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Strategic Orientation and Its Impact on the Performance of SMEs: The Case in Colombo District in Sri Lanka

by

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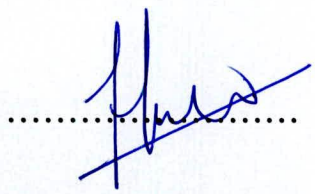
Declaration by the Author

The work described in this thesis was carried out by me under the supervision of Mr. M.V.S.S. Udayanga, and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree or Diploma.



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K.Y.J. Somarathna

13/12/2015

Date

Declaration by the Supervisor

I certify that the above statement made by the candidate is true, and this thesis is suitable for submission to the University for the purpose of evaluation.

14/12/2015

Mr. M.V.S.S. Udayanga. Date

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List of Abbreviations

SMEs – Small and Medium Enterprises

SO – Strategic Orrientation

ROA – Return on Assets

ROI – Return on Investment

ROE – Return on Equity

ROS – Return on Sales

GDP – Gross Domestic Product

PLS – SEM – Partial Least Squire – Structural Equation Modeling

R&D – Research and Developments

KMO – Kaiser – Meyer – Olkin Measure

AVE – Average Variance Extracted

VIF – Variance Inflation Factor

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ABSTRACT

Key Words: Strategic Orientation, Innovativeness, Proactiveness, Risk Taking, Autonomy, SMEs

Small and Medium Enterprises are the backbone of an economy, specially in developing nations since they provide ample benefits to an economy by many means. The success and advancement of such enterprises therefore is critical and causes for the success worth to be studied. Lack of strategic orientation which is identified in literature as a main cause for the failure of SMEs has recently attracted the attention of many scholars. Therefore the aim of this study is to examine the relationship between strategic orientation and performance of entrepreneurs in SMEs in Sri Lanka.

The study sample consists of 140 SMEs of Colombo district representing different industries. Data was gathered using self-administered questionnaires. To realize the research objectives data was analysed using Partial Least Square- Structural Equation Modeling and SPSS. Innovativness, proactiveness, risk taking and autonomy were the dimensions used to represent strategic orientation while profits and sales signify performance.

The study results revealed that there is a strong positive relationship between Strategic Orientation and performance of SMEs.. Accordingly innovativeness, risk taking,

proactiveness and autonomy have a strong positive impact on performance. Within the Sri Lankan context, performance of most SMEs are low since they are lacking autonomy, innovations, risk taking and proactiveness. Out of the four autonomy is having the highest impact on performance followed by innovativeness, risk taking and proactiveness. Going further the findings provide strategies that should be implemented if each of the dimensions is to be improved.

Accordingly the findings offer meaningful insights to the SME owners for the improvement of their businesses while providing room for future research studies.

Chapter 01

Introduction

1.1 Background of the Study

Entrepreneurship contributes to the rapid development and economic progress of any country. It simply can be described as the creative and innovative response to the environment. Economic development, which involves a movement from one state of the economy to another, is often attributed to the actions of entrepreneurs who are the change -agents in the economy. Within the discipline of entrepreneurship, Small and Medium sized Enterprises (SMEs) are often seen as a major source of entrepreneurial activities (Chow 2006). SMEs exert a strong influence on the economies of all nations (Ladzani and Vuuren, 2002). As given by Ghobadian and gallear, 2006, SMEs are the most dynamic business in any country. They constitute the foundation upon which the economy of a country is developed and plays a pivotal role in deciding its advancement. Being the engine of growth of an economy SMEs can be regarded as the principal driving force for the development of both developed and developing economies (Madsen 2007, Sadler-Smith et al. 2003). The extent to which the SMEs of a nation are strong and developed, directly impact the ability of any nation to stand on their own. Sri Lanka too has no exception where the sustainable development and advancement of the country is heavily dependent upon the entrepreneurs of the nation, specially the Small and Medium sized Enterprises sector as they constitute the strategic source of future successful large enterprises.

Performance of SMEs has been the main focus of many researchers (Herath Hand Mahmood, 2013). As explained by (Kongolo, 2010; Asian Productivity Organization,