampling method and the participants of the study before launching a primary data collection process was crucial (Collis & Hussey 2009). The subsequent sections present the research population, the sampling techniques used and the characteristics of respondents pertaining to this study.

4.5.3.1 Population Definition

‘Population is the universe of units from which the sample is to be selected’ (Bryman & Bell 2007, p. 182). The present study focuses on the extent to which long-term decision-makers of SMEs in the manufacturing sector in Sri Lanka are practising strategic thinking-based management to address the critical issues which confront their firms. If a population is a body of people or collection of items under consideration for statistical purposes (Collis & Hussey 2009), the SMEs of the Sri Lankan owned and operated manufacturing sector in Sri Lanka formed the population in this current research project.

Since 1984, the Department of Census and Statistics of Sri Lanka has conducted a survey called the Annual Survey of Industries (ASI). According to the ASI 2008 and 2010 reports, there are about 16,500 firms in the manufacturing sector in Sri Lanka. This number includes around 1000 large manufacturers, but excludes micro industries. However, Gajanayake (2010) mentioned that about 50,000 registered and 125,000 unregistered manufacturing firms are presently operating (including 1000 large companies). Therefore, for the following reasons, it was impossible to estimate the population:

- The majority of SMEs operate as unregistered entities and have not responded to the ASI
- Some businesses are registered but not actively operating

Micro industries possess less than 5 regular employees (ASI 2008, 2010).
Some businesses have failed and their owners had terminated their activities when the ASI was undertaken.

Therefore, it is inevitable that various parties indicate different facts and figures relating to the number of SMEs in the country. This situation confirms Davidsson’s (2008) comment that in many countries ‘it will be difficult to sample directly from available business registers’ (p. 51).

4.5.3.2 Sampling

Bryman and Bell (2007) pointed out that, in social survey research, sampling constitutes a key step in the research process. ‘Sampling is a quantitative technique which enables researchers to reduce the actual amount of data to be collected by permitting a selection of a representative sample from an entire population using a random procedure’ (Hair et al. 2007; Pansuwong 2009, p. 77). Pedhazur and Schmelkin (1991) noted that sampling permeates almost every aspect of our lives because, in science and human affairs alike, we lack the resources required to study more than a fragment of the observable phenomena to advance our knowledge. Therefore, in general, sampling helps researchers to overcome the financial constraints inherent in a project and introduce a more effective research budget management system, particularly in terms of economising on time and financial resources (Cooper & Schindler 2008). In addition to resource constraints, the following reasons impacted on the sampling decision in the present study:

i) Unavailability of a complete and updated database regarding the SME sector in Sri Lanka. Even though the Department of Census and Statistics conducts an annual survey (ASI), that database is not available to any private researcher due to the importance of maintaining the privacy of the respondents. Some entrepreneurs deliberately neglect to provide their information, since it is not compulsory to participate in the survey.
ii) Sri Lankan SMEs change their business locations (addresses) frequently or close down their businesses for various reasons, even without giving any notice. Therefore, ASI reports are neither complete nor reliable.

Due to the above-mentioned reasons, a sampling technique was considered necessary for the collection of the primary data for this study. As suggested by Hussey and Hussey (1997), the size of the sample must be large enough to satisfy the needs of the investigation being undertaken. Onwuegbuzie and Collins (2007) indicated that in mixed methods research, sampling schemes must be chosen for both the qualitative and quantitative components of the project, and that it is typically much more complex than in monomethod studies.

4.5.4 Primary Data Collection Phase I : Survey

In the first phase of the primary data collection process (survey), two different meeting processes were applied based on the sample selection method (see Table 4.3).

4.5.4.1 Sampling Techniques: for the Survey

As specified by Collis and Hussey (2009, pp. 212 & 213), for the purpose of conducting a face-to-face survey and gathering quantifiable data, the snowball\textsuperscript{41} and judgmental\textsuperscript{42} techniques of non-random sampling were used in this study.

With the snowball or networking approach to sampling, the researcher makes initial contact with a small group of people who are relevant to the research topic and subsequently uses those contacts to establish a network with others (Bryman & Bell 2007; Collis & Hussey 2009). Bryman and Bell (2007), as well as Davidsson (2008),

\textsuperscript{41} Snowball sampling or networking is used in studies where it is essential to include people with experience of the phenomenon being studied in the sample (Collis & Hussey 2009).

\textsuperscript{42} Judgmental sampling is similar to snowball sampling, but the researcher makes the decision prior to the commencement of the survey and does not pursue other contacts that may arise during the course of the study (Collis & Hussey 2009).
noted that if there is no accessible database\textsuperscript{43} for the entire population from which the sample is to be selected, the difficulty of creating such a sampling frame means that the networking approach alone is feasible. Kureshi et al. (2010) revealed a similar situation in Pakistan and, therefore, they also applied the snowball sampling technique to obtain an appropriate sample. Therefore, this present study used the snowball sampling technique to select 150 SMEs nation-wide.

Table 4.3: The Sample

<table>
<thead>
<tr>
<th>Area covered</th>
<th>With the help of the Department of Census and Statistics Sri Lanka</th>
<th>With the help of Industrial Development Board Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombo District</td>
<td>50 SMEs</td>
<td>-</td>
</tr>
<tr>
<td>All Island (including the Colombo district)</td>
<td>-</td>
<td>100 SMEs</td>
</tr>
</tbody>
</table>

As the starting point, the research project was discussed with some officials of the Central Bank and, thereafter, with their support, the necessary network with the officials of the Department of Census and Statistics and the Industrial Development Board in Sri Lanka was established. The authorities at the Department of Census and Statistics helped to select 50 SMEs from the Colombo district using their database and networks (see Table 4.3). In addition, the Sri Lankan Trade Directory was also used to select participants for this study. The Colombo district is divided into 13 Assistant Government Agents' (AGA) divisions. In order to conduct the face-to-face survey, 50 manufacturing sector SMEs were selected through networking from those 13 AGA divisions. The snowball sampling technique proved to be particularly useful in establishing contacts with failed organisations, in addition to other categories of SME, i.e. start-ups, growing and stagnating.

\textsuperscript{43} The Department of Census and Statistics of Sri Lanka maintains a database of industrial SMEs but, due to the privacy condition, that database is not available for a private researcher. It is highly confidential.
Initially, the target was to collect primary data from a sample of 150 SMEs from the Colombo district, with the help of the Department of Census and Statistics. This restriction is primarily a consequence of the time and budget constraints that applied to the study. As mentioned previously, there is no prior research found to have covered SMEs across the entire nation due to inherent and unavoidable issues, such as the civil war that endured for nearly three decades. However, having understood the importance of achieving wider coverage, another network was used to extend the sample of the survey.

The Industrial Development Board (IDB) helped to select 100 SMEs. This allowed the researcher to collect primary data from all districts, including the Colombo district of Sri Lanka. The snowball sampling technique was applied, together with judgmental and convenient sampling strategies. The snowball sampling method was used to form the initial network, but the purpose was to cover the whole country. However, in this part of the survey, further contacts that could arise in snowball sampling were not accepted for data collection (Collis & Hussey 2009).

More than one-third of the sample was drawn from the Colombo district, because it is the most heavily populated and industrialised of the 26 districts in Sri Lanka (Kapurubandara & Lawson 2006). Further, these entrepreneurs are more educated and have some knowledge of sophisticated management practices than their counterparts operating SMEs in the other districts in Sri Lanka. They make greater use of infrastructure facilities such as information technology, financial services and other forms of institutional support available in the country (Kapurubandara & Lawson 2006).

4.5.4.2 Face-to-face Survey

As mentioned previously, 50 SMEs from the Colombo district were selected with the help of the DCS, and through the medium of the Sri Lankan Trade Directory. All these surveys had to be conducted on the premises of the businesses, by prior arrangement and with their approval. Most of the respondents were owner-managers but, if they had
difficulties (e.g. due to time constraints or their inadequate educational background), they directed the researcher to a manager or the accountant of the enterprise.

Secondly, the researcher attended an exhibition, which was held at the Bandaranaike Memorial International Conference Hall (BMICH) in July 2010, to meet the principal decision-makers of 100 SMEs from the manufacturing sector. These were the best entrepreneurs selected from all districts and nine provinces of Sri Lanka by the IDB. The researcher spent 12 hours per day, on all four days of the exhibition, conducting surveys. Except for a few western province entrepreneurs, all those participating in the surveys had a very basic educational background. Therefore, the researcher had to use simple language in order to collect relevant and reliable data. For example, the concepts of SWOT analysis, industry analysis, scenario planning and strategic planning had to be explained to the entrepreneurs in simple terms just to investigate their understanding and practices. It was particularly necessary to explain the difference between business plans and strategic plans, as few of the participating organisations had business plans that they had prepared prior to the establishment of their enterprises or to obtain bank loans.

The questionnaire was filled in (in both the first and the second situations) by the researcher, according to the responses provided by the participants. To complete one survey questionnaire with a participant, the researcher required on average 20 minutes. Many respondents gave additional comments that were insightful.

4.5.4.3 Response Rate

There was a high risk of not achieving the target number of responses, due to the lack of time available to the owner-managers of SMEs, their level of education and the fear of giving out their business information, especially in written form, for a variety of reasons (e.g. related to tax). This is the main reason why the face-to-face survey strategy was applied in this study to improve the response rate and quality of data. However, six business owners declined to participate in the survey. Their main reasons were as follows:
i) They were very busy and had no time to spare.

ii) They did not want to give any business information to a third party.

iii) They were inundated by similar requests from various organisations and researchers.

iv) They had no idea of, or trust in, research projects and their usefulness.

However, the survey ended with 150 respondents.

4.5.5 Primary Data Collection - Phase II: Case Studies

As noted by Kapuge and Smith (2007), scaled responses (structured questionnaires) do not permit the receipt of detailed answers from the respondents. Therefore, in addition to the survey, in-depth interviews were conducted as the concurrent triangulation strategy with the aim of collecting detailed answers from the respondents to enable case studies to be conducted.

4.5.5.1 Sampling Technique: for Case Studies

Qualitative samples tend to be purposive, rather than random (Kuzel 1992; Morse 1989, cited in Miles & Huberman 1994). Judgmental sampling is a kind of purposive sampling (Panuwatwanich, 2008), one of the non-probability sampling techniques. It facilitates the selection of cases that will best answer the research questions and meet the objectives of the research (Saunders et al. 2007). Neuman (2000) explained that this form of sampling method is appropriate when working with very small samples, such as in case study research. Similarly, Creswell et al. (2007) recommended this purposive sampling strategy for qualitative data collection in mixed method research projects. The case studies/SMEs were selected using the judgmental sampling technique to ensure that each of the four business categories are represented: start-ups, stagnating, growing and failed. For the purpose of selection, all the survey participants were asked whether they would be willing to participate in an in-depth interview, if selected. About 80% agreed to participate. Among them, eight participants were chosen according to the aforementioned four business categories to collect unique data.
4.5.5.2 In-depth interviews for Case Studies

Before each in-depth interview, all the interviewees were asked if a digital recorder could be used to record the interview. Interviewees were uncomfortable with the presence of voice recording and, therefore, declined. Consequently, it was necessary to take down notes carefully during the interview process. Verification by participants of notes taken during interviews was carried out following the end of each session.

In-depth interviews were conducted with a list of open-ended questions (see Appendix 3, pp. 342-344), and also served as an opportunity to probe more deeply using popular techniques. For instance, by asking questions such as ‘why?’, ‘how?’ and ‘when?’, the researcher delved deeply into many responses to identify possible hidden reasons for a particular behaviour or action. To complete one interview, the researcher had to spend at least two hours with each respondent. Even though the respondents were very busy with their very tight schedules, they gave their fullest co-operation to the researcher. Therefore, the in-depth investigation was conducted smoothly and was successfully completed within the targeted time frame. These interviews also assisted with the collection of relevant documents, such as reports, plans and product catalogues, where available, and in obtaining access to the web sites of participant SMEs, if they existed.

Over the period of seven weeks, the researcher was able to cover 150 surveys and eight in-depth interviews. Some researchers have argued that the mixed methods research approach is time-consuming (e.g. Wood et al. 1998). The researcher was focussed on all the prerequisites prior to the implementation of the interviewing process. Necessary skills and strategies were studied and adapted in order to establish a good rapport between the researcher and respondents, and particularly to control the time being used. Such considerations are very important when conducting interview-based surveys in a country like Sri Lanka, due to the social and cultural traits of the people (Wijesinghe et al. 2011).
4.6 Data Analysis

Davidsson emphasised that:

the researcher who wants to do really good empirical work will have to find and learn methods that better match the research questions and data characteristics at hand (Davidsson 2008, p.57).

This study combined two methods, in accordance with the mixed methods research approach, in order to implement triangulation. Both qualitative and quantitative methods were adapted to analyse the data collected. Therefore, this thesis contains two phases of data analysis, as stated in the following sections.

4.6.1 Data Analysis Phase I: Survey Data

Quantitative analysis methods were applied in the deductive part of this study, with the help of the computer package SPSS, to analyse the data that existed in numerical form. The quantitative analyses comprise both descriptive and inferential statistical methods. The descriptive analyses include calculating averages, frequency distribution and percentage distribution.

While the descriptive statistics provide information regarding the sample, inferential statistics were adopted to make estimates of likely values for population characteristics and relationships. To identify differences between groups, Pearson’s Chi-square was used. This is the most common test for the significance of the relationship between categorical variables. When conducting more than one Chi-square tests, significance was assessed with \( p = .005 \) in order to reduce Type I errors (i.e. when we conclude that there is difference between the groups, but there is not). When conducting one Chi-square test in order to check the difference between groups, \( p \) was considered as .05 significance level (Tabachnick & Fidell 2007). If there was a significant association between groups, Cramer’s \( V \) or Phi was used to assess the level of association. If Cramer’s \( V > .25 \), it was considered as having a strong association. Furthermore, if the Chi-square was not applicable with SPSS, but if it was a 2x2 matrix, Fisher’s exact test was used to determine whether there were non-random associations between two categorical variables. For some survey questions, before undertaking Chi-square tests, a cluster analysis was also used. According to Hair et al.:
cluster analysis is a technique for grouping individuals or objects into clusters so that objects in the same cluster are more like each other than they are like objects in other clusters (Hair et al. 1987, p. 293).

In this study, a hierarchical cluster analysis was undertaken. It forms a dendrogram - a tree structure which represents a sequence of nested clusters (Anders 2003). To develop hierarchical clusters, Ward’s method was used as the agglomerative procedure (bottom-up method) with Euclidean distance (the straight line distance between two points). Each cluster was given a name for the purpose of analysis and interpretation. Chi-square tests were then undertaken to investigate whether there was any significant relationship between clusters (new groups). Even though the sample selection in this study was based on non-probability techniques, it was assumed that the samples were randomly selected for the purpose of analysis. The quantitative data analyses of this study will be presented in Chapters Five and Six.

4.6.2 Data Analysis Phase II: Case Studies

There is no argument that the qualitative or the inductive approaches are diverse, complex and nuanced (Holloway & Todres, 2003). As noted, the main purpose of using case studies in this thesis was to conduct an in-depth investigation into strategic behaviours among selected SMEs. The corresponding outcome of this process was the qualitative data. As noted by Miles and Huberman (1994), qualitative data is usually presented in the form of words rather than numbers. Qualitative data are also a source of well-grounded, rich descriptions and explanations of processes in identifiable local contexts. Thomas (2006, p. 238) noted that ‘inductive analysis refers to approaches that primarily use detailed readings of raw data to develop concepts, themes, or a mode through interpretations made from the raw data’. Therefore, the data analytical techniques suggested by Patton (1990, 2002), Miles and Huberman (1994) and Yin (2003, 2009) for within-case and cross-case analysis were applied, particularly theme identification, pattern matching and explanation building, in order to explore the strategic behaviours of the targeted group. In order to maintain the validity and reliability of the outcome, case study quality tactics (see Table 4.4) emphasised by Yin (2009) were adopted.
Table 4.4 Case Study Quality Tactics

<table>
<thead>
<tr>
<th>Tests</th>
<th>Tactics used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct validity</td>
<td>Used multiple sources, established chain of evidence, drafts of case study reports reviewed by informants</td>
</tr>
<tr>
<td>Internal validity</td>
<td>Used pattern matching, explanation building, and logic models</td>
</tr>
<tr>
<td>External validity</td>
<td>Used theory in single-case studies, and replication logic in multiple-case studies</td>
</tr>
<tr>
<td>Reliability</td>
<td>Used case study protocol and developed study database</td>
</tr>
</tbody>
</table>

Source: Yin (2009, pp. 41-45)

All of the in-depth interviews were conducted in Singhalese. Consequently, they had to be translated into English before the process of analysis could commence. Thematic analysis, which is more flexible and a foundational method for qualitative data analysis (Braun & Clarke 2006), was then applied. First, by ‘playing with data’ (Yin 2003), the main themes were captured (theme building) and then checked for possible or existing relationships between the different themes within the same case. Each piece of evidence was assigned a reference number, and its content was coded so that it could be classified into relevant factors and themes. For the purpose of coding, a set of codes was developed, based on the main variables being sought through the conceptual framework of the study (see Figure 3.1, p. 95). For example, for critical issues c-issue 1, c-issue 2; macro-environmental factors PEST: macro-p, macro-e. Those codes were assigned to corresponding sentences or paragraphs of the transcripts and documents. Identified themes were further analysed in order to find patterns and concepts across different cases (concept building). Finally, themes, patterns and concepts were used to build explanations. For the presentation of this qualitative data, the method suggested by Patton (2002) was used.

Patton states that:

The case study is a readable, descriptive picture of or story about a person, programme, organisation, and so forth, making accessible to the reader all the information necessary to understand the case in all its uniqueness. The case story can be told chronologically or presented thematically (sometimes both). The case study offers a holistic portrayal, presented with any context necessary for understanding the case (Patton 2002, p. 450).

The qualitative data analysis of this study will be presented in Chapter Seven.
4.6.3 Framework for Data Analysis.

The research questions and the theoretical framework (mentioned in Chapter Three) provided the foundation for the development of a logical framework for data analysis in this study. That logical framework is presented diagrammatically in Figure 4.2.

Figure 4.2 Framework for Data Analysis

The main objective in the development of the framework for data analysis was to present the rationale used in order to explore answers to the research questions. Therefore, it demonstrates the major steps of the data analysis process of the study. In accordance with the first research question, key organisational factors which were generated through internal factors and shaped by external factors were sought. Then,
according to the second research question, critical issues were investigated. Subsequently, possible associations between organisational factors and critical issue were determined.

Whilst Western and Eastern classical management theories and practices (see Table 2.1 & 2.2 in pp. 31 & 37) were used to analyse management practices and organisational characteristics, contemporary strategic management concepts (see Table 2.3, p.41) were considered when analysing the strategic behaviour of participants. In particular, Porter’s (1980, 1985) generic strategies and industry analysis, Hillebrand’s (2009) stakeholder analysis, and the Resource- based View theory (Wernerfelt 1984; Barney 1991; Grant 1993) were used in the data analysis.

According to the management practice employed by participants in setting their strategic direction, they were categorised into two groups, namely, formalised strategic planning (FSP) SMEs, which adopted a proactive, systematic approach, and non-formalised strategic planning (NFSP) SMEs, which adopted a reactive or proactive ad hoc approach (Ansoff 1988). Management practice and performances were compared, based on the current stage in the life cycle reached by the respective firms. This course of action was taken in order to present an overall picture regarding the strategic behaviour and management practice of the target group.

4.6.4 Mixed Methods and Generalisability of Results

Generalisability is the extent to which research findings are applicable to the entire population. Maxwell (1992) identified two types of generalisability. Internal generalisability applies within the setting or group studied, and external generalisability applies beyond the group, setting, context or time. Some researchers call external generalisability external reliability (e.g. Kincheloe & McLaren 2000; Falk & Guenther 2006). In deductive (quantitative) research, theory testing is applied with inferential statistics to generalise sample data to the population. According to Johnson and Christensen (2004), generalising the results of a study that does not consider randomly selected sample to the target population is frequently a tenuous process. Thus, Leech
and Onwuegbuzie (2010) indicated that many quantitative researchers or positivists make generalisations in a mechanical manner without considering this issue. On the other hand, in inductive (qualitative) research, theory development is applied with analytical generalisability where relationships or propositions built can only be generalised within a similar context (Yin 2009). This is because the majority of qualitative researchers agree that the goal of interpretivist research is not to make statistical generalisations, but to find insights into particular practices, processes or contexts (Leech & Onwuegbuzie 2010).

This study consisted of both deductive and inductive approaches. In the theory testing part of the study, *Chi-square tests* and *Fisher’s exact tests* as inferential statistics were applied for statistical generalisability without considering the sampling method (non-probability). In order to generalise the results of the theory building part of the study (case study), the tactics suggested by Yin (2009) were used (see Table 4.4 in section 4.6.2, p. 138). As mentioned previously, even though sample selections in this study were based on non-probability techniques, it was assumed that the sample was randomly selected for the purpose of analysis. Thus, the findings of this study are more suggestions or propositions than generalisations.

**4.7 Chapter Summary**

The purpose of this chapter was to discuss the research methodology adopted for the present study. Therefore, the research design and methods, the population and the various approaches to the study were described and justified in this chapter. A multi-method approach that allows the adoption of both qualitative and quantitative methods of data collection and analysis was applied to attain the objectives of the study. In other words, this study enhances the validity and reliability of its outcomes by applying methodological triangulation in a mixed method research design strategy. A framework for data analysis was also developed and presented in this chapter, to reveal how the research objectives were met. The results of this research project will be presented in the next three chapters.
Part Three

Data Analysis and Findings

This section of the thesis presents empirical data analysis. The research is designed using mixed methods triangulation. Therefore, it includes both quantitative and qualitative data analysis. This part comprises three chapters:

Chapter Five: Primary Data Analysis Phase I.A (Survey)
Characteristics of Respondent Firms

Chapter Six: Primary Data Analysis Phase I.B (Survey)
Strategic Behaviour of Respondent Firms

Chapter Seven: Primary Data Analysis Phase II: Case Studies
CHAPTER FIVE:
PRIMARY DATA ANALYSIS PHASE I.A (SURVEY)
CHARACTERISTICS OF RESPONDENT FIRMS

5.1 Introduction

As mentioned in the methodology chapter, the empirical investigation of this study was conducted, in part, by means of a survey. The survey instrument comprised three sections. These are Section I: key organisational characteristics, critical issues and the business environment, Section II: strategic thinking and direction, and Section III: strategic management practice and behaviour. This chapter discusses the major characteristics under five sections identified by analysing the first two sections of the survey questionnaire. This chapter is organised as follows: the background of selected small and medium-sized enterprises (SMEs) for the survey (section 5.2), organisational characteristics (section 5.3), management processes (section 5.4), the possible relationships between organisational characteristics and critical issues (section 5.5), and the strategic direction of the respondent SMEs (section 5.6). Finally, a summary of the key findings is provided (section 5.7). These are further discussed in Chapter Eight.

As noted in Chapter Four, in this chapter, when conducting more than one Chi-square tests, significance was assessed with $p= .005$ in order to minimise Type I errors (i.e. when we conclude that there is difference between the groups, but there is not). When conducting one Chi-square test in order to check the difference between groups, $p$ was considered as .05 significance level (Tabachnick & Fidell 2007).

5.2 Background of SMEs Selected for the Survey

This section presents some key features of the respondent SMEs using descriptive statistics. In order to investigate these features, three questions were designed to elicit the necessary information in the survey questionnaire (see Appendix 2, pp. 330-341). Thus, the following sub-sections will present the findings. All enterprises were categorised according to their size, age and current stage of the business life cycle.
(current situation) in order to identify their background (see framework for data analysis- Figure 4.2, p. 139).

5.2.1 Size of Participant SMEs

SMEs comprised both small firms and medium-sized enterprises. Table 5.1 displays the respondent SMEs by the size of the firm. Of the total of 150 respondents, 104 were small firms employing between five and 49 employees, while 46 firms had between 50 and 149 regular (full time) employees and were, therefore, categorised as medium-sized organisations. In terms of percentage, this is 69% and 31% respectively. Although, the sample in this study was selected by networking, its representation of small and medium-sized firms is very close to the profile provided by the Sri Lankan Census and Statistics Department (Sri Lanka Census and Statistics survey report 2003, 2008, 2010).

<table>
<thead>
<tr>
<th>Age of the Firm / Experience</th>
<th>5-49 Small</th>
<th>50-149 Medium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms</td>
<td>%</td>
<td>Firms</td>
<td>%</td>
</tr>
<tr>
<td>Less than 2 years</td>
<td>17</td>
<td>16%</td>
<td>0</td>
</tr>
<tr>
<td>More than 2 years</td>
<td>87</td>
<td>84%</td>
<td>46</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>104</td>
<td>100%</td>
<td>46</td>
</tr>
<tr>
<td>Percentage</td>
<td>69%</td>
<td>31%</td>
<td>100%</td>
</tr>
</tbody>
</table>

5.2.2 Age of Participant SMEs

Schayek (2011) indicated that, if the management practices of SMEs other than start-ups are to be the subject of investigation by a researcher, such enterprises should have been in business for at least two years. As emphasised in the methodology section (refer p. 117), in terms of business age, the dividing line in this study between start-up SMEs and the other SME categories was set at two years. The results revealed that 133 (89%) SMEs in the survey had more than two years of experience in business (including failed enterprises), while start-ups represented 17 (11%) of the 150 selected SMEs. Therefore, by reporting 89% of participant SMEs with more than two years business experience this study satisfies the Schayek’s (2011) proposition.
5.2.3 Current Situation of Participant SMEs

In terms of the current situation, this research project used four classifications of SMEs (see Chapter Four, section 4.3.1, pp. 116 -118). These included enterprises with less than two years’ experience in business (start-ups), firms which have not indicated significant change in the number of workers (stagnating), those with an increasing number of workers (growing), and those SMEs that had failed (already closed). Survey results indicated that of the 150 SMEs, 17 were start-ups, three were failed firms and similar numbers were either stagnating (64) or growing (66) enterprises.

Even though failed SMEs are common in Sri Lanka, it was difficult to obtain reliable data related to those failed organisations. Using networks (snowball sampling technique) the researcher visited 15 failed SMEs during the field work period. However, only three usable responses for this study were obtained, due to the departure of key officials. Despite that limitation, as mentioned by previous researchers (Aldrich 1979; Hannan & Freeman 1989; Bonn 1996; McGrath 1999), this research reported on all four categories of SMEs. This was the case, firstly, because the study was exploratory in nature, and secondly, because it was consciously arranged that it do so, in order to improve the validity and reliability of the findings. In the next section, the organisational characteristics of respondent SMEs is analysed, as shown in the data analysis framework of this study (see Figure 4.2, p139).

5.3 Organisational Characteristics

The literature emphasises that some organisational characteristics influence the strategic behaviours and management practices of a firm. Accordingly, the extent to which organisational characteristics have an impact on the strategic behaviour and performance of SMEs was examined by asking participants to rate five commonly agreed upon organisational characteristics using a five-point Likert scale ranging from 1 = ‘No impact’ to 5 = ‘Great impact’. Figure 5.1 provides the mean values of the responses received of all categories (small, medium, and all SMEs) from the participants in relation to their organisational characteristics.
According to the results, stakeholders’ interest had the greatest impact on the strategic behaviour of the firm. Management style and the ownership characteristics and organisational culture of a firm were also more important than the organisational structure in the case of SMEs. However, all characteristics other than structure were of considerable importance in relation to the strategic behaviour of a medium-sized firm (mean values ≥ 3).

Figure 5.1 Organisational Characteristics

<table>
<thead>
<tr>
<th>No Impact</th>
<th>Great impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Ownership</td>
<td></td>
</tr>
<tr>
<td>Organisational Culture</td>
<td>3.11 3.18 3.21</td>
</tr>
<tr>
<td>Organisational Structure</td>
<td>2.96 3.02 3.05</td>
</tr>
<tr>
<td>Management style</td>
<td>3.28 3.47 3.55</td>
</tr>
<tr>
<td>Stakeholders’ interests</td>
<td>3.59 3.63 3.64</td>
</tr>
</tbody>
</table>

In order to explore whether there were any differences that existed between small and medium-size firms on the basis of these characteristics, Chi-square tests were conducted on the survey data with a significance value $p = .005$. For this purpose, three new groups were formed to indicate the impact: 1 = low, 2 = moderate and 3 = high. The results revealed that no significant differences existed between small and medium groups in relation to organisational characteristics (see Appendix 10, Table 1, p. 362). This further test also confirmed that, in both small and medium-sized enterprises, stakeholders’ interests had the greatest impact of all organisational characteristics on the strategic behaviour and performance of firms. Therefore, the sustainability of SMEs depended on how they dealt with their stakeholders while maintaining a supportive organisational culture, management style, ownership and structure. Each of these
characteristics is explored in the following section in order of their appearance on the questionnaire.

### 5.3.1 Ownership of Firms

Several scholars (e.g. Wang et al. 2007; Huang 2009) mentioned that the ownership of a firm impacts considerably on its strategy-making process. This current study identified possible categories of SME ownership (see section 3.3.2 in Chapter Three), namely, ‘sole proprietorships’ (SP), ‘family-owned businesses’ (FO), ‘partnerships’ (P) and ‘private limited companies’ (PVT). Table 5.2 presents the findings pertaining to the ownership of the participant SMEs.

<table>
<thead>
<tr>
<th>Ownership Category</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Proprietary (SP)</td>
<td>73</td>
<td>48.7</td>
<td>48.7</td>
</tr>
<tr>
<td>Family-Owned (FO)</td>
<td>17</td>
<td>11.3</td>
<td>60.0</td>
</tr>
<tr>
<td>Partnerships (P)</td>
<td>18</td>
<td>12.0</td>
<td>72.0</td>
</tr>
<tr>
<td>PVT Limited Companies (PVT)</td>
<td>41</td>
<td>27.3</td>
<td>99.3</td>
</tr>
<tr>
<td>Others (government affiliated) (O)</td>
<td>1</td>
<td>.7</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>150</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Of a total of 150 respondent SMEs, 73 (almost 50%) were sole proprietorships. Family-owned enterprises and partnerships each represented 11% and 12% respectively. More than 99% were owned by the private sector, whilst only one government-affiliated manufacturing SME was found in the surveyed group due to the limited number of government-owned SMEs in the manufacturing sector currently operating in Sri Lanka (see Chapter One, section 1.3.1). Sole proprietorships, family-owned enterprises and partnerships accounted for 72% of the total, and private limited companies and government-affiliated firms represented only about 28% of the respondents in the survey.
5.3.2 Organisational Culture

Organisational culture was also considered to be one of the key organisational characteristics. It plays an important role in that it has the ability to impact on the strategic behaviour of the SMEs that participated in this study (see Figure 5.1, p.146). To identify the key characteristics of organisational culture in SMEs, participants were asked to rate ten characteristics to explain the culture of their firm (the basic values, beliefs, and assumptions which guide and fashion individual and business behaviour) using a five-point Likert scale ranging from 1 = ‘Very low impact’ to 5 = ‘Very high impact’. Figure 5.2 summarises the major characteristics of organisational culture that are relevant to Sri Lankan SMEs in the manufacturing sector.

Figure 5.2 Organisational Culture
Both owners and workers commitment to success, team spirit and cooperativeness were the major cultural characteristics reported by the highest number of SMEs. In order to explore the differences between small and medium-sized manufacturers, Chi-square tests were conducted with a significance value $p = 0.005$. Three new groups were formed to indicate the impact in this situation: 1 = low, 2 = moderate and 3 = high impact. The results revealed no significant differences between small and medium-sized groups (see Appendix 10, Table 2, p. 362). Therefore, commitment of both owners and workers to organisational success was the key feature in relation to organisational culture of both small and medium-sized organisations. The respondents believed that their commitment to the success of the organisation, and their team spirit, could enhance the firm’s future. Other reported characteristics of organisational culture included old-fashioned cultural habits\(^4\) (2), overall knowledge of the system of the firm (inputs, processes and outputs) (2), and connection with the country’s current political environment (In Sri Lankan organisations workers are willing to maintain their political party views, \(^5\) and this attitude generates a culture that is supportive of, or is based upon, political parties) (3). Unsurprisingly, most of these cultural characteristics are connected to the country’s cultural values, beliefs and attitudes. For example, as mentioned in Chapter One, Sri Lankan culture is inherently based on Buddhism and Asian traits such as loyalty and respectfulness to others.

**5.3.3 Organisational Structure**

Strategic management literature positively supports Chandler’s (1962) dictum that ‘structure follows strategy’ (see De Wit & Meyer 2010). Indeed, it is identified through the literature review as one of the organisational characteristics that has the power to impact on management practice. Therefore, participants were asked to describe the organisational structures of their firms in order to facilitate the investigation of insights.

The results revealed that 119 of the 150 SMEs surveyed had a centralised structure, whilst 10 were reported as having a decentralised structure and 21 had a hybrid form of

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\(^4\) Wickramasinghe and Hopper (2000) have explained this nature of Sri Lankan culture as ‘traditional Sinhalese village culture.

\(^5\) Wickramasinghe et al. (2004) have identified this culture through ‘political party based unions’.
centralised and decentralised structure. Of 104 small firms surveyed more than 84% were sole proprietorships, family-owned enterprises and partnerships with centralised organisational structures. Among the 21 participant firms with hybrid structures, 10 were small enterprises and 11 medium-sized firms.

These results indicated that the majority of participant firms used a centralised structure, regardless of their ownership and size, especially in small firms. Hence, decentralised and hybrid structures were less popular among SMEs than the owner-manager centered organisational structure, which was commonly used in the SMEs surveyed in this study. The domination of owners was the reason behind the claim by participants that their organisational structure had less of an impact on the strategic behaviour and performance of firms compared to other characteristics.

5.3.4 Management Style

Management practices would be impacted by how superiors use their power over their subordinates to accomplish the objectives of firms. Thus, the management style preferred by managers in Sri Lankan SMEs was examined by asking them to rate ten given features using a five-point Likert scale, ranging from 1 = ‘Least preferred’, to 5 = ‘Most preferred’.
The results shown in Figure 5.3 indicate that the most preferred characteristics of management styles included being ‘people-friendly’, having a sense of collectiveness and possessing participatory qualities. Although the results revealed that these leaders were not autocratic by nature, they practiced a ‘top-down’ hierarchy and a kind of bureaucracy (discussed in Chapter Seven). Therefore, workers in small to medium-sized enterprises in Sri Lanka had the chance to enjoy a friendly and supportive environment but workers were controlled by leaders by orders. In the ‘other’ category, some participants mentioned management by objectives and Asian indigenous methods (similar to the ‘rule of thumb’). Therefore, Sri Lankan entrepreneurs combined both early Western and Eastern management practices, and showed traditional management styles in addition to those styles normally expected.

Chi-square tests were undertaken to determine whether there were any significant differences between small and medium-sized firms, with p= .005. Three new groups...
were created to show the degree to which the styles were preferred, as follows; 1 = least preferred, 2 = moderately preferred and 3 = highly preferred. The results indicated that no significant differences existed between small and medium-sized firms, in relation to the characteristics of their management styles (see Appendix 10, Table 3, p. 362). Thus, the characteristics identified in relation to management styles were common in both the small and medium categories of firms that participated in the survey.

5.3.4.1 The Gap between Decision-Makers and Subordinates

The distance between the top people and the subordinates in SMEs was investigated by asking participants to describe the gap between managers (decision makers) and subordinates in terms of the power (formal & informal) they wield according to a five-point Likert scale ranging from 1 = ‘Very small’ to 5 = ‘Very big’. Table 5.3 shows participants’ responses regarding their distance from workers in their enterprises.

<table>
<thead>
<tr>
<th>Size</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-49 Small</td>
<td>104</td>
<td>3.50</td>
<td>.711</td>
<td>.070</td>
</tr>
<tr>
<td>50-149 Medium</td>
<td>46</td>
<td>3.24</td>
<td>1.037</td>
<td>.153</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>150</td>
<td>3.42</td>
<td>.830</td>
<td>.068</td>
</tr>
</tbody>
</table>

Mode and Median = 4.00

Respondents indicated a wide gap between decision-makers and subordinates in both small and medium-sized firms. This was because most of the SMEs operate as sole proprietorships, family businesses or partnerships (see Table 5.3) and, therefore, the decision-makers of these organisations were the owners. As such, they tended to exert great power over their subordinates. As shown in Chapter Two, Sri Lankan managers tended to have negative attitudes towards their subordinates, presuming that they did not like responsibilities or that they were lazy (similar in nature to those attitudes enunciated in McGregor’s Theory X). This condition was also exhibited in the sample SMEs, with owner-managers maintaining a considerable distance between themselves
and their subordinates. They believe that, by doing so, they avoided potential losses and other negative consequences.

A Chi-square test was conducted on the data with three new groups formed to indicate the gap as; 1 = small, 2 = moderate and 3 = big, with $p=0.05$, to determine whether or not small and medium-sized entities rated the gap differently. The results revealed that there was no statistically significant difference between small and medium categories of firms in this regard. Although leaders imagined that they were maintaining a participatory and ‘people-friendly’ management style (see section 5.3.4, pp.150-152), in practice there was a noteworthy gap between decision-makers and subordinates in SMEs in terms of power. Hence, these results indicated some important features of Sri Lankan management practice which could not be identified from previous literature.

5.3.4.2 Personal Interests of Leaders versus the Interests of Firms.

The relationship between the interests of the SMEs and those of their top people was examined by asking ‘to what extent are the personal interests of leaders/top people put ahead of the firm’s interests?’ Respondents were given the chance to provide their answers according to a five-point Likert scale ranging from 1 = ‘Not at all’ to 5 = ‘To a great extent’. The results obtained from this question are presented in Table 5.4.

<table>
<thead>
<tr>
<th>Size</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-49 Small</td>
<td>104</td>
<td>4.29</td>
<td>.809</td>
<td>.079</td>
</tr>
<tr>
<td>50-149 Medium</td>
<td>46</td>
<td>3.61</td>
<td>1.220</td>
<td>.180</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>4.08</td>
<td>1.000</td>
<td>.082</td>
</tr>
</tbody>
</table>

Mode and Median = 4.00

According to the results, the mean value of small firms was greater than that of the medium-sized enterprises. This means that there was a relatively higher likelihood of top people (owners) of small firms putting their personal interests ahead of those of their firms than was the case with medium-sized firms. This may be due to the fact that
again the majority of respondent small businesses were sole proprietorships, family businesses or partnerships (see section 5.3.1, p. 147). Although the majority of medium-sized manufacturers operated as private limited companies (see Appendix 10, Table 4, p. 363), the interests of their owners and/or managers also seemed to be highly influential in shaping the interests of these organisations. This is the meaning of having a mean value of medium firms greater than the average (mean value> 3).

Further, a Chi-square test was conducted on the data to determine whether or not there was a significant difference between small and medium-sized enterprises. For this purpose, three new groups were formed to specify the likelihood of top people putting their personal interests ahead of the interest of their firms; 1 = low likelihood, 2 = moderate likelihood, 3 = high likelihood, and with \( p =.05 \). The results revealed a very significant difference (\( \chi^2 = 23.429 \) (df = 2) Cramer’s \( V = .395, p = .000 < 0.05 \)) between small and medium groups, in relation to the personal interests of the owners or leaders, as opposed to the interests of the enterprises. This result confirmed that the owners were the main actors in small firms. As such, their personal interests were placed ahead of those of the firm more directly than was the case with medium-sized organisations. Although the Sri Lankan style of management is friendly and collectivistic, owners and managers exerted their power and personal interest in the strategic decision-making of their firms. Therefore, owners’ perception regarding their management style and their actual practices were somewhat contradictory.

**5.3.5 Stakeholders’ Interests**

Freeman (1984) defined stakeholders as all the groups and individuals that can affect, or are affected by, the accomplishment of the purpose of an organisation and who should, therefore, be taken into account. Section 5.3 indicated that the stakeholders’ interest is the most important and influential organisational characteristic shaping the strategic behaviour of the participant SMEs. In business organisations, the owners are the primary stakeholders. This was confirmed in the previous section by indicating that the personal interests of the owners were placed ahead of those of the firms. The objective of this section in the survey questionnaire was to identify and rank at least six important
groups of stakeholders who were perceived by owners as being capable of making an impact on their firms (Hillebrand 2009). Therefore, participants were asked to identify their firm’s stakeholders from a list according to their power and impact on the strategic behaviour, survival and growth of the firm. The scale adopted was: 0 = ‘No impact’, 1 = ‘Low impact’ to 5 = ‘High impact’. Even though participants were asked to rank their stakeholders in addition to rating, the majority could not do so. Table 5.5 provides an outline of the main categories of stakeholders in SMEs, and presents information on how the participants perceived them in terms of the power and interest (Johnson & Scholes 1999) of stakeholders in the management process.

Table 5.5 Stakeholders

<table>
<thead>
<tr>
<th>Category</th>
<th>Mean Values</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small Firms</td>
<td>Medium-sized firms</td>
</tr>
<tr>
<td>Owner-manager/s</td>
<td>3.84</td>
<td>3.59</td>
</tr>
<tr>
<td>Shareholders</td>
<td>.97</td>
<td>8</td>
</tr>
<tr>
<td>Employees</td>
<td>3.10</td>
<td>5</td>
</tr>
<tr>
<td>Managers</td>
<td>1.76</td>
<td>7</td>
</tr>
<tr>
<td>Customers</td>
<td>3.38</td>
<td>2</td>
</tr>
<tr>
<td>Sri Lankan government</td>
<td>2.67</td>
<td>6</td>
</tr>
<tr>
<td>Competitors (local/foreign)</td>
<td>3.57</td>
<td>1</td>
</tr>
<tr>
<td>Suppliers and distributors</td>
<td>3.29</td>
<td>3</td>
</tr>
<tr>
<td>Banks/financial organisations</td>
<td>3.17</td>
<td>4</td>
</tr>
<tr>
<td>Other stakeholders</td>
<td>.00</td>
<td>.17</td>
</tr>
</tbody>
</table>

After owners, competitors were the most powerful stakeholder category in small firms, and customers were the most powerful in medium-sized manufacturers. Medium–sized enterprises had more competing powers than small firms. Therefore, they concentrated on customers to maintain their competitive advantage. However, according to SMEs’
mean values, local and foreign competitors had a significant impact on the strategic behaviour and performance in SMEs in Sri Lanka. Furthermore, the powers and interests of suppliers and distributors, employees and financial institutions also made an impact on the strategic behaviour, long-term survival and growth of SMEs. It is noteworthy that the Sri Lankan government was clearly not as influential as was supposed by owners.

Shareholders and managers were given a low ranking, which is unsurprising as these groups are synonymous with owners. Moreover, a few medium-sized enterprises also mentioned other stakeholder categories, such as doctors and advertising agents (they were not direct customers for their products), and some associations of employers and employees’ unions.

Further, Chi-square tests were conducted to test differences in stakeholders’ interests between the small and medium-sized groups. New groups were developed to indicate the impact as; 1 = ‘No/ Low impact’, 2 = ‘Moderate impact’, 3 = ‘High impact’, and with \( p = .005 \). The results did not indicate any significant difference between small manufacturers and medium-sized enterprises (see Appendix 10, Table 5, p. 363). Although some difference was exhibited between the ranking of stakeholders in relation to small and medium groups, there was no statistically significant difference between these two groups with regard to the impact made by their stakeholders. Therefore, stakeholder ranking on SMEs can, in general terms, be considered common to both small and medium-sized manufacturers.

As the stakeholders’ interest was the most significant organisational characteristic of manufacturing SMEs in Sri Lanka, the sustainability of these enterprises depended on the extent to which they identified and responded to the positive and negative interests of those of their stakeholders, other than the owners. Competitors had the greatest power to impact the fortunes of SMEs in Sri Lanka. In general, the interests of competitors had a harmful impact upon other similar organisations. Hence, organisations should address this situation though their management processes. This will be discussed next.
5.4 Management Processes

This section addresses key aspects of the management processes of SMEs (see conceptual framework in Chapter Three, p. 95).

5.4.1 Critical Issues Confronting Participant SMEs

One of the main objectives of this study was to investigate critical issues faced by SMEs in Sri Lanka. To identify the critical issues most commonly faced by SMEs, a question with eleven possible issues was used. The respondents could answer according to their understanding of the importance of critical issues for the strategic behaviour, long-term survival and growth of their firm on a five-point Likert scale ranging from 1 = ‘Not important’ to 5 = ‘Very important’. The participants in failed organisations were also asked to answer this section. Figure 5.4 illustrates mean values of the responses of the participants to this survey question.

Figure 5.4 Critical Issues Confronting SMEs - Survey

<table>
<thead>
<tr>
<th>Critical Issues</th>
<th>Not important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market and marketing issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resources issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Union issues</td>
<td>0.03</td>
<td>2.06</td>
</tr>
<tr>
<td>IT-related issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production &amp; material (supply chain) issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government regulations &amp; Tax issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological issues (other than IT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business or strategic planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other issues</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The majority of respondent SMEs indicated that issues concerning the market and marketing were key concerns for their organisations. These matters were followed closely by financial issues. Issues related to production and materials (supply chain), government regulation and taxation, and business or strategic planning were also of concern. Trade unions, information technology (IT)-related and human resources issues, respectively, made less of an impact on the future performance of SMEs. It is interesting to note that technological and IT-related issues together made a considerable impact on SMEs, but as these were industrial organisations, technological issues needed to be addressed by the management before their IT-related issues. The reason was that the majority of rural manufacturers did not use IT and had no expertise in the field, but they needed new equipment and machines in order to survive.

To identify differences in all the critical issues, shown on Figure 5.4, between small and medium-sized firms, Chi-square and Fisher’s tests were conducted on the survey data. Two new groups were formed to represent the importance as; 1 = low level issues (combined scales 1 to 3) and 2 = high level issues (combined scales 4 & 5). According to $p = .005$ significant level and Cramer’s $V$, only financial issues indicated a strong and significant difference ($\chi^2 = 11.738$ (df = 2) Cramer’s $V = .283$, $p = .003 < 0.005$) between small and medium-sized firms. Therefore, compared to medium-sized enterprises, small firms faced more financial issues (see Appendix 9, Table 6, 363).

With regard to ‘other’ issues, participants mentioned environmental and climate-related concerns. However, the respondents believed that these issues were expected to have a relatively small impact on the growth and survival of their firms. The Chi-square test was not applicable for trade union issues, but Fisher’s $p = 1.000 > .005$ and it is not significant. For other issues, neither Chi-square nor Fisher’s exact tests were applicable.

5.4.2 Core Competencies and Barriers of Participant SMEs

The objective of this section is to undertake a SWOT analysis on the survey data to investigate core competencies and SMEs’ barriers to survival in an industry.
5.4.2.1 Core Competencies

The literature emphasises that the sustainable competitive advantage and endurance of firms depend greatly on their core competencies and capabilities (Porter 1980; Prahalad & Hamel 1990; Thomson & Strickland 2001; Wheelen & Hunger 2008). Firms succeed in a competitive market over time when they can do certain things that their customers’ value better than their rivals. The essence of a smart strategy making process is selecting the competencies and capabilities to concentrate on and using them underpin the strategy. Core competencies and capabilities help business organisations to build competitive advantage in the market place. In order to investigate how participants managed their core competencies to improve their strengths and gain opportunities from the external environment (industries), a few questions were included in the survey questionnaire. The results are presented in the following sub-sections.

- Products and their Competitiveness

According to the principles of microeconomics, the industry structures and the nature of the competition can be identified by observing the nature of products that they manufacture and sell. Even though the survey questionnaire was designed using the Central Bank Industry classification of six product categories (see survey questionnaire in Appendix 2), Sri Lankan manufacturers can be further categorised. The following categories were adopted from the publications of the Industrial Development Board and are more detailed and, therefore, more appropriate for this research. Table 5.6 shows the product classification of the respondent SMEs.

According to the Central Bank, textiles and food-related manufacturers constitute the majority of the country’s industrial sector (Sri Lanka Central Bank annual report 2008-2011). Therefore, unsurprisingly, the SMEs examined in this study included 28 textile, wearing apparel and leather products manufacturers, and 24 foods, beverage and tobacco manufacturers, which represented, respectively, 18.7% and 16% of the total sample. The groups defined in turn as wood and wooden products manufacturers and

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46 According to the Central Bank six product categories are: 1) textiles and wearing apparel, 2) food beverage and tobacco products, 3) wood and wooden products, 4) rubber, plastic and petroleum products, 5) basic metal products and 6) other products.
electronics, electrical appliances and light engineering industries each comprised 13.3% of the aggregate sample.

Table 5.6 Product Classification

<table>
<thead>
<tr>
<th>Product classification</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile, wearing apparel &amp; leather products</td>
<td>28</td>
<td>18.7</td>
<td>18.7</td>
</tr>
<tr>
<td>Food, beverage &amp; tobacco products</td>
<td>24</td>
<td>16.0</td>
<td>34.7</td>
</tr>
<tr>
<td>Wood and wooden products</td>
<td>20</td>
<td>13.3</td>
<td>48.0</td>
</tr>
<tr>
<td>Rubber, plastic, minerals &amp; chemical-based products</td>
<td>15</td>
<td>10.0</td>
<td>58.0</td>
</tr>
<tr>
<td>Electronics, electrical appliances &amp; light engineering</td>
<td>20</td>
<td>13.3</td>
<td>71.3</td>
</tr>
<tr>
<td>Machinery and machine parts</td>
<td>11</td>
<td>7.3</td>
<td>78.7</td>
</tr>
<tr>
<td>Printing papers and paper pulp-based products</td>
<td>15</td>
<td>10.0</td>
<td>88.7</td>
</tr>
<tr>
<td>Building material-based products</td>
<td>11</td>
<td>7.3</td>
<td>96.0</td>
</tr>
<tr>
<td>Coir and fibre-based products</td>
<td>6</td>
<td>4.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Most of the above-mentioned commodities are produced and sold in monopolistic competitive market structures,\(^{47}\) in which barriers to entry for new firms are few or non-existent. Any firm can enter or exit relatively easily. Profit is the motivating factor for new entrants, and losses determine whether or not firms exit from the market (Hubbard et al. 2009). Therefore, existing firms need to adopt strategies such as cost leadership, product differentiation or focus on cost and differentiation in order to survive and improve their performance in the industry (Porter 1985; Hubbard et al. 2009), as well as to exploit unexploited opportunities (Hamel & Prahalad 1994 b).

**Competitiveness**

The participants were asked to describe their products in terms of competitiveness in the market. A total of 96% of participants believed that their current products were competitive in the market. Only 4% of the sample mentioned that their products were

\(^{47}\) *Monopolistic competition* is a market structure in which barriers to entry are low, and many firms compete by selling similar, but not identical, products (Hubbard et al. 2009, p.522).
not competitive. The reason given in the latter case was the nature of their products, such as commodities like sugar (a necessity and no competition), medical instruments (produced only to order, and there are no close substitutes), and fruit cups (not much demand in Sri Lanka, according to the participant). As there was no competition for sugar and medical instruments in the market, these products were endowed with additional advantages ensuring a firm’s continued existence. However, although there was no competition for fruit cups, the low demand made this product uncompetitive in the market. This combination of circumstances had an adverse impact on the firm’s sustainability. If a product is highly competitive in the market, the manufacturers of that item need to concentrate, develop and maintain their capabilities in order to secure and maintain a competitive advantage over their rivals in the industry.

- **Capabilities - for Strengths and Opportunities**

Participants who believed that their current products were competitive (144 respondents) were asked to identify their major capabilities and the impacts of these aptitudes in terms of producing competitive commodities in the market. The objective was to capture major and unique capabilities and strengths possessed by SMEs to improve their competitive advantage and survival in the market (Porter 1980). According to resource-based view theory (Wernerfelt 1984; Barney 1991; Grant 1993), these resources and capabilities form strengths to gain competitive advantage in the industry and generate new opportunities for firms to sustain.

For this purpose, respondents were asked to identify and rate commonly identified major company capabilities which had an impact on their ability to produce a competitive commodity, or range of commodities, in the market according to a five-point Likert scale ranging from 1 = ‘Low impact’ to 5 = ‘High impact’. According to the results shown in Figure 5.5, commitment was the capability (strength) most frequently reported to have a high impact by the 144 respondents. Capabilities such as experienced staff and strong supply-chain networks were the other main capabilities highly impacting small and medium-sized firms. Supply-chain networks, up-to-date

48 If there is no competition, monopolies are more likely to be created. Monopolies produce unique products and there are high entry barriers for new firms such as economies of scale (Hubbard et al. 2009).
technology and capital requirements were seen as barriers rather than capabilities by SMEs, especially by small manufacturers (see section 5.4.2.2, p.164). Brand image was close to the average point of mean values, and it had a moderate impact on producing competitive products for respondent SMEs. Small start-ups did not possess their ‘brands’ as a unique resource, since their brands were new to the industry at the time the survey was conducted. However, the mean value of ‘Brand image’ showed close to the average, as it created capabilities for other firms other than those in the categories of start-up and failed (growing and stagnating).

**Figure 5.5 Major Capabilities**

<table>
<thead>
<tr>
<th>Capability</th>
<th>Low impact</th>
<th>Moderate impact</th>
<th>High impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial capability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commitment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand image</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up-to-Date technology</td>
<td>2.56</td>
<td>2.64</td>
<td>2.82</td>
</tr>
<tr>
<td>Experienced Staff</td>
<td>2.73</td>
<td>2.81</td>
<td>2.98</td>
</tr>
<tr>
<td>Strong suppliers &amp; distributors</td>
<td>2.93</td>
<td>3.03</td>
<td>3.25</td>
</tr>
<tr>
<td>Other capabilities</td>
<td>0.00</td>
<td>0.07</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Chi-square and Fisher’s exact tests were undertaken to examine whether any significant differences in the capabilities identified could be found between the two size categories of firms (small and medium-sized). For this purpose, three new groups were formed to indicate the impact; 1= low impact, 2= moderate impact and 3= high impact. The significance was assessed with $p = .005$ as more than one Chi-square tests were undertaken. The results indicated that there were no significant differences between the major capabilities of small and medium-sized enterprises, in terms of making competitive products for the market (see Appendix 10, Table 7, p.364).
The ‘other’ capabilities mentioned by a number of medium-sized manufacturers included geographical location of the firm, support services available from different entities (including political parties) and the special abilities of the owner/s or workers (e.g. to create new models and designs).

5.4.2.2 Barriers to the survival and growth of SMEs – Weaknesses and Threats

Prior studies revealed that capital requirement, a lack of new technology, high levels of competition and a lack of knowledge of management were the main threats and weaknesses to the sustainability of SMEs. Therefore, these barriers were investigated by asking participants to rate the possible barriers according to their impact on the strategic behaviour, survival and growth of firms using a five-point Likert scale ranging from 1 = ‘Not at all’ to 5 = ‘To a great extent’. The results are presented in Figure 5.6.

Figure 5.6 Main Barriers

According to the results, capital requirements, managerial skills and knowledge, and supply-chain issues were the barriers (threat or weakness) to the participant firms. When new technologies were available, but not accessible, barriers were created to survival and growth in the industry. Changes in government policy, such as taxes on imported
materials, minimum wage rates and quality standards, also impacted on the strategic behaviour of SMEs and hindered their survival and growth.

Chi-square and Fisher’s exact tests were conducted to test differences between small and medium-sized groups in terms of major barriers identified. For this purpose, three new groups were formed to indicate barriers as; 1= low barriers, 2= moderate barriers, 3= high barriers, with $p = .005$. The results revealed that the requirement for capital was the only highly significant barrier for small manufacturers compared to medium-sized enterprises ($\chi^2 = 12.491$ (df = 2) Cramer’s $V = .290$ $p = .002 < 0.005$ (see Appendix 10, Table 8, p. 364)). Capital requirement was more important for small manufacturers ($M=3.80$, $SD=.79$) than it was for medium-sized manufacturers ($M=3.33$, $SD=1.01$). This was because, according to some participants, small firms had limited financial capacity and difficulties in gaining access to some sources (e.g. bank loans), as they did not have many assets to provide as security.

Due to the system of free education and the high level of unemployment (including graduates) in the country, it is unsurprising that a lack of skilled workers was not a significant barrier for either small or medium-sized manufacturing enterprises in Sri Lanka. These organisations were operating for the most part with labour-intensive methods (Wijewardena 1989; Chandrasiri 2004; Amaratunge 2009).

The participants also mentioned that environmental changes, difficulties with new product development, and a lack of support from third parties (e.g. insurance, non-government organisations (NGOs)) also constituted barriers. However, these barriers appeared to have less of an effect on the survival and growth of a firm than the barriers outlined above.

5.4.3 Macro-Environmental Factors of SMEs

As Storey (1994) explained, macro-environmental forces have an impact on the activities of SMEs. As mentioned previously, there were four macro-environmental forces; political, economic, socio-cultural and technological (PEST). The extent to
which these factors had an impact on the strategic behaviour, survival and growth of a firm was examined by asking participants to rate those factors based on a five-point Likert scale ranging from 1 = ‘Low impact’ to 5 = ‘High impact’. The results are presented in Figure 5.7. The majority of participants identified macro-environmental economic forces, such as interest rates, inflation and exchange rates, as having a significant impact on the strategic behaviour, survival and growth of their enterprises. While technological and socio-cultural environmental forces were almost of equal significance, their impact was greater than that of political and legal forces.

**Figure 5.7 Macro-Environmental Factors**

<table>
<thead>
<tr>
<th>Low impact</th>
<th>High impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Political and legal environment</td>
<td><img src="image.png" alt="Graph" /></td>
</tr>
<tr>
<td>Economic environment</td>
<td><img src="image.png" alt="Graph" /></td>
</tr>
<tr>
<td>Socio-cultural environment</td>
<td><img src="image.png" alt="Graph" /></td>
</tr>
<tr>
<td>Technological environment</td>
<td><img src="image.png" alt="Graph" /></td>
</tr>
</tbody>
</table>

Chi-square tests were undertaken to reveal whether any significant differences in the macro-environmental factors identified could be found between the small and medium categories of business. Three new groups were developed to indicate the impact of macro-environmental factors using Ward’s method as follows: 1= low impact, 2= moderate impact and 3= high impact. Significance is tested with $p = .005$. The results indicated that there were no significant differences between small and medium-sized enterprises in relation to the impacts of macro-environmental forces on the strategic behaviour and performance of firms (see Appendix 10, Table 9, p. 364). Thus, both small and medium-sized enterprises faced the similar macro-environmental forces.
5.5 Organisational Characteristics versus Critical Issues

One of the main objectives of this study was to investigate whether there was any relationship between organisational characteristics (other than size) and the critical issues confronting SMEs. For this purpose, cluster analyses with Chi-square ($\chi^2$) tests (with significance $p=.05$) were undertaken to test each characteristic against critical issues. Prior to undertaking Chi-square tests, some organisational characteristics had to be clustered using Ward’s method and Euclidean distance, and those new clusters had to be named for the purpose of analysis.

- **Critical issues**: Two clusters were formed, with 124 and 26 cases, respectively, for critical issues to assess the possible relationships with organisational characteristics. The first cluster represented high-level issues and the second cluster represented low-level issues. For example, high-level managerial, marketing, and financial issues were represented in the first group. All low-level managerial, marketing and financial issues were included in the second. A summary of findings is presented in Table 5.7 and are discussed in detail.

Table 5.7 Organisational Characteristics versus Critical Issues - Summary

<table>
<thead>
<tr>
<th>Organisational Characteristic</th>
<th>Critical Issues</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>High and Low issues</td>
<td>No direct relationship</td>
</tr>
<tr>
<td>Management Style</td>
<td>High and Low issues</td>
<td>No direct relationship</td>
</tr>
<tr>
<td>Organisational Structure</td>
<td>High and Low issues</td>
<td>No direct relationship</td>
</tr>
<tr>
<td>Stakeholders’ Interest</td>
<td>High and Low issues</td>
<td>Stakeholders who have a high interest associate with high critical issues (owners, customers, competitors) for SMEs and the impact depends on the positive or negative nature of their interest.</td>
</tr>
<tr>
<td>Organisational Culture</td>
<td>High and Low issues</td>
<td>Cooperative culture increases the commitment of workers and owners, and it suppresses the critical issues vice versa.</td>
</tr>
</tbody>
</table>
5.5.1 Ownership, Management Style and Structure versus Critical Issues

- **The ownership** characteristic was clustered into three categories; 1) sole proprietorships, 2) family-owned and partnerships and 3) private limited companies. According to the results of the Chi-square test ($\chi^2$), there was no significant relationship between the ownership of SMEs and the critical issues confronting them (see Appendix 10, Table 10 a, p. 365). This statistical result confirmed that the critical issues facing these organisations were not generated by their ownership structure. $\chi^2= 3.199$ (df = 2) $p= .202 > 0.05$.

- **Management styles** were clustered into four categories by applying Ward’s method and Euclidean distance; 1) democratic and friendly, 2) moderate democratic and friendly, 3) moderate autocratic but friendly and 4) autocratic but friendly. These groups were tested with two groups of critical issues formed. The Chi-square ($\chi^2$) test results indicated that there was no significant relationship between the management styles of firms and the critical issues confronting them. $\chi^2= 6.327$ (df = 3) $p= .097 > 0.05$ (see Appendix 10, Table 10 b, p.366).

- **Organisational structure** was arranged into two groups; 1) centralised and 2) non-centralised structures. To make the Chi-square test applicable, hybrid and decentralised structures were combined. In order to assess the possible relationship between these two groups and two critical issues, a Chi-square ($\chi^2$) test was undertaken. There was no evidence to prove statistically that there was a relationship between critical issues and organisational structures. $\chi^2 = .751$ (df = 1) $p = .386 > 0.05$ (see Appendix 10, Table 10 c, p.366). Understandably, more data would be needed to prove any relationship in this regard.

This section revealed that there was no evidence to indicate a significant association between the ownership, management styles and structures of organisations, on the one hand, and the critical issues confronting the participant SMEs on the other. Therefore, according to the responses provided by the firms surveyed in this study, these organisational characteristics were not directly aligned with critical issues or vice versa.
5.5.2 Stakeholders and Culture versus Critical Issues

- **Stakeholders’ interests** were categorised into three clusters according Ward’s method and Euclidean distance; 1) low impact (trade unions and others), 2) moderate impact (finance organisations and the government), and 3) high impact (owners, competitors, customers and employees). A Chi-square ($\chi^2$) test was done involving these three groups and two clusters of critical issues (high-level and low-level – see section 5.5 above). The results indicated a statistically significant relationship between the third cluster of stakeholder interest (the high impact group) and the first cluster of critical issues (high-level issues). There was also a moderately significant relationship between the second cluster of stakeholders (moderate impact) and the first cluster of critical issues (high-level issues). The low impact makers’ group (trade unions and others) was associated with low-level issues (see Appendix 10, Table 10 d, p. 367). $\chi^2 = 25.588$ (df = 2) Cramer’s V = .413, $p = .000 < 0.05$. The results indicated that stakeholders who had a high interest associated with high-level critical issues for the participant SMEs and it depended on the nature of their interest. Owners and employees generally had positive interests such as survival and growth of their firm, and therefore helped to minimise high issues. But if they changed their interests, high-level issues emerged. For example if owners used firms’ money to meet personal expenses, employees’ harmful work like strikes, may generate high-level issues in the firm. Competitors normally had harmful interests towards their competing firms and therefore there was a high possibility to create high-level issues.

- **Organisational culture** was clustered into three categories using Ward’s method and Euclidean distance; 1) very low level of commitment and cooperative cultural values, 2) moderate level of commitment and cooperative cultural values, and 3) high level of commitment and cooperative cultural values. These were compared with two groups of critical issues (high-level and low-level) subjected to a Chi-square ($\chi^2$) test. The results revealed that there was a significant relationship between the high-level issues and cluster 2 of culture (moderate level of commitment and cooperative cultural values). Further, the low-level issue cluster (cluster 2) was associated with cluster 3 of culture (high level of commitment and cooperative cultural values). $\chi^2 = 22.072$ (df =
2) Cramer’s V = .384, \( p = .000 < 0.05 \) (see Appendix 10, Table 10 e, p.368). These results confirmed that if an organisation maintained a culture characterised by a high degree of commitment and cooperation, it led to a reduction in the risk posed to the firm by the critical issues it faced. In other words, a cooperative culture increased the commitment of workers and owners and suppressed the critical issues confronting the firm.

To summarise, it can be stated that, whilst stakeholders’ interests and the cultures of firms were each indicated as having a significant relationship with the critical issues confronting SMEs, ownership, management styles and structure were not shown to have such a relationship. Therefore, it is vital to maintain, through the management process, a culture of high commitment and close cooperation, and manage stakeholders who have a high level of interest in, and great power over, the activities of the organisation such as owners, competitors, customers and employees.

### 5.6 Strategic Direction of Respondent SMEs

As acknowledged in the relevant literature, the vision (philosophy) and scenario planning of a firm provided the strategic thinking and direction for the entire organisation. This direction was important when operating a business, especially in a turbulent environment, if a firm was to gain a competitive advantage in order to ensure its sustainability. Therefore, as mentioned previously, section II in the survey instrument was designed with the aim of investigating the strategic thinking and direction of both existing and failed organisations. To obtain reliable data in this regard, the researcher had to explain sophisticated terms and concepts used, such as scenario planning, SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis, and the difference between operational plans, strategic plans and business plans, to the majority of participants.

#### 5.6.1 Vision

When the question regarding whether or not a firm had a vision or a philosophy was asked, 147 SMEs answered in the affirmative. Even the failed enterprises had a vision
for their organisations. Only three SMEs reported that they worked without a vision or a philosophy. Some participants produced evidence to confirm that they had articulated visions in their organisations. The remainder stated that their business philosophy was not formally articulated, but that they had discussed their visions with subordinates and believed that they had gained a correct understanding of the firms’ envisioned future.

One medium-sized firm and two small enterprises were among those that did not have a vision for their business operations. At the time the survey was conducted, of the three firms, one was operating without showing a considerable change in the number of workers (it was stagnating), but, surprisingly, the other two firms were growing. The main reasons given by participants for not having a vision for their organisations were as follows. Firstly, they operated under different circumstances. Secondly, they have limited margins, and, furthermore, concentrated only on very short-term objectives. These growing firms were applying contingency management approaches rather than long-term plans or thinking subject to owners’ expectations.

Chi-square and Fisher’s exact tests were used to find possible associations between firm size, current situation and their business philosophy, with \( p = .05 \). Neither test revealed any statistically significant relationship between having a vision/philosophy and current situation aspect or size of the firm. This confirmed that the majority of participant firms in this study operated with a vision, regardless of their size or current situation (see Appendix 10, Table 11 a & b, pp. 369 & 370). The visions of some organisations were formally articulated, but others were not.

Where a firm had a vision or a philosophy, its importance to the advantageous management of the business and the achievement of success was investigated by asking a five-point Likert scale question with an array of 1 = ‘Not important’ to 5 = ‘Extremely important’. Figure 5.8 indicates that, those SMEs which had a vision believed that the philosophy of their firm was useful in its management and important to a great extent in efforts to achieve future business success. Therefore, having a vision was imperative.
Chi-square and Fisher’s exact tests were undertaken to examine whether there were any significant differences between small and medium firms and their current situation. The results indicated that there was no significant difference, with its significance $p = .05$ (see Appendix 10, Table 12, p.371). It was concluded that the articulated vision or business philosophy of the majority of the SMEs surveyed would assist in deriving a competitive advantage for those firms. Even though small business owners in Sri Lanka established and operated their businesses without formal management education, their thinking and philosophies helped to direct their businesses. This was not surprising, as there were some role models also available in Sri Lanka (e.g. Navaloka Group of Companies, Siddhalepa Group of Companies).

### 5.6.2 Scenario Planning

As discussed in Chapter Two, scenario planning is of assistance to firms in coping with future events. Therefore, it is an element of strategic thinking that plays an important role in the direction of a business. Hence, the participants were asked, using simple words like ‘do you try to forecast your firms’ future events, or do you try to find answers to questions like if something happen…then…?’ whether or not they were using this scenario planning tool in their organisations.

The results showed that 77 small and 40 medium-sized enterprises were using scenario planning, whilst 24 small and six medium-sized enterprises were not. This finding demonstrated that more than 77% of the 150 respondent SMEs used scenario planning.
for the purpose of determining the nature of, and directing their businesses through, future events. Furthermore, results revealed that the nomenclature ‘not applicable’ (NA) applied to failed small-sized manufacturers, because they had already closed down their business operations at the time the survey was conducted.

Among small firms that undertake scenario planning, 38 (49%) were stagnating and 26 (34%) were growing. Further, among medium-sized firms, 30 (75%) growing and ten (25%) stagnating firms were undertaking scenario planning as a part of their management process. These results indicated that more stagnating small firms undertook scenario planning than other small firms, but more growing medium-sized firms undertook scenario planning than stagnating firms. However, Chi-square and Fisher’s exact tests did not reveal any statistically significant difference between the size and current situation of firms, with \( p = .05 \).

The participant SMEs using scenario planning (117 SMEs) were asked to identify who was responsible for conducting this activity. According to the responses from that group, scenario planning in 61% of firms was undertaken by owner-managers, in 26% by top management, and in 13% by owner-managers and top management working together. These figures further disclosed that scenario planning was done by owner-manager/s, or owner-managers and top management, in the great majority of respondent SMEs (61% + 26% +13% = 85.5%).

Subsequently, participants were asked to indicate how useful scenario planning was with regard to some outcomes by asking a five-point Likert scale question ranging from 1 = ‘Not useful’ to 5 = ‘Very useful’. The results are presented in Figure 5.9. The majority of SMEs that undertook scenario planning agreed that it was a very useful mechanism for identifying new opportunities and potential threats, to minimising overhead costs and altering the capacities and strengths of organisations. Some stagnating small firms managed to survive on their scenario planning behaviour.
Figure 5.9  The Usefulness of Scenario Planning

It helps to find new opportunities

It helps to identify potential threats/competitors

It helps to minimise/cut overhead costs

It helps to alter capacity/strengths

To examine whether there were any significant differences between the two categories of business in terms of size, with regard to scenario planning, Chi-square tests were conducted on survey data forming three new groups to indicate the usefulness as follows: 1= Not useful, 2= Moderately useful, and 3= Very useful with $p = .05$. The results did not reveal any significant difference in this regard. Both small and medium-sized firms that use scenario planning experienced its usefulness in determining the direction of their business.

5.6.3 Strategic Planning

The literature suggests that a proactive systematic approach is useful in any attempt to obtain success in business. Therefore, in this study, the strategic planning process approach (Wheelen & Hunger 2008) was used as the yardstick for differentiating and investigating the strategic behaviour of the target group. Three key strategic planning tools were identified and used to determine the extent of strategic planning undertaken by the sample. These tools, SWOT, industry analysis and the existence of a planning system, have been prolifically cited in the literature (see Chapter Two).
5.6.3.1 SWOT Analysis

According to Wheelen and Hunger (2008), environmental scanning through SWOT analysis is the first step in, or the prerequisite to, strategic planning. Hence, a question was asked concerning the extent to which participant SMEs undertook SWOT analysis as a practice to identify the forces in their business environment before deciding on the strategies that their firms should adopt. The results indicated that 83 small firms and 32 medium-sized firms were not using SWOT analyses at the time the survey was conducted. A total of 21 small and 14 medium-sized firms, of the total of 150 surveyed, were using SWOT analyses as a part of their strategy processes. The decision-makers of growing SMEs were undertaking environmental scanning in order to avoid strategic surprises (unexpected circumstances) and to ensure the long-term health of their firms.

Further, Chi-square and Fisher’s exact tests were used to investigate possible associations between the size and current situation of a firm, and those firms that undertook SWOT analysis. Fisher’s exact $p$ indicated no significant difference between small and medium-size firms ($p=.210>.05$, (df=1)), but Chi-square tests were not applicable as the sample was unbalanced. For example, only one stagnating medium-sized firm was undertaking SWOT analysis.

SWOT analysis was not a popular strategic management tool among SMEs, especially with stagnating firms. The majority of participants did not know about SWOT analysis and its importance, as they were lacking in formal education in management. Although SWOT analysis is less sophisticated than scenario planning, these participants undertook the latter as a cognitive process simultaneously with their thinking about the future.

5.6.3.2 Industry Analysis

Industry analysis refers to an in-depth investigation of key factors within the task environment of an organisation (Porter 1980, 1985). Participants were asked whether they were conducting industry analysis in their organisations. The results indicated that
62 SMEs utilised industry analysis, and among this group were 32 small and 30 medium-sized organisations. Furthermore, 88 respondent SMEs were not undertaking industry analysis in their planning process at the time the survey was conducted. The majority of those 88 were small firms, implying that small manufacturers were more likely to operate without undertaking industry analysis. Chi-square and Fisher’s exact tests were undertaken to investigate any statistical significance between small and medium firms in this regard. According to Fisher’s $p$ value there was a strong relationship between the size of a firm and the likelihood of a firm undertaking industry analysis ($p = .000< .05$, (df=1)), but Chi-square was not applicable. The task of undertaking industry analysis was not affected by the current situation of firms, but size had an effect. Small firms were concerned about their industry as they were worried about the unfavourable forces approaching them. However, their industry analyses were mostly simple and/or informal.

The results indicated that 115 SMEs did not undertake SWOT analyses, and 88 SMEs did not undertake industry analyses (including failed businesses). However, 46% of participants were undertaking either SWOT or industry analysis, or both. Furthermore, the results revealed that the parties who were responsible for conducting SWOT and industry analysis activities were owner-manager/s only (24% of enterprises), top managers only (14%) or owner-manager and top management together (8%). There was only a little scope (2%) for the other parties such as middle-level (functional) and lower-level workers to become involved in these activities among the SMEs surveyed. This confirmed the domination of owners in managerial activities, and how their knowledge and understanding impacted on strategic behaviour in SMEs in Sri Lanka.

5.6.3.3 Planning Systems

The methodology chapters of this thesis indicated that all participant SMEs could be divided into two categories, those which had a formalised strategic planning system (FSP SMEs) and those which do not and were defined as non formalised strategic planning SMEs (NFSP SMEs).
Investigation of the use of FSP systems identified only 32 (21%) SMEs reporting its usage. This number included eight (25%) small and 24 (75%) medium-sized firms. The other 118 SMEs were categorised as NFSP enterprises. Although the majority of NFSP participants (96 out of 118) were small firms, 52% of participant medium-sized enterprises were FSPs. Unsurprisingly, failed organisations were not engaged in formal strategic planning processes during the time they were operating.

Chi-square and Fisher’s exact tests were applied to find out possible associations between size, current situation and planning systems of firms. Chi-square, $p$ value and Cramer’s $V$ indicated that small firms associated with ‘no’ (NFSP) and medium-sized firms were associated with ‘yes’ (FSP), and there was a strong significant difference between the two size groups ($\chi^2 = 37.602$ (df = 1) Cramer’s $V = .501$, $p = .000 < 0.05$) (See Appendix 10, Table 13 a & b, pp.371 & 372).

Among medium-sized manufacturers, there was a strong significant relationship between formal strategic planning and the current situations of a firm ($\chi^2 = 6.148$ (df = 1) Cramer’s $V = .366$ $p = .013 < 0.05$). The majority of growing SMEs were more likely than other categories of firms to have formal strategic plans, but stagnating firms were operating without formal plans. Therefore, it is important to further examine their management practices in a subsequent chapter (the matter is discussed in Chapter Seven).

5.7 Discussion of Key Findings of Primary Data Analysis - Phase I. A

The surveys provided significant insights into the characteristics, processes and sophistication of the sample SMEs and each will be summarised in turn.

5.7.1 Characteristics of the Sample SMEs in Relation to Ownership, Planning and Size

This section presents a summary of findings of the characteristics of the participating firms, in terms of their ownership, size and planning system aspects. Among the 150
manufacturing organisations that took part in this study, 104 were small and 46 were medium-sized enterprises. Of 150 sampled SMEs, 32 had formal strategic plans and 118 were operated without a formal strategic plan, at the time the survey was conducted as shown in Table 5.8.

Table 5.8 Characteristics of the SMEs Surveyed

<table>
<thead>
<tr>
<th>Ownership Categories</th>
<th>5-49 Regular Employees</th>
<th>50-149 Regular Employees</th>
<th>Total SMEs</th>
<th>Formal strategic planning system</th>
<th>Total SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
<td>Medium</td>
<td></td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Sole proprietary</td>
<td>63</td>
<td>10</td>
<td>73</td>
<td>6</td>
<td>67</td>
</tr>
<tr>
<td>% within</td>
<td>86.3%</td>
<td>13.7%</td>
<td>100.0%</td>
<td>8.2%</td>
<td>91.8%</td>
</tr>
<tr>
<td>Family owned</td>
<td>9</td>
<td>8</td>
<td>17</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>% within</td>
<td>52.9%</td>
<td>47.1%</td>
<td>100.0%</td>
<td>5.9%</td>
<td>94.1%</td>
</tr>
<tr>
<td>Partnership</td>
<td>12</td>
<td>6</td>
<td>18</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>% within</td>
<td>66.7%</td>
<td>33.3%</td>
<td>100.0%</td>
<td>27.8%</td>
<td>72.2%</td>
</tr>
<tr>
<td>PVT Limited Company</td>
<td>20</td>
<td>21</td>
<td>41</td>
<td>19</td>
<td>22</td>
</tr>
<tr>
<td>% within</td>
<td>48.8%</td>
<td>51.2%</td>
<td>100.0%</td>
<td>46.3%</td>
<td>53.7%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>46</td>
<td>150</td>
<td>32</td>
<td>118</td>
</tr>
<tr>
<td>% within</td>
<td>69.3%</td>
<td>30.7%</td>
<td>100.0%</td>
<td>21.3%</td>
<td>78.7%</td>
</tr>
</tbody>
</table>

Among 73 sole proprietorships, 63 were small and 10 were medium-sized manufacturers. However, less than 9% of sole proprietorships used FSPs. Of 17 family-owned businesses, only one firm had a FSP. The majority of partnerships were also small businesses. Sole proprietorships and family businesses constituted the highest percentages (91.8% & 94.1%) of those firms without formal strategic plans. Private limited companies (PVT) showed the highest percentage of FSP usage at more than 46%. The government-affiliated company, which is a medium-sized business, had a FSP.
To conduct Chi-square tests, the ownership characteristic was regrouped into three categories as follows: 1= sole proprietorships, 2= family-owned and partnerships and 3= private limited companies, including those that were government-owned. According to Chi-square and $p$ values, for both size ($\chi^2 = 20.633$ (df = 2) $p= .000 < 0.05$) and planning system ($\chi^2 = 25.137$ (df = 2) $p = .000 < 0.05$), there were statistically significant relationships with their ownership (see Appendix 10, Table 14 a & b, pp. 373 & 374). The majority of sampled sole proprietorships, family-owned businesses and partnerships were NFSP small manufacturers, whilst PVT companies were almost equally distributed among FSP and NFSP as well as small and medium-sized enterprises.

5.7.2 Organisational Characteristics

Surprisingly, according to the findings of the survey, the organisational characteristic which was most important in terms of the influence it exerted over the strategic behaviour and performance of the SME was stakeholders’ interests. This was because the interests of the stakeholders were not directly under the control of owner-managers of organisations, since they were closely linked to the task environment (Porter 1980, 1985; Thomson, Strickland & Gamble 2007, p. 74) rather than the internal environment (except owner-managers and employees). Moreover, the findings revealed that the most powerful and influential stakeholder groups next to owners were competitors and customers. How well customers were satisfied by competitors determined to control the market greatly impacted on small firms strategic behaviour and sustainability.

5.7.3 Critical Issues

Marketing and market-related issues were the most critical issues facing the participant organisations. These issues create financial concerns, especially for small manufacturers. Although SMEs required fewer financial resources to establish (Gamage 2003) than larger enterprises, according to the survey findings of this study, market-related and marketing issues increased financial difficulties.
5.7.4 Critical Issues versus Organisational Characteristics

Even though the participant SMEs identified stakeholder interest as the organisational characteristic which most heavily influenced their strategic behaviour, the findings showed that both stakeholders’ interest and organisational culture had a significant association with critical issues faced by these organisations. Organisational culture was linked with national culture (Nanayakkara 1999), but it was under the control of leaders and managers (Willcoxon & Millett 2000). Peters and Waterman (1982) drew attention to the importance of culture in achieving high levels of organisational effectiveness in their publication *In Search of Excellence*. ‘Leaders help to shape the culture. The culture helps to shape its members ... culture, then, stands at the apex of the leader’s responsibility hierarchy’ (Hampden-Turner 1990, pp. 7-9; Willcoxon & Millett 2000). The findings of the survey indicated that groups with a high negative (harmful) interest towards the firm and non-supportive organisational cultural environment created critical issues (Quinn 1978) in Sri Lankan SMEs.

5.7.5 Strategic Direction of SMEs

The findings showed that 147 of 150 participants were operating with a vision or a business philosophy, and of these 117 used scenario planning. This showed that these entrepreneurs used strategic thinking to guide their business organisations. The majority stated that having a vision and scenario planning were useful for directing and improving the performance of their firms. With regard to strategic management tools, whilst 62 firms were undertaking industry analysis, only 35 were undertaking SWOT analysis. Therefore, industry analysis was obviously more popular than SWOT analysis, but its rate of usage among participant SMEs was also relatively low. Furthermore, there were only 32 FSP SMEs included in the survey. This confirms that, even though the majority of participants operate their businesses using strategic thinking or a strategic basis, only 21% had formal strategic plans (a proactive systematic approach). Others used reactive or proactive ad hoc modes (Ansoff 1988) as they were NFSP SMEs. There was a significant association between the size and ownership of a
firm, and its strategic direction. Small sole proprietary, family-owned and partnership-based firms were more likely to operate as NFSP organisations than as FSP firms.

5.8 Chapter Summary

This chapter presented the characteristics of the 150 participant SMEs gathered by means of the first section of the face-to-face survey questionnaire. The results identified the key organisational characteristics of participant SMEs, and the critical issues they commonly faced. It also highlighted the participants’ use of formal strategic management tools. Most of the SMEs operated as sole proprietorships, family businesses or partnerships. As such, their owners were actively involved in the firm’s management process and acted as the leaders in most cases. Their management styles showed both Western and Eastern characteristics. For example, they were people-friendly, but more likely than not to use a top-down hierarchy and maintain a gap between workers and owner-managers. However, these leaders believed that a commitment on the part of both parties to the success of the business was the most important capability required to survive and gain competitive advantage in an industry, whilst capital requirements, lack of managerial expertise and an absence of new technologies all created barriers. The next chapter contains an analysis and discussion of the findings pertaining to the strategic behaviour of the 150 SMEs surveyed.
6.1 Introduction

In the previous chapter the findings of the first two sections of the survey questionnaire were analysed and discussed. In order to probe the strategic behaviours of small and medium-sized enterprises (SMEs), two separate parts were designed under Section III of the survey questionnaire. This chapter presents the findings according to the existence of formalised (section 6.2) and informal (section 6.3) strategic planning processes in participant SMEs. The major findings of these two sections will be presented in the summary (section 6.4), and these will be further discussed in Chapter Eight.

6.2 Formalised Strategic Planning SMEs

As identified in Chapters Two and Four, this study considered firms which had written strategic plans at the time the survey was conducted as Formalised Strategic Planning (FSP) SMEs. The presence of a formalised plan confirmed that the firm was using the proactive systematic mode of strategic behaviour (Ansoff 1988). There were 32 (21%) FSP SMEs among the 150 firms surveyed (see section 5.6.3.3, p.175). These FSP SMEs included eight small and 24 medium-sized firms. Furthermore, in terms of the current situation categories, the 32 FSP SMEs included one start-up, three stagnating and 28 growing firms. If applicable, Chi-square tests or Fisher’s exact tests with a confidence level of .05 or .005 were used in this section to check whether or not there was any association between groups (size or current situation) using the Statistical Package for the Social Sciences (SPSS computer package).

6.2.1. Key Features of FSPs of SMEs

The objective of this section was to study the fundamental features of the strategic planning processes of SMEs in Sri Lanka. For this purpose, four questions were used in the survey.
The literature suggested that SMEs mostly cover shorter periods on their strategic plans compared to large organisations (e.g. Gibb & Scott 1985; Mintzberg 1994; Vaitkevičius 2006; Balasundaram 2009). In order to investigate the time coverage of FSP of the Sri Lankan SMEs, the participant SMEs were asked to indicate their time horizons in this regard. Table 6.1 presents the results according to size and current situation of the firms at the time the survey was undertaken.

Table 6.1 Time Horizon For Formalised Strategic Planning (FSP)

<table>
<thead>
<tr>
<th>Category</th>
<th>Time horizon for FSP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Up to one year</td>
</tr>
<tr>
<td>5-49 Small</td>
<td></td>
</tr>
<tr>
<td>Current Situation</td>
<td></td>
</tr>
<tr>
<td>start-ups</td>
<td>0</td>
</tr>
<tr>
<td>growing</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
</tr>
<tr>
<td>50-149 Medium</td>
<td></td>
</tr>
<tr>
<td>Current Situation</td>
<td></td>
</tr>
<tr>
<td>stagnating</td>
<td>2</td>
</tr>
<tr>
<td>growing</td>
<td>15</td>
</tr>
<tr>
<td>% within Current Situation</td>
<td>71.4%</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
</tr>
<tr>
<td>% within Current Situation</td>
<td>70.8%</td>
</tr>
</tbody>
</table>

Of eight small firms that were using FSPs, six developed their strategic plans on an annual basis and only two were formulating their plans to cover a period of more than one year but less than to two years into the future. Similarly, the majority of medium-sized manufacturers developed their strategic plans on an annual basis rather than within the other time horizon categories indicated in the questionnaire. This meant that none of the respondent firms developed their strategic plans for more than two years into the future. According to Fisher’s exact test $p$ values, with regard to both small ($p = .250 > 0.05$, df = 1) and medium-sized ($p = 1 .000 > 0.05$, df = 1) firms, there was no statistically significant relationship between strategic planning time horizons and the current situation of the business. This confirmed that the majority of FSP SMEs
formulated their strategic plans on an annual basis, regardless of their current situation in the business life cycle.

All of the FSP SMEs were asked when they started to prepare formal strategic plans. Respondents could select their answers from two options. The options were ‘at the beginning of the business’ and ‘a few years after starting the business operations’. The objective of this question was to investigate when the participants identified the usefulness of FSPs. A total of 12 FSP firms (three small and nine medium-sized) have had FSPs since the businesses were established. However, the other 20 FSPs (five small and 15 medium-sized firms) had adopted formal strategic planning processes a few years after their firms were founded.

Fisher’s exact test $p$ values confirm that, for both small ($p = .375 > 0.05, \text{df} = 1$) and medium-sized ($p = .533 > 0.05, \text{df} = 1$) firms, there was no statistically significant relationship between the development of the first strategic plan and the current situation of the firm. This result indirectly showed that the current situation of firms was not the main root cause of initiating strategic plans in SMEs, and that there may have been other vital reasons for adopting that course of action.

The frequency with which the FSPs of SMEs’ were updated was investigated by means of a question that contained a choice of four answers: Yearly, More than 1 but less than 2 years, More than two years and Others. The results indicated that five of eight small firms with FSPs updated their strategic plans on a yearly basis. Among that group, four were growing firms and the other one was a start-up at the time the survey was conducted. Twelve medium-sized businesses with FSPs also reported that updates in their strategic plans were undertaken on a yearly basis. Of those 12 medium-sized organisations, 11 were growing and the other was stagnating. Furthermore, two growing small firms with FSPs, and nine growing and two stagnating medium-sized organisations with FSPs, mentioned that they updated their strategic plans more than one but less than two years.
Hence, according to the survey results, the majority of SMEs with FSPs were dedicated to updating their plans on a yearly basis, and this is not surprising as their strategic plans were prepared with a view to covering one year into the future. Others undertook updates at least every one to two years.

If an organisation was operating with a formal strategic plan, the actual progress and outcomes needed to be reviewed from time to time against the planned outcomes. When the question was asked about the frequency of progress reviews against strategic plans, a total of 29 firms out of 32 (more than 80%) of FSP SMEs reported that it was done up to one year basis. Table 6.2 shows the survey results according to the size and current situation aspects of the surveyed sample.

**Table 6.2 Progress Reviews against Strategic Plans**

<table>
<thead>
<tr>
<th>Category</th>
<th>Start-ups</th>
<th>Growing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small 5-49</td>
<td>Up to one year</td>
<td>More than 1 but less than 2 years</td>
<td>More than 2 years</td>
</tr>
<tr>
<td>Current Situation</td>
<td>Count</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Growing Count</td>
<td>6</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Total Count</td>
<td>7</td>
<td>1</td>
<td>8</td>
</tr>
</tbody>
</table>

| Medium 50-149 | Stagnating | Growing | Total |
| Current Situation | Count | 3 | 0 | 0 | 3 |
| Growing Count | 19 | 1 | 1 | 21 |
| % within Current Situation | 90.6% | 4.8% | 4.8% | 100.0% |
| Total Count | 22 | 1 | 1 | 24 |
| % within Current Situation | 91.6% | 4.2% | 4.2% | 100.0% |

Among firms that mentioned they were carrying out progress reviews of their strategic plans on up to one year basis, there were one small firm and two medium-sized firms undertaking their progress reviews every six months. This was because they were more concerned about their strategies and the firm’s progress. These firms used concurrent progress reviews to ensure the effectiveness of their articulated strategies.

In summary, the findings of this section revealed that only 21% of the target group in this study operated as FSP SMEs at the time the survey was carried out. These firms were formulating, and revising the progress of, their strategic plans on an annual basis.
Thus, even though participants were using a proactive systematic approach, their focus was relatively shorter in duration as suggested in the relevant literature.

6.2.2 Mission Statement

The literature on strategic management has suggested that a mission statement is an important part of the formal strategic management process of any organisation. Therefore, the existence of the mission statements of all respondent FSP SMEs was investigated by means of two questions.

The first question identified the extent to which the respondent FSP SMEs were maintaining their articulated missions as written statements. At the time the survey was conducted, all FSP SMEs (eight small and 24 medium-sized firms), had formal mission statements. About 80% of the participant firms with FSPs confirmed the availability of their written mission statements through their annual reports, and/or the business /strategic plans. The mission statements of the majority demonstrated that they had an understanding of their products, their customers and their needs, and of how their enterprises could cater to those needs, but practical situations had yet to be proved or investigated. This was because missions can be either broad or narrow, but good ones are unique to the organisation for which they are developed (Thompson & Strickland 2001; Wheelen & Hunger 2008). On the other hand, although firms have a unique and well articulated mission statements, it does not say that it is effective. The effectiveness greatly depends on how firms operationalise their missions via business activities.

The second question sought to identify the degree of effectiveness of mission statements against the expectations of the decision-makers of the firms. For this reason, participants were asked to express their experiences and opinions regarding the effectiveness of their mission statements in order to meet their expected performance using a five-point Likert scale ranging from 1 = ‘Not effective’ to 5 = ‘Very effective’.

The responses received to this question are presented in Figure 6.1.
The majority believed that having a formal mission statement was important in the sense that it provided guidance for business operations in their enterprises. Secondly, they supposed that the mission statement was very effective in enabling them to manage their firms with more confidence. Furthermore, respondents in both the small and medium categories judged that they could use their formal mission statements to show other stakeholders that they had a clear purpose. Therefore, FSP SMEs that participated in the survey concluded that having a formal mission statement was very effective.

Under the rubric ‘For other reasons’, only two medium-sized manufacturers asserted that their formal mission statements were effectively used as a means of comparing the aims and values of their firms with those of their competitors.

### 6.2.3 Corporate Goals

In the formal strategic planning setting, the matter of corporate goals is the next most important aspect. Therefore, for the purpose of investigating the corporate goals of the respondent SMEs, two questions were used in the survey questionnaire. Firstly, the question of whether or not the FSP SMEs have formal (written) corporate goals that they were trying to achieve through their business operations was examined. The answer to this question could be: ‘Yes-quantitative’, ‘Yes-qualitative’, ‘Yes-quantitative and qualitative’, or ‘No’. The results indicated that all FSP SMEs had formal corporate goals in at least one category at the time the survey was conducted. Moreover, of the 32
FSP SMEs, 25 (78%) were operating with both quantitative and qualitative formal corporate goals, regardless of their size and current situation. Noticeably, 83% of small enterprises and nearly 90% of medium-sized organisations with FSPs were using both quantitative and qualitative formal corporate goals. Furthermore, according to the findings, growing SMEs were more likely to have both quantitative and qualitative corporate goals than other FSP SMEs.

Secondly, the extent to which formal corporate goals were perceived to be useful in enabling firms to achieve their expected levels of performance was investigated by means of a five-point Likert scale question ranging from 1 = ‘Not at all’ to 5 = ‘To a great extent’. Table 6.3 contains a summary of the results.

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular employees</td>
<td>8</td>
<td>3.75</td>
<td>1.669</td>
<td>.590</td>
</tr>
<tr>
<td>5-49 Small Firms</td>
<td>24</td>
<td>4.13</td>
<td>.612</td>
<td>.125</td>
</tr>
<tr>
<td>50-149 Medium Firms</td>
<td>24</td>
<td>4.13</td>
<td>.612</td>
<td>.125</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>32</td>
<td>4.03</td>
<td>.967</td>
<td>.171</td>
</tr>
</tbody>
</table>

The results revealed that, having corporate goals helped FSP SMEs to survive and to achieve expected levels of growth to a great extent (mean values ≥ 3.75 > mid-point). This confirmed that, participants with FSPs believed that their corporate goals directed them towards achieving better results regardless of the size.

### 6.2.4 Corporate Strategies

A question was asked to find out whether FSP SMEs had formal (written) corporate strategies that they were using in their business operations. The participants presented their corporate strategies in various forms such as annual reports, catalogues or plans.
The extent to which formal corporate strategies were perceived to be useful in achieving the success of the participant FSP SMEs was investigated by means of a five-point Likert scale ranging from 1 = ‘Not at all’ to 5 = ‘To a great extent’. The responses received according to the size and the current situation aspects of the firms, respectively, are shown in Table 6.4.

**Table 6.4 The Usefulness of having Formal Corporate Strategies**

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-49 Small Firms</td>
<td>8</td>
<td>3.75</td>
<td>.707</td>
<td>.250</td>
</tr>
<tr>
<td>50-149 Medium Firms</td>
<td>24</td>
<td>4.25</td>
<td>.608</td>
<td>.124</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>32</td>
<td>4.13</td>
<td>.660</td>
<td>.117</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current situation</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-up Firms</td>
<td>1</td>
<td>4.00</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Stagnating Firms</td>
<td>3</td>
<td>4.67</td>
<td>.577</td>
<td>.333</td>
</tr>
<tr>
<td>Growing Firms</td>
<td>28</td>
<td>4.07</td>
<td>.663</td>
<td>.125</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>32</td>
<td>4.13</td>
<td>.660</td>
<td>.117</td>
</tr>
</tbody>
</table>

All mean values were greater than 3.5 and standard deviation was less than 1. Medium-sized firms dominated and showed more than 4.00 in this situation. This indicated that, FSP SMEs believed that having formal corporate strategies was useful and greatly helped the firm to achieve the results expected, regardless of size or current situation.

**6.2.5 Functional Strategies**

In order to operationalise a corporate strategy, it should be split into the functional areas of a firm. The extent to which the FSP SMEs transformed their corporate strategies into functional strategies was examined through a series of three questions.
Initially, the respondents were asked whether they had formal functional strategies to implement, in order to accomplish the firm’s objectives. The majority presented their evidence in the shape of formal strategic management instruments (mission, corporate strategy). According to the survey results, among the 32 FSP SMEs, only one medium-sized company did not have formal functional strategies developed as part of their strategic planning process. The respondent from that particular company mentioned that, due to the nature of their business, the firm did not have separate functional departments, and, therefore, it did not have formal functional strategies.

If the respondent FSP SMEs had formal functional strategies, it was insightful to analyse the functional areas maintained by the firm. For the purposes of analysis, four categories were used: 1) ‘Not Applicable (NA)’ was used for firms that did not have formal functional strategies; 2) ‘All functions’ was used for firms that had Marketing, Human Resources, Production, Financial and Research and Development strategies; 3) ‘Few functions’ was given for organisations which had formal functional strategies for more than one but not all functional areas, and 4) ‘Production’ was used for those SMEs that had only formal functional strategies in the production department. The results according to the size and current situation of the firms are presented in Table 6.5

Only 31 participant SMEs had formal functional strategies. Among that group, eleven medium-size growing manufacturers had functional strategies for ‘all functions’. Furthermore, 75% of small firms with FSPs, and nearly 38% of FSP medium-sized organisations (six small and nine medium-sized firms, or 15 altogether), had strategies for ‘few functional areas’. However, two small and three medium-sized organisations mentioned that they only had functional strategies in the production area. It is interesting to note that these five firms were all in the growing category. Therefore, there is a possibility of also having strategies in the other functional areas in these firms in the future. According to the survey data, only medium-sized growing firms were using formal functional strategies pertaining to all functional areas. Other FSP SMEs had formal functional strategies for several functions, or only for their production function.

49 The firm produced and sold clay pots. They maintained a production factory and an office. Wholesalers came to the factory.
Table 6.5 Functional Areas with Formal Strategies

<table>
<thead>
<tr>
<th>Category</th>
<th>In what areas</th>
<th>NA</th>
<th>All functions</th>
<th>Few functions</th>
<th>Production</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-49</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>Current Situation</td>
<td>start-ups</td>
<td>Count</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>growing</td>
<td>Count</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Count</td>
<td>6</td>
<td>2</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% within Current Situation</td>
<td>75.0%</td>
<td>25.0%</td>
<td>100.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50-149</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>Current Situation</td>
<td>stagnating</td>
<td>Count</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>growing</td>
<td>% within Current Situation</td>
<td>1</td>
<td>11</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Current Situation</td>
<td>4.8%</td>
<td>52.4%</td>
<td>28.6%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Total</td>
<td>Count</td>
<td>1</td>
<td>11</td>
<td>9</td>
<td>3</td>
<td>24</td>
</tr>
<tr>
<td>% within Current Situation</td>
<td>4.2%</td>
<td>45.8%</td>
<td>37.5%</td>
<td>12.5%</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

To determine the extent to which respondents believed that their formal functional strategies helped to achieve the firm’s expected level of performance, a five-point Likert scale question was designed ranging from 1 for ‘Not at all’ to 5 for ‘To a great extent’. The results showed that all mean values were greater than or equal to 3.75, which indicated that the respondents believed that their formal functional strategies were, to a great extent, useful in attaining the expected outcomes of their organisations. This was the case, regardless of the size or current business stage of the firm.

6.2.6 Action Plans

The participants were asked whether they had formalised action plans such as budgets, procedures etc. The results indicated that all FSP SMEs, consisting of eight small and 24 medium-sized organisations, had written action plans at the time the survey was undertaken. Even the company that did not have formal functional strategies reported that they had action plans.

The respondents were then asked to indicate the extent to which their action plans helped to achieve their firm’s expected level of performance using a five-point Likert scale ranging from 1 = ‘Not at all’ to 5 = ‘To a great extent’. The results indicated in
Table 6.6 reveals that having formal action plans helped FSP SMEs to achieve their objectives to a great extent (all mean values > 3.5). These findings proved that the decision-makers of FSP SMEs agreed that their written action plans were, to a considerable degree, useful in their business operations. Further, there was no noticeable difference in this regard between different categories, according to the size or current situation of the firms.

**Table 6.6 Usefulness of Formal Action Plans**

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular employee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-49 Small</td>
<td>8</td>
<td>3.63</td>
<td>.744</td>
<td>.263</td>
</tr>
<tr>
<td>50-149 Medium</td>
<td>24</td>
<td>4.04</td>
<td>.690</td>
<td>.141</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>32</td>
<td>3.94</td>
<td>.716</td>
<td>.127</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Situation</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-up firms</td>
<td>1</td>
<td>4.00</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Stagnating firms</td>
<td>3</td>
<td>4.33</td>
<td>.577</td>
<td>.333</td>
</tr>
<tr>
<td>Growing firms</td>
<td>28</td>
<td>3.89</td>
<td>.737</td>
<td>.139</td>
</tr>
<tr>
<td>Total companies</td>
<td>32</td>
<td>3.94</td>
<td>.716</td>
<td>.127</td>
</tr>
</tbody>
</table>

The literature indicates that, generally, lower level managers formulate, implement and bear responsibility for action plans. To investigate who formulated and who was responsible for the action plans of the respondent SMEs, a question with two sections was used. The respondents could select more than one party, according to their organisation’s experience, in answering this question. The results are presented in Table 6.7, according to the size and current situation of the participant firms.

The results indicated that action plans in the small firms surveyed were formulated mostly by owner-managers only (37.5%), owner-manager/s and top management in combination (37.5%) or top management only (25%). In medium-sized organisations, **Top management refers to top level managers excluding the owners.**
these plans were designed and implemented by owner-manager/s and top management (41.7%), top management only (29.2%) or owner-managers only (20.8%).

Table 6.7 Who Formulates & is Responsible for Action Plans in SMEs

<table>
<thead>
<tr>
<th>Category</th>
<th>Who formulates action plans</th>
<th>Who is responsible for implementation of action plans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Owner-managers only</td>
<td>Top management only</td>
</tr>
<tr>
<td>5-49 Small</td>
<td>start-ups</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>growing</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>37.5%</td>
</tr>
<tr>
<td>50-199 Medium</td>
<td>Current situation</td>
<td>stagnating</td>
</tr>
<tr>
<td></td>
<td>growing</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>23.8%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20.8%</td>
</tr>
</tbody>
</table>

Unsurprisingly, in the small start-up firm, the formulation and implementation of action plans were the responsibility of the owner-manager. There were only two medium-sized firms in which top and middle managers together made action plans for their businesses. However, there was no single organisation in which action plans were undertaken by middle-level managers, lower-level managers or middle and lower level managers together.

Data displayed in Table 6.7 also shows the allocation of responsibilities for the action plans of the firm, such as programmes, budgets and procedures. In the majority of small firms, owner-manager/s and all other managers (50%) were responsible for the implementation of action plans of their organisations, while in the majority of medium-sized firms, that responsibility was shared among all managers (62.5%). The term ‘all
managers only’ included top, middle and lower level managers but excluded owners. Therefore, in respondent SMEs, the responsibilities for action plans lay mostly with all the managers or owner-managers and all managers collectively. The important point here is that, although there is very little chance for middle and lower level managers to become involved in the formulation of the action plans of their enterprises, the responsibility for implementing such plans would be passed on to them.

The literature suggests that the formulation, and the responsibility for the implementation, of the action plans of firms should be delegated to lower level personnel within an organisation. However in participant FSP SMEs, the owner-managers and top-level decision-makers were engaged in formulating action plans in a similar way to their strategic plans. The reason for this may be the underestimation or negative attitudes of owners toward their subordinates’ capabilities and reluctance to delegate their authority or the key features of their FSPs, such as the use of shorter time horizons. However, these decision-makers were trying to distribute responsibility for the implementation of action plans among all workers, even though they did not allow these employees to participate in planning.

The results presented so far have revealed the strategic behaviour of FSP SMEs in this study. Although the participant FSP organisations were using proactive systematic approaches, their strategic behaviour was mainly centralised on the owners and their expectations. For that reason, the skills and attitudes of owners impacted directly on the strategic thinking and planning processes of firms. For example, the owners had no faith in the skills of their subordinates, but expected collective responsibility for the activities of their firms. This practice was a combined manifestation of both Western and Eastern management concepts: McGregor’s Theory X, which explains the negative attitudes of leaders towards workers such as workers are lazy and reluctant to have responsibilities, and Theory Z of Japanese collectivism-based management practice. Even though these FSP SMEs were applying contemporary strategic management, their management practice was still grounded mainly in early management principles. This showed the inadequate knowledge and experience of management theories and practices of owner-managers of SMEs in Sri Lanka. Therefore, it was important to investigate whether or
not these FSP SMEs were facing any problems due to the manner in which their management was conducted.

### 6.2.7 Problems of Formal Strategic Planning

All participant FSP SMEs were asked whether they had experienced any problems specifically as a result of using a formalised strategic planning system in their firms due to the nature of their management practices.

A total of 21 of 32 FSP SMEs (66%) reported that they were experiencing problems, but the other eleven SMEs mentioned that they were functioning well with their formalised strategic planning system without any noteworthy problems. The above-mentioned 21 SMEs included four small and 17 medium-sized enterprises. All the stagnating FSP firms (3 medium-sized firms), the small start-up firm with formalised strategic planning and a majority of growing firms (17 of 28) were among those that were experiencing problems. The majority of medium-sized organisations with FSPs (70.8%) reported that they were experiencing some issues with regard to their current FSP system. Noticeably, seven medium-sized growing firms were using FSP without experiencing a considerable number of issues. Fisher’s $p$ values indicated that, for both small ($p = 1.000 > 0.05$, df = 1)) and medium-sized ($p = .530 > 0.05$, df = 1)) firms, there was no statistically significant difference between problems pertaining to FSP and the current situation of the enterprises. Therefore, it was important to investigate further the problems with their existing FSP systems. For this purpose, the participants were asked to rate ten problem areas that made an impact on their FSP system using a five-point Likert scale which ranged from 1 = ‘Not at all’ to 5 = ‘To a great extent’. These problem areas were in line with the suggestions from the literature (Wang et al. 2007). The results are presented in Figure 6.2.
Figure 6.2 The Major Problems with FSP Systems

<table>
<thead>
<tr>
<th>Problem</th>
<th>Not at all</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of time</td>
<td>1.00</td>
<td>0.86</td>
</tr>
<tr>
<td>Lack of expertise</td>
<td>1.33</td>
<td>1.29</td>
</tr>
<tr>
<td>Environmental uncertainty</td>
<td>1.71</td>
<td>1.76</td>
</tr>
<tr>
<td>Size of business</td>
<td>1.71</td>
<td>1.75</td>
</tr>
<tr>
<td>Type of industry</td>
<td>1.71</td>
<td>1.75</td>
</tr>
<tr>
<td>Internal implications</td>
<td>1.50</td>
<td>1.71</td>
</tr>
<tr>
<td>Business life-cycle /stage of development</td>
<td>1.71</td>
<td>1.75</td>
</tr>
<tr>
<td>Lack of participative decision making processes</td>
<td>1.41</td>
<td>1.48</td>
</tr>
<tr>
<td>Inadequate knowledge of planning process</td>
<td>2.65</td>
<td>2.60</td>
</tr>
<tr>
<td>Lack of strategic thinking at the top level</td>
<td>1.76</td>
<td>1.75</td>
</tr>
<tr>
<td>Other problems</td>
<td>2.75</td>
<td>1.50</td>
</tr>
</tbody>
</table>

It can be deduced from the information displayed in Figure 6.2 that a lack of participative decision-making was the major problem among participating FSP SMEs, in relation to their formalised strategic planning system. Environmental uncertainty due to high competition and macro-environmental changes,\(^{51}\) lack of time and lack of management expertise were also identified by the respondents as major problems of the FSPs of their enterprises. However, a lack of participative decision-making was somewhat contradictory in the context of the results of section 6.2.6, in terms of undertaking and sharing responsibilities of action plans. There was no chance for other workers to become involved in planning (at least in action planning) and decision-making in these organisations, as owners had no faith in, or lack a positive attitude towards, their subordinates to delegate their authority. Therefore, in-depth investigation was needed to further clarify this issue.

\(^{51}\) Macro-environmental changes include interest rates, inflation, socio-cultural values, new technology.
6.2.8 Expected Solutions to FSPs Problems: Short-Term and Long-Term

A total of 21 FSP SMEs (four small and 17 medium-sized) reported having problems in relation to their formalised strategic planning process (see section 6.2.7, p.194). These 21 participants were asked if their organisations were expecting to have short-term solutions to deal with the major problems in their planning systems. The participants were given some options and allowed to select more than one solution, but the majority selected only one (see survey questionnaire in Appendix 2, p. 339).

Table 6.8 Solutions Expected to Deal with Problems of FSP System

<table>
<thead>
<tr>
<th>Solutions</th>
<th>5-49 Small</th>
<th>50-149 Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Hire a third party to make FSPs</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>2. Provide training for all decision-makers</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>3. Make changes in the planning method</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>4. Organising workshops (for other workers)</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>5. Improve participative decision-making among all workers</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>6. Use more than one method (4 &amp; 5)</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>17</td>
</tr>
</tbody>
</table>

Table 6.8 indicates that the majority of participants (12 of 21) were expecting to improve the participative decision-making practice among all workers, in order to deal with the major problems of their current strategic planning system. Three participants mentioned that they expected to provide training sessions for all decision-makers in the company. However, two small enterprises stated that they would only provide some training programmes for all decision–makers which would focus on, and lead to, improved participative decision-making among all the workers in their firms. These results revealed that owners and main decision-makers of SMEs had some understanding of the importance of participative decision-making, and the empowerment to improve strategic thinking among all at work even though they did not practice. Another two medium-sized manufacturers indicated that they were willing to
hire a third party to maintain (i.e. to review and upgrade) their strategic plans due to the existence of problems, such as a lack of time and expertise, in order to maintain proper strategic plans in their organisations.

The FSP SMEs were also asked whether they were expecting to implement any long-term measures in their strategic management approach during the next five years, with the aim of overcoming the major problems or to upgrading the existing system. For this purpose, a question was designed with six possible answers, including one for ‘others’. The participants had the opportunity to make more than one choice, according to their future expectations.

### Table 6.9 Expected Major Changes in the Formalised Strategic Planning System in the Next Five Years

<table>
<thead>
<tr>
<th>Expected change</th>
<th>1&lt;sup&gt;st&lt;/sup&gt; choice</th>
<th>2&lt;sup&gt;nd&lt;/sup&gt; choice</th>
<th>3&lt;sup&gt;rd&lt;/sup&gt; choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>We expect no changes during the next five years</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Possibility of hiring a private company to consult</td>
<td>2</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Develop strategic thinking capabilities in all levels of the company</td>
<td>4</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Introduce/continue the participatory decision making process for strategic planning</td>
<td>19</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Concentrate more on cost efficiency within the company</td>
<td>7</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Others – We seek support from government-affiliated institutions to upgrade our strategic plans</td>
<td>0</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>32</strong></td>
<td><strong>19</strong></td>
</tr>
</tbody>
</table>

Table 6.9 presents the findings and it reveals that the first choice of the majority of respondents (19 of 32 SMEs) was to introduce or continue with the participatory decision-making process to enhance their FSP process. The most popular second choice was the development of strategic (proactive) thinking capabilities at all levels of the firm. However, participants mentioned that they would also concentrate on cost efficiency methods within the firm. This was almost equally chosen as a first, second and third strategy due to financial constraints. The option of hiring a private consultancy
firm was not popular among the respondents, since it was expensive. Further, 16 of 32 FSP SMEs stated as the second (7) or third choice (9) that seeking support from government-affiliated institutions was attractive, since this support was provided free of charge. However, participants explained their disappointment about government institutions and their bureaucracy by indicating some of their past experience.

The findings from this section suggested that, over the next five years, all FSP SMEs will be willing to change and upgrade their strategic planning processes by using some internal measures and seeking support from government-affiliated institutions. Therefore, this can be considered as a noteworthy trend in Sri Lankan small business management practices.

6.2.9 Performance of FSP SMEs

As mentioned in the methodology section, since the business owners in the Asian context are reluctant to provide their financial information (Islam et al. (2011), this study decided it was useful to investigate the performance of Sri Lankan SMEs according to their non-financial performance, i.e. survival and growth. The extent to which the FSP respondents believed that they were strategically managed and had reached their expected level of performance (growth and survival) was investigated through a question with a five-point Likert scale ranging from 1 = ‘Not at all’ to 5 = ‘To a great extent’. The findings are presented in Table 6.10.

Table 6.10 Performance of FSP SMEs

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-49 Small firms</td>
<td>8</td>
<td>3.38</td>
<td>.518</td>
<td>.183</td>
</tr>
<tr>
<td>50-149 Medium firms</td>
<td>24</td>
<td>3.79</td>
<td>.779</td>
<td>.159</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>32</td>
<td>3.69</td>
<td>.738</td>
<td>.130</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current situation</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-up firms</td>
<td>1</td>
<td>3.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stagnating firms</td>
<td>3</td>
<td>3.33</td>
<td>.577</td>
<td>.333</td>
</tr>
<tr>
<td>Growing firms</td>
<td>28</td>
<td>3.75</td>
<td>.752</td>
<td>.142</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>32</td>
<td>3.69</td>
<td>.738</td>
<td>.130</td>
</tr>
</tbody>
</table>
According to the findings, the majority of FSP SMEs were growing (28 of 32) and they showed a 3.75 mean value with a .752 standard error for their satisfaction with performance. The other four SMEs (one start-up and three stagnating) also showed moderate levels of satisfaction with the performance of their firms.

According to theory and practice, formal strategic planning systems provide better performance, especially with regard to survival and growth in an industry since it considers both internal and external factors systematically. However, the quality of the planning undertaken by these firms should be further improved to maintain their performance (in terms of survival and further growth). In this instance, the main decision-makers needed to address the problems associated with their FSPs, by improving participative decision-making and expertise in strategic management as identified in section 6.2.7.

### 6.3 Non-Formalised Strategic Planning SMEs

Firms that did not have written strategic plans at the time the survey was conducted were categorised as Non-Formalised Strategic Planning (NFSP) SMEs. There were 118 NFSP SMEs among the surveyed sample. Thus, 79% of the respondent enterprises in the survey were operating without a formal strategic planning system. The objective of this section in the survey questionnaire was to investigate the strategic behaviour of NFSP SMEs, in particular, whether they were using an entirely reactive mode of operation or were applying strategic management informally, i.e. proactive but ad hoc methods (Ansoff 1988). To assess these strategic behaviours, a few questions were developed based on the relevant literature. The results are discussed in the following sections. Chi-square tests and Fisher’s exact tests were used to investigate possible associations where applicable.

#### 6.3.1 Previous Experience in Formal Strategic Planning.

The literature shows that the education and experience of owner-managers impact directly on the management processes of SMEs. Therefore, initially, all NFSP SMEs
were asked whether they had ever tried to use formal strategic management planning systems in order to identify whether they had any previous experience in formal strategic management or strategic planning processes. The result showed that only seven out of 118 NFSP SMEs (6%) had tried to use formal strategic management processes in their business history. Hence, more than 90% of NFSP SMEs had never attempted written strategic planning.

6.3.2 The Main Reasons for Not Using FSPs

While some SMEs in the Sri Lankan manufacturing sector were using formal strategic plans and experiencing their usefulness, the majority were not using formal strategic plans in their business management processes. Hence, the reasons for not undertaking formal strategic plans were investigated (including in failed enterprises), using a question listing eight possible reasons. The participants were given the chance to mention more than one reason, according to their circumstances. The results are presented in Table 6.11.

Table 6.11 Reasons for Not Using Formalised Strategic Plans (FSPs)

<table>
<thead>
<tr>
<th>Reasons</th>
<th>1st Reason</th>
<th>2nd Reason</th>
<th>3rd Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of time</td>
<td>89</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Lack of expertise (good/ sophisticated practices)</td>
<td>9</td>
<td>24</td>
<td>3</td>
</tr>
<tr>
<td>Environmental uncertainties (completion and changes)</td>
<td>7</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Size of business (too small to use sophisticated practices)</td>
<td>8</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>Type of industry ( traditional industries: weaving, clay, coir )</td>
<td>3</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Business life-cycle (start-up, stagnating, growing, failed)</td>
<td>0</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Inadequate knowledge of formal planning</td>
<td>2</td>
<td>40</td>
<td>22</td>
</tr>
<tr>
<td>Lack of strategic thinking (lack of future oriented skills)</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>118</strong></td>
<td><strong>116</strong></td>
<td><strong>67</strong></td>
</tr>
</tbody>
</table>

A lack of time was the most common ‘first reason’ chosen by 89 (75%) of 118 NFSP SMEs. A total of 116 participants provided a second reason for operating as a NFSP
SME (see Table 6.11). Of those 116 firms, 40 (34%) stated that they did not use FSPs due to an inadequate knowledge of the written planning processes and a further 24 (21%) cited a lack of institutional expertise. Only 67 firms offered a third reason in this regard (see Table 6.11). The majority of this group variously identified inadequate knowledge of planning, the type of industry to which they were attached, and environmental uncertainties as their third reason for not using FSPs.

Even though a lack of expertise was not the first reasons for the majority of respondents not undertaking formal strategic planning, overall it showed a noteworthy impact on the decision of these firms to operate as NFSP SMEs. Due to a lack of proper business management knowledge, the owner managers were engaged in all activities and therefore claimed their time poor condition as the first reason for not adopting FSPs. According to the experience of participants, the stage at which the firms were located in the business life cycle, and a lack of strategic thinking, were not the principal reasons for their disinclination to adopt formal strategic plans. These results indicated that, although the majority of these respondent SMEs were not undertaking formal strategic planning due to lack of expertise and time, they were using strategic management informally subject to their knowledge and understanding. This style of strategic behaviour Ansoff (1988) identified as the proactive ad hoc mode. Although they were NFSP SMEs, they were using trial and error methods in reaction to perceived strategic problems, and in anticipation of future problems using strategic thinking and scenario planning capabilities. Furthermore, an attempt was made to probe this behaviour by means of a few questions, as mentioned in the following sections.

6.3.3 Management Solutions to Address Critical Issues facing NFSP SMEs

To understand how NFSP SMEs found solutions to the critical issues they faced was one of the research interests of this study. The 115 NFSP survivors were asked to rank up to three options among possible management solutions as shown in Table 6.12.
Table 6.12 NFSP SMEs’ Methods to Find Solutions for their Critical Issues

<table>
<thead>
<tr>
<th>Practice</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>We hire consultants when necessary</td>
<td>8</td>
<td>11</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>We seek support from government-affiliated institutions</td>
<td>20</td>
<td>33</td>
<td>0</td>
<td>53</td>
</tr>
<tr>
<td>We forecast future events and take necessary actions accordingly.</td>
<td>87</td>
<td>4</td>
<td>0</td>
<td>91</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>115</td>
<td>50</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

The results showed that, of 115 participant NFSP SMEs, the answer of 87 (76%) was that they were forecasting the activities in which their firms will engage, and the issues they would face, in the future and taking appropriate actions according to their knowledge and experience. By expressing that approach to strategy, they were trying to show that, even though they did not make written strategic plans, they normally used proactive thinking to find solutions to the critical issues they faced. This confirmed that the majority were using strategic management informally at the time the survey was conducted. A total of 50 respondents to the study indicated their second option. Of those, 33 (66%) stated that their most common solution was to obtain support from government-affiliated institutions. Only two firms located their second option within the ‘other’ category. One organisation mentioned that they got advice from university academics (who are neither private consultants nor attached to private consultancy companies), and the other stated that he used the internet to find possible solutions as their firm is located in a very remote area (in Jaffna District- see Sri Lanka map in Appendix 1, p. 329). Within the ‘other’ category, two participants offered their third choice. One stated that his organisation sought support from suppliers and distributors, and the other mentioned that his firm took advice from their banks to find solutions and address the potentially critical business issues confronting them.

Three failed firms agreed that, when operating their enterprises they had only very short-term business focus and used trial and error methods. Hence, they were sometimes panicking for solutions to their problems. The owners had not re-invested their profits for the future development of their firms. Instead, they expropriated them for their personal use. This confirms that these owners were not concerned about survival and
growth of their firms. Thus, proactive planning or strategic thinking (strategic management) had not been appropriately undertaken in these failed organisations.

6.3.4 Performance of NFSP SMEs

An attempt was made to determine the extent to which the NFSP SMEs believed that their firms were strategically (proactively) managed and satisfied with the firm’s performance even without a formal strategic planning system. For this purpose a question was designed with a five-point Likert scale ranging from 1 = ‘Not at all’ to 5 = ‘To a great extent’. The results are presented in Table 6.13.

<table>
<thead>
<tr>
<th>Table 6.13 Performance of NFSP SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firm Size</strong></td>
</tr>
<tr>
<td>-------------------------------------</td>
</tr>
<tr>
<td>Regular employees 5-49 Small firms</td>
</tr>
<tr>
<td>50-149 Medium firms</td>
</tr>
<tr>
<td>Total SMEs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Current Situation</strong></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-up firms</td>
<td>16</td>
<td>3.06</td>
<td>.574</td>
<td>.143</td>
</tr>
<tr>
<td>Stagnating firms</td>
<td>61</td>
<td>3.36</td>
<td>.484</td>
<td>.062</td>
</tr>
<tr>
<td>Growing firms</td>
<td>38</td>
<td>3.68</td>
<td>.662</td>
<td>.107</td>
</tr>
<tr>
<td>Total SMEs</td>
<td>115</td>
<td>3.43</td>
<td>.593</td>
<td>.055</td>
</tr>
</tbody>
</table>

The reason for closing down the unsuccessful SMEs was that the owners had failed to manage their business operations strategically and proactively, and, therefore, were not satisfied with the performance of their firms. Therefore, this question was not directed to the three failed organisations. The decision not to do so was made on the basis of the results of focus group discussions held prior to the main investigation, and was confirmed by participants in the survey.

The first section of Table 6.13 showed that, even though those firms operated as NFSP SMEs, the respondents believed that their businesses were operating more strategically to meet their expected level of performance (in terms of survival and growth). To
investigate whether there was any difference between small and medium-sized firms, a Chi-square test was undertaken with \( p = 0.05 \). For this purpose, three new groups were formed to indicate the satisfaction as: 1= Not at all, 2= Moderate level, and 3= To a great extent. The results indicated that there was no statistically significant difference between two groups (\( \chi^2 = 3.0222 \) (df = 1) \( p = 0.082 > 0.05 \)). Both small and medium-sized firms indicated a moderate level (2 < mean value < 4) of satisfaction regarding their performance with their current NFSP system.

The second section of Table 6.13 indicated the proactiveness of SMEs, according to their current situation in the business cycle. According to the Chi-square test results, participants of growing NFSP firms believed that their organisations were strategically managed and more likely to behave proactively than those in the other categories (\( \chi^2 = 11.354 \) (df = 2) Cramer’s V= .314, \( p = 0.003 < 0.05 \)). This indicated that even though these growing SMEs were not undertaking a FSP process, their informal strategic management was providing them with a moderate level of satisfaction based on the performance in terms of growth. As mentioned previously, in order to improve the owners’ satisfaction regarding performance, for example stagnating firms to grow and growing firms to maintain their trajectories, these NFSPs needed to find remedies for such problems as a lack of time and a lack of knowledge of sophisticated management practices (see section 6.3.2, p.200).

When contrasting the results, with the NFSP system, 61 (53%) organisations were stagnating, the majority of this cohort being small businesses. This confirmed that even though these organisations were satisfied by assuming that they were strategically managed to a certain extent, their strategic behaviour was more reactive rather than proactive. If they had managed their firm using proactive ad hoc mode of strategic behaviour (strategic management in informal manner), they should perform with logical incrementalism. To improve performance of these firms it is important their owners needed to use more strategic (proactive) thinking and subsequently transfer to more systematic planning systems. Otherwise there was a high risk of failure and closing down of their businesses as Ansoff (1988) revealed. According to the facts highlighted previously, these SME owner-managers were facing problems such as lack of time and lack of expertise in their strategic management processes. This revealed the situation
that due to the inadequate business management knowledge, the owner-managers were involved in all the business activities and therefore, they had a lack of time in addition to a lack of knowledge to undertake strategic activities in their organisations.

6.4 Discussion of Key Findings of Primary Data Analysis - Phase I.B

The key findings are presented according to the strategic behaviour of participant SMEs.

6.4.1 FSP SMEs

According to the survey findings, only about 21% of participants (32 of 150) were practising a proactive systematic approach (Ansoff 1988) at the time the survey was undertaken. However, the majority of them were undertaking their strategic planning activities, on an annual basis. There was no significant evidence in survey results to prove a relationship between the current situation of SMEs and the initiation of strategic plans. However, SMEs mostly start formulating FSPs a few years after their business operations become established. This confirms that when SMEs understand the competition and threats in the industry, to perform well and win the market, they tend to use sophisticated management tools and techniques.

More than 95% of FSP SMEs were maintaining missions, corporate strategies and goals, functional strategies and action plans, according to their requirements and understanding of the usefulness of these mechanisms. However, the important point is that, in these participant SMEs, all such activities, from the formulation of strategies to action plans, were undertaken by owner-managers or owner-managers and top-level decision-makers. There were efforts being made within some respondent SMEs to share implementation responsibilities among all those who work for the firm. That the separation of the planning and performance of tasks is harmful, because it can suppress the opinions of workers, is one of the main criticisms of Taylorism (see Table 2.1 in p. 31). The literature indicates that, there is no ‘one best method’ and, therefore, to achieve better performance, workers should be empowered and motivated to provide their
opinions. This means workers should receive authority, commensurate with their tasks in the workplace, and the responsibility to provide their fullest contribution towards organisational success. In this way, firms can acknowledge feasible emergent strategies (Mintzberg & Waters 1985). Therefore, unsurprisingly, above 65% (21 of 32) of FSP SMEs mentioned that they were experiencing problems with their existing proactive systematic approach to management. In addition, environmental uncertainty, lack of time and lack of expertise were also perceived as problems of their FSP systems. Participants expected to remedy their current problems in this regard by improving participative decision-making among all workers.

Participative decision-making is an Eastern, in particular Japanese, management concept (Ouchi 1981). This concept is applicable in enterprises in which systems of bottom-up communication, decentralised decision-making or management by objectives are in place. Even though these participants used FSPs, their management practice was classically Western in style, since their primary decision-makers maintained a significant distance from workers (Hofstede 1980, 2001). Therefore, participative decision-making was not permitted in the management systems utilised by the owner-managers and top management of these firms. As a consequence of this situation, even though they were using the FSP system, the analyses showed that participants’ satisfaction with performance was only moderate, and that some firms (9 of 32) were stagnating. These results confirmed a lack of management expertise of owner-managers as they are trying to practice two different management concepts within their strategic process.

6.4.2 NFSP SMEs

The majority of NFSP SMEs (about 95%) had no experience or understanding of FSPs. According to survey findings, a lack of time, inadequate knowledge of planning and environmental uncertainties, were the main reasons for these firms not using FSPs. However, a lack of strategic thinking was not among the reasons mentioned. Participants mentioned that they were using proactive thinking, scenario planning and business philosophy as their tools of strategic behaviour. This strategic behaviour is
informal, as they do not prepare written plans. Ansoff (1988) identified this form of strategic behaviour as proactive ad hoc. This proactive ad hoc mode permits *logical incrementalism*, even though the enterprises engaging in it do not have written plans (Ansoff 1988; Quinn 1978). However, the question then arises as to why some organisations stagnated while others were growing when both categories were engaging in similar modes of strategic behaviour. To answer this question, the findings of Chapter Five can be utilised. The majority of stagnating SMEs were not even undertaking ‘Strength, Weakness, Opportunity, and Threat’ (SWOT) or industry analyses. It is claimed in the literature that industry and SWOT analyses are the basic strategic tools that a firm can use to identify its potential opportunities and threats, as well as its internal capabilities. Without a proper understanding of internal and external forces, strategic thinking would not be undertaken with success. Ansoff (1988) claimed that contribution from the bottom-up, research and development, and marketing make for a better proactive ad hoc mode of strategic behaviour. The findings of this study revealed that bottom-up decision-making and research and development were not popular in these NFSP SMEs. On the other hand, marketing creates issues and, therefore, it is not a strategic resource for these participants. Nearly 50% of existing NFSP SMEs (53 of 115 - see Table 6.12, p.202) mentioned that they were willing to obtain support from government-affiliated institutions in order to find solutions for the managerial issues confronting them. However, the participants were concerned about the bureaucracy such as high formalities, slow decision making due to the hierarchy, which existed in the government institutions.

Existing SMEs in both the FSP and NFSP categories mentioned that, even though they were experiencing some issues, they were satisfied with their current performance to a moderate level, regardless of the current situation of their firms. However, firms in both categories, FSP and NFSP, needed to change their management practice to improve their strategic behaviour in order to ensure their sustainability and growth. This is because current strategic thinking only involves owner-managers and top level managers due to the centralised management characteristics of many SMEs. Therefore, lack of management expertise of owner-managers was visible from the fact that they were engaging in all business activities and deliberately avoiding the empowerment of
their subordinates. Due to that work environment, owners face problems such as lack of time to undertake strategic activities and lack of participative decision-making.

6.5 Chapter Summary

This chapter contained a discussion of the strategic management process or strategic behaviour attributes of Formalised Strategic Planning (FSP) and Non-Formalised Strategic Planning (NFSP) SMEs in the manufacturing sector in Sri Lanka. The results revealed that the majority of respondent SMEs were operating their business activities without a formal strategic plan or strategic management process at the time the survey was conducted. SMEs using FSP mentioned that their FSPs help, to a great extent, to meet the expectations of their organisations, although they had some problems in their formal planning processes. Even though they were without formal strategic management processes, NFSP SMEs believed that they were operating proactively with the strategic thinking capabilities of the decision-makers of their firms to achieve their desired level of performance. NFSP SMEs also claimed to have problems with their current strategic behaviour mode. Both categories revealed their lack of participative decision-making as a main problem in their current management process. This can be seen as a matter of management expertise of owner-managers.

In the next chapter the strategic behaviour of SMEs in the manufacturing sector in Sri Lanka is discussed, using the qualitative data gathered by means of in-depth interviews.
CHAPTER SEVEN:
PRIMARY DATA ANALYSIS PHASE II-CASE STUDIES

7.1 Introduction

The objective of this chapter is to present the findings of the second phase of the data analysis process of the research. Case study analysis is a commonly used qualitative research method in the social sciences, as it can provide insights into why certain kinds of behaviour occur. The qualitative data gathered by means of in-depth interviews, were coded and categorised using an inductive approach called ‘thematic analysis’, in order to form case studies. The findings are organised and presented as follows: the background of the SMEs selected for in-depth investigation (section 7.2), cross-case analysis of organisational characteristics of the selected SMEs (section 7.3), cross-case analysis of management processes and the impact of macro-environmental forces (section 7.4), cross-case analysis of strategic behaviour of the selected SMEs (section 7.5) and key findings of the in-depth investigation (section 7.6). The key case study findings are compared with survey findings and discussed further in the next chapter.

7.2 Background of the SMEs Selected for In-depth Investigation

This section provides a brief background to the eight SMEs selected for in-depth interviews for case studies. All case study organisations were given a separate code for the purposes of identification as well as to secure their confidentiality, according to their businesses’ current situation:

1) start-ups :SU, 2) stagnating :ST, 3) growing :GR, and 4) failed :FA

The participants in the in-depth interviews were survey respondents and, therefore, the answers provided in the survey questionnaire were discussed further in the in-depth interviews. In addition, an interview guide (see Appendix 3, p. 324) was used to probe more deeply into the critical issues confronting these target groups in order to establish how they managed, or found solutions to, these critical issues. Seven out of eight interviews were undertaken on the business premises. As such, important documentary
evidence from case study organisations, including budgets, plans, organisational charts, product catalogues and other relevant documents, were made available. One participant was interviewed at the ‘Shilpa’ exhibition, and he provided his firm’s website for details.

The subsequent sections provide a background to each of the SMEs selected as individual cases, based on the situations in which their businesses were placed at the time the study was conducted.

7.2.1 Start-up SMEs - SU

Two of 17 surveyed start-up manufacturers (see section 5.2.3 in Chapter Five, p. 145) were selected for in-depth interviews, in order to investigate information unique to each that could not be covered or discussed in the survey.

7.2.1.1 Start-up SME 1: SU-1

SU-1 was a newly established, small-scale, machinery and spare parts manufacturing organisation. It was located in the Badulla district (refer to the map in Appendix 1, p.329), which is very far from the capital city of Colombo. This firm was owned by three partners, of whom the interviewee was one. The firm was manufacturing machinery for local customers, using both local and imported materials. Its target market was tea planters, textile manufacturers and small-scale food producers. As a start-up, SU-1 had less than two years of experience in business and more than 15 regular employees at the time the interview was conducted.

The participant stated that, as a result of continuous research and efforts at innovation being undertaken both locally and internationally, new methods and technologies were frequently being introduced into their industry. However, he believed that this phenomenon did not constitute a surprising or unpredictable challenge in this industry. The arrival of new technologies and methods has created both opportunities and threats.
Thus, all the parties in the industry were trying to be more proactive, especially their competitors.

In terms of critical issues, the respondent stated that the firm had difficulties in acquiring new technologies. New machines and equipment needed to be imported from China or India, and it was very costly for the firm to do so. In addition to acquiring new technologies, marketing and financial issues were identified by the participant as serious matters, due in particular to the threats posed by strong competitors. He was concerned that competitors were using new upgraded machines and equipment in their production processes, thereby creating an immense threat to the products of his firm in the market. He further pointed out that, as a newly established business organisation, it was very difficult for them to obtain financial support or loan facilities from public or private institutions even with the provision of significant security. The participant stated that he and his partners needed more financial resources to acquire new technology, in order to minimise the potential barriers facing the firm and increase its competitive advantage. Therefore, competition, difficulties in acquiring new technology and problems obtaining financial assistance are the crucial issues affecting SU-1.

The participant believed that operating SU-1 as a partnership, employing a formal strategic planning system with a bureaucratic and top-down management style, would help the firm to grow further and secure its longevity. Even though he put less weight in the survey on the interests of stakeholders than on ownership and management style, there was, in reality, great pressure exerted by competitors, customers, suppliers and distributors on the strategic behaviour and performance of this firm. However, the participant believed that both the positive and negative stakeholder impacts were successfully addressed by the formal strategic plans and the contingency management approach adopted by the firm.

Despite the critical issues negatively affecting the sustainability of SU-1, the management team believed that the firm’s products were competitive in the highly aggressive market due to the strong commitment of the owners and workers alike. Other capabilities, including favourable geographical location and skilled workers, also boost
the competitiveness of their products. However, brand image was of little assistance in its drive to gain competitive advantage, as SU-1’s brand was new in the industry.

This manufacturing firm had been using a centralised decision-making system with a formally articulated planning system since it was established. Decision-makers used a formal hierarchy to communicate their decisions and plans to other workers within the organisation. The owners of the firm believed that at the then-current entrepreneurial stage it was important to make all the crucial decisions themselves, in order to minimise potential risks, to ensure that the secrets of the business were protected and develop their business further. According to the participant, the partners were directing the business collectively with a clear vision and proactive thinking. However, in order to minimise confusion and maintain good discipline among all parties, they had created a bureaucratic, owner-centered, but friendly, working environment in their firm. Their business philosophy was tightly focused on the industry, utilising a low cost strategy.

**Key findings:** Enterprise SU-1 was a special case in this study, as it was the only start-up manufacturing firm with a formal strategic planning (FSP) system identified in the survey. Within an Asian cultural context, SU-1 was utilising modern management concepts. Their management process included a centralised structure with mechanistic features, friendly characteristics and a situational approach. Even though this firm was located in a regional area, decision-makers were practising sophisticated management methods since they possessed some formal management expertise. This firm focussed on cost leadership strategies to gain a competitive advantage in the industry.

### 7.2.1.2 Start-up SME 2: SU-2

Enterprise SU-2 was a new, small-sized, food products manufacturing organisation situated in the Colombo district. It was a private limited company that produced items such as noodles, spices and sauces that consumers can prepare or eat instantly. Their target market included busy housewives and families in which both parents were working. As a start-up firm, this company had only about 16 months of business experience when the interview was conducted. However, the company had hired more than 15 regular employees since its establishment.
A large number of competitors offering similar products entered the industry around the same time when SU-2 started its business operations, thereby making the industry highly competitive. As such, the respondent believed that, to compete and survive in their target market, they needed to adopt both strategies of cost leadership and product differentiation. This was fairly difficult for them, particularly when the business was in the early stage of its existence.

Unlike their competitors, this start-up firm had not introduced the latest technologies into their manufacturing processes. Due to intense competition in the market, SU-2 had also faced a lot of issues related to marketing, such as attracting customers by means of better labeling, packaging, advertising and launching promotional campaigns. Furthermore, it had faced difficulties in securing financial support or loan facilities from banks. Therefore, the participant was thinking that the market and marketing issues, challenges with new technology and financial difficulties were interrelated and critical for the company.

While the respondent believed that all organisational characteristics had a significant impact on business activities, ownership and culture were perceived to be most important in determining the strategic behaviour, survival and growth potential of the firm. A working environment characterised by a strong culture of cooperation and commitment between the owners and employees constituted SU-2’s core competency.

In order to make timely decisions and to take advantage of the workers and middle management expertise, a decentralised organisational structure had been adopted. Authority over decision-making had been delegated to those people who hold important positions in the firm.

In addition, a close relationship with suppliers created a strong supply-chain ensuring that products remained competitive in the market. Being new in the industry, SU-2’s brand image was not considered a big asset since it was trying to promote its brand in the market. The financial capability of the firm was still not up to the standard required. As such, the owners were continuously taking further action to add more financial
resources for the purchase of new machines and equipment in order to remain competitive. The owners believed that if they gained access to financial support schemes, they could overcome the adverse effects of external environmental factors. This showed that SU-2 needed to stretch its resources in order to use sound strategies to compete in the industry.

The business philosophy of the firm had been clearly articulated and everyone was empowered to use strategic thinking in order to ensure that the company operated successfully. The management was considering their customers and workers to be equally important. Further, they believed that their decentralised decision-making practice would help them to develop new and innovative products in their quest to obtain competitive edge in the industry. Due to strong rivalry and severe threat of substitutes, SU-2 was reliant upon product differentiation rather than low-cost strategy to attract customers.

**Key findings:** SU-2 was a recently launched small NFSP company. Even though it did not have articulated plans, some strategic management concepts were included in the management process. The firm had a clear philosophy and had understood the importance of strategy leverage and stretching their resources to remain competitive. Although the industry demands both cost leadership and product differentiation strategies, SU-2’s financial position and technology capabilities were not sufficiently sound to allow them to compete using low price mechanisms. Hence, this firm’s strategy depended primarily on product differentiation through participative decision-making, a decentralised organisational structure and a cooperative working environment.

7.2.2 Stagnating SMEs (non-growers) - ST

All the respondents had a chance to reveal the current situation of their businesses during the survey. A total of 64 manufacturers identified their firms were stagnating when the data collection was undertaken (see section 5.2.3 in p. 145). Two firms were selected from among this group for further study, in order to probe more deeply into their circumstances.
7.2.2.1 Stagnating SME 1: ST-1

Enterprise ST-1 was a small-scale manufacturer of food items operating as a sole proprietorship in the Colombo district. It produced fruit tins and cups for the local market. Their main inputs included Sri Lankan seasonal fruits. This enterprise had more than six years of experience in business, but had never experienced growth since its inception. The firm had more than 25 regular employees at the time the owner-manager was interviewed.

Some imported substitutes have entered the local market during the last few years, due to the open market situation that prevails in the country. The Sri Lankan government eventually imposed a tax on those imported items. However, the participant identified issues related to the market and marketing, technology and business planning as the critical issues confronting the firm that should be addressed in order to secure long-term survival and growth. The comestibles produced by ST-1 were not competitive in the market. This was because there was not much demand due to the negative attitudes among customers toward such products. This was explained by the participant:

> Our products are available only in supermarkets… normally our people are considered supermarkets and these types of products as luxury items…. and also they can’t afford… but high-income earners assume these products are inferior… they prefer fresh fruits rather than preserved….

Similar imported products were expensive due to heavy taxes and unfavourable exchange rates. On the other hand, imported products were not pure substitutes\(^{52}\) for those made by ST-1. Hence, customer preferences had a high impact on the firm’s activities and success. This showed that the principal stakeholder in ST-1 was its customers. However, once customers are satisfied and attracted, new competitors can enter in the market due to the lack of barriers to entry.

Other organisational characteristics, such as ownership, culture, structure and management style, had only a moderate or low impact on the strategic behaviour of the

\(^{52}\) SU-1’s products were made with local seasonal fruits.
firm. Moreover, the participant stated that, as the owner-manager of the firm, his knowledge of management was not sufficient to enable him to confront the critical issues faced by his business. Therefore, he was undertaking a small business management educational programme at the time as this investigation was conducted. In ST-1, the owner-manager made all the important decisions, in accordance with his business philosophy, and maintained a centralised organisational structure. He assumed that his business philosophy was beneficial for the operation of the business. Even though the owner of ST-1 did not use formal strategic plans, he was practising SWOT and industry analyses by applying the knowledge of management he had gained from the management course that he was undertaking.

A strong supply-chain network and commitment to success were the major capabilities possessed by the firm, in terms of producing goods for the local market that were uncompetitive though of high quality and low in price. Even though natural disasters, like floods and droughts, had severely affected the production process, those two core capabilities had helped the firm to continue supplying the market without interruption.

ST-1 was operating with a clear vision. The owner-manager was using scenario planning to identify potential threats and opportunities, but there was no formal strategic plan. This stagnating firm had only budgets, production schedules and accounting records as a result of its decision-making and planning process. As this owner-manager recognised his lack of management knowledge, he had recruited an educated and experienced manager. Previously, the owner put his faith in ‘luck’ in order to achieve success in business. However, he had later realised the importance of using proactive thinking and planning, rather than relying on luck to improve the performance of the firm and to achieve growth.

**Key findings:** ST-1 was an NFSP firm. Its customers had the highest impact on the activities and success of the firm and were the most powerful category of stakeholder after the owner. Therefore, the sustainability of the firm depended entirely on customer satisfaction, but once they attracted customers there was a possibility that new firms would enter their industry. At the time the study was being undertaken, the owner was trying to change his approach to management from early practices to modern, as he had recognised their importance and differences. Sri Lankans consider ‘luck’ in their normal lives, but in ST-1’s industry being proactive is a necessity. The owner-manager wanted to apply product differentiation strategies in order to satisfy the customers’ unique taste.
7.2.2.2 Stagnating SME 2: ST-2

Enterprise ST-2 was a small, sole proprietary firm established in the main city (Colombo) of the country. It was producing solar heating systems (energy saving products) and tea boilers for the local market, including domestic, hotels and hospitals. The firm had operated for more than 24 years in the same business and stagnation had set in about five years ago. It had more than 25 regular employees at the time the interview was conducted.

The participant claimed that foreign competitors (imported substitutes) added many challenges and threats to the industry. This curbed the growth of the firm. Customers, especially households, had started to purchase cheap electric substitutes rather than buying locally made solar systems. This preference for imported items was the main reason behind the decline in local demand for the firm’s products. The respondent pointed out that, due to the economic liberalisation reforms in the country, dumping of commodities of foreign origin was a common and crucial problem for small to medium-sized manufacturers in Sri Lanka.

There were several critical issues that had to be addressed if the firm was to grow and ensure its longevity. To compete in the market, the firm had had to use some marketing strategies like launching promotional campaigns and advertising more than expected. Furthermore, ST-2 confronted another critical issue with regard to its supply-chain. The purchase of necessary inputs and the procurement of reliable distributors had become a serious challenge. For example, imported materials had become expensive due to rising exchange rates and tariffs. The participant also pointed out that distributors were demanding more commission as their products were becoming less popular among target customer groups. The owner of ST-2 suspected that his distributors were trying to switch over to imported substitutes, in order to obtain greater financial benefits. As decision-makers were struggling with these critical issues, there was not much time spent on business planning.
The interests of stakeholders, as well as organisational structure and management style, had a greater impact on the strategic behaviour of the firm than culture and ownership. The centralised structure with a bureaucratic, but people-friendly, style of management helped ST-2 to meet the demands of its stakeholders. The participant recognised that competitors, both foreign and local, suppliers and distributors were the stakeholders putting a great deal of pressure on the activities of the firm.

This firm had purchased a few modern machines in order to improve productivity. Even though this manufacturing enterprise then displayed features of stagnation, the owners were looking forward to acquiring the potential market by means of two capabilities over the next few years: the strong commitment of owners and workers and new machines. However, the owner-manager did not mention any particular strategy used to this point, or intended for use in the future. The owner-manager of ST-2 maintained a centralised structure, and was actively involved in all managerial activities. He explained that he had a clear business philosophy, but had not yet articulated it properly in the 24 years. He also mentioned that he used strategic thinking to direct his business in the dynamic market environment.

**Key findings**: Enterprise ST-2 operated as an NFSP firm with a centralised decision-making structure. The owner-manager used top-down communication and stressed a bureaucratic, but people-friendly, management approach. There was no participative decision-making. Therefore, these hierarchical and centralised features imparted to the firm a mechanistic system. The firm was not using any noticeable strategy at that time to compete and grow in the industry. However, decision-makers were trying to improve their resource base. The owner reported that he had a clear business philosophy and recognised the importance of using proactive thinking and providing proper direction with feasible strategies.

7.2.3 Growing SMEs - GR

A total of sixty-six growing firms were covered in the survey (see section 5.2.3, p.145). Of this group, two organisations were selected on the basis of the information provided in the survey, and the principal objectives of the present study. Due to the challenging nature of the current business environment in the country, it is very difficult for a
manufacturing firm to continue its growth. By means of an in-depth investigation of such growing SMEs, a significant contribution can be made to the existing body of knowledge.

7.2.3.1 Growing SME 1: GR-1

Enterprise GR-1 was a small firm manufacturing textiles and wearing apparel. The firm had been established for 12 years in the Colombo district. At the time at which the interview was conducted, GR-1 had about 45 regular employees. The firm was a sole proprietary business producing garments and leather goods for the local market. The firm showed 10-15% growth annually in terms of regular employees, and expected to increase its labour force further as plans for expansion were implemented. The business aimed to become a medium-sized firm in the near future. Strategies revolving around low costs and differentiation were the principal means applied in order to continue attracting customers and sustain profitability.

The owner-manager mentioned that many changes had happened in their industry during the previous few years. These included alterations in government policy, new quality standards and international quota restrictions for Board Of Investment (BOI)\textsuperscript{53} projects. This led some BOI firms to enter the local market and, therefore, increased competition therein. The owner had anticipated those changes through scenario planning, customers and supply-chain channel analysis. This had prepared the firm to confront potential challenges in the industry.

Since this firm was growing continuously, it faced many managerial and strategic planning issues as a result of business expansion, government regulations and tax matters. No other issues had as much of an impact on the firm as these. With the expansion of the firm’s capacity, all of these issues had become critical and interrelated. This situation had increased the necessity of proactive thinking and planning in order to improve financial performance and ensure the sustainability of the firm.

\textsuperscript{53}The Board of Investment (BOI) of Sri Lanka is the authority responsible for promoting, approving and assisting foreign investment, and is empowered to grant a wide range of incentives and concessions to projects in selected sectors, provided that they are export-oriented.
The owner-manager of GR-1 stated that the interests of stakeholders and organisational structure had a great and direct impact on the firm’s strategic behaviour, whilst the other organisational characteristics exerted only a moderate degree of influence. The owner-manager had the greatest power to make an impact on the firm’s performance. However, next to the owner, local and foreign competitors, supply-chain partners and financial institutions, such as banks and insurance companies, had the power and interest to influence the firm’s activities. This growing firm maintained an owner-manager-based centralised organisational structure, because the owner believed that he had the greatest power and interest to direct the firm towards success and the greatest interest in doing so. Furthermore, he believed that the contemporaneous growth pattern was a result of the centralised organisational structure.

Commitment of owners and workers to the organisational success, motivation, cooperation and team spirit enhanced the capabilities of GR-1 in the manufacturing of competitive products. The owner wanted to maintain the same core capabilities to support any drive into potential markets. That was because the growth levels achieved by the firm had been supported mainly by these core capabilities.

Furthermore, the owner-manager of GR-1 claimed that, even though he did not make formal strategic plans, his clear business philosophy and scenario planning methods were very useful. The participant also acknowledged some negative experiences with the current system of informal management and planning practice. This included a lack of communication, coordination and performance evaluation. On some occasions he has had to seek the services of private management consultants to find solutions to such problems. The participant also realised the importance of having a formal planning system. To this end, he wished to introduce a well-articulated planning system when his business became a medium-sized firm.

**Key findings**: Enterprise GR-1 had a centralised and bureaucratic structure, but a friendly work environment. It operated as an NFSP firm. Both the task environment and the macro-environment created challenges, but the internal environment incorporated strong commitment of the owner and employees, and this was the core capability required to handle those challenges successfully. The owner-manager had a clear vision and some understanding of formal strategic management, as well as the problems caused by its absence. Both cost leadership and differentiation strategies were used to achieve success in the industry. With the aforementioned core capability, strategies and visionary leadership, GR-1 exhibited a significant level of growth in their business.
Enterprise GR-2 was a medium-sized private limited company making paper and paper-based products for the local market, especially for advertising and publishing organisations. The company was located in Colombo. As a medium-sized firm, GR-2 had more than 50 regular employees. GR2 had been operating for more than ten years at the time the investigation was undertaken. According to the participant, this firm recorded between seven and 12% growth every year.

Rapid technological advancements and increased competition have been the main challenges occurring in the industry over the past few years. New machines and other equipment are frequently introduced for the production of paper and paper-based products. New technology helps producers to enhance the quality of their output. In addition, imported substitutes and inexpensive local products have created a highly competitive market environment for this medium-sized growing company. The participant explained that GR-2’s articulated strategic plans and the situational management approach (allowing emergent strategies) had both been immensely useful in addressing the problems and maintaining the firm’s competitiveness in the industry.

Furthermore, the respondent mentioned that, even though they had formal strategic plans, the firm had to face issues related to management, marketing, finance and technology in their operations management processes which were critical and interrelated. This situation increased the need for sophisticated management tools and techniques, allied with more proactive thinking and planning, to improve financial performance and ensure the sustainability of the company.

Organisational culture, management style and the interests of stakeholders were the organisational characteristics that had the greatest impact on the strategic behaviour of the firm and the improvement in its performance. The culture of the firm was enriched by strong commitment, close cooperation and team spirit. The management style is mainly shaped by participative, collective, people-friendly and transparent, but bureaucratic, features. The respondent mentioned that, even though they maintained a
cooperative and friendly working environment, a clear division of labour, a well defined hierarchy of authority, rules and procedures, and performance based rewards systems were used to maintain discipline among different levels of the firm. However, he further explained that the bureaucracy in this company was not the same as the strong bureaucracy practiced in large or government-owned organisations in Sri Lanka.

GR-2 operated as a private limited company and, according to the participant, that ownership did not have a great impact on the strategic management practice or growth of the company.

The participant believed that the core capabilities lay in the commitment of all internal personnel to the objectives of the organisation. Highly motivated and cooperative behaviour and team spirit were enhancing the working environment of GR-2. This favourable working environment formed core capabilities required for production of commodities of high quality at low cost that were competitive in the industry. He mentioned with pride and confidence that his company had to that point achieved a significant level of growth and financial success, based mainly on these strengths, capabilities as well as strategies. Therefore, he was planning to maintain the same core capabilities and strategies, because he believed these capabilities and their cost and product focus strategies could help to create competitive advantage in the industry for his firm.

**Key findings:** The decision-making practice of this private limited company was closely linked to its centralised organisational structure and its internally shared culture. Even though principal decisions were made by the senior management of the firm, they used a favourable working environment to share ideas and opinions. The firm had been using a formal strategic planning system with important strategic management tools and techniques, such as scenario planning, SWOT and industry analysis, since it was established. As the decision-makers within the company had understood the importance of having written plans, they wished to continue this formal system by introducing some important features such as developing strategic thinking capabilities at all levels of the company. This firm depended primarily on focus strategies that included both cost and product focus schemes.
7.2.4 Failed SMEs (Non-survivors) - FA

Entrepreneurs start their business operations with the hope of long-term survival and growth. Unfortunately, as mentioned previously, a high proportion of SMEs in Sri Lanka, especially manufacturers, fail in the first few years of their operation. Although official figures are not available, some sources have revealed that the average lifetime of a small firm is eight years (Premaratne 2008). This has had a significant negative impact on the economic wellbeing of the country. Only three failed manufacturers were covered in the survey (see section 5.2.3, p. 145). This was due mainly to the difficulties associated with finding failed SMEs and getting them to participate in this study. Two in-depth interviews were conducted with the former owners of two failed SMEs in order to investigate their former management practices.

7.2.4.1 Failed SME 1: FA-1

Enterprise FA-1 was a small, family-owned manufacturing organisation that was established in the Colombo district. It produced different kinds of food and beverage items (including bottled water) for the local market. This firm had operated for more than ten years, but it had never achieved any significant growth in its entire period of operation.

The arrival of new competitors had a highly unfavourable effect on this business. New firms bring new resources and technology to the industry. The owner-manager stated that new manufacturers were using new technology (technically upgraded machines and equipment), as well as pricing and non-pricing strategies like labels and advertising, to attract more customers and acquire the market. In addition to newcomers, the participant pointed out that, as a result of a product differentiation strategy, some large manufacturers had started to make substitutes for their products. That situation had also caused a huge shock in their industry. Large manufacturers normally enjoy significant advantages over SMEs, such as economies of scale, a sound financial base and a supply of skilled labour, in their efforts to be competitive in the market.
When the business was actively operating, marketing and market challenges were their primary concerns. The firm’s market share had started to decline drastically but decision-makers were unable to understand that situation, because they were overly optimistic about their market. They also believed in ‘business luck’. If something went wrong, they thought it was due to the business or/and owners enduring an episode of temporary ‘bad luck’.

The participant further mentioned that they could not achieve their sales targets, which then led to significant financial difficulties. Poor financial conditions further inhibited their ability to adopt new technology and improve the quality of their products. In addition, FA-1 had problems with their supply-chain partners and their demands.

Although the highly committed and friendly organisational culture had helped the firm’s activities to a great extent, intense rivalry among competitors had significantly suppressed the long-term existence of FA-1. As such, the participant perceived that the competitors were the most powerful stakeholders, next only to the owners, during the lifetime of the business. The main competitors were aggressive in expanding their market share and becoming market leaders. Hence, the negative effect of the power of competitors had overcome the strengths provided by the other organisational characteristics.

The firm’s products were initially competitive in the market, and it had some capabilities such as finance, skilled workers, good supply-chain channels, and commitment among owners and workers. However, the firm could not maintain its competitive advantage, due to a lack of knowledge of management. Consequently, the owner had not focussed on long-term survival. In other words, the owner did not have a vision for his business, even though he gave indications to the contrary in the survey. The participant indicated that:

we managed our business activities on [a] day-to-day basis with our basic knowledge...
The core capabilities and strengths of the firm gradually turned into its principal weaknesses.

This failed business had a centralised organisational structure. The owner had not used any formal plans, other than budgets. According to the participant, the reasons for not having written or articulated plans in his firm were as follows:

I did not have time to bother about undertaking or communicating plans...also I did not know how to do it or why it is important.... So I mostly used a situational approach without consulting any person (other than my wife) to make quick decisions ...some time it worked sometimes not...if not it was a bad luck....

However, after closing down the business, the owner realised that his lack of management knowledge was the root cause for the failure of his business. He also noted that in the near future his children would start the same business with more formal planning and proactive thinking, because they have good educational backgrounds.

Key findings: Enterprise FA-1 was a small, NFSP firm, with a centralised decision-making structure. An organisational culture characterised by commitment and friendliness had positively helped the firm to perform well. However, due to a lack of management expertise, the firm had failed. The centralised structure did not allow participative decision-making. Consequently, there was no chance for good strategies to emerge. The owner-manager used a reactive, rather than a proactive, approach to managing industry forces. When competitors (new and existing) were strong, a reactive approach was not appropriate, because it proceeds on the basis of trial and error. Furthermore, these findings confirmed that budgeting alone is not a sufficient strategic management tool in a highly competitive business environment.

7.2.4.2 Failed SME 2: FA-2

Enterprise FA-2 was a sole proprietary small-scale manufacturing enterprise which had been established and operated in the Colombo district. The firm’s main products were food items commonly used by busy housewives, such as instant noodles, instant string hopper mixes, biscuits and varieties of sauces. The firm had operated for nearly 12 years without achieving any growth.
Many new firms had entered the instant food-manufacturing sector over the past decade, confirming the impression that it appeared to be a highly profitable industry. The participant pointed out that women were becoming busy with their jobs and higher education. Consequently, they no longer spent long hours in the kitchen, and demands for instant food items had risen significantly. Therefore, many producers were keen to enter this industry with a view to maximising the returns on their investments. Some of them had very strong capabilities, such as advanced technologies, and used some strategies like attractive labels, advertising and promotional campaigns. Those capabilities enabled competitors to attract more customers and acquire the market shares of other small firms such as FA-2. Furthermore, the participant demonstrated by means of examples that some large companies had also started to make similar products.

Even though FA-2’s market share started to decline significantly, the owner remained oblivious to its marketing problems. For example, the participant mentioned that:

I discovered those marketing problems when my sales personnel went for selling and distributing our products to retailers’ shops… they have rejected our products…..ultimately we could not meet our sales targets and unsold stocks increased.

As a result, this firm continually faced financial difficulties. This participant also pointed out that manufacturers normally provide their products to retailers on the basis of credit, and this created another critical problem for FA-2. As retailers give post-dated cheques to cover their debt, these instruments are either never realised or take a longer period to turn into cash.\footnote{As a consequence, this firm had to take out loans to cover its operating costs and high rates of interest were charged on these loans. FA-2 had tolerated this situation for a long time. The owner-manager further noted that there was no proper legislation in Sri Lanka that would allow action to be taken immediately against unrealised cheques. These circumstances further aggravated FA-2’s ability to improve its products.

\textsuperscript{54} In Sri Lanka, it takes between 3 to 4 days to realise a private cheque.
\textsuperscript{55} Note: this is a special circumstance in Sri Lanka, and participants have requested government’s attention to correct legislations in this regard.}
The former owner-manager of FA-2 believed that next to the owners, competitors were the most important and powerful stakeholders in terms of influencing the operations of the business. Competitors always worked towards increasing their market share, thereby squeezing small players out of the market.

The participant further believed that the capabilities of his firm had not been properly used to achieve success. The participant had not planned any future activities for his firm. Instead, due to a lack of knowledge and experience, his focus was only on the short-term. He also admitted that it was not an ideal situation. Subsequently, he realised the importance of having a long-term focus and proper direction to operate a business.

**Key findings:** Enterprise FA-2 had maintained a centralised organisational structure without utilising any formal plans or sophisticated management tool other than budgets. Even for short-term or day-to-day activities, the owner was not proactive and had not used participative decision-making. He had not, at any time, discussed his intentions with his workers. His management practice was very traditional and inefficient, due to a lack of any orientation toward the future. This failed entrepreneur also mentioned that, based on his experience, having capital and technical know-how was not sufficient to operate a business successfully in the modern commercial world.

Individual case information elaborated so far is presented as a summary in Table 7.1.
Cross-case analysis also referred to as cross-case synthesis (see Yin 2009, p.156). This method is useful in a multiple-case study analysis for the identification of emerging patterns among case studies. Yin also showed that ‘one possibility starts with the creation of word tables that display the data from the individual cases according to some uniform framework’ (Yin 2009, p. 156). He further explained that, if the analysis was undertaken with a modest number of case studies, alternative tactics should be employed to develop strong, plausible and fair arguments that were supported by data. The information presented in Table 7.1 was utilised for the following cross-case analyses.

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7.3 Cross-Case Analysis of Organisational Characteristics of Selected SMEs

Five important organisational characteristics identified from the review of the literature were ownership, culture, structure, management style and stakeholders’ interests. One of the main objectives of this study was to establish the most influential of the organisational characteristics from among these five. Table 7.1 contains a summary of the main organisational characteristics that eight SMEs noted as important to the strategic behaviour and performance of their organisations (refer also to conceptual framework Figure 3.1, p. 95).

A total of seven of eight participants (88%) mentioned that the interests of their stakeholders were the most influential organisational characteristic in their businesses activities. Of the seven participants, all, except ST-1, noted that ‘competitors’ have the greatest power to influence the behaviours of their firms after the owners. Those respondents revealed that, before making any important decision or launching business programmes, they each had to consider the power of their competitors over, and their interest in, their activities. Furthermore, these participants claimed that they occasionally had to suddenly change their strategies and plans, due to the behaviour or strategies of competitors. Only ST-1 stated that their ‘customers’ were the most important stakeholder group, after the owner, because their products (fruit cups and tins) were not very competitive in the market. Hence, ST-1 felt the need to place more emphasis on the interests of customers in order to meet those of the owner. Once this organisation has met the interests of its customers, there is a high likelihood that new firms will enter the industry. Thus, at that point, they will need to turn their attention to dealing with competitors.

Four enterprises (50% of the eight selected SMEs) noted that organisational ‘culture’ was an important organisational characteristic. The organisational culture of the four firms was characterised by work commitment, cooperativeness, team spirit and a people-friendly atmosphere. These respondents assumed that a friendly, highly committed work environment and organisational culture helped their firms to maintain
their strategic behaviour and achieve their targeted performance. This is a reflection of Eastern culture-based style of management. Relationships, hard work and a friendly management approach are used by SMEs in Sri Lanka to reach their objectives.

Furthermore, three firms (38% of the selected SMEs) identified the management style of their firms as an important organisational characteristic. Although their management style mimicked the Western bureaucratic top-down style, they still showed people-friendly features that reflect Asian cultural traits and religious foundations. The decision-makers in these firms assumed that their management style, with its Western and Eastern characteristics, greatly influenced the strategic behaviour and performance of their enterprises. However, some participants (e.g. ST-2 and GR-2) clearly mentioned that their bureaucracy is different from that which exists in government and large private sector organisations (see also Premaratne 2008). This bureaucratic style of management is fashioned from their centralised organisational structure and top-down approach, but without formal rules and regulations.

Three participant manufacturers identified organisational structure as an important characteristic. Enterprises GR-1 and ST-2 were maintaining owner-manager centered organisational structures, whereas SU-2 operated in a decentralised structure. Further probing revealed that the structures of all three were mechanistic as they had hierarchical structures of control, authority and communication from owner to workers. Their systems of communication consisted of instructions and decisions designed to maintain the loyalty and obedience of workers.

Only the participants from two start-ups mentioned their ownership as an important organisational characteristic in the strategic behaviour of the firm. SU-1 was a partnership and SU-2 was a private limited company. According to these participants, it was better to operate as a partnership or limited liability company than as a sole proprietary or family-owned business. The reasons given by the participants were that all the partners could be actively involved in business activities, use or combine different opinions and expertise, invest more funds and share their concerns about environmental uncertainties. However, this was based on the risk-averse or uncertainty

In summary, these findings confirm that of the five organisational characteristics, the stakeholders’ demands have the greatest impact on both the strategic behaviour and performance of SMEs (see Conceptual framework - figure 3.1, p. 95). Even though firms maintain organisational cultures, structures, management styles and ownerships according to the expectations of their owners, stakeholders such as competitors and customers can have adverse impacts on the activities of firms. Therefore, as noted by Porter (1980, 1985), firms should be more proactive in dealing with industry forces and use appropriate strategies such as cost leadership, differentiation or focus. On the other hand, a mechanistic organisational structure with centralised and hierarchical structures of control in an Asian culture, with the flow of authority and communication running from owners to workers, has created a different management style for these SMEs. However, the attention paid by the majority to their industries (task environment) was manifestly inadequate. In addition, organisations must consider the macro-environmental forces (PEST - political, economic, socio-cultural and technological) confronting them in order to engage in appropriate strategy formulation.

7.4 Cross-Case Analysis for Management Processes

According to the tenets of Fayol’s administrative theory (see Fayol 1916), the management process includes planning, organising, leading and controlling. In this process, managers face different critical issues. However, if they handle their core capabilities adequately they will be able to perform well in the industry. If they do not, there will be some barriers that need to be managed.

7.4.1 Critical Issues Facing Selected SMEs

Identifying critical issues for SMEs engaged in manufacturing was one of the main objectives of the present study. Table 7.1(p.228) indicates the critical issues that were mentioned by all participants during the in-depth interviews undertaken in this research.
project. Of the eight manufacturers selected, seven noted that market and marketing issues were critical for their business organisations. Failed businesses in particular mentioned that they could not compete in the market or gain competitive advantage and secure their market share. Proactive management within GR-1 enabled them to perform market and marketing activities with relative success.

Of the seven organisations that noted market and marketing issues, five also mentioned that they were also facing financial issues. As mentioned by the majority of these participants, market and marketing issues led to an increase in unsold stocks and financial difficulties. Furthermore, five participants (63% of the selected SMEs) mentioned that acquiring new technology was a critical problem for their firms. Even though their competitors had adopted new machines and equipment, problems related more particularly to finance were preventing these firms from doing so. This situation influenced the decisions taken to close down the failed firms, and had a negative impact on the performance and competitiveness of others. As mentioned by the participants from SU-1, SU-2, FA-1 and FA-2, marketing, financial and technology issues were critical, as they were interrelated, in their businesses. Enterprise ST-2, GR-1 and GR-2 recorded managerial issues, and ST-1 and ST-2 mentioned that they had business planning issues. Supply-chain issues were experienced only by ST-2 and FA-1.

Although marketing, financial and technology issues were emphasised by the majority of participants as critical issues, this in-depth investigation identified a root cause for these issues. These three issues were commonly faced, regardless of the current situation in which a firm was operating. Therefore, the current situation of a firm depends on how it reacts to, or prepares to handle, the critical issues that confront it. The failed and stagnating firms had not addressed the critical issues they had encountered with proper management tools and techniques. However, both of the growing firms were using proactive management systems in either ad hoc or systematic forms. In accordance with the findings, the critical issues confronting SMEs, and their root causes, are presented in the form of a fishbone in Figure 7.1. It is important to understand the root causes and seek possible solutions rather than just focus on the issues on symptoms.
According to the participants, critical issues were primarily generated by the high degree of competition in their industries. Both new entrants and rivals generated and increased this competition. Contemporary strategic management theorists suggest that, in order to defeat competitors, strategies such as the generic approaches formulated by Porter (1980, 1985), management of stakeholders according to their power and interests (Johnson & Scholes 1999), the stretching of the resource bases of organisations (Hamel & Prahalad 1993) and benchmarking (Bogan & English 1994, see Table 2.2, p.37) should be implemented. However, six of these eight selected organisations did not undertake formal strategic management processes. These six participants also agreed that they lacked management knowledge. This lack of managerial expertise was the root cause of the critical issues that confronted them, and of their failure to deal adequately with those issues. Failed organisations particularly mentioned that they had sound resource bases but, due to an absence of expertise in management, they could not direct these resources to achieve competitive advantage and success. This highlighted the importance for SMEs of a sound knowledge of management.
7.4.2 Core Capabilities and Barriers to Survival

All participants, except ST-1, mentioned that their products were competitive in the market. Even the failed manufacturers stated that their former products were competitive. In order to create competitive products for the market, these firms were using their core competencies. The information displayed in Table 7.1 (see p.228) summarises the core competencies of eight SMEs under consideration.

The data in Table 7.1 reveals that the strong commitment of both owners and workers is evident in all eight (100%) of the participating SMEs. They believed that their core competencies were generated primarily through organisational culture (Wright et al 1996), more particularly through the commitment of both parties to the success of the business. According to the owner of ST-1, even though its products were not competitive in the market, the company performed through the strength of its supply chain and the commitment of its staff. This commitment in relation to workers included Japanese management concepts such as working in a single organisation over the long term and working in a collective manner. However, collective or participative decision-making was not a part of this commitment, due to a lack of empowerment of workers in these SMEs.

In addition to commitment, a combination of strong supply-chain channels and skilled workers, team spirit, and a motivated and cooperative working environment, helped existing SMEs to create competitive products for the market. Even failed organisations have had the same core capabilities.

The resource-based view theory (Barney 1991; Collis & Montgomery 2005) claimed that a unique bundle of resources with valuable, scarce, inimitable and non-substitutable characteristics generates sustainable core capabilities. However, the findings indicate that almost all participant organisations operated with similar capabilities. These firms should have focussed on and developed unique capabilities in order to succeed in their
industries, rather than imitating competitors, especially in monopolistic competitive industries. Some organisations mentioned that they had good supply chains and skilled workers. However, according to Hamel and Prahalad (1993), leveraging resources to stretch in order to meet the organisation’s requirement is crucial for achieving competitive advantage.

7.4.3 Impact of Macro-environmental Forces

As pointed out in Chapter Two, the industry is the task environment and it operates in the macro-environment. Consequently, macro-environmental forces impact on the activities of a firm through the industry in which it operates. The participants identified predominantly negative impacts that directly or indirectly suppressed the performance, growth and endurance of their firms. Information displayed in Table 7.2 shows the views of the participants in this regard.

Factors in the technological environment had the greatest impact on the case study SMEs and their activities. All four categories of participants (in terms of their current situation) noted that their firms faced technological environmental issues. These issues had created a significant level of threat among the participants’ business organisations.

Table 7.2 Impact of Macro-environmental Forces

<table>
<thead>
<tr>
<th>Firm Envi.</th>
<th>SU-1</th>
<th>SU-2</th>
<th>ST-1</th>
<th>ST-2</th>
<th>GR-1</th>
<th>GR-2</th>
<th>FA-1</th>
<th>FA-2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socio-cultural</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Economic environmental forces, including high interest rates, inflation and unfavourable exchange rates, were considered by the participants to be the most

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56 As mentioned previously, the majority of participants made and sold their products in monopolistically competitive industries, in which close substitutes were available.
important macro-environmental forces after those of a technological nature. Neither of
the participants from failed firms identified economic forces as having a great impact on
the undertakings of their enterprises, because of their inability to link these factors to
their business activities.

The respondents from enterprises GR-1, GR-2 and ST-2 claimed that changes in socio-
cultural factors, such as consumer interests, lifestyle changes, levels of education,
population growth and age distribution, had a direct influence on the activities of their
firms (e.g. instant foods, garments). These changes led to, and stimulated the
development of, new products, product differentiation and product extensions in their
firms. However, if these important socio-cultural forces were not managed or addressed
appropriately by manufacturers, they would have had an unfavourable impact on those
negligent firms because competitors would use strategies to gain competitive advantage
through the exploitation of these socio-cultural environmental changes or niche markets.
The stagnating condition of ST-2 was a consequence of not adopting appropriate
strategies to address socio-cultural environmental changes when faced with the
strategies and tactics of their competitors.

It is noteworthy that only growing firms identified political environmental forces as
having a big impact on their business operations. The participants claimed that political
stability and networks, and the behaviours and influence of the supporters of political
parties affected the behaviours of their firms, especially during the stage of growth (see
also Premaratne 2008). Others believed that political environmental factors were
reflected in economic environmental factors. For example, taxes, changes in interest
rates and political interests had a direct effect on inflation and interest rates in the
money markets. Furthermore, all the participants agreed that all of the other (boxes not
ticked in the table) macro-environmental factors had only a moderate impact on the
behaviour of their firms.

To summarise, an in-depth investigation revealed that technological environmental
forces created significant threats to manufacturers in Sri Lanka. If companies in this
sector were not in a position to acquire new technologies, they failed to compete in the
market. This is because macro-environmental factors impacted on the firm through the activities of competitors. On the other hand, economic, political and socio-cultural factors are interrelated and sometimes difficult to separate from one another.

7.5 Cross-Case Analysis of Strategic Behaviour of Selected SMEs

Decision-making is a core management function and it is crucial for every organisation, regardless of its size or current situation. As mentioned in Chapter Four, this study categorised firms that operate without a written strategic plan as non-formalised strategic planning (NFSP) SMEs and firms operating with written strategic plans as formalised strategic planning (FSP) SMEs. The strategic behaviour of these FSPs and NFSPs is analysed in the subsequent sections, according to Ansoff’s (1988) modes of strategic behaviour.

Creswell (2013) discussed how qualitative researchers can quote ‘the voice of participants’ in their writing. He suggested three methods: 1) short eye-catching quotations, 2) embedded quotes, briefly quoted phrases within the analyst’s narrative, and 3) the longer quotation to convey more complex understandings and that the writer would like the reader to see. In this section the third method was used to provide important and complex insights by quoting the original voices of the participants.

7.5.1 Formalised Strategic Planning (FSP) SMEs – Proactive Systematic

As mentioned previously, Ansoff (1988) identified firms with formal strategic plans as using a proactive systematic mode of behaviour, and that is the best mode of strategic behaviour to adopt in order to achieve success in business. Two FSPs were included in the case-study investigation.

The participant from SU-1 explained his decision-making and strategic behaviour as follows:
Since this is a new firm, we (partners of the company) make fundamental decisions, then pass them to our managers and they prepare all the necessary plans ...I mean long-term plans…. We use the proper channel in order to pass everything to everyone. One of our partners introduced strategic planning process to our firm. He is an engineer and also has [an] MBA degree. Before starting this firm he was attached to a large multinational company...he makes all our plans in a formal way. He introduced this planning system at the beginning and explained to us the importance of having proper plans … he initially made a plan for five years but we hope to change it to an annual basis….

The participant from GR-2 explained his decision-making and strategic behaviour as follows:

As the owner-manager, I make all the important decisions.... I have a very supportive management team and we discuss every possible issue, threat, and also good events. We pass all decisions to all workers using proper methods and channels. If they (low level workers) have any queries or need further clarification they have to contact their immediate supervisor. I introduced the strategic planning for my business…it was so simple at the beginning but later on we upgraded it. I have educated and experienced managers...they contribute their knowledge to improve this process.... I also meet consultants to get their services but it is expensive…. 

Both firms had formal strategic plans as a result of their strategic management process. Even though owners dominated management activities at the top level, there was collective participation in strategy formulation and implementation. This approach is vital to stimulate creativity and strategic thinking in business organisations which will allow useful strategies to emerge. By engaging in this particular strategic behaviour, decision-makers are relieved of anxiety and the need to find solutions by means of trial and error. According to both participants, although they had predetermined plans, they used the most appropriate emergent strategies and entrepreneurship (creativity and innovation) without always sticking to their planned strategies.

Probing could have revealed that these SMEs using FSPs met suggestions of normative definitions of formal strategic planning such as written plans covering more than one
year, ongoing monitoring and modifications (O’Regan & Ghobadian 2007). Both participants mentioned that it was useful to formulate and implement strategic plans for less than two years, in order to obtain greater benefits. This was because the intense competition in the market and environmental uncertainties rapidly rendered their plans outdated and inappropriate.

The origin of strategic plans in these organisations was linked to the education and experience of the main decision-makers. This confirms that, in these organisations, management processes are more professional. Even though these organisations also operated in an Asian cultural context, they had adopted professional management in the more contemporary Western style. The Sri Lankan education system has a positive attitude towards Western theories, but applicability is still controversial and depends on the attitudes and understanding of the owners of businesses. The most important point is that, by adopting this strategic mode, enterprise GR-1 had demonstrated success in business through its growth. If a firm does not achieve growth when using a formal strategic management process, it may be the result of a problem with the quality of planning and the experience of the people involved.

7.5.2 Non-Formalised Strategic Planning (NFSP) SMEs

According to the literature, although some firms do not maintain written strategic plans, they may be using strategic management on an informal basis. In terms of Ansoff’s (1988) modes of strategic behaviour, both the reactive and proactive ad hoc modes applied to NFSP SMEs. This phase of data collection for the study included six NFSPs. Hence, based on what the participants revealed, their strategic behaviour and performance could be further analysed in the following way.

7.5.2.1 Reactive Mode of Strategic Behaviour

This behaviour represents ‘no strategic management’, as it is reactive rather than proactive (see Figure 3.1, p. 95). During the survey some firms tried to explain that they were using strategic management on an informal basis. However, in-depth investigation
helped to differentiate the firms of the NFSP variety, by using simple reactive methods, from those making informal use of strategic management.

The participant from FA-1 explained his decision-making and strategic behaviour in the following terms:

From the very beginning, I used to make all the decisions in my organisation. I took my wife’s advice or support when necessary. My decisions are communicated with the other workers in my workplace. I had a very loyal and committed team. They did what I asked them to do. I looked after them very well because they were like my family members. I had no problems with them at all. I handled day-to-day activities according to the situation. I had some business ideas, but all of them were in my mind and only my wife knew them as I normally discuss everything with her.…

The other participant from FA-2 explained his decision-making and strategic behaviour as follows:

All the decisions were made by me …. It doesn’t mean that I didn’t listen to my workers. I also got my family member’s advice and support when necessary…. As the owner of the business, I was very committed to my business and, therefore, I tried to do my best according to my knowledge. I had no idea about business planning. But I am sure that I always tried to find the best solutions for my business issues. For that purpose I used my networking for example, friends, customers, distributors.…

According to these explanations, both failed businesses had an owner-manager centralised decision-making system and their strategic behaviour was reactive (Ansoff 1988) in nature. This is because only when an issue arose did they discuss the affairs of their business with different parties, in order to find solutions.

This approach is typical of Asian style of familialism- and Confucianism-based traditional management practices. Asian management practices have been criticised (see Table 2.2) by various researchers, who point out the slow process of decision-making, the lack of risk-taking and the lack of professionalism. On the other hand, these organisations had not sought their workers input in making decisions. Therefore, from the perspective of the workers, these owner-managers can be considered to have been
individualistic and autocratic, rather than collectivistic and democratic. If these executives had really been following Asian entrepreneurs and an Asian style of management, they would have utilised collective decision-making practices.

Due to an absence of professionalism in their management practices, these entrepreneurs had not prepared for future events. Even though these participants mentioned in the survey that they had a business philosophy and a vision, further probing revealed that they had had only a short-term focus. In the modern business context, a clear vision, a proactive management process and strong strategies are more useful than family or networking-based reactive management practice to survive in any industry (Porter 1980, 1985). That is why contemporary Western management theorists introduced strategic management processes. In particular, Ansoff (1988) showed that when an organisation does not make plans or seek alternatives, but depends on a process of trial and error, the firm will go into bankruptcy if a series of solutions (trials) fails.

### 7.5.2.2 Proactive Ad Hoc Mode of Strategic Behaviour

According to the literature, proactive management is strategic (David 2007) even though there are no written plans. Therefore, the proactive ad hoc mode of strategic behaviour is an informal variety of strategic management.

The participant from ST-1 explained his decision-making and strategic behaviour as follows:

I do all the managerial and decision-making activities. I have a clear vision for my business...I do lots of experiments to improve our products.... I always think of our products as well as the firm’s future. If I have to make a decision ...I go for the most suitable one by considering all the possible solutions. My workers are highly committed and also contribute their ideas to make good decisions .... So far we have not used strategic plans for our business organisation, but there are some plans in my mind. We normally think about our future and consider possible favourable and especially unfavourable events that might occur....

The participant from ST-2 explained his decision-making and strategic behaviour thus:
I am actively involved in management activities... my manager has been working with me for more than six years. He has some managerial experience as well as educational background and as I am very busy, I explain to him what to do and how to do it….then he organises everything accordingly and passes information to other workers. Workers also communicate with the manager not with me, but if somebody wants to talk to me, I cordially welcome them....We have some accounting documents and books. Sometimes my manager prepares budgets, bank reconciliations and product catalogues which also indicates our business’ vision and activities....

The participant from SU-2 explained his decision-making and strategic behaviour as follows:

Although our business is a new one, we use [a] decentralised organisational structure and decision-making practice because we assume it helps us to make quick decisions and operate the organisational activities smoothly. We have communicated our business vision among all workers....As we are still in the early stage of our business, we have not prepared any long-term plans, but we will do that later.

The participant from GR-1 explained his decision-making and strategic behaviour in these terms:

Our business is growing very fast at the moment and therefore, our management process is also becoming very complex and complicated. I think we have a clear vision.... As the owner-manager, so far I have made an immense contribution and commitment in terms of management and decision-making. Even though I use [a] centralised organisational structure, I discuss important matters with my subordinates, especially before making crucial decisions in order to have their views....

Even though all of these organisations did not undertake formal strategic plans, they had a vision or business philosophy, and engaged in proactive thinking. As both stagnating firms, one growing and one start-up firm were using this style of management, it could be considered the most popular management practice among existing SMEs in Sri Lanka. Some firms prepared operational plans, such as budgets. These organisations did not use participative decision-making but, with or without a proper understanding of strategic management, they did maintain working environments that were ‘participation-
friendly’. This milieu permits strategies to emerge from any level of the organisation (emergent strategies - Mintzberg & Waters 1985), thereby facilitating the pursuit of incremental strategic change if handled appropriately by decision-makers. This is because the growing firm has been able to achieve a vast improvement in their business with the same mode of strategic behaviour or, in other words, informal strategic management. Stagnating firms should consider their strategies, and the process by which they decide on strategies to improve their performance. Their informal strategic management was closer to the reactive mode than to any of the others identified by Ansoff (1988). However, these six organisations could be converted to FSPs by providing them with some knowledge of planning, as they already had some experience with proactive management. Strategic planning expertise will help firms to supersede their current trial and error approach and use of informal forms of strategic management to recover from a state of stagnation and reduce the threat of failure.

7.6 Key Findings of the In-depth Investigation

When competitors are strong and equipped with new technology and methods, firms must use strategies to survive and grow in an industry (Porter 1980, 1985). Otherwise, firms encounter market and marketing problems and, subsequently, financial difficulties. A lack of management expertise was the root cause of the majority of critical issues confronting participant SMEs, as this shortcoming ensured that they were not in a position to select the correct strategies at the right time. This eventually converted the core capabilities of the firm into weaknesses.

The majority of participant SMEs used mechanistic and centralised organisational structures with friendly working environments. This common structure and culture among participants did not permit participative decision-making, though workers were committed to their assigned tasks. Therefore, there was a mismatch between structure and culture which was not supportive of strategy formulation.

In terms of strategic behaviours, the failed and stagnating firms were NFSP SMEs that employed reactive or proactive ad hoc styles. This shows the danger of using the trial
and error approach in a highly competitive and turbulent environment. However, if the proactive ad hoc method is used, with bottom-up or participative decision-making, there is the possibility of using correct strategies and growing in the industry (e.g. enterprise GR-2). Prior management knowledge and formal education motivate owner-managers to employ formal planning, rather than relying on factors like ‘luck’. Although the majority of SMEs were not using proactive systematic approaches, participants assumed that they were trying to use proactive methods with strategic thinking or, in other words, strategic management in an informal manner. However, the results achieved depended primarily on the knowledge of the people who were engaged in it and how well they absorbed the correct emergent strategies. Nonetheless, the trend was that if a firm did not start with a formal planning system, they would convert their strategic behaviour from the ad hoc to the systematic mode in synchronisation with the expansion of their business. Therefore, owner motivation and awareness were crucial in any effort to secure the future of a stagnating SME.

7.7 Chapter Summary

This chapter presented the qualitative data analysis of the study. Eight case studies based on in-depth interviews were included. The analysis was conducted by means of a thematic analysis of qualitative data gathered through in-depth interviews. This method of analysis helped to identify the themes within cases and across cases. The results were presented according to the situations of the firms at the time the project was undertaken, and were then further analysed according to their planning methods. The internal environments and task environments of the target group were assessed through critical issues, organisational characteristics and core capabilities. Furthermore, macro environment and strategic behaviour were investigated in this section. The findings of this section are used in the next chapter with the survey findings in order to answer the research questions. Finally, all the findings were used in order to explore the management practice and the strategic behaviour of the SMEs in the manufacturing sector in Sri Lanka.
Part Four

Synthesis of Knowledge Discovered

The aim of this section is to summarise the findings and to provide the recommendations and conclusions drawn from the study. This part of the thesis comprises the last chapter:

Chapter Eight: The Discussion of Findings, Recommendations and Conclusions
CHAPTER EIGHT:
THE DISCUSSION OF FINDINGS, RECOMMENDATIONS
AND CONCLUSIONS

8.1 Introduction

The relevant literature suggests that the success or failure of business organisations depends principally on how decision-makers manage the organisational factors and craft strategies that will enable them to compete in an industry. This research investigated the management practices of small and medium-sized enterprises (SMEs) in the manufacturing sector in Sri Lanka with the intention of providing important insights into their strategic behaviours. Due to its exploratory nature, this study was designed using a mixed-method approach. This chapter provides a synthesis of the major findings presented in Chapters Five and Six (quantitative analysis), and in Chapter Seven (case study qualitative analysis). It is organised into the following sections: revisiting the aim of the study (section 8.2), discussion of outcomes (section 8.3), limitations of the study (section 8.4) and concluding remarks (section 8.5).

8.2 Revisiting the Aim of the study

As discussed in Chapter One, the Sri Lankan government considers the SMEs in the manufacturing sector to be a strategic driver of the country’s future economic development and the primary means of eradicating poverty from the country. The commitment of the Sri Lankan government to strengthen the country’s SME sector is clearly articulated in its national economic policies. Despite this external push from the government, SMEs in Sri Lanka have yet to achieve a desirable level of performance (Gamage 2003; Amaratunge 2009; Wijesinghe et al. 2011). As mentioned in Chapter One, even though the government provides a considerable level of support, this manufacturing sector still contributes less than 20% to the country’s gross domestic product (GDP). This is much less than the Sri Lankan government’s desired target for the industrial sector of 35% in 2015 (Economic outlook 2012) to ensure better standards of living and eradicate poverty. This study has established that the poor performance and slow growth of SMEs were the consequences of both the strategic challenges that
confront these enterprises and their inability to proactively manage the critical issues they face. Nonetheless, the government has neither identified nor addressed these challenges by means of policy initiatives. Consequently, the government’s attempts to assist SMEs’ by allocating funds for educational and research programmes have not been successful.

In Chapter Two it was demonstrated that many management scholars found that there is a positive relationship between the management practices adopted by the principal decision-makers in enterprises and the performance of their organisations. This research aimed to answer the questions ‘why do some organisations (SMEs) succeed while others fail?’, and ‘what are the processes that allow organisations (SMEs) to succeed in business?’. Both queries are based on two common and important research problems in the field of management (see Porter 1991, p.95-117).

8.3 Discussion of the Outcomes

This concluding chapter is designed to present the empirical findings in a structured manner, in accordance with the conceptual framework presented in Figure 3.1, p.95.

This study envisaged three main outcomes:

1. Making a contribution to the existing body of knowledge by investigating the critical issues and business management practices of Sri Lankan SMEs;

2. Providing insights into SME management practice with a view to influencing government policy; and

3. Revealing future research directions to strengthen the SME sector at both the micro and macro levels.

Figure 8.1 was developed in accordance with the findings of this study. Following this diagram, the key findings are discussed.
Government statistics suggest that the majority of the SMEs engaged in manufacturing in Sri Lanka, as a category, are not achieving sufficient rates of survival or growth.

**ANTECEDENTS**

(Conceptualism)

- Theories of Management and Strategic Behaviour
  - Eastern and Western management theories
  - Strategic behaviour Modes (Ansoff 1988)
- External Factors (Task and Macro Environmental)
  - Strategic Management Tools
    - SWOT, Industry Analysis (Porter 1980, 1985) & PEST Analysis
    - Stakeholder Analysis
      - Hillebrand 2009
      - Sri Lankan Government
- Internal Factors (Internal Environment)
  - SWOT Analysis
  - Resource-Based Perspective (Barney 1991; Grant 1993; Wernerfelt 1984)

**THE EMPIRICAL INVESTIGATION**

- Strategic Direction, Behaviour, Management Practice & Barriers for Formal Strategic Planning
  - Due to owner-managers’ lack of knowledge and time poor nature the majority of participant SMEs were operating as NFSP SMEs. Although they were using proactive ad hoc mode of strategic behaviour, it was more close to the reactive mode and highly centralised to owner-managers.

**OUTCOMES**

(Study Implications)

- Identification of critical issues and business management practices of SMEs in Sri Lanka
  - Providing answers to research questions
  - Comparison of findings with some previous studies
- Recommendations for Government policy Outcomes
  - Recommendations for Short-term & Long-term implementation via policy measures
  - Recommendation for Operationalisation
- Recommendations for practice.
  - Recommendations for SME owners and managers
  - Recommendations for Curricula Designers
  - Recommendations for future researchers
Empirical studies have been conducted to discover the factors that were central to the success of organisations in a number of countries. One instance was the industrial sector in Japan and the management practices therein (Cole 2004). Applying similar principles, this study was undertaken to investigate the management practices of SMEs in Sri Lanka to gain insights into the high failure rate and the low contribution they make to the national GDP. As noted in Chapter Two, the purpose of the management concepts introduced by various theorists over the past century was to minimise managerial problems and to improve the efficiency of firms. However, very little effort has been made by Sri Lankan researchers to study the management practices of and the managerial issues confronting Sri Lankan SME managers and entrepreneurs. Therefore, the extent to which Sri Lankan manufacturing SMEs use formal or non-formal strategic management tools and the way they address their critical issues were identified as an important focus in this research.

8.3.1 Contribution to the Existing Body of Knowledge

The recommendations of this study are based on the following key findings of the empirical investigation of this study.

8.3.1.1 Answers to the Research Questions

This section discusses the major findings by answering the key research questions discussed in chapters one and three.

i) Research Question 1: What are the main organisational characteristics of the SMEs in the manufacturing sector in Sri Lanka?

The literature review identified ownership, culture, structure, management style and stakeholders’ interests as the main organisational characteristics of SMEs, other than their size. This study identified the organisational characteristics that had the greatest influence on the sampled SMEs’ strategic behaviour.
Data Analysis Phase I
Survey results indicated that, of all the organisational characteristics, stakeholders’ interests had the greatest impact on the strategic or proactive behaviour of firms. The participants strongly believed that, in order to survive and achieve better performance in the industry, they had to manage stakeholders’ interests through their organisational activities. Consequently, survey findings showed that, immediately behind the owners of SMEs, the competitors were the principal stakeholders, followed by the customers. Whilst small businesses were concerned about their competitors, medium-sized firms focussed on customers and their preferences.

Data Analysis Phase II
The case study findings also confirmed stakeholders’ interests as the primary organisational characteristic affecting the strategic behaviour and performance of the participant organisations. The participants believe that they have limited power to control external stakeholders’ interests compared to the other organisational characteristics such as organisational structure, culture and management style. Seven out of eight participants revealed that some of their stakeholders (e.g. their competitors, customers and supply-chain partners) had the power to change the strategic behaviour, performance and sustainability of their firms.

Discussion
Hillebrand (2009) claimed that the management of stakeholders by SMEs depends entirely on the perceptions of their owners or owner-managers. Furthermore, Johnson and Scholes (1999) stated that key stakeholders have sufficient interest, as well as sufficient power, to influence the activities of organisations. The findings of both the survey and the case studies revealed that competitors are the most important stakeholder group in SMEs, next to the owners themselves. To gain competitive advantage and to survive in an industry, the participants, especially small firms had identified that they must concentrate on both favourable (opportunities) and unfavourable (threats) forces that were continuously generated by their current and potential competitors (rivals and new entrants). The understanding of how competitors satisfy the needs of their customers, and what capabilities they possess, is a must to enable the firms to use
appropriate generic strategies based on their own core competencies and industry analysis (Porter 1980, 1985). Most of the SMEs were operating in monopolistically competitive or, in other words, multi-competitive industries (Hubbard et al. 2009; Ansoff 1988). These industries have low entry barriers and, therefore, any firm can enter or exit with much ease. In this situation, Porter (1980, 1985) suggests that firms can choose either one or a combination of the generic strategies of cost leadership, differentiation or focus to remain competitive in their industry. Further, resource-based theory (Wernerfelt 1984; Barney 1991; Amit & Schoemaker 1993; Collis & Montgomery 2005) suggests that firms should accumulate valuable, scarce, inimitable and non-substitutable resources, in order to attract customers and dominate the industry where they operate. Both the survey and case study results revealed that participant SMEs mostly possessed similar core capabilities (e.g. commitment-based culture) and, therefore, found it difficult to gain an advantage over their strong competitors. This is because commitment-based culture is a part of collectivism and a common trait in Asian business management. Hence, small firms need to focus on acquiring valuable, scarce, inimitable and non-substitutable resources in order to achieve dominance in their highly competitive industries through strong strategies and customer satisfaction.

ii) Research Question 2: What are the critical issues commonly faced by SMEs in the manufacturing sector in Sri Lanka?

At the time the survey was conducted, all the existing SMEs in the sample were facing a number of critical issues. These are summarised below.

Data Analysis Phase I

The survey results indicated that the most common critical issues were those related to the market and marketing. In highly competitive industries, entrepreneurs need to find, maintain and increase the markets for their products to ensure the sustainability of their firms. Moreover, according to the survey, the financial concerns of SMEs increased as a result of marketing issues. This situation was more crucial in small firms than in medium-sized organisations as the former had limited access to external financial sources because of their inability to provide sufficient security.
Data Analysis Phase II

The case study analyses revealed that competitors and their competitive marketing activities created challenges for the majority of participant SMEs. These marketing issues included labeling, advertising and promotion, distribution, product differentiation and market positioning (see Figure 7.1, p. 233). Further in-depth investigation showed that there was a close relationship between macro-environmental forces and marketing competition in the industry. Due to the changes in technological environment and economic environment, competition and marketing problems had increased in the past few years. Foreign ‘dumping’ and difficulties in gaining access to new technology and equipment were the key factors behind the marketing issues confronting these organisations.

However, most importantly, the in-depth investigation revealed that a lack of management expertise was the root cause of all the critical issues confronting the participant organisations. Although the participants explained that marketing, technology and financial issues were critical, further probing confirmed that the majority of these decision-makers were facing managerial problems because they lacked the expertise to oversee their business activities and handle the forces at work in their respective industries.

Discussion

Since the 1970s, contemporary strategic management theorists have indicated that it is as vital to use strategies and strategic thinking in business management as it is on the battlefield (see Table 2.3, p. 41). Case study findings indicated that the majority of participants (6 of 8) did not possess formal expertise in business management. The literature underlined the fact that doing the right thing at the right time in the right way is management. If this knowledge is lacking or not properly utilised, it is inevitable that critical issues will emerge (Drucker 1999). Even though the level of literacy among Sri Lankans is high (94%) due to the availability of free education, the current education system in Sri Lanka does not teach the necessary skills needed for business management (Gamage et al. 2003a; Fernando 2007). This shortcoming leads to managerial problems and poor performance among business organisations in the country. To acquire and
manage scarce resources, the principal decision-makers within SMEs need to possess relevant business management skills and know-how.

iii) Research Question 3: Is there any relationship between the organisational characteristics of the manufacturing SMEs in Sri Lanka and the critical issues they face?

This research question investigated whether there is any relationship between the main organisational characteristics and the critical issues faced by Sri Lankan manufacturing SMEs.

Data Analysis Phase I

Although stakeholders’ interest was identified as the most important organisational characteristic in relation to the strategic behaviour of the participant firms, it was discovered that there was a significant relationship between critical issues and stakeholders’ interest, as well as between critical issues and organisational culture. Commitment, team spirit and cooperativeness were the major cultural characteristics reported by the highest number of SMEs. According to the findings, if an organisation maintains a highly committed and cooperative culture (Asian cultural traits), it leads to a reduction in the critical issues facing the firm. Although interest groups such as competitors and customers create critical issues, a cooperative culture increases the commitment of workers and owners and increases participative decision-making to suppress those critical issues. But the reality was, due to the existing gap between decision-makers and their subordinates, the majority of SMEs surveyed did not possess participative features in their decision-making processes but they maintained friendly and cooperative working environments. Workers were highly committed because they maybe wanted to secure their jobs.

Data Analysis Phase II

Case study analysis revealed a close relationship between critical issues with stakeholders’ interest, organisational culture and organisational structure. The participants who maintained a centralised organisational structure had very mechanistic
systems of management in place (Burns & Stalker 1961) which created managerial problems. Because the majority of owner-managers lacked managerial expertise, their attempt to centralise decision making within an Asian cultural background became a constraint in finding solutions to critical business issues. Even though the owner-managers were cooperative and friendly, they were reluctant to empower their employees. They mainly used personal networks instead of discussing important managerial issues with their subordinates.

Discussion

Collectivism is a characteristic of Asian, particularly Japanese, management (Ouchi 1981). In order to achieve better results from Eastern management concepts, it is important to maintain an organic or decentralised organisational structure properly. However, these owner-managers were reluctant to empower their subordinates. Therefore, they dominated all managerial activities in order to reduce potential business risks. This tendency confirms that Sri Lankan entrepreneurs have both an inherent dislike of risk (Galahitiyawe & Rathnayake 2009) and no faith in the skills and capabilities of their workers (Theory X, Chandrakumara & Budhwar 2005). Thus, in addition to the challenges posed by competitors and the supply chain, critical issues proliferate due to the mismatch between the culture and structure of these organisations. In particular, the owner-managers of failed enterprises explained, during the in-depth interviews, how their core capabilities were subsequently converted into weaknesses due to ill-informed managerial decisions made. Hence, it is clear that the common root cause of these issues was lack of management expertise.

Figure 8.2 depicts the relationship that was established between the critical issues and organisational characteristics, based on the findings from the survey and case studies. Competitors and customers generated different threats and opportunities for SMEs. Although they expected participative decision-making, the owner-managers maintained centralised organisational structures and that did not allow participatory decision-making in Sri Lankan SMEs. This management style suppressed collective decision-making and created weaknesses instead of strengths in any attempt to gain competitive advantage in the industry. For example, workers might have had better ideas and better
contacts, but this possibility was not acknowledged by owners. On the other hand, SMEs which use an appropriate organisational structure and culture may dominate their industries, as their management practices provide more effective means of reacting to threats from the external environment and absorbing opportunities, as well as creating threats to other organisations (rivals and new entrants) via their resource-base and strategy.

**Figure 8.2 Organisational Characteristics and Critical Issues**

According to the findings of the study, due to their inadequate knowledge of management, the majority of owner-managers failed to understand the impacts of factors operating in the environments external to their firms and to maintain internal environments which would have helped to gain competitive advantage in the industry. However, the owner-managers who possessed expertise in management were operating their firms more proactively in order to win customers and achieve domination in the market by using appropriate strategies as suggested by Porter (1980, 1985).
iv) **Research Question 4: What strategic management tools are used by SMEs in the manufacturing sector in Sri Lanka?**

The literature indicated that there are many strategic management tools and techniques available for organisations to use in order to improve their performance, regardless of the size or current situation of the firm. The basic techniques commonly used by business organisations include Political, Economic, Socio-cultural and Technological (PEST) environmental analysis, Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis, five-force industry analysis, scenario planning and formal strategic plans.

**Data Analysis Phase I**

The majority of small manufacturers were operating without formal plans. However, more than 50% of surveyed medium-sized companies were operating with formal strategic plans and other medium-sized firms had operational plans, such as budgets, for at least forthcoming periods. The majority of respondents, also mentioned in the survey that, although they did not have FSPs, they ‘have a clear business vision’ and ‘use scenario planning’ to improve strategic thinking and manage their businesses proactively with informal strategic management.

Although SWOT analysis is a useful tool to identify the internal and external environmental forces (favorable as well as unfavorable) affecting the firm, only 35 SMEs (21 small and 14 medium-sized) were using this technique as part of their management and planning processes. Porter’s (1980) industry analysis model helps firms to examine the intensity of potential threats emanating from competitors, new entrants, substitutes, suppliers and buyers. Section 5.3.3.2 in Chapter Five disclosed that 66 participants in the survey were undertaking some form of industry analysis, either with or without formal strategic plans. Some participants mentioned that they were undertaking their firms’ industry analysis in a very simple form, due to lack of expertise. This result confirmed that SMEs were more likely to undertake industry analysis than SWOT analysis in their management processes.
Even though the survey findings revealed that 20 FSP SMEs (62% of 32) had not undertaken formal strategic planning processes at their inception, they had adopted formal strategic plans in the few years following their establishment. Most of these FSP respondents confirmed that having formal missions, corporate goals, corporate strategies, functional strategies and action plans (formal strategic management) helped their firms to operate confidently and improve performance. However, due to the lack of participative decision-making, environmental uncertainties such as changes in interest rates, inflation, customer tastes and technology, as well as lack of time and lack of expertise, 66% of surveyed FSP SMEs reported that they were experiencing problems with their FSP process and in using sophisticated management tools and techniques.

Data Analysis Phase II
Two FSP SMEs were included in the case study analysis. These enterprises had had FSPs since the establishment stage of their existence. The participants of Start-up 1 (SU-1) and Growing 1 (GR-1) explained in the in-depth interviews that their articulated visions, missions, strategies and goals were useful. These mechanisms enabled them to direct their businesses with more confidence and to communicate the expected end results, as visionary leaders to their employees. Others had only initial business plans, budgets and product catalogues as a result of their planning processes.

Discussion
The majority of the participants in this study were not using formal strategic management tools and techniques, but they indicated that they were engaged in proactive thinking by means of scenario planning. They also noted that they were using planning tools such as budgets. According to management scholars, budgeting is only a part of strategic management process and they (e.g. Porter 1980, 1985; Mintzberg 1994; Hamel & Prahalad 1990; Ansoff; 1988) have continuously explained the necessity of applying strategic management in turbulent environments. They have suggested strategic management in the form of industry foresights, strategic thinking and recognition of unexploited opportunities in order to obtain business success. Strategic thinking is a crucial component of strategic management and it is of assistance in the formulation of correct strategies. Indeed, strategic thinking is not intended to replace
long-range planning, but to improve it. Strategic thinking encourages people to direct
their attention toward the less certain future, which is crucial for business organisations
if they are to operate in a turbulent environment, but its quality depends on the attributes
of the people involved (Harper 1991). Therefore, the knowledge and experience of the
participants determine the extent to which they use proper strategic management or its
tools and techniques like strategic thinking, scenario planning etc. in their business
organisations.

v) Research Question 5: How do the SMEs in the manufacturing sector in Sri
Lanka manage their business operations when functioning variously with or
without a formalised strategic management process or strategic planning
system?

This research question investigated how the FSP and NFSP SMEs confront the critical
issues faced by their firms.

Data Analysis Phase I
There were 118 SMEs among the sample of 150 that were operating without formal
planning systems at the time the survey was conducted. It is clear from these results that
the majority of the NFSP owner-managers had not made any effort to employ formal
strategic planning methods while operating their business.

About 95% of NFSP SMEs indicated that, even though they did not use formal long-
term plans, they forecast future events and took the actions necessary to enhance the
financial performance and sustainability of their businesses. This response implies that
these entrepreneurs were using ‘hearts and gut feeling’ (intuition), rather than ‘minds
and hands’ (plans). Of 118 NFSP SMEs, fewer than 10% undertook SWOT analysis and
about 25% undertook industry analysis in a very simple and informal manner.

Data Analysis Phase II
In-depth investigation revealed that NFSP SMEs could be further categorised as
reactive and proactive ad hoc, according to the strategic behaviour in which they
actually engaged. Both of the failed entrepreneurs who joined in the in-depth
investigation mentioned that, even though they had business philosophies for their organisations, they used to believe in ‘business luck’ and act according to any given situation using ‘gut feeling’. They agreed that this method of operation was primarily a consequence of their lack of formal management knowledge and their personal values. Thus, they had operated in reactive mode using a methodology of trial and error to deal with business issues (Ansoff 1988).

Participants from one start-up, one growing and both stagnating firms mentioned that, even though they had not been preparing formal plans, they had been using scenario planning in their management processes for proactively taking necessary actions in their business activities. However, these organisations also noted problems regarding collectivism, as their organisational structures were highly mechanistic due to one-way communication. As these firms were small and most were operated as sole proprietary or family-owned businesses, owner-managers were seeking advice from family members or their personal networks (which characterises as Guanxi in Chinese management) when making important decisions. Sometimes these organisations had also obtained support from government or private organisations. Most importantly, these owner-managers possessed long-term visions and, therefore, their organisations could be categorised as proactive but ad hoc. When the business expanded (growth), some owner-managers were compelled to prepare formal strategic plans. As a result, medium-sized manufacturers had become FSP (proactive systematic) organisations.

Discussion
According to both the survey and case studies, the reasons for not having formally articulated plans in these SMEs were lack of time, inadequate knowledge of planning among decision-makers and lack of expertise in sophisticated management. The type of industry in which the firms were engaged and increasing environmental uncertainties were also noted as further reasons for not having formalised plans. Participants believed that lack of strategic thinking or intuition was not the main reason for not undertaking formalised strategic planning. They were using intuition and a business philosophy to operate their firms. Some of these NFSP SMEs were undertaking SWOT and industry analysis informally, or in a formal but simplified manner. However, to be successful in
this strategic mode these organisations needed to operate using information that flowed from the bottom up, and to have developed logical incremental initiatives through research and marketing (Ansoff 1988). Such incremental activities were constrained by their management practices and resource base especially among stagnating firms. For that reason, the management practice of stagnating firms was also more reactive than proactive in nature. ‘Hearts’ and ‘gut feeling’ (intuition) are not sufficient on their own to ensure success in a competitive industry.

The next section provides a comparison with other research studies undertaken in different contexts during the past few years. These studies have already been discussed in the literature review (Chapter Two) and conceptual framework (Chapter Three) to provide a solid foundation for the current study.

8.3.1.2 Comparison with Previous Studies

As a part of the discussion, it was considered important to compare the outcomes of this study with similar or relevant studies undertaken in different contexts. These studies are presented in the following sub-sections.

i) Critical Issues facing SMEs
The critical issues facing SMEs that have been identified by this study were predominantly the same as those identified by Sumanasena (2005) (see Chapter Three). According to Sumanasena, technology related issues, lack of marketing knowledge, and difficulty in obtaining adequate finance, for a variety of reasons, were the primary issues confronting SMEs in the manufacturing sector in Sri Lanka. These issues suppressed the growth, or led to the failures, of SMEs. However, this study identified that, of these factors, the lack of knowledge of management among owner-managers was the single most crucial issue. This was because, if owner-managers had used the appropriate management strategies, they could have found remedies to their critical issues in a timely manner. For example, contemporary strategic concepts such as benchmarking, industry analysis and the focus on core capabilities also empower subordinates to absorb good emergent strategies from any level of an organisation.
Furthermore, according to Huang (2009), one of the common problems in SMEs in China was their management practices, as they were using strong Asian culture-based management. This difficulty was why Westernised Chinese in this era put their trust in professional business management rather than networks or culture based management. Owner-managers in Sri Lanka also need to adopt professional management rather than relying on cultural values, traditional or network-based management practices or ‘business luck’.

ii) Organisational Characteristics

Huang (2009) mentioned that the ownership of SMEs has a significant impact on the strategic decision-making processes. Hitt et al. (1996) revealed that management decision-making and organisational structure in SMEs revolved around the interests of owner-managers who made all the major decisions and monitored all the activities of the firms. As such, the success or failure of SMEs is seriously influenced by the managerial competence of owner-managers (Pensiri & Temtime 2008). This current study discovered that management and ownership was closely related in Sri Lankan SMEs. According to the findings of this study, the strategic decision-making processes in sole proprietorships, family businesses and partnerships were owner-centered and 88% were operating as NFSP organisations. However, there was a 50% chance that private limited companies were operating as FSPs. Therefore, there is a clear relationship between ownership category and strategic management practice and this practice is heavily impacted by the attitudes and knowledge of owners in Sri Lankan SMEs.

iii) Barriers to Strategic Planning

Gosh and Chan (1992, 1994), who studied the strategic planning behaviour of SMEs in Singapore and Malaysia, established that their behaviours were reactive and proactive ad hoc. Almost two decades later, this study revealed that the strategic behaviour of the majority of SMEs in Sri Lanka is similar in style.

Wang et al. (2007) pointed out that considerable research efforts had been expended on identifying ‘barriers’ that hindered formal planning and discouraged decision-makers
within SMEs. The findings of this study revealed that the most significant barriers to formal strategic planning in SMEs in the manufacturing sector in Sri Lanka were: lack of time to prepare and/or maintain a formal strategic planning system; inadequate knowledge/expertise; the type of industry in which they are active (e.g. traditional industries like clay pot manufacturing); and environmental uncertainties. Due to these reasons Sri Lankan SMEs tended to orientate toward short-term operational rather than long-term critical issues, and decision-making tended to be reactive rather than proactive. Hence, owner motivation is important to undertake strategic planning in their organisations.

The findings of this current research regarding barriers to strategic planning was in line with the claim made by Pensiri and Temtime (2008, p. 252). They mentioned that most problems affecting SMEs were related to lack of managerial capability among owner-managers. The decision-makers within SMEs require basic management skills in order to determine organisational goals and develop the appropriate strategies. Thus, managerial agility and the capability to think and act strategically are essential qualities that the principal decision-makers must have. If they lack these virtues, a major barrier to strategic thinking and planning is created (Ghosh & Chan 1994). Therefore, the finding that the motivation (Wang et al. 2007) and capabilities (Pensiri & Temtime 2008) of owners are vital if all barriers in relation to strategic planning in SMEs in Sri Lanka are to be overcome, is in alignment with those of contemporary studies.

iv) Time Horizons for SMEs Strategic Planning
O’Regan and Ghobadian (2007) suggested that a formal strategic plan should extend beyond a period of one year. Some studies concerning the nature of strategy-making practices in SMEs have mentioned that management activities such as strategy formulation and implementation were seldom formalised and covered relatively short duration (see, for example, Gibb & Scott 1985; Mintzberg 1994; Vaitkevičius 2006; Balasundaram 2009). The findings of this current study are consistent with prior studies. Most SMEs in Sri Lanka operated as NFSP organisations. Even among the FSP SMEs, their formalised plans spanned relatively short periods such as one year. As pointed out
by Pensiri and Temtime (2008), this was because the business environments in which they operated were dynamic rather than static, turbulent rather than stable.

v) Formal Strategic Planning and Performance

As mentioned in Chapter Two, some researchers (for example, Jones 1982; Robinson & Pearce 1983; Bracker & Pearson 1986; Bracker, Keats & Pearson 1988; Shrader, Mulford, & Blackburn 1989) identified a positive relationship between strategic management tools and techniques, on the one hand, and business performance on the other. However, the literature has consistently shown that the majority of SMEs did not use sophisticated management tools and techniques or engage in strategic planning in their management processes or practice (e.g. Robinson & Pearce 1984; Sexton & van Auken 1985; Berman et al. 1997; Orser et al. 2000; Sandberg et al. 2001; Beaver 2003).

This current research investigated whether or not SMEs performed according to the expectations of their owners. Both FSP and NFSP SMEs mentioned that they were moderately satisfied with their performance in business, regardless of the current situation of their firms (stagnating or growing). However, the analysis showed that most FSP SMEs were growing, but NFSPs were stagnating. This confirmed that formal strategic management helped to achieve better performance for SMEs than informal strategic management. Moreover, to improve performance of both formal and informal strategic management was subject to the knowledge and experience of the people who engaged in the respective forms of management. This was because a lack of knowledge, a lack of time and a lack of participative management were all crucial problems in both FSP and NFSP SMEs. If these owner-managers adjust their management practice so as to allow strategies to emerge from lower levels of their enterprises, and use more proactive thinking to identify the industry forces, they could manage their businesses more strategically and secure sustainability beyond the contemporaneous level. Therefore, in order to improve performance further, these problems need to be addressed.
8.3.1.3 Conclusions and Recommendations

The empirical study revealed that macro-environmental forces, especially technological and economic factors, impacted on the activities of SMEs in Sri Lanka through competitors. Therefore, firms should use strategies to be competitive and remain in the industry (Porter 1980, 1985). However, the findings of the current study indicated that the majority of participants in this study lacked the expertise in management required to react to industry forces. The organisations that utilised contemporary strategic management concepts such as industry analysis, strategic thinking and proactive systematic planning gained the opportunity to compete in the industry.

The majority of participants, explicitly or implicitly, applied Western classical management methods such as Taylorism. Workers were assigned only limited tasks and were not involved in planning, and firms used mechanistic organisational structures that gave the appearance of bureaucracy. However, these organisations maintained people-friendly work environments due to the influence of Asian cultural values and Buddhist teaching. This management style does not facilitate the development of successful strategies from the lower levels of the organisations. As a result of the mismatch between organisational culture and structure, the owner-managers were unable to utilise the strategic thinking capabilities of their employees and participative decision-making was suppressed.

According to the findings, failed firms had used unsystematic and reactive approach to management. On the other hand, if firms gained opportunities to grow, then owner-managers changed their approaches. This is especially because owner-managers understood the importance of proactiveness and professionalism (the formal and systematic approach), and the usefulness of successful strategies that emerge from any level of the organisation. The expectation of society is that SMEs will survive, as they appear to the general public to be prolific. Therefore, it is important to share the experience of successful and failed SMEs about management and the managerial problems with other SMEs that are stagnating or still in the start-up stage, as well as with potential entrepreneurs in Sri Lanka.
SMEs in Sri Lanka should focus on the industries in which they operate and on their competition. Their strategies should also align with their resource bases. Furthermore, Sri Lankan entrepreneurs should use their ‘minds’ and ‘hands’ (plans) with ‘hearts’ and ‘gut feeling’ (intuition) rather than relying on such things as ‘business luck’.

The Sri Lankan government seeks to intervene and improve the activities of SMEs by means of some of its policy reforms. It provides various supportive services for industrial SMEs. The findings also revealed that participants did not consider ‘government’ to be a principal stakeholder in their businesses. According to in-depth interviews, the reason was that these entrepreneurs did not trust government authorities or their policy changes. A number of negative experiences (for example, an open economic policy that enabled foreign dumping and competition) and widespread corruption within the political environment in the country were some of the reasons for this distrust. Some participants mentioned that they maintained close connections with politicians or their supporters, in order to gain ‘special advantages’. Some other participants said that they feared working with government authorities because to do so made them feel ‘unsafe’. Consequently, these participants avoided politicians and their supporters as much as they could, in order to eliminate their (negative) influences. Most importantly, they revealed that the government or its organisations had not identified their real needs. For example, the participant from ST-1 mentioned that:

Some government institutions try to teach us how to make a ‘yoghurt cup’ or ‘sauce’. We have that know-how, but we have other issues like how to manage our resources, how to compete in the market, how to collect our debts ...and how to survive …(case study participant ST-1).

Therefore, to enhance the SMEs in the industrial sector in Sri Lanka, government intervention should take the form of appropriate measures and the building of trust in government officials and their activities.

This study examined Sri Lankan management style which is heavily influenced by macro-environmental factors such as cultural values and political climate as well as western colonisations. Findings of this study could provide a basis for comparison with similar studies in the global context.
8.3.2 Implications for Policy Development

As noted previously, this research was the first to be conducted at the national level, and has contributed to a more detailed understanding of the management practices of SMEs in order to secure their growth and sustainability. Therefore, the findings of this research were intended to facilitate the sustainability of SMEs in Sri Lanka by means of inducing changes in government policy. Although the participants in this research did not recognise the government as a key stakeholder (it is ranked in 6th place, see Table 5.6, p.155) in their business organisations, government imperatives mentioned in Chapter One suggest, it is one of the main stakeholders in SME research. Government policy makers are always keen to receive findings and recommendations based on empirical research projects. In particular, the findings of this research have the ability to provide some useful recommendations since the study covered the whole country, thus overcoming the principal defect in the research conducted to date. The recommendations are made particularly to address the problems faced by SMEs with regard to management, marketing, technology and finance, as these are the main factors compromising their sustainability.

Storey’s quote below emphasised the urgency of relevant research:

If there is important research which is going to influence government policy, and results in a healthier small business sector, then, of course, the results are needed as soon as possible (Storey 1994, p. 3).

This necessity is even more intense because the problems of small business change over time and some issues need attention as early as possible. Findings of this study have significant implications for policy changes. Some key issues and opportunities are listed below.

8.3.2.1 Recommendations for Immediate Use

The following recommendations are made with consideration being given to the critical nature of the situation and the resources required for their implementation.
i) The majority of participants in this study revealed that they were uncertain of government authorities and their activities. Therefore, the Sri Lankan government needs to attract these entrepreneurs by changing their negative attitudes toward government authorities and policies as early as possible, in order to obtain a greater contribution from this sector to the future economic development of the country.

ii) Participants were willing to obtain advice to find solutions for the critical issues and managerial problems confronting them, in order to gain competitive advantage for, and ensure the endurance of, their firms. However, according to the experiences of the participants, private consultancy services are expensive. Therefore, the government needs to provide management knowledge or consultancy and advisory services through government-affiliated institutions for those who are in a critical condition, either free of charge or at a low cost, immediately and in a reliable way. For example, such services might be offered through public banks, public universities etc.

iii) This study revealed that the majority of the targeted group were facing market and marketing issues, and these were critical for their sustainability. Therefore, the government could facilitate the organisation of trade fairs and exhibitions more frequently in different places throughout the year. Some participants suggested that programs similar to the ‘Gam Udawa (City building)’ and ‘Mahapola’ trade fairs, which were in action a few years ago but could not continue due to the civil war, would help them, to a certain extent, to overcome their market and marketing issues. Since the civil war has ended in Sri Lanka, that type of exhibition would be again useful and feasible.

iv) Most of the SMEs did not have access to important well researched databases pertaining to marketing intelligence or technology. This information needs to be provided to SMEs proactively on a regular basis, in order to help them to
overcome the critical issues related to marketing and technology that confront
them. A similar service is provided by the Government of India.57

v) Some participants of this study requested technical services through government-
sponsored institutions, in order to find solutions to the critical issues related to
technology and upgrade the quality of their products. Such services may include
technology audits and benchmarking, technology needs assessments, assistance in
discovering the sources of technology and application of new techniques,
technology acquisition, development of software, material testing facilities
through accredited laboratories and product design.

vi) Sri Lankan manufacturers expected immediate government intervention to solve
their debt collection problems. This is because many of the financial difficulties
faced by SMEs were the direct result of bad debts and unrealised cheques received
from their customers and retailers. As participants pointed out, Sri Lankan
legislation in this regard is not strong enough and therefore, it could be useful to
follow the Western practice of having an accessible tribunal to pursue outstanding
debts.

vii) Providing financial support through the public banking sector for the acquisition
of new machines and equipment could be implemented as a short-term measure,
in order to enable most stagnating and start-up SMEs to achieve a significant
improvement in their business operations. The available financial support schemes
were not sufficient and the participants in this study, particularly the small firms,
revealed numerous problems in gaining access to such arrangements. As such, it is
recommended that a special taskforce or institution facilitate the handling of
grievances in this regard.

viii) Even though competition occasionally gave some benefits to customers (e.g. low
price levels), it generated significant threats for small businesses operating with

57 Some examples of Indian databases include www.smallindustryindia.com, www.laghu-udyog.com,
limited resources. Therefore, government intervention is needed to reduce unnecessary competition (e.g. imposing price regulations, the Australian Competition and Consumer Commission ACCC in Australia)\(^{58}\) and take action, through policy initiatives, against the dumping of goods by foreign nations. The government budget for 2012 acknowledged issues related to this practice but continuous policy actions are important for the protection of local SMEs.

ix) The Sri Lankan government can encourage strong organisations to help others in the same industry by sharing important information (supportive benchmarking). As a means of motivating such behaviour, the government could introduce tax benefits or subsidies for successful and generous organisations.

x) The government could consider the provision of incentives to encourage at risk small businesses to merge or form alliances, in order to improve their productivity and ensure their sustainability.

xi) The Sri Lankan White Paper (2002) regarding SMEs is now a decade old. Therefore, it is necessary to appoint a Task Force to update it according to current requirements. The government can launch and continue supporting research programmes on SMEs in order to enhance their performance and growth. If policy decisions are based on the findings of independent empirical research such as this study, its outcomes will be more effective and credible being based on real-world experiences.

### 8.3.2.2 Recommendations for Long-term Use

The following recommendations may need a relatively longer period for government authorities to implement. However, these proposals will enhance the stability of SMEs.

\(^{58}\) The Australian Competition and Consumer Commission (ACCC) promotes competition and fair trade in the market place to benefit consumers, businesses and the community. Its primary responsibility is to ensure that individuals and businesses comply with the Commonwealth competition, fair trading and consumer protection laws ([http://www.accc.gov.au/content/index.phtml/itemId](http://www.accc.gov.au/content/index.phtml/itemId)).
i) The Sri Lankan government needs to establish a management consultancy authority for SMEs with branches in, at least, the nine provinces of the country, and possibly in all (26) districts. These institutions can be affiliated to national universities in order to provide good service at low cost, as universities encompass expertise in such disciplines as strategic management, marketing, finance and all business management, as well as in technological disciplines. Through these services, small manufacturers can seek support in order to find better solutions to the managerial issues and financial problems they face, improve the quality of their products and deal with such matters as the design of their labels.

ii) If public and private sector organisations are willing and able to take steps to form partnerships (Public and Private Partnerships-PPP) by recognising the potentially significant benefits that might be achieved, the capacity of SMEs to solve problems that cannot be addressed by a single party will be improved significantly. However, more research would be needed to determine the possible costs and benefits in this regard.

iii) Regional (provincial or district) collection and distribution centres need to be established in order to provide a place at which SMEs can meet their supply-chain partners, competitors and customers. Through this means, supportive services can be developed to help small, weak organisations, for example, to gain raw materials at the right time on credit if required and share information.

iv) The Sri Lankan government may wish to consider making the necessary arrangements to introduce small business management education into the school curriculum (e.g. year 9 and 10) and at diverse other levels (e.g. certificate level, diploma and degree). This latter step needs to be taken because there is a trend after formal school education, as a result of high unemployment rates, for young people to start their own businesses. Consequently, the majority of Sri Lankan entrepreneurs have only basic level of education. Therefore, new educational and
training programmes focusing on entrepreneurship and small business management will enable current and potential Sri Lankan entrepreneurs to become more educated and skilled in management. Most importantly, in order to obtain the best possible results, these educational programmes have to be made available around the country, not just centralised in the main cities or provinces. Once such educational programmes are in place, the target groups must be well informed and given incentives to participate.

v) Owners must be motivated to adopt better management practices via suitable awareness programmes or workshops. Even if the government takes the action necessary to follow the aforementioned points, it would not suffice to secure the long-term success of SMEs. They must be informed that better management practices help business organisations to gain competitive advantage and maintain sustainability, regardless of their size or current situation (other than failed organisations). For this purpose some advertising or awareness programmes can be organised throughout the country.

vi) SMEs in Sri Lanka can be directed towards product differentiation and internationalisation through foreign investments. Most of the participants in this study showed interest in exporting their products. By inviting foreign investors and partners to participate in investing in the economy, instead of allowing dumping by foreign companies, the government can support local SMEs in their efforts to find solutions to the issues that confront them in relation to management, finance, technology and marketing through foreign partnerships and collaborations.

vii) The Sri Lankan government is highly bureaucratic. Some participants pointed out that, even though SME-friendly policy initiatives have been introduced, government bureaucracy makes their implementation very slow. Therefore, in order to obtain better results, it is crucial to decentralise authority in order to accelerate the implementation of activities that support SMEs. For example through provincial councils, district secretariats etc.
viii) More efficient sourcing of materials need to be obtained through regional cooperation organisations such as the South Asian Association for Regional Cooperation (SAARC). Sri Lankan SMEs face significant threats and problems if they have to import necessary materials from another country. This issue was identified in the survey under the subject of supply-chain issues. Some participants (in both the survey and the case study) pointed out that they need help from the Sri Lankan government to solve this problem.

8.3.2.3 Recommendations for Operationalisation

To implement the above-mentioned short-term and long-term recommendations:

i) We recommend to conduct a pilot study.
   The recommendations from this study can be implemented in three districts in the country over a period of one to two years. These should be one district from each of the three categories: urban, semi-rural and rural. The implementation can be assigned to a government institution such as the Industrial Development Board (IDB) or the Ministry of Policy Planning in Sri Lanka.

ii) Prepare a comprehensive plan for the pilot study.
   The purpose of the pilot study is to implement a programme and identify interventions that are more or less effective. Therefore, it is necessary to plan the pilot study carefully with necessary measures, resources and procedures. The pilot study outcome evaluation methods, and those responsible for the evaluation, should also be determined at this stage.

iii) Conduct a rigorous analysis.
   The results of the implementation of the plan should be analysed thoroughly to investigate its effectiveness. For this purpose, a survey and in-depth interviews might be an appropriate means of evaluation.
iv) Make necessary changes. Based on the findings of the pilot study, necessary changes should be made before implementation is scaled up to be nation-wide. Concurrent surveys and research should be undertaken to evaluate effectiveness and enable further improvements to be made in the plan.

8.3.3 Recommendations for Practice

The following recommendations are for owner-managers, curricula designers and future researchers’ use and practice.

8.3.3.1 Recommendations for SME Owners and Managers

The findings of this study revealed that the owners and key decision-makers of SMEs in Sri Lanka practiced a fusion of Western and Eastern management techniques. Whether deliberate or not, their lack of management education and expertise hindered their ability to confront the threats and opportunities in the business environment. As such, they were ill-equipped to handle their critical issues. The following recommendations are made based on the key findings of this study:

i) Owner-managers of SMEs who have limited management knowledge need to undertake some vocational educational and training programs while operating their businesses in order to adopt better management practices with appropriate strategies.

ii) The owner-managers need to use proactive thinking and proper business direction without focusing only on short-term survival or financial benefits. They also need to re-invest their profits and do some market research to investigate the needs and wants of consumers, in order to find new opportunities for their organisations.

iii) In order for the owner-managers to devote more time to formulate the strategic direction of the firm they need to change their negative attitudes toward employees
and empower them. This is because, workers must be empowered in order that viable strategies and important information emerge from the bottom layer of the hierarchy and are acknowledged by those responsible for making decisions within an organisation. For this purpose, a friendly and supportive work environment would not be sufficient. Decision-makers must also delegate authority to other workers.

iv) It is the owner-managers’ responsibility to be informed and update their knowledge of institutions and schemes provided by the government to support SMEs. Although the Sri Lankan government has introduced different initiatives, the owner-managers of SMEs would not benefit unless they were aware of, and willing to utilise, these services. For this purpose owner-managers need to participate in workshops, exhibitions etc. as well as communicate with relevant organisations.

### 8.3.3.2 Recommendations for Curricula Designers

The literature indicates that Sri Lankan entrepreneurs start their business knowing virtually nothing as the Sri Lankan education system prepares students for government jobs rather than entrepreneurial activities. The findings of this study revealed that owner-managers of SMEs in Sri Lanka failed to understand their industries and competitors properly and implement correct strategies in order to gain competitive advantage due to their lack of expertise in management. Therefore, the following suggestions are for the curricula designers and education providers to improve their small business management and entrepreneurship programs.

Great emphasis must be placed in these educational programs and curricula on the reasons why strategies, organisational culture and structure are important to manage intense competition in an industry and improve the firm’s supply-chain. Sri Lankan SME owners must, in particular, be educated on how they can manage their organisations proactively rather than just mixing Western theories and Asian cultural traits in an inappropriate manner or relying on ‘business luck’. Important management skills such as how to conduct industry analysis, how to select appropriate strategies, how to formulate and maintain a formal strategic management process and how to improve
participatory decision-making with strategic thinking can be incorporated in the programme. Therefore, curriculum designers and educational programme providers need to focus on Sri Lankan cultural and management practices rather than just teaching Western and Eastern (Japanese) management principles and practices.

8.3.3.3 Recommendations and Directions for Future Research

Based on the findings of this study and the limitations identified in the subsequent section, a number of possible avenues for future research are proposed.

i) Broaden the Coverage of Sectors

Further studies could include SMEs in other sectors such as services, construction and agriculture, to investigate the critical issues they face and the management practices of their decision-makers. Comparative studies can also be undertaken among different sectors of SMEs, as well as those owned by or collaborating with foreign entities, in order to provide useful insights that will enable the viability of SMEs in Sri Lanka to be strengthened.

ii) Broaden the Geographical Coverage

Economies such as those in the neighbouring countries of South East Asia are also seeking to improve their economic well-being through their SME sectors. As such this research could be further extended by undertaking similar research projects in those countries. Furthermore, it is possible to undertake similar comparative studies among different economies in order to gain more insights. The findings from future studies could support recommendations for the improvement of the SME sector in the region through such organisations as the SAARC.

iii) Increase the Size of the Sample

Future research could incorporate a larger sample size covering the whole country. A larger sample size, for example 1000 SMEs, would improve the reliability of the
research. Future study covering more SMEs nation-wide would particularly be needed once the recommendations from this study are implemented.

iv) Include More Variables

One way in which further research might proceed would be to include additional variables, because strategic decision-making is inevitably driven by a wide spectrum of influential and interrelated factors (Irle1982; Ko 2009). One example might be to investigate how patterns of decision-making in, and the critical issues confronting, SMEs in Sri Lanka have changed during and after the civil war. Accordingly, more variables need to be covered in the empirical investigation.

v) Change the Participants

This study was undertaken with owner-managers and top-level decision-makers of SMEs. Changing the group of participants can further extend this study. For example, lower level decision-makers or/and other workers might be used. This will help to identify how lower level workers perceive the management practice and strategic behaviour of their organisations, which will, in turn, provide further opportunities to compare and contrast the results of this study.

vi) Employ Other Methodology and Methods

This study used the most appropriate methodology according to the objectives of the project. However, future researchers can apply other methods such as longitudinal studies and grounded theory to compare the findings of this study with their own or extend this study.

By undertaking further research on managerial activities and the critical issues confronting SMEs, their contribution to the economic well-being of the nation can be improved.
8.4 Limitations of the Study

Although the present study attempted to make a significant contribution to the body of knowledge on the strategic behaviour of the SMEs in the manufacturing sector in Sri Lanka, the findings and recommendations are subject to the following limitations:

i) Due to time constraint and the unavailability of a comprehensive SME database, a convenience sampling method was used and therefore the survey findings were subject to limitations of this sampling technique (as pointed out by Venter et al. 2005; Bryman & Bell 2007; Collis & Hussy 2009). For the purposes of analysis the sample was considered to have been randomly selected, and the findings of this study are suggestions rather than generalisations due to the sampling technique used.

ii) Even though mixing quantitative and qualitative methods was undertaken in an effort to improve the validity and reliability of the study, the findings are limited by the extent to which the respondents were honest, careful and unbiased in responding to the survey questions and the in-depth interviews.

iii) There were some statistical limitations. Joppe (2000) mentioned reliability as the extent to which the results are consistent over time and accurate representation of the total population under study. Further, this determines whether the study truly measures that which it was intended to measure or how accurate the research results are. In this research, due to insufficient cases in some situations, inferential statistics (Chi-square and Fisher’s exact tests) were not applicable due to inherent factors, such as the unbalanced nature of the sample, and 3x3 matrix for Fisher's exact test with the computer package SPSS. Future research could address this issue, for example, through the selection of a balanced sample as well as using other computer packages.

iv) The respondents in this study were the owners or senior managers responsible for long-term planning and decision-making for SMEs in the manufacturing sector in
Sri Lanka. Although senior managers of strategic decision-making processes and environments provided important data (Thomas & McDaniel 1990; Ko 2009), this approach resulted in research data that might have been provided by participants from other levels of the organisation being overlooked. For example, although owner-managers assume that they are very friendly and supportive, employees might have a different opinion. On the other hand, individual personalities and expectations of owners have an impact on the activities of SMEs and it was also inevitable in this study.

v) SMEs in the manufacturing sector that are owned by foreigners were not included in this study. Since the objective of the study was to investigate the management practices of Sri Lankan entrepreneurs, SMEs owned and managed by foreigners were excluded from this study.

vi) A civil war that lasted for nearly three decades ended in the first half of 2009. The survey for this study was undertaken in mid-2010. The war occurred over the previous three decades and, therefore, almost all of the participating SMEs experienced the war. Obviously, the civil war impacted directly on the performance of SMEs in the northern and eastern provinces, and either directly or indirectly on the performance of SMEs in the other provinces of the country. Whether the war impacted on the management practice of these organisations was not a concern of this study.

8.5 Summary and Concluding Remarks

The literature suggested that strategic management tools and techniques can be employed in business organisations to gain competitive advantage in an industry, to maintain the sustainability of firms and ensure their further growth, regardless of the size and current situation of the business. Therefore, this research was undertaken on the basis of five research questions in order to discover the management practices of, and critical issues confronted by, the SMEs in the manufacturing sector in Sri Lanka with the objective of informing government policy. In addition to contemporary strategic management concepts, business management literature spanning the gamut from early
Western to Eastern practices and small business management was used to develop the theoretical framework of this research. The empirical investigation was undertaken using the mixed methods approach, as the study was exploratory in nature.

The majority of the participant SMEs were operating as sole proprietorships, family businesses or partnerships and, therefore, owners were actively involved in the management processes of their firms. As a result, the owners were the leaders in most SMEs. They used people-friendly and supportive management styles to get work done through their subordinates. However, they were more likely to use a hierarchical bureaucracy to pass orders to their subordinates, in order to minimise potential threats such as low profitability due to inaccurate or inefficient decision-making and to protect business secrets and information from competitors.

The survey results indicated that, according to the understanding of the participants, the major critical issue commonly faced by these firms was market and marketing problems generated due to intense competition in the market. Therefore, the competitors were the most important stakeholder group and made the greatest impact after the owners of these SMEs. Due to this fact, the manufacturing sector entrepreneurs in Sri Lanka need to focus mainly on how competitors satisfy their customers so as to achieve dominance in the market, and the strategies they use in order to gain competitive advantage and ensure the endurance of their businesses. Subsequently, marketing issues have boosted the financial concerns of SMEs.

The survey results also revealed that the existing gap between leaders and their subordinates in terms of power is very great. Therefore, there is a strong possibility of putting the personal interests of leaders ahead of those of the firm in Sri Lankan SMEs. This management style was further acknowledged in the case study analyses. However, participants mentioned in in-depth interviews that the centralised and bureaucratic owner-manager management style was not as tough as that which existed in Sri Lankan government or large organisations. That was because commitment, team spirit and cooperativeness always enriched the organisational cultures and work environments of the participant firms. The owner-managers believed that, whilst maintaining very
friendly and cooperative environments, they had to exercise their authority over subordinates in order to maintain proper discipline and obtain the levels of efficiency and effectiveness they expected. The majority of the participants in this study assumed that, as the owners of the business organisations, they had to make all the important decisions required to obtain good results. Hence, both survey data and case studies indicated that the majority of participant SMEs were operating with centralised structures, regardless of their ownership and/or size at the time the empirical study was undertaken. Furthermore, decentralised and hybrid structures were less popular among SMEs in Sri Lanka. A decision-making processes centralised around an owner-manager also provides only a little room for participative decision-making in SMEs and, consequently, ‘information voids’ or ‘black holes’ occur.

Further, the survey results indicated that more than 75% of this participant group was operating as NFSP SMEs, i.e without having a written plan, and they were not using sophisticated management tools and techniques in their management processes due to a lack of knowledge and experience. Findings from the case studies also confirmed the findings of the survey, and indicated a lack of management knowledge among owner-managers in SMEs. Most owner-managers had only a very basic education and, therefore, were not in a position to manage their resources and core capabilities efficiently and effectively. Only those owner-managers who had sound educational backgrounds and experience in the management of businesses were employing sophisticated management practices with proper direction.

The owner-managers who did not make formal strategic plans appeared to be utilising ‘gut feeling’ (intuition), ‘business luck’ and/or their business philosophy on an informal basis in their operations management. As a result, stagnation and subsequent failures were inevitable in the manufacturing sector in Sri Lanka. The participants who understood the importance of formal strategic planning systems (especially case studies ST-1 & ST-2) mentioned that getting services from a private consultancy body is very costly. Consequently, they sought similar services from government organisations in order to find solutions to the critical issues confronting them, and to enable them to make a greater contribution to the Sri Lankan economy. This finding is a warning to the
Sri Lankan education system and government institutions to introduce educational programmes and necessary supportive services to strengthen and stabilise this vital sector in the country. This is because according to theory and practice, to create successful entrepreneurs, Sri Lankans need business management skills and knowledge in order to operate their ventures strategically.

It is also noteworthy that, even though this study focussed and used sophisticated management concepts and terminology, in the process of data collection, the researcher took a great effort to use simple and understandable words and rapport to grasp reliable data, minimising ambiguities. As a result, the practical implications of the study are accessible to SMEs, however, the contribution to the literature and to the academic body of knowledge is also significant as this study revealed insights by answering research questions and comparing key findings with previous studies. This indicates that this research has addressed a number of gaps in the literature and in our understanding of the issues critical to the success of SMEs both in Sri Lanka and elsewhere.

In conclusion, there is broad scope for additional research that would make a great contribution to this interesting and contemporary field and body of knowledge of the strategic behaviour of SMEs. It is hoped that other researchers will move beyond the limitations, and build upon the recommendations, of this study in order to support the sustainability and growth of SMEs.
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APPENDICES
Appendix 1- Maps

Sri Lanka

Asia
Appendix 2

Research Questionnaire
English Version
Survey of the Strategic Behaviour and Management Practices of Small and Medium Enterprises (SMEs) in the Manufacturing Sector of Sri Lanka

Thank you for participating in this survey about the strategic behaviour and management practices in the Sri Lankan manufacturing sector SMEs. In this questionnaire we shall be asking a series of questions with respect to the following aspects:

- Characteristics and critical issues for your organisation
- Strategic management practices of your company

All responses provided will be strictly confidential. Analysis will be undertaken with aggregated data from all respondents. The data will be coded to ensure that no unauthorised person can identify or interpret an organisation’s response. This questionnaire will be used for academic purpose only. Once again, when the results are published, it will not be possible to identify any individual company.

Organisation: _____________________________________________

Date: _____________________________________________

Swinburne University of Technology
Melbourne, Australia
1. 1.1 Business Experience/ Age of your company
   □ Less than two years (Start-up)
   □ More than two years

   1.2 Current situation
   □ Existing
   □ Start-up (With less than two years business experience)
   □ Stagnating (no significant change in the number of workers)
   □ Growing (increasing the number of workers)
   □ Failed

2. Number of regular employees in your company
   □ 5 - 49 (Small)
   □ 50-149 (Medium)

3. What sort of product or products does/do your company currently produce?
   (According to the Central Bank classification)
   □ Textile, wearing apparel & leather products
   □ Food, beverage & tobacco products
   □ Wood and wooden products
   □ Rubber, plastic & petroleum products
   □ Basic metal products
   □ Others (please state)………………………………………………………………………………

4. Do you think your company faces any issues at present which will affect the company’s growth & survival?
   □ Yes □ No

How important do you believe the following issues are for your company’s strategic behaviour, long-term survival and growth? Please indicate the level of importance using a scale of 1 to 5 with 1 is not important and 5 is very important.

<table>
<thead>
<tr>
<th>Issue</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial issues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market and marketing issues</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Financial issues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resources issues</td>
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<tr>
<td>Trade Union issues</td>
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<td></td>
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<tr>
<td>IT related issues</td>
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<tr>
<td>Production &amp; material (supply chain)</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Government regulations &amp; Tax issues</td>
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<td></td>
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<tr>
<td>Technological issues (other than IT)</td>
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<td></td>
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<tr>
<td>Business or strategic planning</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (please specify)…………………..</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5. In your experience, how do the following organisational characteristics impact on your company’s strategic behaviour, survival and growth (performance)? Please indicate the level of impact as 1 is no impact and 5 is great impact.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>No impact</th>
<th>Great impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company ownership</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Organisational traditions, customs, and way of life</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>(Culture)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How the whole organisation is assembled together</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>(Structure)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How leaders or managers behave (Management style)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Interests of important parties (Stakeholders)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

6. How do you categorise the ownership of your company?

- Sole Proprietorship
- Family Owned
- Partnership
- Private Limited Company
- Others (please specify) .................................................................

7. Which type best describes your company’s organisational structure?

- Centralised structure (owner/top management retains the major responsibilities and powers)
- Decentralised structure (shared or spread major responsibilities and power, instead of centralised)
- Hybrid form or combination of centralised and decentralised structure
- Others (please specify) ...........................................................................

8. Please rate the key characteristics of your company’s culture (the basic values, beliefs, and assumptions which guide and fashion individual and business behaviour) using a scale of 1-5, where 1 is very low and 5 is very high.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Very low impact</th>
<th>Very high impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Loyalty</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Team spirit</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Mutual respect</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Less rigid</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Very motivated</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Co-operative</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Multicultural</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Informal groups values/ culture</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Others (please specify)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
9. Please describe your company’s key management style (how leaders or managers behave, to get work done through other people) by rating each using a scale of 1-5, where 1 is least preferred and 5 is most preferred.

<table>
<thead>
<tr>
<th>Least preferred</th>
<th>Most preferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureaucratic</td>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>Autocratic</td>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>Top to bottom approach</td>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>Individual performance rather than group performance</td>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>Motivated by power rather than achievement</td>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>Participatory</td>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>Collective</td>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>People friendly</td>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>Honest, sincere and transparent</td>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>Others (please specify) ..................................</td>
<td>1  2  3  4  5</td>
</tr>
</tbody>
</table>

10. How would you describe the gap between managers (decision makers) and subordinates in terms of the power in your company?

<table>
<thead>
<tr>
<th>Very small</th>
<th>Very big</th>
</tr>
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<tbody>
<tr>
<td>1  2  3  4  5</td>
<td>5</td>
</tr>
</tbody>
</table>

11. To what extent are the personal interests of leaders/top people put ahead of the company’s interests?

<table>
<thead>
<tr>
<th>Not at all</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  2  3  4  5</td>
<td>5</td>
</tr>
</tbody>
</table>

12. Please identify from the following list the stakeholders of your company. How would you characterise their power and impact on your company’s strategic behaviour, survival and growth? (Here 1 is low impact, 5 is for high impact and 0 is for no impact).

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>No impact</th>
<th>Low impact</th>
<th>High impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner- manager</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers Local/ Foreign</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sri Lankan government</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitors Local/ Foreign</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers/Distributors</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks/ other financial organisations/creditors</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (please specify) ................................</td>
<td>0  1  2  3  4  5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
13. To what extent do the following act as barriers to your company’s strategic behaviour, survival and growth?

<table>
<thead>
<tr>
<th></th>
<th>Not at all</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital requirements</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Managerial skills and knowledge</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Lack of new technology</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Government policies</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Lack of skilled workers</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Supply chain (suppliers and distributors network)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Others (please specify)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

14. Do you think your current product/s is/are competitive in the market?

☐ Yes   ☐ No

Please identify and rate which of the following are the major capabilities/abilities of your company in terms of producing competitive product/s in the market? Indicate the level of impact for each capability chosen.

<table>
<thead>
<tr>
<th></th>
<th>Low impact</th>
<th>High impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial capability</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Commitment</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Brand image</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Up-to-date technology</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Experience staff</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Strong suppliers and distributors network</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Others (please specify)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

15. Please rate the following macroeconomic forces according to their impact on strategic behaviour, survival and growth of your company?

<table>
<thead>
<tr>
<th></th>
<th>Low impact</th>
<th>High impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political and legal (government policies / policy changes/laws)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Economic (interest rates, inflation)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Socio-cultural (languages, religious persuasions, education level)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Technological (machines, methods, equipments)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
16. Do you think that your company/leaders/owners work with a vision (mental picture where the company is heading) or a philosophy?  
☐ Yes  ☐ No

If yes, to what extent do you think that vision/philosophy important to:

<table>
<thead>
<tr>
<th>Important</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manage the company advantageously</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Achieve future victory (success)</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

17. Does your company use scenario planning (thinking about unpredictable and uncertain future events)?  ☐ Yes  ☐ No

If yes  
Who does this? (You may select more than one)

☐ Owner-manager  
☐ Top management  
☐ Middle management (functional managers)  
☐ Lower-level managers  
☐ Others (please specify)

Please indicate how useful scenario planning is on the following outcomes.

<table>
<thead>
<tr>
<th>Useful</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>It helps to find new opportunities (customers, markets)</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>It helps to find potential challenges/threats/competitors</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>It helps to minimise/cut overhead costs</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>It helps to alter the capacity/strengths</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Strategic planning (developing long-range plans)

18. Does your company undertake?  
   SWOT analysis?  ☐ Yes  ☐ No  
   Industry analysis?  ☐ Yes  ☐ No
If yes, who undertakes these? (You may select more than one)

- Owner-manager
- Top management
- Middle management (functional managers)
- Lower-level managers
- Others (please specify)

**Planning and planning systems**

19. Does your company have a formalised strategic planning system?
- Yes
- No (If no go to question 31)

**Formalised Strategic Planning SMEs**

20. Key features of FSPs

20.1 What time horizon does your company develop for its formal strategic plan?
- Yearly
- More than 1 and less than 2 years
- For more than 2

20.2 When did your company first develop a formal strategic plan?
- At the beginning
- Few years after starting the business operations

20.3 How often is your long range plan updated?
- Yearly
- More than 1 and less than 2 years
- More than 2 years
- Others (please specify)...

20.4 How frequently is progress reviewed against this plan?
- Yearly
- More than 1 and less than 2 years
- Five years
- Others (please specify)...

21. Does your company have a formal **mission** statement?
- Yes
- No

If yes, please indicate how effective the mission statement is?

<table>
<thead>
<tr>
<th>Mission Purpose</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>To manage the company with more confidence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To provide guidance for business activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To show that we have a clear purpose</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (please specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
22. Does your company have **formal corporate goals** that it seeks to achieve?  
☐ Yes  ☐ Quantitative  ☐ Qualitative  ☐ No  
If yes, to what extent does having formal corporate goals help to achieve the company’s expected performance?  
Not at all  1  2  3  4  5  To a great extent

23. Does your company have corporate strategies?  ☐ Yes  ☐ No  
If yes, to what extent does having corporate strategies help to achieve the company’s expected performance?  
Not at all  1  2  3  4  5  To a great extent

24. Does your company have functional strategies?  ☐ Yes  ☐ No  
If yes, in what area?  
☐ Marketing  ☐ HR  ☐ Production  ☐ R &D  ☐ Financial  ☐ Other----------  
To what extent does having functional strategies help to achieve the company’s expected performance?  
Not at all  1  2  3  4  5  To a great extent

**Action plans of your company**

25. Does your company have action plans such as programs, budgets, procedures?  
☐ Yes  ☐ No  If no go to question 27  
If yes, to what extent does having action plans help to achieve the company’s expected performance?  
Not at all  1  2  3  4  5  To a great extent

26. Who **formulates** these action plans/ who is **responsible** for action plans of your company?  (You may select more than one)  

<table>
<thead>
<tr>
<th></th>
<th>Formulate</th>
<th>Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner-manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle management (functional managers)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower-level managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (please specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
27. Do you currently experience any problems specifically as a result of using the formalised strategic planning system you have described? □ Yes □ No (go to question 29).
If yes, please indicate the major problems you experienced as a result of using the above mentioned planning systems.

<table>
<thead>
<tr>
<th>Problem</th>
<th>Not at all</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of time</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Lack of expertise</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Environmental uncertainty/ turbulence</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Size of business</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Type of industry</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Internal implications</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Business life-cycle/stage of development</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Lack of participative decision making processes</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Inadequate knowledge of planning processes</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Lack of strategic thinking at the top level</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Others (please specify)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

28. How do you expect to deal with these problems?

☐ Make changes in the planning method
☐ Hire a third party to make strategic/long-range plans for the company
☐ Provide training for all decision-makers.
☐ Organise workshops
☐ Increase/encourage participative decision making among all workers
☐ Others (please specify)………………………………………………………………

29. In your opinion, what are going to be the major changes in the way your company approaches strategic management in the next five years? (You may select more than one, if so rank them in order of importance).

☐ We expect no changes during the next five years
☐ Possibility of hiring a private consulting company/consultant
☐ Develop strategic thinking capabilities in all levels of the company
☐ Introduce/continue the participatory decision making process for strategic Pl
☐ Concentrate more on cost efficiency within the company
☐ Others (please specify)………………………………………………………………

30. As a formal planning company, to what extent do you think your organisation is strategically (pro-actively) managed and satisfied with the firm’s performance?

<table>
<thead>
<tr>
<th>Not at all</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

(Please go to question 35)
If your business is functioning as a Non-formalised Planning Company please answer the following questions

31. Have you ever tried to use formal planning/strategic management process?
   □ Yes □ No

32. What are the main reasons for not using formal strategic management/planning process at present in your company?
   □ Lack of time  □ Lack of expertise  □ Environmental uncertainty/turbulence
   □ Size of business □ Type of industry □ Business life-cycle/stage of development
   □ Inadequate knowledge of planning processes □ Lack of strategic thinking/pro-active thinking at the top level
   Others (please specify)……………………………………………………………………

33. If your company does not follow a formal strategic management process, how does management find solutions to its critical issues?
   □ We hire consultants when necessary  □ We seek support from government affiliated institutions
   □ Even though we do not make strategic plans we forecast future events and take necessary actions accordingly.
   □ Others (please specify)……………………………………………………………………

34. As a non-formal planning company, to what extent do you think your organisation is strategically (pro-actively) managed and satisfied with the firm’s performance??
   Not at all     To a great extent
   1  2  3  4  5

35. If you think there are some important points missed in this questionnaire, or you would like to add further comments, could you please list or discuss them?

_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________

Are you willing to participate for an in-depth investigation (interview) if selected?
   □ YES □ NO

Participant’s position in the company……………………………..
Date………………….
Thank you
for your participation in the survey
and for giving us your valuable co-operation. Your spontaneous assistance is greatly appreciated.

All the information you have provided is treated as STRICTLY CONFIDENTIAL.

J.M.R.C. Wijesinghe
Dr. Julie Foreman and Dr Evangeline Elijido-Ten
Appendix 3

For Existing Companies

Section 1: Characteristics and Critical Issues of the Company

Please answer the following questions.

1. How long has your company been operating in this industry?
2. What changes have happened in the industry over the past few years?
3. Were you aware of these changes? If yes, how did you know them?
4. What was impact on the company?
5. How did you handle them?
6. Describe your decision making process? How and who was engaged in the process?
7. What do you see as most critical in your company for future success and dealing with changes?

Section 2: Strategic Management Practice

If your company applies formal strategic management planning process, please answer the following questions.

1. Who introduced this management process to your company?
2. Did you find this useful? How and in what ways?
3. Have you ever tried to improve or change this management process?
4. How did you do it? Who are involved?
5. Did you face or experience any problems with the planning process? How was it managed?
6. How do you evaluate the results of strategic management process?
7. Do you currently experience any specific problems as a result of using the planning system you have described? How do you cope with these problems?
8. Do you have any plans to change current management process? Please explain why and how?

9. Do you have management experience that you would like to share with other SMEs in the manufacturing sector?

If your company is not practicing formal strategic management planning process please answer the following questions.

1. How does your company **prepare for the future**?

2. Who are involved in that decision making process?

3. Are there **any documents** as a result of such decision making? If yes, what sort of? If not why?

4. Are there any problems that occurred as a result of this non-formalised planning process? If yes, how are these managed?

5. Do you think you can perform well even without changing your decision making and management process? Could you please explain your experience with examples?

6. Do you have any intention to change these processes in your company in the near future? Can you explain **why** and **how**?
For Failed Companies

1. How long has your company been operating in this industry?

2. What changes have happened in the industry over the past few years?

3. Were you aware of these changes? If yes, how did you know them?

4. What was the impact of these changes to your company?

5. How did you handle them?

6. What was the key reason (critical issue) for your company’s failure?

7. Describe your decision making process. How and who was engaged in that process?

8. Did you prepare any plans or documents based on long-term decisions made in your company?

9. Did you evaluate your company’s performance with its expected performance? Did you notice any deviation? How did you find solutions for these? Who was in-charge of the evaluation process?

10. If your business restarts with a new management team or ownership, what would you do differently?

11. Do you have management experience that you would like to share with other SMEs in the manufacturing sector?
Appendix 4: Introductory Letter

Dear Sir/ Madam,

We are conducting a research project titled “Evidence of Strategic Behaviour: An empirical study of management practice in Sri Lankan manufacturing sector small and medium enterprises (SMEs)”. The fieldwork will be done by Mrs. J.M.R.Cabraal Wijesinghe, a full time doctoral research student, under the supervision of Dr. Julie Foreman and Dr. Evangeline Elijido-Ten of the Faculty of Business and Enterprise, Swinburne University of Technology, Australia.

This research project comprises two primary data collection methods namely survey (face-to-face) and case studies. The case studies will be selected based on survey findings. The main objective of this study is to identify the unique characteristics of the Sri Lankan manufacturing sector SMEs and their strategic management practices. A comprehensive investigation into the strategic management practices in the manufacturing SMEs in a developing country has not been undertaken before. Thus, we believe we will be able to contribute new knowledge to this field through this research project.

In terms of this research, it will be requested that the respondent should be the owner or a manager responsible for long-term planning and decision making for a manufacturing organisation where regular employees ranges from 5 to 149, located at the Colombo district in Sri Lanka. All participation is on a voluntary basis. On completion of the study, a report of the main research findings will be provided to participating companies.

The information gathered will be treated as strictly confidential. The information that is provided will be coded to ensure that no unauthorised person can access to identify, or interpret the data in respect of any particular organisation. The identification of the participants will also be disguised in the results that are published. Therefore, it will not be possible to interpret individual company data. Only aggregated data will be used for publication purposes.

We look forward to your support and participation in this research project. Therefore, we would appreciate if you could provide us details of an appropriate person whom we could contact to arrange an interview, which is expected to take about one hour. Thus please give your written consent to participate by sending the attached letter of consent to the Sri Lankan address given below.

Mr./Mrs.
Position
Name of the Company
Address of the Company

[Attached Letter of Consent]
Mrs. J.M.R.C Wijesinghe (Associate Investigator) will be in Sri Lanka for two months (July & August 2010) to conduct surveys.

Telephone number: 2908460  
E-mail address: wijesinghejudy473@gmail.com  
Postal address: No. 85/3, Waragoda Road, Kelaniya, Sri Lanka.

This project has been approved by or on behalf of Swinburne’s Human Research Ethics Committee (SUHREC) in line with the *National Statement on Ethical Conduct in Human Research*. If you have any concerns or complaints about the conduct of this project, you can contact:

Research Ethics Officer,  
Swinburne Research (H68),  
Swinburne University of Technology,  
P O Box 218, HAWTHORN VIC 3122.  
Tel (03) 9214 5218 or +61 3 9214 5218or resethics@swin.edu.au

We look forward to your valuable support and participation in this research project.

Thank you.

Dr Julie Foreman (Principal Investigator)  
Deputy Dean  
Faculty of Business & Enterprise  
Swinburne University of Technology  
PO Box 218  
HAWTHORN VIC 3122

Swinburne University of Technology  
Melbourne, Australia
Appendix 5: Letter of Consent-English Version

Swinburne University of Technology


Letter of Consent

I __________________________ have read and understood the information provided to me about this research project titled “An empirical study of strategic management practices in Sri Lankan manufacturing sector small and medium enterprises (SMEs)”. Any questions I have asked have been answered to my satisfaction.

I agree to participate in this survey/ case study, realising that I may withdraw at any time.

I agree that the interview can be recorded by electronic device if necessary.

I agree that the research data collected for the study may be published or provided to other researchers on the condition that anonymity is preserved and that the company or the participant cannot be identified.

I also grant permission to the researcher to enter into our company premises as necessary for the purpose of conducting a personal interview.

Name of the company: ____________________________________________

Name of participant: _____________________________________________

Signature: ______________________________________________________

Date: ___________________________________________________________
Appendix 6: Ethics Approval

To: Dr Julie Foreman FBE; Ms Judy Cabraal Wijesinghe
Dear Dr Foreman and Ms Cabraal Wijesinghe,

SUHREC Project 2010/087 An empirical study of strategic management practices in Sri Lankan manufacturing sector Small and Medium Enterprises (SMEs)
Dr Julie Foreman FBE; Ms Judy Cabraal Wijesinghe
Approved Duration: 10/06/2010 To 10/09/2010 [Adjusted]

I refer to the ethical review of the above project protocol undertaken on behalf of Swinburne's Human Research Ethics Committee (SUHREC) by SUHREC Subcommittee (SHESC3). Your responses to the review, as emailed on 26 May 2010 with attachments, were approved.

I am pleased to advise that, as submitted to date, the project has approval to proceed in line with standard on-going ethics clearance conditions here outlined.

- All human research activity undertaken under Swinburne auspices must conform to Swinburne and external regulatory standards, including the National Statement on Ethical Conduct in Human Research and with respect to secure data use, retention and disposal.
- The named Swinburne Chief Investigator/Supervisor remains responsible for any personnel appointed to or associated with the project being made aware of ethics clearance conditions, including research and consent procedures or instruments approved. Any change in chief investigator/supervisor requires timely notification and SUHREC endorsement.
- The above project has been approved as submitted for ethical review by or on behalf of SUHREC. Amendments to approved procedures or instruments ordinarily require prior ethical appraisal/ clearance. SUHREC must be notified immediately or as soon as possible thereafter of (a) any serious or unexpected adverse effects on participants and any redress measures; (b) proposed changes in protocols; and (c) unforeseen events which might affect continued ethical acceptability of the project.
- At a minimum, an annual report on the progress of the project is required as well as at the conclusion (or abandonment) of the project.
- A duly authorised external or internal audit of the project may be undertaken at any time.

Please contact me if you have any queries about the ethical review process, citing the SUHREC project number. Copies of clearance emails should be retained as part of project record-keeping.

Best wishes for the project.

Yours sincerely,

Ann Gaeth
Secretary, SHESC3
Ann Gaeth, PhD
Administrative Officer (Research Ethics)
Swinburne Research (H68)
Swinburne University of Technology, P.O. Box 218
HAWTHORN VIC 3122,
Tel: +61 3 9214 5935
Appendix 7:
Survey Questionnaire-Sinhalese Version

1. මේ විශාල ආකාරයේ දෙසෙමිනික පිළිතුරු මිලිවන්න ආකාරයක් බදුරන්න යි. මෙය මෙම මොකුගොඩ ලැයිස්තුවේ ඉදිරිපීට කළේ මෙම දෙලී. එය හැකි යි. 349

2. මෙම මේරුවෙන් විශාල ආකාරයේ පිළිතුරු මිලිවන්න ආකාරයක් බදුරන්න යි. ඒවා සංඛ්‍යාවලින් තිබන්න අත් මත බොහෝ. මෙම දෙලී පුළුල් ලක් ඇති බව මෙම මේරුවෙන් විශාල ආකාරයේ දෙසෙමිනික පිළිතුරු මිලිවන්න ආකාරයක් බදුරන්න යි. මෙසේ විටමින් මෙම දෙලී යි. 349

සිවුරුන් අයාත්මක අනොදාන්තර ආකාරය:

සිවුරුන් අයාත්මක අනොදාන්තර ආකාරය

Swinburne University of Technology
Melbourne, Australia
1. 1.1. මිනි මැදිනීම මුළු කිරීම පොක්කුර (කෝට):
   ☐ ඉක්මලිනින් 2 පූ (කරම් කෝට)
   ☐ ඉක්මලිනින් 2 O මිනි

1.2. මැදිනීම පැහැදිලි කාරකයන්
   ☐ ඉක්මලිනින්
   ☐ ඉක්මලිනින්(කෝට 2 පූ කුඩා කෝකුර්)
   ☐ ඉක්මලිනින්(කෝට කුඩා කෝකුර්)
   ☐ සාළින් ම්කු

2. මැදිනීම පැහැදිලි කාරකයින්
   ☐ 5 - 49 (කෝට කෝටිය)
   ☐ 50 - 149 (කෝට කෝටිය)

3. මැදිනීම මැදිනීම සියළු මාදිනීම කාරකයන්/විශ්වාසයන්
   ☐ ඉක්මලිනින් කෝටියන්
   ☐ ඉක්මලිනින් කෝටියන්/විශ්වාසයන්
   ☐ ඉක්මලිනින් කෝටියන්/විශ්වාසයන්
   ☐ ඉක්මලිනින් කෝටියන්/විශ්වාසයන්
   ☐ ඉක්මලිනින් කෝටියන්/විශ්වාසයන්
   ☐ ඉක්මලිනින් කෝටියන්/විශ්වාසයන්

4. මැදිනීම මැදිනීම මැදිනීම කාරකයන් සහ මැදිනීම කාරකයන් කාරකයන්, නිපදුමකින් මැදිනීම කාරකයන්ි 1 යටතේ 5 යටතේ මැදිනීම. මැදිනීම 1 සිට 5 යටතේ මැදිනීම. මැදිනීම 1 සිට 5 යටතේ මැදිනීම
5. \text{मीवे} तृतीयों फुट, \text{था} अंकील रंगीन ने \text{कसले} मीवे फातपत स्फुरक्षिप आहे, \text{काहीत} ते \text{वेबसाइट} \text{कसले} हे \text{फ्रेम}? \text{साधारण} 1 \text{फ्लाक्स} \text{था} 5 \text{वेबब्राउजर} \text{फळ} \text{को} \text{धरातल} \text{मुळ} \text{फळ}.

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<tr>
<td>\text{मीवे} \text{चीत} \text{को} \text{मिळाले} स्फुरक्षिप</td>
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<td>2</td>
<td>3</td>
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6. \text{मीवे} फातपत स्फुरक्षिप \text{को} \text{विनोजन} \text{कसले} आहे?  
- \text{वाक्य} \text{विनोजन}  
- \text{वाक्य} \text{विनोजन}  
- \text{वाक्य} \text{विनोजन}  
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- \text{वाक्य} \text{विनोजन}  
- \text{वाक्य} \text{विनोजन}  
- \text{वाक्य} \text{विनोजन}  

7. \text{मीवे} फातपत \text{चलाव} \text{डिजिटल} \text{वाचाम} \text{कसले} \text{आहे}?
- \text{वाक्य} \text{विनोजन}  
- \text{वाक्य} \text{विनोजन}  
- \text{वाक्य} \text{विनोजन}  

8. \text{साधारण} \text{मीवे} फातपत \text{चालकांनी} \text{उपरी} \text{तृतीय} \text{फुट} \text{कसले} \text{फात} \text{करता} (\text{मीवे} \text{फातपत} \text{विसंग} \text{को} \text{चालकांनी) 160 - 5 \text{मीवे} \text{विसंग} \text{मुळे} \text{अखेर} \text{फळ} \text{करता}.

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</tbody>
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9. මෙහෙයින් පැහැදිලි ප්‍රමාණයක් අනුවෙන්න් (පොත් ගොඩ) 1 මීටරේ බහුලව පැහැදිලියන්ගෙන් ඉතිහාස කළ පැහැදිලියේ පැහැදිලියක් අදායමය 10 පන්තී වැනිදි 1 - 5 කාලයේ පැහැදිලියක් පැහැදිලියක්. 1 පන්ති මෙහෙයින් සහ 5 පන්ති පරිවර්තන කරවාදීම්ක් විවිධතාවේ.

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<td>කාලයේ</td>
<td>1 2 3 4 5</td>
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</table>

10. මෙහෙයින් පැහැදිලියක් කාලයේ ලක්ෂණයක් විශේෂ පැහැදිලියක් අදායමය 10 පන්ති වැනිදි 1 - 5 කාලයේ පැහැදිලියක් පැහැදිලියක්? 1, 2, 3, 4, 5

11. මෙහෙයින් පැහැදිලියක් පැහැදිලියක් අදායමය 10 පන්ති වැනිදි 1 - 5 කාලයේ පැහැදිලියක් පැහැදිලියක්?

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<td>1 2 3 4 5</td>
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12. මෙහෙයින් පැහැදිලියක් පැහැදිලියක් පැහැදිලියක් අදායමය. මෙහෙයින් පැහැදිලියක් පැහැදිලියක්, වලුම් සහ පැහැදිලියක් පැහැදිලියක් පැහැදිලියක්. (පොතාත් ගොඩ) 1, 2, 3, 4, 5

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13. මෙහෙයින් පැහැදිලියක් පැහැදිලියක් පැහැදිලියක් අදායමය. (පොතාත් ගොඩ) මෙහෙයින් පැහැදිලියක් පැහැදිලියක් පැහැදිලියක්? 1, 2, 3, 4, 5
14. നിങ്ങൾ പ്രഖ്യാപിച്ച വിഷയത്തിൽ നിന്നും വാഴ്ത്തുന്ന ലിസ്റ്റുകൾ നിറയ്ക്കുന്നതിന് നീ വിധിയും?

☐ ഉത്തര

☐ ഇല്ല

15. നിങ്ങൾ പ്രഖ്യാപിച്ച വിഷയത്തിൽ നിന്നും പ്രായകാരണം എന്ന് എത്തിക്കൂ? അത് അനുസരിച്ച് നിങ്ങൾ പ്രായകാരണമായ ഒരു ലിസ്റ്റു കൊണ്ട് ഇത് നിറക്കുക.

<table>
<thead>
<tr>
<th>വിഷയം</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>ഉപഭൂപ്രഖ്യാപിത</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>പ്രായകാരണം</td>
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<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>ഒരു പ്രായകാരണം</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>തന്റെ അനുവദനം</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>ഇത് പ്രായകാരണമായ ഒരു ലിസ്റ്റ്</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

16. നിങ്ങൾ പ്രഖ്യാപിച്ച വിഷയം / പ്രായകാരണം എന്ന് ഫായൽ കൂട്ട് പെട്രോ എന്ന് അത് ഇതിലിന്റെ |
<p>| | | | | |</p>
<table>
<thead>
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</tbody>
</table>

**17.** How does the data from the above table correlate with the regression analysis?:

- [ ] None
- [ ] One
- [ ] Two
- [ ] Three
- [ ] Four
- [ ] Five

**18.** What conclusions can be drawn from the data in the table?:

- [ ] None
- [ ] One
- [ ] Two
- [ ] Three
- [ ] Four
19. Would you consider your company's mission meaningful to you? (Circle Yes or No)

☐ Yes  ☐ No (Circle Yes 31 of companies)

20. Company Mission - What is it?

20.1. How clear are the following company’s mission to you? (Circle Yes or No)

☐ Yes  ☐ No 1-2 years  ☐ No 2-4 years

20.2. How well does the company mission meet your expectations? (Circle Yes or No)

☐ Yes  ☐ No 1-2 years  ☐ No 2-4 years

20.3. How well does the company mission meet the goals of the company? (Circle Yes or No)

☐ Yes  ☐ No 1-2 years  ☐ No 2-4 years  ☐ Poor

20.4. How clear are the company's goals, and how well do they align with the company’s mission? (Circle Yes or No)

☐ Yes  ☐ No 1-2 years  ☐ No 2-4 years

21. Would you consider your company's mission meaningful? (Circle Yes or No)

☐ Yes  ☐ No

22. Company Mission: Formal corporate goals - What are your goals?

☐ Yes  ☐ No 1-2 years  ☐ No 2-4 years

☐ Yes  ☐ No 1-2 years  ☐ No 2-4 years
23. මියිම් පාදමඳු හෝවින් ආරම්භ හැකියාකි: Corporate strategies – එයි?
   □ එයි □ එක්
   බිඳුම් එයි, මියිම් පාදමඳු හාරම්භ හැකියාකි එක් පාදමඳු විස්තරයන්ට ප්‍රමාණයට පැහැදිලි නොවේ?
   කාර්යයක් අවයා 1 2 3 4 5

24. මියිම් පාදමඳු ගොඩ මෙම අමා (蟾) අතී අතී එක් පාදම (Functional strategies) එක් ලියා?
   □ එයි □ එක්
   බිඳුම් එයි, මෙම අමා දක්වන්?
   □ එක් හැකියාකි □ එකුට □ එක් හැකියාකි □ අංගයක් මෙම අමා හැකියාකි □ අශ්කා
   එකුට එකුට පිළිබඳ පාදඳු හැකියාකි එක් පාදමඳු විස්තරයන්ට පැහැදිලි නොවේ?
   කාර්යයක් අවයා 1 2 3 4 5

පාදමඳු අමා අතීක (Action Plans) පලාව

25. මියිම් පාදමඳු අමාකාරී. පෝෂි. පෝෂිදායකයෙකුට පිළිබඳ එකුට පාදමඳු එක්?
   □ එයි □ එකුට (වයම් මාස 27 මෙම පෝෂි)
   බිඳුම් එයි, පෝෂිදායකයෙකුට පෑදමඳු අමාකාරී එකුට පෑදමඳු විස්තරයන්ට පැහැදිලීම නොවේ?
   කාර්යයක් අවයා 1 2 3 4 5

26. මියිම් පෑදමඳු අමාකාරී පෑදඳු පිළිබඳ භාරුවන්ට මියිම් පෑදමඳු අමාකාරී පෑදමඳු පෑදමඳු පෑදඳු (මහ මාස 27 මෙම පෑදමඳු එකුට පෑදමඳු)

<table>
<thead>
<tr>
<th>පෑදමඳු අමාකාරීන්</th>
<th>පෑදමඳු අමාකාරීන්</th>
<th>පෑදමඳු අමාකාරීන්</th>
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<td>පෑදමඳු අමාකාරීන්</td>
<td>පෑදමඳු අමාකාරීන්</td>
<td>පෑදමඳු අමාකාරීන්</td>
</tr>
</tbody>
</table>

27. මියිම් පෑදමඳු අමාකාරී පෑදඳු පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අංකයන්ට පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී පෑදමඳු අමාකාරී කෙනෙක් අමාකාරී කෙනෙක් අමාකාරී කෙනෙක් අමාකාරී
28. මෙම පද මෙන් වැටීමේදී ක්‍රියා බලාමේදී මෙම පද සම්පුර්ණයෙන් හමුදා කරන්න?

- පදයේ මුතු පරිමාණයේදී?
- පදයේ මුතු පරිමාණයේදී ක්‍රියා බලාමේදී මෙම පද සම්පුර්ණයෙන් කරන්න?
- මෙහෙය මෙහෙය ක්‍රියා බලාමේදී?
- මෙහෙය මෙහෙය ක්‍රියා බලාමේදී?
- මෙහෙය මෙහෙය ක්‍රියා බලාමේදී?
- මෙහෙය මෙහෙය ක්‍රියා බලාමේදී?
- මෙහෙය මෙහෙය ක්‍රියා බලාමේදී?
- මෙහෙය මෙහෙය ක්‍රියා බලාමේදී?
- මෙහෙය මෙහෙය ක්‍රියා බලාමේදී?

29. මෙම පද මෙන් වැටීමේදී ක්‍රියා බලාමේදී මෙම පද සම්පුර්ණයෙන් හමුදා කරන්න? (මෙම පද මෙන් වැටීමේදී ක්‍රියා බලාමේදී මෙම පද සම්පුර්ණයෙන් හමුදා කරන්න)

- මෙම පද මෙන් වැටීමේදී ප්‍රතිමානව මෙම පද සම්පුර්ණයෙන් හමුදා කරන්න?
- ක්‍රියා බලාමේදී ක්‍රියා බලාමේදී?
- ක්‍රියා බලාමේදී ක්‍රියා බලාමේදී?
- ක්‍රියා බලාමේදී ක්‍රියා බලාමේදී?
- ක්‍රියා බලාමේදී ක්‍රියා බලාමේදී?
- ක්‍රියා බලාමේදී ක්‍රියා බලාමේදී?
- ක්‍රියා බලාමේදී ක්‍රියා බලාමේදී?
- ක්‍රියා බලාමේදී ක්‍රියා බලාමේදී?
- ක්‍රියා බලාමේදී ක්‍රියා බලාමේදී?

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30. නවින් මගින් දෙළි මෙය උදාහරණය ක්‍රමයේදී නේව අතර මෙය කොහේත්‍යුම් (ප්‍රකාශ බිම සඳහා) අර්ථදේශියන් නො දේමක්?

මෙහෙයින් විනෝදය නවින් මගින් දෙළි මෙය කොහේත්‍යුම් ගැටි කරගෙන ලෙස පිළිතුරු වේ?

1 2 3 4 5

(විකල්ප උපයුම් විකල්ප 35 යාමෙන්)

31. මෙහෙයින් ගොඩාරුම් ප්‍රතිශට්ටියක් (හොඳි මෙයින්) ආකාරය අප සිට නිසා පිළිතුරු?

☐ පිළිතුරු ☐ නිසා

32. නවින් ප්‍රතිශට්ටිය අර්ථදේශියන්කාරය /හොඳි මෙයින් පිළිතුරු නවින් මෙය කොහේත්‍යුම් මෙය පිළිතුරු?

☐ කොටස් මෙය වලට අදාළ
☐ සොයා අදාලම් මෙය වලට අදාල
☐ නිවර්ධනය මෙය වලට අදාල
☐ ප්‍රකාශය මෙය වලට අදාල
☐ වැදගත් මෙය වලට අදාල
☐ අර්ථදේශියන්කාරය වලට අදාල
☐ අර්ථදේශියන්කාරය ප්‍රශ්නය අදාල
☐ අර්ථදේශියන්කාරය ප්‍රශ්නය අදාල
☐ අර්ථදේශියන්කාරය ප්‍රශ්නය අදාල
☐ අර්ථදේශියන් සහ දීටිය වලට අදාල
☐ අර්ථදේශියන් සහ දීටිය වලට අදාල
☐ අර්ථදේශියන් සහ දීටිය වලට අදාල
☐ අර්ථදේශියන් සහ දීටිය වලට අදාල

33. ප්‍රකාශයේ නවින් ප්‍රතිශට්ටිය අර්ථදේශියන් සහ මීටරික අවශ්‍යාත්මක සඳහා ප්‍රකාශයේදී මෙය අර්ථදේශියන් සහ ප්‍රකාශයේදී මෙය අර්ථදේශියන් සඳහා ප්‍රකාශයේදී මෙය අර්ථදේශියන් සඳහා ප්‍රකාශයේදී මෙය අර්ථදේශියන්?

☐ පොළොසේන්දාන මෙය බැක් ආදාල
☐ සොයා අදාල පොළොසේන්දාන මෙය ආදාල
☐ වැදගත් මෙය අදාල පොළොසේන්දාන මෙය ආදාල

34. නවින් මගින් දෙළි මෙය කොහේත්‍යුම් ප්‍රකාශයේ නවින් මගින් දෙළි මේවා (ප්‍රකාශ බිම) නවින් මගින් දෙළි මේවා (ප්‍රකාශ බිම) නවින් මගින් දෙළි මේවා (ප්‍රකාශ බිම) නවින් මගින් දෙළි මේවා (ප්‍රකාශ බිම)?

මෙහෙයින් විනෝදය නවින් මගින් දෙළි මෙය කොහේත්‍යුම් ගැටි කරගෙන ලෙස පිළිතුරු වේ?

1 2 3 4 5
35. එය ප්‍රදේශකයේ දැ අංක මෑවන් ඉහළ පියවර සහ ලියෝදා සිටි ගැටීමේ ඉතිහාසීක ආකාරය මතින් ආකාරයේ ගොඩන්නේ බවක් ලබාදීය.

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කොළඹ විශේෂ පාසලේ ගතගත වේ/කා වු විශේෂයන්හි ඉතිහාසීකතාවට මිලදීද?

☐ එක  ☐ වෙ

මිදුරුම ප්‍රසිද්ධිත කාර්යකථාව ක්‍රමවර්ෂය

________________________________________

සිංහලෙන් මිශ්‍ර කාර්යකථාව

________________________________________

සිංහලෙන් මිශ්‍ර මාර්ගයකම මැටි
Appendix 8:
Introductory Letter-Sinhalese Version

මෙය මෙම් මුලින් කෙරෙන්න අතීත පොළුඉල් ප්‍රධාන කටයුතු මයෙන්ම මෙය මෙස්බුට පිළිබදක් කරවායේ. එය මලිගා ලෙසින්ම මෙම් මුලින් කෙරෙන්නේ Swinburne මෙය නොවූම් කෙරෙන්නේ නිර්මාණය කිරීමට ඉතාමත් නැතියේය. එම අතීතය නොදෙන්න පිළිබදක් මෙය මෙය මෙම් මුලින් කෙරෙන්නේ පැහැදිලිව ඇතියාව මැතිනිමි ඇතියින්නේ දීමක් මෙය මෙම් මුලින් කෙරෙන්නේ මැතිනිමි ඇතියාවේය. එමෙන්ම ඉතිහාසිකයන් කෙරෙන්නේ මාතාකම් මුදුණු ආකාරයක් ඇතින්නේ දීමක් මෙය මෙම් මුලින් කෙරෙන්නේ මැතිනිමි ඇතියාවේය.

මෙය මෙම් මුලින් කෙරෙන්නේ Swinburne මෙය නොවූම් ප්‍රධාන Human Research Ethics Committeeකු පිළිබදක් පැහැදිලිව ඇතියින්නේ පැහැදිලිව ඇතියින්නේ ඉතිහාසිකයන් විය. එමෙන්ම ඉතිහාසිකයන් කෙරෙන්නේ මාතාකම් බිමින්නේ දීමක් මෙය මෙම් මුලින් කෙරෙන්නේ මැතිනිමි ඇතියාවේය. එමෙන්ම ඉතිහාසිකයන් කෙරෙන්නේ මාතාකම් බිමින්නේ දීමක් මෙම් මුලින් කෙරෙන්නේ මැතිනිමි ඇතියාවේය.

මෙය මෙළම් කරවායේ SwinburneUniversity-Australia National Statement on Ethical Conduct in Human Researchකු පැහැදිලිව ඇතියින්නේ ඉතිහාසිකයන් විය. එමෙන්ම ඉතිහාසිකයන් කෙරෙන්නේ මාතාකම් බිමින්නේ දීමක් මෙය මෙම් මුලින් කෙරෙන්නේ මැතිනිමි ඇතියාවේය.

Research Ethics Officer, Swinburne Research (H68), Swinburne University of Technology, P.O. Box 218, Hawthorn, Australia. Tel. 03 92145218 or resethics@swin.edu.au

මෙහෙයත් මාතාකම් මෙය මෙලිස් කරවායේ SwinburneUniversity-Australia National Statement on Ethical Conduct in Human Researchකු පැහැදිලිව ඇතියින්නේ ඉතිහාසිකයන් විය. එමෙන්ම ඉතිහාසිකයන් කෙරෙන්නේ මාතාකම් බිමින්නේ දීමක් මෙය මෙම් මුලින් කෙරෙන්නේ මැතිනිමි ඇතියාවේය.

නො භාෂාවේමුලින්දී මෙම් කෙරෙන්නේ පැහැදිලිව ඇතියින්නේ ඉතිහාසිකයන් විය. එමෙන්ම ඉතිහාසිකයන් කෙරෙන්නේ මාතාකම් බිමින්නේ දීමක් මෙය මෙම් මුලින් කෙරෙන්නේ මැතිනිමි ඇතියාවේය.

නැළුත් පත්‍ර: 243. විශේෂීම් ස්විකර්ණයේ මෙය මෙකස්ට්ස් කුමාරී ඉංග්‍රීසි (ඉංග්‍රීසි කාර්ය අතින්නේ)
ඉංග්‍රීසි: Research Ethics Officer, Swinburne Research (H68), Swinburne University of Technology, P.O. Box 218, Hawthorn, Australia. Tel. 03 92145218 or resethics@swin.edu.au

නැළුත් පත්‍ර: wijesinghejudy473@gmail.com
ඉංග්‍රීසි: wijesinghejudy473@gmail.com

මාතාකම්.

මිදුරු බොහෝ ස්විකර්ණයේ (ඉංග්‍රීසි කාර්ය අතින්නේ)
Appendix 9:
Letter of Consent-Sinhalese Version

Swinburne University of Technology

'කළ මීටර අතීත කාලාව භාගූන්තාවක් සහ අන්තර්ජාල දැක්වන්නට සැපයෙන්වල නැවත ඇගේ කථාව:

මොයට මේ විස්තර වන්නේ, මොයට සමාගමේ ප්‍රශ්න-විස්තර පිලිබඳ අදාල් පිළිබඳ.

මැදිලි දකුණු නිසාව පැහැදිලි

.................................................................

කිනි, 'කළ මීටර අතීත කාලාව භාගූන්තාවක් සහ අන්තර්ජාල දැක්වන්නට සැපයෙන්වල නැවත' සහ විශේෂ අදාල් පිළිබඳ පිළිබඳ විස්තර කරන කරන්නේ මිල විමූ ක්‍රම මෙම විශේෂ අදාල් පිළිබඳ පිළිබඳ විස්තර කරන්නේ අදාල් පිළිබඳ.

මොයට පිළිබඳ ආදි මෙම විශේෂ අදාල් පිළිබඳ පිළිබඳ කරන්නේ යොද නමුත් ක්‍රම හදාරය සිංහලෙන් විශේෂ අදාල් පිළිබඳ පිළිබඳ කරන්නේ අදාල් පිළිබඳ

මොයට පිළිබඳ ආදි දිව මෙම විශේෂ අදාල් පිළිබඳ කරන්නේ යොද නමුත් ක්‍රම හදාරය සිංහලෙන් විශේෂ අදාල් පිළිබඳ පිළිබඳ කරන්නේ අදාල් පිළිබඳ

මොයට පිළිබඳ ආදි දිව මෙම විශේෂ අදාල් පිළිබඳ කරන්නේ යොද නමුත් ක්‍රම හදාරය සිංහලෙන් විශේෂ අදාල් පිළිබඳ පිළිබඳ කරන්නේ අදාල් පිළිබඳ


date:

.................................................................

signatory name:

.................................................................

signature:

.................................................................
## Appendix 10: Quantitative Analysis of the Study

### Table 1: Organisational Characteristics

<table>
<thead>
<tr>
<th>Var 2</th>
<th>Chi-square</th>
<th>df</th>
<th>( P = 0.005 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>3.158</td>
<td>2</td>
<td>.206</td>
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<tr>
<td>Culture</td>
<td>5.475</td>
<td>2</td>
<td>0.065</td>
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<tr>
<td>Structure</td>
<td>.767</td>
<td>2</td>
<td>.681</td>
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<tr>
<td>Management style</td>
<td>4.323</td>
<td>2</td>
<td>0.115</td>
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<tr>
<td>stakeholders</td>
<td>1.052</td>
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<td>.591</td>
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### Table 2: Organisational Culture

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>8.1 Commitment</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>8.2 Loyalty</td>
<td>.906</td>
<td>2</td>
<td>0.636</td>
</tr>
<tr>
<td>8.3 Team Spirit</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>8.4 Mutual respect</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>8.5 Less rigid</td>
<td>2.854</td>
<td>2</td>
<td>.240</td>
</tr>
<tr>
<td>8.6 Very Motivated</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>8.7 Co-operative</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>8.8 Multicultural</td>
<td>4.605</td>
<td>2</td>
<td>.098</td>
</tr>
<tr>
<td>8.9 Informal groups values /culture</td>
<td>4.815</td>
<td>2</td>
<td>.090</td>
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<tr>
<td>8.10 Other Cul. Characteristics</td>
<td>NA</td>
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### Table 3: Management Style

<table>
<thead>
<tr>
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<th>Chi-square</th>
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<th>( P = 0.005 )</th>
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</thead>
<tbody>
<tr>
<td>9.1 Bureaucratic</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>9.2 Autocratic</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>9.3 Top to bottom approach</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>9.4 Individual performance rather than group performance</td>
<td>.194</td>
<td>2</td>
<td>.907</td>
</tr>
<tr>
<td>9.5 Motivated by power rather than achievement</td>
<td>1.112</td>
<td>2</td>
<td>.573</td>
</tr>
<tr>
<td>9.6 Participatory</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>9.7 Collective</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>9.8 People friendly</td>
<td>3.132</td>
<td>1</td>
<td>.077</td>
</tr>
<tr>
<td>9.9 Honest, sincere and transparent</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>9.10 Other styles</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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</tbody>
</table>
Table 4: Gap between & personal interest

<table>
<thead>
<tr>
<th>Var 2</th>
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<tr>
<td>10</td>
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<td>.078</td>
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<td>11</td>
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Table 5: Stakeholders

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<th>df</th>
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</thead>
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<tr>
<td>12.1 owners</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>12.2 shareholders</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>12.3 employees</td>
<td>1.712</td>
<td>2</td>
<td>.425</td>
</tr>
<tr>
<td>12.4 managers</td>
<td>8.251</td>
<td>2</td>
<td>.016</td>
</tr>
<tr>
<td>12.5 customers</td>
<td>6.689</td>
<td>2</td>
<td>.035</td>
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<tr>
<td>12.6 SL government</td>
<td>5.331</td>
<td>2</td>
<td>.070</td>
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<tr>
<td>12.7 competitors F/L</td>
<td>7.946</td>
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<td>7.946</td>
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<td>12.8 Suppliers &amp; Dis</td>
<td>4.433</td>
<td>2</td>
<td>.109</td>
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<tr>
<td>12.9 Banks/ fin</td>
<td>.968</td>
<td>2</td>
<td>.616</td>
</tr>
<tr>
<td>12.10 others</td>
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<td>NA</td>
<td>NA</td>
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Table 6: Critical Issues

<table>
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<th>Chi-square</th>
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<tr>
<td>4.2.1 managerial</td>
<td>6.658493</td>
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<tr>
<td>4.2.2 marketing</td>
<td>3.829</td>
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<td>0.147</td>
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<tr>
<td>4.2.3 Financial</td>
<td>11.738</td>
<td>2</td>
<td>0.003</td>
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<tr>
<td>4.2.4 HRM</td>
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<td>2</td>
<td>0.749</td>
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<tr>
<td>4.2.5 T Union</td>
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<td>NA</td>
<td>NA</td>
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<tr>
<td>4.2.6 IT</td>
<td>4.667</td>
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<td>4.2.7 Supply-chain</td>
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<td>4.2.8 GOV</td>
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<td>4.2.9 Tech</td>
<td>2.073</td>
<td>2</td>
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<td>4.2.10 B/S planning</td>
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<td>4.2.11 other</td>
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.395 Cr V SIGNIFICANT STRONG
.283 Cr V SIGNIFICANT STRONG
### Table 7: Major Capabilities

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<td>1.091</td>
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<tr>
<td>14.2 Commitment</td>
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<td>NA</td>
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<td>14.3 Brand</td>
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<td>14.4 Tech</td>
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<td>14.5 Experienced Staff</td>
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<td>.934</td>
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<td>14.6 Supply Chain</td>
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### Table 8: Main Barriers

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<td>13.2 Management</td>
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<td>.052</td>
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<td>13.3 New Tech</td>
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<td>2</td>
<td>.038</td>
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<td>13.4 Gov. policies</td>
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<td>.871</td>
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<td>13.6 Supply chain</td>
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### Table 9: Macro-environment

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<td>.055</td>
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<td>3.734</td>
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<td>15.4T</td>
<td>.978</td>
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<td>.614</td>
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<tr>
<td>Ownership</td>
<td>Count</td>
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<td>Total</td>
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<td>-----------</td>
<td>-------</td>
<td>------------</td>
<td>-------</td>
</tr>
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<td>New</td>
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<tr>
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<td>86.3%</td>
<td>13.7%</td>
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<td>% within</td>
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<td>5</td>
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<td>Expected</td>
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<td>6.1</td>
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<td>14.3%</td>
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<tr>
<td>% within</td>
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<td>24.2%</td>
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<td>31</td>
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<tr>
<td>Expected</td>
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<td>7.3</td>
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<tr>
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<td>Expected</td>
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<table>
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<th>Chi-Square Tests</th>
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<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
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<td>Pearson Chi-Square</td>
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<td>Linear-by-Linear Association</td>
<td>2.593</td>
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<td>.107</td>
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</table>

N of Valid Cases 150
### Table 10b: Management Style Vs Critical Issues

<table>
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<th>Ward 9 (4)</th>
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<th>1</th>
<th>2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ward 9 (4)</td>
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<td></td>
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</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Count</td>
<td></td>
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<td>10</td>
<td>31</td>
</tr>
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**Chi-Square Tests**

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**N of Valid Cases**

150

### Table 10c Structure Vs Critical Issues

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Table 10d: Stakeholder interest Vs critical issues

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Chi-Square Tests

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**chi-Square Tests**

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### Table 11 a:
**Vision Vs Size**

#### Vision/philosophy Cross tabulation

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#### Chi-Square Tests

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#### Symmetric Measures

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**Chi-Square Tests**

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**Symmetric Measures**

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Table 12: Importance of Business Vision

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Table 13a: Planning Systems Vs Size

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Chi-Square Tests

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Table 13b:
Planning Systems Vs Current Situation

| 1.2 Current Situation * 19 Formal strategic planning system Cross tabulation |
|---------------------------------|---------------------------------|
|                                 | 19 Formal strategic planning system |          |
|                                 | yes  | no  | Total |
| 1.2 Current Situation start-ups | 1    | 16  | 17    |
|                                 | 3.1% | 13.6% | 11.3% |
| 1.2 Current Situation stagnating| 3    | 61  | 64    |
|                                 | 9.4% | 51.7% | 42.7% |
| 1.2 Current Situation growing  | 28   | 38  | 66    |
|                                 | 87.5% | 32.2% | 44.0% |
| 1.2 Current Situation failed    | 0    | 3   | 3     |
|                                 | .0%  | 2.5% | 2.0%  |
| Total                           | 32   | 118 | 150   |
|                                 | 100.0% | 100.0% | 100.0% |

Chi-Square Tests

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Ownership Vs Size

Ownership New * 2 Regular Employees Cross tabulation

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<td></td>
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<td>Expected Count</td>
<td>50.6</td>
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<td>42</td>
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<td>52.4%</td>
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### N of Valid Cases

|                  | 150    |

### Symmetric Measures

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Table 14b:
Ownership Vs Planning System

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Chi-Square Tests

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Table 15: Ownership Vs Size

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### Appendix 11: Databases and Websites Used

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### Appendix 12: Questionnaire References Used

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<td>Marsden &amp; Forbes (2003); Chandrasiri (2004); Sri Lanka White paper, (2002)</td>
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<td>Sri Lanka Central Bank Reports</td>
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<td>Ansoff et al. (1991); Quinn (1978); The Asian SME Summit (2003); Gamage (2003)</td>
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<td>Christodoulou (1984), Bonn (1996), Nimmanphatcharin (2002); Angkasuvana (2005); Edirisinghe (2008)</td>
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<td>Q6 Ownership</td>
<td>Dzisi (2008); Pansuwong (2009); Huang (2009); Ramawickrama (2011)</td>
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<td>Q7 Organisational structure</td>
<td>Burns &amp; Stalker (1961); Daft (1982); Mintzberg (1983); Andersen &amp; Knudsen (2007); Edirisinghe (2008)</td>
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<td>Q8 Organisation’s culture</td>
<td>Nimmanphatcharin (2002); Angkasuvana (2005); Edirisinghe (2008); Hofstede (2001, 2007)</td>
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<td>Lippit &amp; White (1958); McGregor (1960); Webber (1947); Ouchi (1981); Mikhailitchenko (2006)</td>
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<td>Q10 The gap between decision-makers and subordinates</td>
<td>Nimmanphatcharin (2002), Angkasuvana (2005); Edirisinghe (2008);</td>
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<td>Q11 Personal interest of leaders and business enterprise’s interest</td>
<td>Nimmanphatcharin (2002), Angkasuvana (2005); Edirisinghe (2008);</td>
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<td>Q16 &amp; 17 Vision or philosophy, Scenario planning</td>
<td>Wheelen &amp; Hunger (2008); David (2005); Peters &amp; Waterman (1982); Collins &amp; Porras (1996); Hamel &amp; Prahalad (1994); Mintzberg (1983); Goldsmith &amp; Clutterbuck (1994); Ohmae (1982); Schoemaker (1995); Liedtka (1998)</td>
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<td>Q21-26 Mission, corporate goals, corporate, functional strategies and action plans</td>
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<td>Islam et al. (2011); Srinivasan et al. (1994)</td>
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<td>Wang et al. (2007); Pearce et al. (1987); Lindsay &amp; Rue (1980); McKiernan &amp; Morris (1994) cited in Smith (2003)</td>
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Appendix 13:

Publications Done Based on This Study


