



# Can Small and Medium Enterprises have a Role in Achieving Sustainable Development in the Southern Province of Sri Lanka?

Special Reference to the SMEs of Automobile Service Sector  
in the Matara District

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*This Master's Thesis is carried out as a part of the education at the University of Agder and is therefore approved as a part of this education. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.*

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## **Abstract**

With reference to the topic of “Can small and medium enterprises (SMEs) have a role in achieving Sustainable Development (SD) in the Southern Province of Sri Lanka (SPSL)?” this study was conducted. The automobile service sector (SMEs) in the Matara district was the focus area. In recent years with the advancement of technology, there has been a vast improvement in the automobile sector. Vehicle usage levels in Sri Lanka also have increased. Not only for the usage of institutional purpose but also there is a vast demand for family purposes. The most important expectation of any vehicle owner is to manage the health condition of own vehicles properly. This creates more demand for vehicle related services.

This study aimed to assess whether SMEs can have a role in achieving sustainable development in the Southern Province of Sri Lanka. Therefore the study was planned in three major sections. The first was to review the role of SMEs in the Matara district and secondly it was considered to evaluate both the Private-public participation for the enhancement of the SME sector in the Matara district. Finally the perceptions of SMEs owners towards the sustainable development achievements were evaluated. The study used both qualitative and quantitative research strategies and methods of data collection including questionnaires, observations, discussions and interviews. In addition secondary data were used from different sources and analyzed. The findings showed that the SMEs are playing a clear role within the area and help many people engaged in this field in generating income and helping to sustain their livelihoods. As the second objective it was found out that there was lack of private-public cooperation towards the development of service related SMEs in the Southern Province. However the owners’ perceptions towards sustainable development are favourable. It means that SMEs are helping for the economic development, social development and environmental development of the country and they help to secure those developments and to improve them gradually. The one way Anova test showed that there are significances among the age of SMEs towards sustainable development and the number of employees in SMEs may influence towards sustainable development. Also the owners have good perceptions of sustainable development. Further strengths and major draw backs with SMEs were identified and few recommendations were proposed in relation to the findings. Finally it can be mentioned that SMEs are playing a major role in the province to achieve sustainable development as the back bone of the country’s development.

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## **Declaration by Candidate:**

Except where references are made in the text of the thesis, this contains no material published elsewhere. No other person's work has been used without due acknowledgement in the main text of the thesis. Moreover this thesis has not been submitted for the award or any other degree or diploma in any tertiary institute.

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Jayarani Ramawickrama

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## **Abbreviations**

ADB: Asian Development Bank

EPF: Employee Provident Fund

ETF: Employee Thrust Fund

GDP: Gross Domestic Products

HDSL: Hambantota District in Sri Lanka

ILO: International Labour Organization

LTTE: Liberation Tigers of Tamil Elam

NGOs: Non-Governmental Organizations

PPP: Private Public Participation

SD: Sustainable Development

SEDD: Small Enterprise Development Division

SL: Sri Lanka

SP: Southern Province

SMEs: Small and Medium Enterprises

SPSL: Southern Province of Sri Lanka

SLR: Sri Lankan Rupee

# CHAPTER 01: INTRODUCTION

## 1. 1 Background

Development is not only the economical progress of a country. It is a broad concept including human development, social and cultural improvement. The Brundtland commission (Brundtland 1987a, b) simply stated that “Development is what we all do in attempting to improve our lives”. According to the definition given by the United Nation Commission on Environment and Development in 1987, development is sustainable if it “*meets the needs of the present without compromising the ability of future generation to meet their own needs*”. Three basic objectives of the sustainable development (SD) are highlighted. The first is economic objectives including economic growth, efficiency and stability of the economic activities. The next objective is social. The third is future environmental objectives.

Enterprise development is almost universally promoted in developing countries, and is often justified on the grounds that the emergence of entrepreneurs is an important mechanism to generate economic growth (Koddithuwakku and Rosa, 2002 and Landes, 1998). As a developing country in Sri Lanka many enterprises are small and medium scales. SMEs have been identified as an important strategic sector for promoting growth and social development of Sri Lanka. Over the years SMEs have gained wide recognition as a major source for employment, income generation, poverty alleviation and regional development. The SMEs cover broad areas of economic activities such as agriculture, manufacturing, mining, constructions and service sector industries. In the present competitive and challenging global environment, a viable and dynamic SME sector is essential for economic development of developing countries. For the survival of the SME sector in developing countries, support from other sections of society is needed. Among those parties it is worth to highlight the private-public cooperation. SMEs in developing countries primary face issues relating to business regulations and restrictions, finance, human resource capabilities, and technological capabilities (Asian SME Summit 2009). Most success stories of developed countries come with the private-public synergy. Therefore the private-public cooperation is very important to achieve the success of SMEs. Under the SME sector this study only considers the automobile service sector and its contribution to sustainable development effort in the southern part of Sri Lanka.

## **1.2 Country Background**

Sri Lanka is an island republic with a total land area of 65,610 square kilometers. It is located on the southeast side of India, which is the closest neighbour. The history of Sri Lanka indicates that there was an ancient civilization and old agrarian society, and our forefathers lived in harmony with nature. From 1505 to 1948 Sri Lanka was governed by the colonial powers of the Portuguese, the Dutch and the British successively. The British developed a new type of economy with coffee, tea, and rubber plantations and spread their social and cultural patterns in Sri Lanka. It is a multi-racial country which has a total population of 20.2 million at present. The life expectancy at birth is 73 years and the literacy rate of 92.3% is one of the highest in Asia. According to the World Bank classification, Sri Lanka is a lower-middle income country with one of the highest per capita incomes in the South Asian region of Rs.63,752.00 (Us\$841) in the year 2000. In recent years the economic growth of the country has been recorded respectively 6% in 2003; 5.4% in 2004; 6% in 2005; 7.7% in 2006 and 6.8% in 2007 (ILO, 2009). In 2004, Sri Lanka was ranked 96<sup>th</sup> in the Human Development Index with the index of 0.740 among 177 countries. In late December 2004, a serious tsunami took approximately 31,000 lives, left more than 6,300 missing and 443,000 displaced and destroyed an estimated US\$1.5 bn worth of property. Also the government spending on development and fighting with the Liberation Tigers of Tamil Elam (LTTE) drove growth to approximately 6% per year in 2006-08, but high government spending and high oil and gas and commodity prices also pushed inflation rates past 20% in 2008. The current president Mr. Mahinda Rajapaksha had taken a more aggressive position towards the LTTE and took action to eliminate the LTTE from the country. Due to these problematic incidences the government has to face extra difficulties to achieve development.

As in most of the Asian and the Pacific area, Sri Lanka too has a majority portion of the population living in rural areas estimated to be 78% of the country's total population. The small industries in the rural areas are the major source of employment and production of food and, therefore, the Sri Lankan villagers' livelihood. Almost all the governments that came to power since independence in 1948 seem to have understood the great need for developing this vital sector. Successive development efforts of the governments during the last several decades have led to growth in per capita incomes, increase in standard of living of the people and decrease in overall poverty levels. On the other hand, Sri Lanka faces a host of environmental problems such as land degradation, pollution and poor management of water

resources, loss of biological diversity, coastal erosion, increasing scarcity of freshwater for agriculture, waste disposal in urban areas, and traffic congestion in the main cities. However sustainable development is not a new concept to Sri Lanka and a vision of Sri Lanka for the sustainable development is “*Achieving sustained economic growth that is socially equitable and ecologically sound, with peace and stability*” (Ministry of Environment & Natural Resources, 2009). The Sri Lanka Strategy for Sustainable Development (SLSSD) seeks to achieve this vision through eradication of poverty, ensuring competitiveness of the economy, improving social development, ensuring good governance, and a clean and healthy environment (Ministry of Environment & Natural Resources).

The private sector includes SMEs and they play a vital role in the economy of Sri Lanka. SMEs have been recognized as an important strategic sector in Sri Lanka for generating high economic growth, reducing unemployment, inequality and poverty (Ministry of Enterprise Development, 2002). Sri Lanka’s economy is dominated by small and medium enterprises, and over 50% of the GDP is produced by the SME sector (ILO, 2002). In 2009, all major sectors of the economy contributed positively to economic growth. The Agriculture sector recorded a low growth of 3.2 % compared to a high growth of 7.5 % in 2008, The Industry sector slowed down registering a growth rate of 4.2% compared to a growth of 5.9% in 2008. The Services sector grew by 3.3% in 2009 contributing 55% to the overall economic growth (Sri Lanka Central Bank Report: 2010). According to the government statistics (2009) the importance can be highlighted with the recent labour force information in Sri Lanka. Under the occupational category 34.7% are involved in the agricultural sector, 26.1% are in industrial sector and 39.2% are in service related sector. However SMEs can be considered as the backbone of the Sri Lankan economy.

### **1.3. Main research objective and research questions**

#### **1.3.1 Research objectives**

The main objective of this study is to identify whether Small and Medium Enterprises can have a role in achieving Sustainable Development in the Southern Province of Sri Lanka. This study gives a special attention to the Automobile Service Sector SMEs in the Matara District. The specific objectives include;

- To identify the existing situation of the automobile service sector SMEs in the Matara district and understand the nature of contributions by the service sector SMEs in the Southern Province of Sri Lanka towards sustainable development.
- To identify the Private-public participation for the enhancement of the SME sector in the Matara district.
- To assess the role of automobile service centers towards sustainable development goals of the area. The owners' own perceptions of their performance towards the sustainable development goals of the area are considered.
- To identify the SMEs awareness of sustainable development, and their contributions towards the development goals in SL.
- To identify what kind of barriers SMEs face when striving to reach sustainable development goals.

### **1.3.2 Research questions**

In today's context, managing business successfully is not an easy task. The business world is becoming increasingly complex and dynamic due to globalization and technological advancement. Many people who begin the process of starting new businesses fail to achieve their goals, although others are quite successful (Buddhadasa, 1992) quoted in Perera and Alwis, 2005). Therefore entrepreneurs must develop their abilities, skills to take actions or decisions for the survival of the SMEs.

After 1991, successive governments supported developing activities through the 'Janasaviya' and "Samurdhi" programs. Both the government and the NGO sectors are carrying out considerable amounts of business development support to the SME sector to enhance their decision making activities, to develop their leadership, to solve their production, marketing and accounting problems etc. Main service providers are Small Enterprise Development Division (SEDD), Chamber of Commerce, International Labour Organization (ILO), Asian Development Bank (ADB), Agro mart center, Industrial Development Board (IDB), Ruhuna Economic Development Association (RUEDA) and Ruhuna Development Bank. According to the Central Bank statistics in year 2006, the annual average growth of SMEs during the past decade has been very low (3.6). The average lifetime of most SMEs is short and growth of most industries slow.

The research objective of this study is to analyze how the SME sector contributes or may contribute to sustainable development efforts in the Southern Province of Sri Lanka. The sub questions can be raised as follows.

- What is the main task of the automobile service sector among the SMEs in the Matara district?
- How does the cooperation between the public sector and the private sector contribute to enhance SMEs in the Matara district?
- What is the role and importance of the automobile service sector-SMEs in the social, economical and environmentally related activities?
- To what extent is there awareness about sustainable development among the automobile service sector-SMEs?
- To what extent do automobile service sector-SMEs perform to reach sustainable development effort of the country of Sri Lanka?
- Ultimately what kinds of barriers in general do the automobile service sector-SMEs face when they try to contribute to a more sustainable development?

#### **1.4. Significance of the study**

The SME sector in Sri Lanka has a long historical background prior to free trade liberalization in the 1970s. Though major industries took over a substantial share of the national industrial economy, The SME sector in Sri Lanka plays a vital role as in other developing nations. SMEs have been identified as an important strategic sector for promoting growth and social development of Sri Lanka. Over the years, SMEs have gained wide recognition as a major source of employment. The Sri Lankan government has an intention to expand the SME sector capacity further because it has been identified as a way to assure the flow of benefits from the international trade to the grass root level. The present development strategy of Sri Lanka is based on pro-poor, pro-growth income improvement and redistribution policies with complimentary participation of a social responsible private sector and supportive public sector. According to the government white paper (2002), the sector wise proportion of SMEs mentions that 85% of industries in Sri Lanka are of small size, 11% are medium size and 4% are large scales. With reference to number of employment small scale industries represent 20% employment, medium scale 17% and large scale industries represent 63% of employment in Sri Lanka. According to the above figures the most important solution may be the enhancement of SME sector activities in Sri Lanka.

Basically SMEs consist of both manufacturing and service sector enterprises. In addition, many of the SMEs play an important role in supply chain links to the large industry or service sector too. SMEs in Sri Lanka operate either as an individual enterprise or groups/ clusters as mentioned above. Several clusters are brass industry, black smith, coir industry, wood working, cane products, handicraft and related metal finishing clusters, rice milling clusters, clay based products, food items textiles and apparel products. Many rural people have been engaged in various types of SMEs. Therefore the national strategy of government of Sri Lanka has recognized the importance of the SME sector. Further the government has emphasized the necessity of governmental and non-governmental support for the enhancement of the SME sector. As this study considers the role of the SME sector for the development effort in Southern Sri Lanka, it may contribute towards the improvement of this sector. This research will provide suggestions for improving the sustainable development efforts in the country.

## **1.5 Chapter organization**

Chapter one deals with the introduction. It includes the introduction of the topic, research objectives and questions, significance of the study in relation to the research.

Chapter two is the Study Area. It carries information about the Southern Province in Sri Lanka, the Matara district in Sri Lanka, SMEs in the southern province, institutional support for the enhancement of SMEs and the automobile service stations in the Matara district in particular.

Chapter three provides an explanation of the literature and theoretical perspectives pertaining to the research topic. Basically it includes definitions, the importance of SMEs, institutional support for the development of SMEs, the way of measuring performance of SMEs, sustainable development and its measurements, SMEs and environmental issues and SMEs and sustainable development.

Chapter Four is the Research Methodology. It includes research design, conceptualization of the variables, sampling, the way of data collection and analysis and limitations with this activity will be discussed.

Chapter Five represents the empirical findings regarding the research, data analysis and discussion. Here it is discussed the role of the private-public participation in the Matara district basically providing the attention towards the SEDD in Matara and Chamber of commerce in Matara. While there are few stories carries from the field survey and it explain the nature of the auto service firms. After that the researcher tries to explain the existing situation with the analyzed date which collected from the field survey. First of all the reliability measurements are submitted to confirm the measurement criteria. With reference to the questionnaire the analysis part consists of three main sections. The first of them highlights the role of the service sector SMEs in the Matara district, secondly, it considers the owners' perceptions in relation to the received support through the private-public cooperation for the development of SMEs and finally it considers the owners' perceptions in relation to the economical, social and environmental factors towards sustainable development of the country. Then it is analyzed whether role of SMSs is significance for to predict sustainable development. Further a SWOT analysis is presented to summarize the findings regarding to the SMEs in the southern part of Sri Lanka.

Chapter Six draws conclusion from this discussion and assesses the extent to which the aims and objectives are achieved. A possible recommendation from this study is provided.



## **CHAPTER 02: STUDY AREA**

### **2.1 Southern Province in Sri Lanka**

Three districts belong to the Southern Province; Galle, Matara and Hambantota. The total area is 5,543 sq km, which is about 8.45% of the total area of the country. The highest elevation is approximately 1200 meters above the sea level. The climate of the Province varies between the various districts; Galle and Matara has a wet zone climate, while Hambantota is in the arid zone (Art Gold Sri Lanka, 2010). The population of the Southern Province is 2,417,000. The main economic activities in the Province are subsistence farming and fishing. The majority of the land area of the province is used for agriculture, and 43% of the workforce is engaged in agricultural activities. The leading industries are textile and food processing which generate a large number of job opportunities (Foreign Affairs Office of Hainan Province, 2009). The Southern Province is the site of coconut, rubber, cinnamon, and fishing industry. When comparing with other provinces, the economy is stronger than the others except for the Western Province. The Southern Province contributes to the national GDP with 8.9% (Art Gold Sri Lanka, 2010). Male and female literacy rates are at 94.3% and 91.4% respectively. However, 7.7% of the people in the province are illiterate. The educational attainment of the people in Southern Province is 31.6% with primary education, 38.3% with secondary education, and 22.4 % with post secondary education (Central Bank of Sri Lanka, 2007). The unemployment rate in the Southern Province is higher than the other provinces of the country. The unemployment rate of the southern province is 8.1% of the labour force (Department of Census and Statistics, 2008). With regard to employment by sector it is recorded that the manufacturing sector employs 16.8% as the second most employment source with agriculture, forestry and fishing sector comprising 39.8 % of total employment.

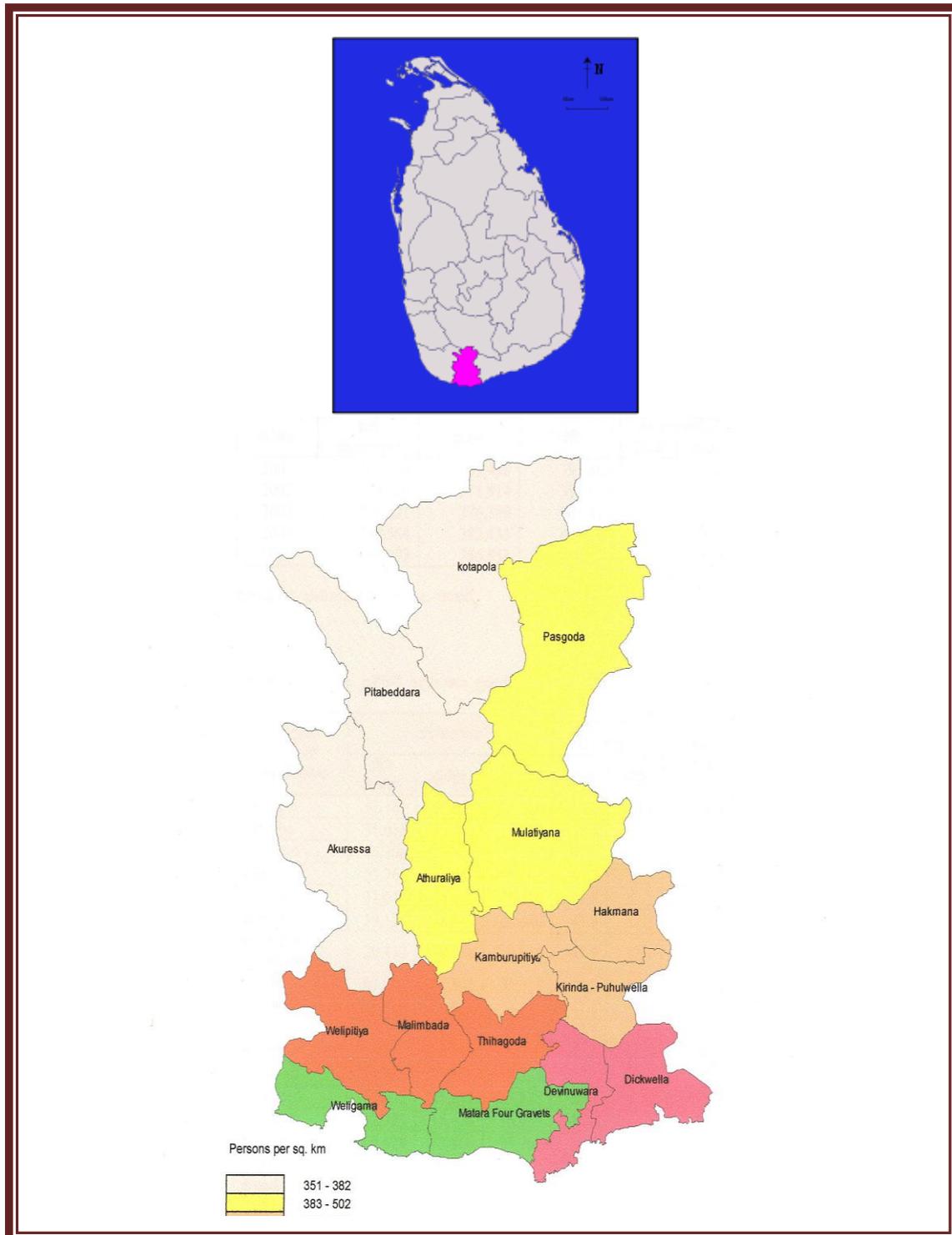
### **2.2 Matara District in Sri Lanka**

Matara is one of the largest cities in Sri Lanka located along a captivating sea beach The Divisional Secretariat Division is the main administrative and commercial hub in the Matara district. It is around 156 Km away from Colombo. The city of Matara is a major economic zone as well as a rapidly developing urban commercial centre of the south. The total population in the Matara district in 2007 was 813,000 out of which 70,000 people lived in the city. The land area spread over 21.2 sq km with 15 electoral wards. As a rapidly urbanized city it has its employment generation through the commercial sector (77%), industry (16%), agriculture (4%) and others (3%). There are 16 secretariat divisions in the district (District

Secretariat Matara, 2010). The majority of the people in the district are Sinhala Buddhist. There are also other ethnic groups in the Matara district. One of the main rivers originating from central hills, Nilwala River, is flowing through the city. During the monsoon seasons, the river carries flood waters from the up country hills and freely flows over flat lands often causing severe damages to crops, agricultural lands and finally urban built up areas. Due to the flow of Nilwala river, floods are common for Matara. Further, the tsunami in 2004 was the worst ever disaster faced by the city. The entire coastal area, a place for famous tourist attractions, was washed away leaving 462 dead, injuring 1862, damaging 2205 houses and affecting 22943 people (District Secretariat Report:2010). The following map (Figure 03) shows the Matara district and its Divisions.

Matara Divisional Secretariat Division is noted for having the biggest population among the other Divisional Secretariat Divisions in the district. That is about 14.2 of the total population of the district and also holds the record for the biggest population density in the district. The sixteen secretariat divisions are: Dickwella, Devinuwara, Thihagoda, Kamburupitiya, Mulatiyana, Hakmana, Kirinda, Pasgoda, Kotapola, Pitabeddara, Akuressa, Athuraliya, Malimbada, Weligama, Welipitiya and Matara.

**Figure 01: Southern Province of Sri Lanka and divisions of the Matara District**



*(Source: Provincial Planning Secretariat, 153B, S.H. Dahanayake Mawatha Galle. Sri Lanka. ©2009 Jnh Provincial Planning Secretariat).*

### **2.3 Small and Medium Scale Enterprises in Southern Province**

Sri Lanka's economy is predominantly a Small and Medium Enterprise (SME) economy where over 50% of the GDP is produced by the SME sector. Rural enterprise promotion is expected to contribute to poverty reduction, not only through employment generation but also through linkages with primary agriculture production, service enterprises such as transport, agriculture input supply, and other small industries. The new Government having recognized the importance of this sector in achieving a balanced economic growth, equitable regional distribution and increasing employment and productivity levels, have adopted various policies for the development of SMEs in Sri Lanka. The launching of the SME Bank and the establishment of the SME Authority to function as the apex body for the development of the SME sector, are expected to be the catalyst for SME led growth (Source: Millennium Development Goals Country Report, 2005).

Southern province has been clearly a gateway to profitable investment and playing a crucial role in the development of the country. There are many exciting opportunities for the responsible visionary investors. Recently the Sri Lankan government has recognized the southern region as an entrepreneurial hub and proposed to establish a new harbour and an airport in the Hambantota district because of the accelerated progress. The largest scale projects, primarily aimed at developing the infrastructure of the area, indicate a move towards the development of the district into a hub of economic development. When assessing the progress of the programme implemented and the sums of money spent for the development of SMEs, the Hambantota chamber of commerce has achieved remarkable success (Fernando, 2001). It means they have taken actions for the development of SME sector in Hambantota area. Due to this advancement, it will be helpful to build favourable feelings towards the SMEs in the Matara district also.

### **2.4 Institutional Support for SMEs development in Southern Province**

The institutional support pertaining to SMEs in Sri Lanka comprises the following

- a. Public/Government sector institutions supporting SMEs,
- b. Private Sector institution supporting SMEs
- c. Non-Government and Multilateral and bilateral organizations

The institutional support offered by the successive governments over the last four decades to promote SMEs fall into two broad categories.

- i. Regulatory function i.e. registration, supervision and control and
- ii. Promotional activities i.e. entrepreneurial development, provision of low cost finance, access to technology, physical infrastructure, input procurement, product marking etc.

The above two functions have been implemented through the use of direct governmental institutions such as Ministries, Department and Statutory bodies. Under the present administrative set-up more than 18 Ministries are directly engaged in the SME development activities and the services offered by them could be classified in four major categories

a) Policy formation, b) Regulatory functions, c) Support services and d) Coordination. Under the government institution the second layer- government departments are engaged in SME development traditional type regulatory activities such as granting approval, licensing and implementation of various regulatory procedures. The statutory body of the third layer of the government institutions involved in SME development account for more than 50 institutions functioning under different ministries such as SME development activities in skill development, technology transfer and access to markets etc. Also within the introduction of Provincial Council Systems in late 1980s, the public sector institutions were further expanded by another layer at provincial level. Provincial Councils have limited authority to undertake industrial promotion activities within their areas of jurisdiction. More specifically Provincial Councils have authority to prepare industrial development plans, undertake research and development works, industrial promotional activities and coordination with other institutions functioning and central and provincial level.

The Private Sector institutions engaged in SME development could be categorized in four major types: a) Financial institutions, b) Chambers and business promotion organizations, c) Private sector business service providers, and d) Private sector firms.

The first category, the financial institutions, refers to private sector banks and other financial institutions engaged in providing credit support and related business promotion services to SMEs. The second category, the Chamber of Commerce and Industry and other business promotion organizations, refers to a well organized institutional network activity engaged in business promotion and development. It also includes provincial level chambers such as Hambantota Chamber of Commerce Industry and other provincial based chambers. The third category, the Private sector business service providers, refers to various types of institutions providing advisory and consultancy services in the fields of management, engineering, legal

matters, product and process technology and information technology. The fourth category refers to well established private sector organizations offering business support services to SMEs operating outside Colombo in the area of technical and managerial skills development, sales and marketing. These programmes are of short duration and targets small-scale enterprises.

In addition to the government and private sector institutions, a large number of NGOs and Bilateral and Multilateral agencies are involved in providing various support services to SMEs. The NGO sector in general covers a highly diverse set of institutions representing both national and international participation in enterprise development. Most of them are confined to selected economic sub-sectors or selected administrative districts of economy and provide skills development programmes on record keeping, accounting procedures, labour management and product development. In addition to skills development the well established NGOs provide a wide range of consultancy and advisory services in the fields of marketing, financing, engineering and preparation of project proposals. The Multilateral and Bilateral donor agencies play an important role in promoting SME sector activities in the economy. In addition to supply of low cost credit, they have been actively involved in capacity building policy reform initiatives jointly with private sector organizations.

## **2.5 Automobile Service stations in the Matara District**

During the last decades the automobile industry has gone through fantastic changes and development. Looking at the growing sales of automobiles each year across the globe, there seems to be no limits. In recent times of economic liberalization, tax benefits and attractive finance schemes and with the increase of income, people are buying more vehicles. For most people, a vehicle is a major investment, second only to buy a house. As a developing country Sri Lankans also pay high attention to vehicles. Not only for the personal needs but also for the industrial needs a vast amount of vehicles are needed.

According to the Sri Lanka Export Development Board, SMEs have been categorized in 30 areas for registration purposes. Under that category Automobile Service centers are categorized as Machinery, equipment and accessories, automobile and vessels. Vehicle related service stations are performing a crucial role to vehicle owners. Vehicle maintenance means keeping all the systems and features functioning as closely as possible to the manufacturer's original design intention. Routine maintenance should be an ongoing process that begins

when the vehicle is new, because any machine that is utilized will also accumulate wear. A vehicle's maintenance needs to help the vehicle start, run and stop as the manufacturer intended, is needed to get maximum amount of performance, reliability and an optimal service life. Periodic inspections of the vehicle's systems are the easiest way to monitor its health. For the performance of the above vehicle related activities, many vehicle repair garages have been established in the Matara district. Most of the stations in the vicinity of the Matara town have experienced a vast demand due to the industrial firms, daily transporting vehicles from other provinces and permanent customer or vehicle owners and government sector vehicles. Other than the town area there are many small scale service stations in the village areas. Therefore it is important to discuss the role of these entrepreneurs as well as their support towards achieving a sustainable development of the country.

SMEs in the Southern Province provide a high contribution to the country's development. SMEs provide a considerable number of products to the society, and help to generate foreign income to the country. During the past decade a considerable number of job opportunities have been provided to the area. But many small scale organizations emerge in an informal way. Therefore most of them are not included in the calculations toward the country development. However the automobile service sector plays a very important task for the performance of existing needs as well as the owners must have technological and innovative capacity to deal with a competitive world. Due to the advancement of the technology automobiles different kinds of vehicles are available in the market. The technology is vastly differing from the early system. The vehicle maintenance and repairing activities are not an easy task. Therefore the owners must have the ability to survive with new systems and also have new technological equipments. If not the owners cannot survive in the business world. Lack of competence and appropriate equipment is a serious threat to these SMEs.



## **CHAPTER 03: LITERATURE REVIEW**

### **3.1 Defining SMEs**

Entrepreneurship is a multi-faceted phenomenon, comprising start-up of new companies (start-up entrepreneurship) as well as the carrying out of new strategic initiatives within existing business (corporate entrepreneurship) (Sciascia S. and Riccardo, 2004).

According to the idea presented by Schumpeter (1934), an entrepreneur is the major agent of economic development, defined by the "carrying out of new combinations", which in turn means "the competitive elimination of the old". The concept of economic development covers the following five cases:

- a) Introduction of a new good or of a new quality of a good;
- b) Introduction of a new method of production;
- c) Opening of a new market;
- d) Conquest of a new source of supply of raw materials or half-manufactured goods;
- e) Carrying out of the new organization of any industry.

SMEs are defined in a variety of ways by various countries using many parameters such as the number of persons employed, amount of capital invested, amount of turnover, nature of the business or a combination of the two or more. According to developed and developing country category, there may be numbers of definitions. The European Union defines SMEs the following way: Small scale businesses consist of fewer than 50 employees and the annual turnover is less than EUR 7 million or the annual balance-sheet total must not exceed EUR 5 million. Medium scale businesses are considered 50-250 people and annual turnover must be less than EUR 40 million or the annual balance-sheet total must not exceed EUR 27 million (Kartiwi M. & MagGregor, 2007). According to the above parameters employment, assets and turnover are highlighted. Even though there is no standard definition of SMEs globally, they follow a fairly clear definition. In countries where there are strong SME sectors, they are as a rule defined by using the number of employees and size of capital. Japan defines SMEs under three categories including manufacturing sector SMEs, wholesaling sector SMEs, retailing and service sector SMEs. The first category includes manufacturing sector SMEs. This sector includes less than 300 employees and 100 million assets. The second category is wholesaling SMEs and it includes less than 100 employees and 30 million assets. The third category is retailing and service sector SMEs and this category represents less than 50 employees and 10 million assets (Hall, 1995).

As a developing country in the region, India defines Small Scale Industry (SSI) in terms of limits on investment in plant and machinery, excluding investment in land and buildings, testing equipments and anti-pollution measures. In the attempt to develop the sector for various purposes, it is advantageous to have a clear definition of SMEs. The World Bank defines enterprise size in Sri Lanka based on the number of employees: those with fewer than 49 employees are small; those with 50-99 employees are medium-sized; and those with more than 100 employees are large. The number of employees as the criterion for size appears reasonable because it distinguishes between enterprises regardless the line of business, and the amount of capital investment must be revised frequently due to inflation (Ponnamperuma, 2000).

Sri Lanka applies different definitions on the concept of SMEs. Different regions and different institutions adopt varying definitions in this regard. Different government agencies use different criteria to identify SMEs. Among these criteria are the number of employees, the size of fixed investments and the nature of the business and the sector (formal or informal), in which the industry operates. There are different terms used in different documents to identify this sector such as: Small and Medium Industries or Enterprises, Rural Enterprises, Small and Medium activities, cottage and Small Scale Industry. Using the size of capital and the number of employees as the criteria, the Industrial Development Board (IDB) defines a small industry as an establishment whose capital investment in plant and machinery does not exceed Rs.4 million (US\$ 40,000) and the total number of regular employees does not exceed 50 persons (Central Bank of Sri Lanka, 1998). The Department of Small Industries (DSI) classifies enterprises with capital investment of less than Rs. 5 million (US\$ 52500) and fewer than 50 employees as SMEs.

It is clear that there are several definitions for SMEs adopted by various institutions in Sri Lanka, and this has led to confusion in identifying SMEs for various supportive measures.

As discussed by Cooray M.N.R & Silva K.R.D. (2007), they have mentioned a widely used definition in Sri Lanka as follows.

**Table 01: Category of SMEs**

| Enterprise | No of Employees | Investment (SLR) |
|------------|-----------------|------------------|
| Small      | 05-50           | Up to 05 million |
| Medium     | 50-120/150      | 05-50 Million    |

(Source: White paper National Strategy for SME development.2002)

According to the government white paper of 2002, the term “enterprise” is defined to include any business activity or enterprise engaged in industry, agro-business and/or services with single, proprietorship, partnership or corporate venture. Having considered the various definitions, the government white paper in Sri Lanka has defined SMEs under the following rule: the assets value of SMEs must not exceed 50 million SLRS excluding land and buildings of the firm.

### 3.1 Who is an Entrepreneur?

An “Entrepreneur” is someone who “organizes, manages and assumes the risks of a business”. The actual role entrepreneurs play in our countries’ economies is much broader than that, even though it is often not a very visible role.

*"All of the economies around the world possess four major resources: land, labor, capital and entrepreneurship. Land represents natural resources—the soil, food crops, trees and lots we build on. Labor represents the farmers, accountants, cab drivers, dry cleaners, assembly-line workers and computer programmers who provide skills and expertise to build products or offer services in exchange for wages and salaries. Capital represents the buildings, equipment, hardware, tools and finances needed for production. **Entrepreneurship represents ideas, innovation, talent, organizational skills and risk.**" [Source: FRB Dallas].*

Colins and Moore (1970: p. 10) “distinguish between organization builders who create new and independent firms and those who perform entrepreneurial functions within already established organizations. Perhaps we are, after all, thinking of the entrepreneur in the way Schumpeter viewed him: ‘everyone is an entrepreneur only when he actually carries out new combinations, and loses that character as soon as he has built up his business’”.

According to the above definitions, there may be special qualities with them. Being an entrepreneur is about more than just starting a business or two, it is about having attitude and drive to succeed in business. As mentioned by Geimure K. in the Entrepreneurial article published on woopidoo.com, all successful entrepreneurs have a similar way of thinking and possess several key personnel qualities that make them so successful in businesses. Those qualities are:

1. An inner drive to succeed: entrepreneurs are driven to succeed and expand their business. They see the bigger picture and are often very ambitious. They set massive goals for themselves and stay committed to achieving them regardless of the obstacles that get in the way.

2. **Strong belief in themselves:** Successful entrepreneur have a healthy opinion of themselves and often have a strong and assertive personality. They are focused and determined to achieve their goals and believe completely in their ability to achieve them. Their self optimism can often be seen by others as flamboyance or arrogance but entrepreneurs are just too focused to spend too much time thinking about un-constructive criticism.
3. **Search for new idea and innovation:** all entrepreneurs have a fascinating desire to do things better and improve their products or services. They are constantly looking for ways to improve. They are creative, innovative and resourceful.
4. **Openness to change:** If something is not working for them they simply change. Entrepreneurs know the importance of keeping on the top of their industry and the only way to being number one is to evolve and change with the time. They are up to date with the latest technology or service techniques and are always ready to change if they see a new opportunity arise.
5. **Competitive by nature:** successful entrepreneurs thrive on competition. The only ways to reach their goals and live up to their self imposed high standards is to compete with other successful businesses.
6. **Highly motivated and energetic:** entrepreneurs are always on the move, and full of energy. They are driven to successes and have an abundance of self motivation. The high standards and ambition of many entrepreneurs demand that they have to be motivated.
7. **Accepting constructive criticism and rejection:** innovative entrepreneurs are often at the forefront of their industry so they hear the words “it can’t be done” quite a bit. They readjust their path if the criticism is constructive and useful to their overall plan, otherwise they will simply disregard the comments as pessimism. Also, the best entrepreneurs know that rejection and obstacles are a part of any leading business and they deal with them appropriately.

According to the above qualities that is highlighted they are doing something for the society with their talents.

### **3.2 Significance of SMEs**

According to the SME bank Ltd in Pakistan, SMEs are considered to be the engine of economic growth in both developed and developing countries, as they provide low cost

employment since the unit cost of persons employed are lower for SMEs than for large size units. The following features are important with SMEs.

1. Assist in regional and local development since SMEs accelerate rural industrialization by linking with the more organized urban sector.
2. Help achieve fair and equitable distribution of wealth by regional dispersion of economic activities.
3. Contribute significantly to export revenues because of the low cost labour intensive nature of its products.
4. Have a positive effect on the trade balance since SMEs generally use local raw materials.
5. Assist in fostering a self-help and entrepreneurial culture by bringing together skills and capital through various lending and skills enhancement schemes.
6. Impart the resilience to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self-sufficiency.

In “A review of SMEs in SL”, performed by Gamage A.S (2003), the following is concluded; SMEs play an important role in both developed and developing countries. Their importance is reflected by the absolute number of establishments, generations of employments, contribution to the GDP, embarking on innovations, stimulation of other economic activities. Further it is evidential by Dasanayaka S.W.S.B (2009), The Small and Medium Scale Enterprises are functioning as a lifeline in the informal sector of Sri Lanka due to their significant contribution to overall economy in terms of employment, exports, tax income, innovation, equitable income distribution, social stability, domestic resources usage and regional development.

Having understood the positive impact of the SME development on economic growth, many countries put a lot of efforts to develop this vital sector. In SL too, successive governments have taken various steps to develop SMEs since independence. But the contribution of SMEs to the national economy in SL is still low when compared to other developed and developing countries in the region. According to the recent (2006/07) banking survey done by International Finance Corporation (IFC) of the SME Market, in Sri Lanka, SMEs constitute 80-90% of total establishments and 20% of industrial value added and around 70% of employment opportunities have been generated. It shows the significance of SME sector in Sri Lanka.

There is an urgent need to further improve the inherent capacities and capabilities of these industries to be efficient suppliers. In order to bring this sector to that position, the role that the government has to play is very important. First of all it should have a national policy on SMEs. In order to formulate a national policy, it should recognize the importance of facts such as having a clear definition of SMEs, expanding national support, giving incentives, assistance and tax concessions. Further, creating an inter-industry linkage and establishing funding institutions such as the Enterprise Development Bank, providing seed capital to SMEs at low interest rates, and which gives easy access, are very important.

According to Richard P. (2002), the reason for collapses of SMEs are the following: Low quality products, lack of skilled training, government policies and lack of markets, lack of financial facilities, difficulties of finding raw material, high cost of finance, poor management, high competition and existence of substitutes, lack of relevant information on markets and technology and labour problems. According to the above problems faced by SMEs, government and NGO participation is needed to overcome those constrains.

Having understood the positive impact of SMEs on development and economic growth, successive governments in Sri Lanka since independence have taken various steps towards the development of this vital sector. This is reflected in the creation of various policies, provision of institutional support by establishing a considerable number of supportive institutions and organizing various entrepreneurship and small business development programs.

### **3.3 The Private-public participation (PPP) and its benefits to SMEs**

According to Minna (2007), the Executive Governor in Niger State has a Policy and Operational Guidelines for PPP. The guidelines points out what PPP is and its special features, ways of PPP and its benefits etc.

The concept of PPP has evolved for centuries in the USA and Europe but has become more prominent in recent decades in local economic development. PPP is the idea of bringing in private finance to finance public sector infrastructure originated with the early occurrences of PPP. It is further referred to as a contractual arrangement between a public sector agency and a for-profit private sector concern, whereby resources and risks are shared for the purpose of delivery of a public service or development of public infrastructure. PPP arrangements are growing in use and acceptance as an alternative and effective method to organize additional financial resources and benefits from private sector efficiencies. PPP is not the only method to

deliver project financing and realization. It does not provide a miracle solution or a quick fix and should only be used where appropriate and where it is able to deliver clear advantages and benefits. A multitude of PPP structures exist and must be selected according to project type, needs and sector because there is no single perfect model. The special features of PPP are as followings.

- i. Partnership involves two or more actors at least one of which is public and another from the private business sector.
- ii. Each participant is a principal, capable of bargaining on its own behalf rather than having to refer back to other sources of authority. Hence, the public sector has to set-up a special agency/unit capable of entering into partnership before collaboration becomes possible.
- iii. Establishment of an enduring and stable relationship among partners. The parameters are negotiated among partners from the onset.
- iv. Each of the participants brings something (resources material or immaterial) to the partnership to become genuine relationship.
- v. There are some shared responsibilities activities and outcomes that imply partnership.

PPP applications can be achieved in a wide spectrum of activities especially in the areas of services, Infrastructure, Agriculture, Environment, water, education, health and Sanitation etc. PPP is a generalized term where synergy can be establish beyond public and private sectors. PPP synergy also exists between the public and Non-Governmental Organizations (NGOs). It could also be between the private sector and Community Based Organizations (CBOs) and it could be between NGOs and CBOs. The main features of PPP are seen to be manifested in all these synergy. The following benefits can be expected through PPP.

- i. Enhance government's capacity to develop integrated solutions to infrastructure provision,
- ii. Facilitate creative, innovative, cost reducing and faster approaches to project implementation.
- iii. Transfer or allocate certain risks which are inherent to project partners on agreed sharing formula.
- iv. Enhance public management, improved quality service and generation of additional revenues.
- v. Facilitate access to skills, experience and technology while enhancing transfer and acquisition of technical knowhow.

### **3.4 Institutional Support for Development of SMEs: Historical overview of Sri Lanka**

As mentioned by Gamage A.S. (2003) under a review of SMEs development in Sri Lanka, he has discussed about the different kinds of institutions which support for the enhancement of SMEs related activities in Sri Lanka. Those supportive bodies are as below.

#### **3.4.1 Ceylon Institute of Scientific and Industrial Research (CISIR)**

The establishment of the Ceylon Institute of Scientific and Industrial Research (CISIR) in 1955 has contributed to the development and dissemination of appropriate technology to enhance the efficiency and productivity of SMEs. Over the years, the CISIR has catered for technology requirements of cottage and small scale industries especially in the areas of agro- and food processing and preserving, wood and wood products, leather products, chemical products, and paper and paper products.

#### **3.4.2 Department of Rural Development and Cottage Industries**

The Department of Rural Development and Cottage Industries was established in 1957 as the main institution responsible for promoting the cottage industrial sector. The Department was renamed as the Department of Rural Development and Small Industries in 1968 and its scope of activities was expanded to include industries such as power looms, hand looms, carpentry, commercial pottery and coir fiber. In 1993, the Department of Small Industries was wound-up and its duties and functions were allocated to the provincial councils.

#### **3.4.3 People's Bank and the Bank of Ceylon**

The establishment of People's Bank and the nationalization of Bank of Ceylon in 1961 were land marks in providing institutional credit to SMEs. Bank of Ceylon branches and its sub offices at Agrarian Services Centers provided credit facilities under special programs to SMEs. Some domestic private banks have also introduced special facilities to these industries with the expansion of their branch network.

#### **3.4.4 Laksala**

With the objective of helping to solve marketing problems of handicraft industrialists, "Laksala" was established in 1964. With a view to promoting the export orientation of the Small Business sector, the Department of Handicraft Marketing and Export Promotion was

established in 1980 by amalgamating Laksala and other handicraft marketing centers. In 1982, Sri Lanka Handicraft Board was established in place of this Department.

#### **3.4.5 Industrial Development Board (IDB)**

With the main objectives of encouraging, promoting and developing SMEs in Sri Lanka, the Industrial Development Board (IDB) was established in 1969. The IDB is considered to be the chief industrial extension institution in the country and was armed with regional offices and industrial extension offices. Over the years, the IDB has concentrated mainly on the development and dissemination of appropriate technologies, marketing facilities and in some cases, financial facilities and conducting entrepreneurship training and Small Business training for the small scale industrial sector.

The Small Scale Industries Credit Scheme (SSI) was introduced in 1974 in order to enlarge the small industry sector credit base. The Central Bank offered credit guarantees from July 1979 on SMI loans provided with financial assistance from the International Development Association (IDA).

#### **3.4.6 Department of Textile**

In 1976, the Textile Department was created in view of the importance of textile production as a small industry. In 1984, the Sri Lanka National Design Center (NDC) was established in order to assist the cottage industrial sector through improvement of craft design and the development of new designs, better utilization of raw materials, the development of new production methods, the improvement of local design capability, assistance in market research and the organization of training programs in the field of design, product development and market promotion.

#### **3.4.7 National Development Bank (NDB)**

In 1979 the Government established the National Development Bank with the primary objective of providing project finance for large industries, agriculture and commerce. A secondary objective was to ensure that small industrialists are given access to project finance on the same terms and conditions as afforded to large borrowers. Accordingly, the Small and Medium Industries Loan Scheme was initiated in 1979.

#### **3.4.8 Small Enterprise Development Division (SEDD) of Ministry of Youth Affairs & Sports**

The self-employment programs assisted by the Ministry of Youth Affairs and Sports (MYUAS), as well as several non-government organizations (NGOs) and private institutions have also helped the promotion of the SME sector in the country. In this respect, a separate Small Enterprise Development Division (SEDD) was established under the Ministry of Youth Affairs and Sports in 1984 with the objectives of formulating strategies and policies for stimulating self-employment and small scale enterprises.

#### **3.4.9 Regional Rural Development Bank (RRDB)**

The establishment of the Regional Rural Development Bank (RRDB) in 1985 made available an additional credit outlet to the small scale business sector. Several micro credit schemes were implemented by these banks. The Janasaviya Trust Fund, the Samurdhi Development Loan Scheme or SAHANA for Samurdhi beneficiaries and “Surathura Diriya” also provide financial assistance to this sector.

#### **3.4.10 Enterprise Promotion Bank (SME Bank)**

The government of Sri Lanka has realized the importance of SMEs for its economy and as a result, it has taken the initiative in setting up a new licensed specialized bank called the SME Bank in year 2005. The purpose of establishing the SME Bank is to promote the macro, Small and Medium enterprises via the provision of financial and technical assistance on a vigorous and sustainable basis

#### **3.4.11 The Ceylon Chamber of Commerce**

While the Ceylon Chamber of Commerce started in 1839, it was incorporated in 1895 under the Ceylon Chamber of Commerce Act. The main expectation is to be the most influential and effective voice to National Economic Development within the framework of sustainable social equity.

As mentioned by the government web site of Ministry of Enterprise Development and Investment Promotion, current investment promotions have a significant role in enhancing the economic development of Sri Lanka. Under the “Mahinda Chinthanaya” manifesto presented by his excellence the president, various special incentive schemes and programs have been introduced with the objective of facilitating and encouraging investors as no other countries of the region is providing, so that investors can implement their projects in a hassle free

atmosphere in Sri Lanka. Several development programs have been introduced by the ministry. Some of them are as follows.

- **New credit assistance programs**

The objectives are to create a dynamic SME sector, enhance its capabilities and competitiveness, create jobs and, in doing so reduce poverty. These objectives are to be achieved through an integrated approach which includes a line of credit of US \$ 60 million, to participatory credit institutions to improve SMEs access to finance. The bank of DFCC, National Development Bank, Commercial Bank and Sampath Bank have been linked for this purpose.

- **Business Service Support Facilities (BDS)**

The objectives of this programme are as follows: To facilitate business development services, to help to enhance their market growth by promoting demand for an efficient supply of sustainable development services to meet the growth needs of the SME sector, To support an innovative and flexible approach in building the capacity of business development services providers to be responsive to a broad range of SME strategic and operational non loan service needs, to pursue an integrated approach to establishing effective coordination, interaction, networking and linkages within an expanding business development service provider community, and among those public , private and donor organizations contributing to SME sector business development services expansion. This program has been implemented with the support of three partner organizations, namely the Sri Lanka Business Development Center (SLBDC), the Industrial Service Bureau (ISB), and the Sarvodaya Economic Enterprise Development Service (SEEDS) Ltd. to create a network of six regional business development centers (Colombo, Kandy, Kurunagala, Matara, Trincomalee and Jafna) to serve as lead BDS outreach facilitators in promoting BDS market growth throughout the country.

#### **3.4.12 Small and Micro Industries Leader and Entrepreneurs Promotion Project (SMILE)**

The objective of SMILE was to promote stable and balanced economic growth in Sri Lanka through providing capital to small and micro scale industries, developing managerial, accounting and technical skills of small and micro industries and strengthening institutional capabilities of intermediary financial institutions. Basically it provides General loans and Technical transfer loans.

- **General loans** are offered to small and micro scale industries and shall contribute, either in generating additional productive capacity, in allowing enterprises to enhance their

level of operation, in improving the quality of products, and or in improving competitiveness of products.

- **Technical transfer loans** cover the cost of training to develop end-user's technical, managerial and accounting skills or to cover the cost of consultancy services and/or to purchase equipment for quality control.

### **3.4.13 Environmentally Friendly Solutions Fund II (E-Friends II)**

The objectives of this fund are to assist enterprises in finding solutions to the environmental problems, such as industrial pollution caused by their manufacturing and energy consumption, by providing capital through loans to sub-projects with the purpose of improving the environment and meet the environmental safety standards. It shall also provide financial assistance and support the establishment of revolving funds to continue financial assistance to environmental sub projects on sustainable basis. The third objective is to assist enterprises in implementing environmentally friendly sub projects by providing loans for technical transfer.

With reference to the above findings it is highlighted that the SMEs related supportive services have been increased respectively. Every government has highlighted the importance of the SME sector for economic development purposes of the country. In addition to economic development the current SME sector has been organized to achieve sustainable development goals of the country.

### **3.4.14 Asian Development Bank (ADB)**

ADB is a regional development bank established on 22 August 1966 to facilitate economic development of countries in Asia. The bank admits the members of the United Nations Economic and Social Commission for Asian and Pacific (UNESCAP) and non regional developed countries. From 31 members at its establishment, ADB now has 67 members of which 48 are from within Asia and pacific and 19 outside. ADB was modeled closely on the World Bank. The vision of ADB is “an Asian and pacific region free of poverty”. ADB's mission is to help its developing member countries reduce poverty and improving living conditions and quality of life. To fulfill its mission ADB promotes the economic growth and social development of its developing member countries by means of a wide range of activities and initiatives.

ADB finances loan projects and programmes in the territories of its developing member countries. It also provides technical assistance, grants, guaranties and equity investments.

ADB also facilitates policy dialogues provides advisory services and mobilizes financial resources, through co financing operations that tap official, commercial and export credit sources. This maximizes the development impact of its assistance. Operations are financed from ordinary capital resources and special funds. Sri Lanka is a founding member of ADB which was established in 1966. The country has since received \$5.14 billion for 155 sovereign and non-sovereign loans and \$ 110.70 million for 245 technical assistance projects.

### **3.4. Measuring Performance in SMEs**

As previously discussed there is no exact definition for SMEs. As a consequence it is very difficult to discuss the method of outcome measurement of SMEs. Different users use different definitions for their usages. So outcome measurements also vary. According to Srinivasan, Woo & Cooper (1994), the most frequently used criteria for organizational performances are survival of the organizations, growth in employees, and profitability. Firm growth has also been cited as key measure of performance in prior research (Haber and Reichel 2005). It does not seem to be an accepted method of measuring small and Medium Enterprises' performance similar to the economic measures routinely used for large firms. Murphy, Trailer and Hill (1996) suggested that "Accurate performance measurement is critical to understanding new venture and small business success and failure".

The various measures of business performance include longevity of survival or more popularly, the age of the enterprise, sales growth in market share, growth in market scope (local, national or international), growth in investment (in the same unit), additional units created via acquisition and diversification growth in number of employees, profits and so on. Most of these are physical growth and financial growth parameters and have been the traditional measures of entrepreneurial performance. Of late, other measures of performance such as customers' satisfaction, employee satisfaction, image and credit rating are also becoming increasingly relevant. According to the prior research by Lichtenstein and Lyon (1996, 2001, 2002) as cited in the website article on "entrepreneurial vs. experts: Which skills are critical to success?" a set of seventeen entrepreneurial skills were identified as critical to enterprise success. It was described under four major categories as follows: 1. Technical skills, 2. Managerial skills, 3. Entrepreneurial skills, and 4. Personal maturity skills.

### **3.5 Sustainable development and its approaches**

The Brundtland Commission's original definition of sustainable development can be paraphrased as "meeting the needs of the present generation without jeopardizing the ability of future generations to meet their needs" (WECD, 1987). Munasinghe M. (1992) mentions it as a contribution to better define, analyze, and implement sustainable development. Further he proposed the term "sustainomics" to describe "a transdisciplinary, integrative, comprehensive, balanced, heuristic and practical framework for making development more sustainable."

"Sustainomics" broadly describes sustainable development as "a process for improving the range of opportunities that will enable individual human beings and communities to achieve their aspirations and full potential over a sustained period of time, while maintaining the resilience of economic, social and environmental systems." This definition recognizes that development of economic, social and ecological systems depend on expanding the set of opportunities for their improvement. Meanwhile, the sustainability of systems will be enhanced by improving their flexibility and adaptive capacity. Based on this approach, a more focused and practical approach towards making development more sustainable also emerged, which sought "continuing improvements in the present quality of life at a lower intensity of resource use, thereby leaving behind for future generations an undiminished stock of productive assets (manufactured, natural and social capital) that will enhance opportunities for improving their quality of life". This evolution of ideas takes us beyond the traditional concepts of "development" which relates to broadly improving the well-being of individuals and communities, and "growth", which refers to increases in economic output or value added in goods and services, conventionally measured by gross national product, etc. The basic idea about sustainomics has been sketched out using a sustainable development triangle including economical, social and environmental aspects. The economy is geared mainly towards improving human welfare, primarily through increases in the consumption of goods and services. The environmental domain focuses on protection of the integrity and resilience of ecological systems. The social domain emphasizes the enrichment of human relationships and achievement of individual and group aspirations.

The World Commission Unit (IUCN, 2006), through a Pictorial Visualization Models (Venn diagram) has depicted sustainable development as three overlapping circles under the dimensions of Economical, Social and Environmental. It is shown as figure 02. These overlapping circles cover a very wide range of objectives and indicators. It has basically three

main areas of economical, social and environmental dimensions. For the achievement of the overall sustainability it is needed to complete two approaches including interdisciplinary approach and transdisciplinary approach. The interdisciplinary approach shows the overlapping circles of economic, social and environmental development. The transdisciplinary approach shows the ecological economies, community health and sense of place as mentioned on figure 02. .

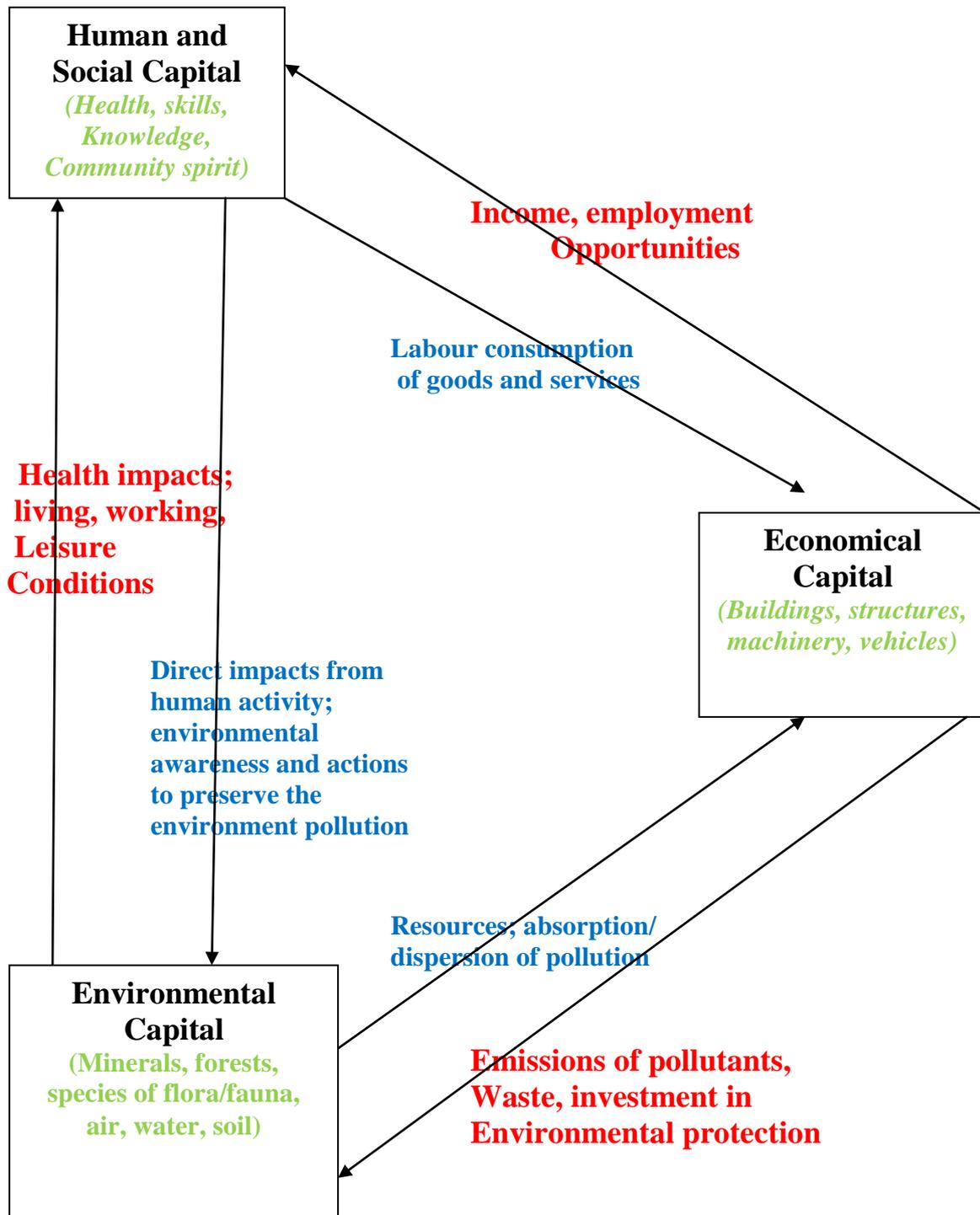
**Figure 02: Venn diagram**



*(Source: Todorov V.I. & Morinova, Models of Sustainability, 18th World IMACS / MODSIM Congress, Cairns, Australia 13-17 July 2009).*

Since sustainable development covers a very wide range of objectives and indicators, an organizing framework is helpful in highlighting key areas and priorities, and the links between the issues and indicators. There is no international consensus on a particular framework. But other countries or international organizations have based their analyses on the above discussed three main areas of economical, social and environmental issues. The following model (figure: 03: Criteria for sustainable development) is submitted as the framework of the United Kingdom Strategy and indicators for sustainable development. It will be helpful to create a clear picture in our minds what sustainable development is.

**Figure-03: Criteria for Sustainable Development**



(Source: <http://www.environment.detr.gov.uk/sustainable/index.htm>).

The intention here is to show how issues are linked to the headline indicators of economical, social and environmental indicators. “Economical capital” is defined as sufficient surplus to maintain solvency at a given level of risk tolerance, over a specific time horizon. As defined by Nahapiet J. & Ghoshal S. (1997), “Social capital” is the actual and potential resources embedded within, available through and derived from the network of relationships possessed by an individual or organization. By “Human capital” is meant the time, experience, knowledge and abilities of an individual household or a generation, which can be used in a production process (Husz: 1998). Further it can be defined as an investment. The other main criteria “Environmental capital” refers to all the resources of the earth (Edwards: 2002). These resources include the atmosphere, fresh water and ground water, land, biodiversity and capital employed by industries such as construction. Further Economical capital also includes negative values such as pollution, contamination and desertification.

### **3.6 SMEs and Environmental Issues:**

Starkey (1998), has explained more valuable information for environmental management tools in SMEs. In Europe around 80%-90% of all enterprises are SMEs. Hence the environment management is very valuable task for them. The role of SMEs in protecting and improving the environment, through their production and marketing of environmental technologies (for energy efficiency, waste minimization, renewable energy etc.), is likely to be significant. The future contribution of SMEs to improving society’s “eco-efficiency”, through innovation is also likely to be substantial, given the leading role of SMEs in general innovation and their flexibility. Most SMEs perceive environment improvement as a costly burden. As they are primarily concerned with short-term economic survival, they are not motivated to ask for, or use, environmental information or support. However, it is clear from the environmental technologies supplied by some SMEs, and substantial gains (both financial and environment) made by the few SMEs who have adopted “clean production”, that action on their environmental performance can be an opportunity for many SMEs to improve their market share and profitability. As mentioned by Starkey, business activity has a substantial impact on the environment. They are as follows.

- The manufacture of products involves extracting raw materials from the environment and processing them to produce salable items. As a result of the production process, various forms of waste (solid, liquid and gaseous) enter the environment.

- The activities surrounding the manufacturing process such as maintenance of plants and infrastructure and the packing and transport of goods all have environmental impacts.
- In addition the products that are produced will eventually be disposed of and enter the environment as waste.
- The provision of services also results in a significant environmental impact. Service companies use various products and also energy to deliver their services, both of which result in waste entering the environment.

As mentioned by the above situation of SMEs, Starkey (1998) claims that there are a number of advantages to undertaking environmental management. These include,

- Cost Saving
- Ensuring legislative compliance
- Anticipating future legislations
- Reduce environmental risk
- Meeting supply chain requirements
- Improved relations with regulators
- Improved public image
- Increased market opportunities
- Employee enthusiasm

Though there are a number of advantages to SMEs with environmental management, they have no proper attention towards it. SMEs do not undertake environmental management as they feel that they have neither the time nor the money to do so. SMEs often have to concentrate their efforts on matters of day-to-day survival such as paying bills, providing weekly pay packets and keeping orders coming in. Environmental management requires time to implement and money to undertake, time and money which SMEs feel they do not have available. In short environmental management is seen as a luxury that SMEs cannot afford.

In the early 1990s The International Organization for Standardization (ISO), recognized the needs for standardization in the field of environmental management tools and in 1993 it set up a committee to write standards relating to the following five environmental management tools.

- Environmental management system
- Environmental auditing
- Environmental labeling
- Life cycle assessment
- Environmental indicators.

Further the International Standard of ISO 26000: 2010 provides guidance for social responsibility. It aims to be a first step in helping all types of organization in both the private and public sectors to consider implementing ISO 26000 as a way to achieve the benefits of operating in a socially responsible manner. The objective is social responsibility is to contribute to sustainable development. The perception and reality of organization's performance on social responsibility can influence among other things:

- Competitive advantage
- Reputation
- Ability to attract and retain workers or members, clients, customers and users
- Maintenance of employees' moral, commitment and productivity
- View of investors, owners, donors, sponsors and financial community
- Relationship with companies, governments, the media, suppliers, peers, customers and community in which it operates.

### **3.7 SMEs and the Sustainable Development**

In 2007, the Hong Kong University Engineering Alumni Association (HKUEAA) under the topic of SMEs and Sustainable Development undertook the survey to determine whether SMEs in Hong Kong are aware of what sustainable development means to their business. SMEs were chosen as the study target because they represent 98% of total business units in Hong Kong with a total of 271,000 enterprises and employing 1.18 million persons, approximately 50% total working population. The study found that there is a general lack of sustainable development understanding in Hong Kong. Most SMEs are unaware that sustainable development practices could increase their competitiveness in the market place. Further the Hong Kong government's support to SD initiatives will be invaluable to ensure the SMEs' sustainable growth in Hong Kong. According to their survey findings SME awareness of SD are as follows:

There is a very limited understanding of what SD means within the SMEs

- Only 15% of SMEs can relate SD to environmental protection or energy reduction

- 26% think SD relates to labour management and training
- More than 50% of SMEs think SD has to do with business operations and marketing and sales
- 6% of SMEs think SD relates to social welfare

Despite that there is a limited understanding of SMEs on SD, 78% of the surveyed SMEs do engage in some forms of SD practice in their daily work.

- 51% of the SD practices relate to environment measures such as reducing energy consumption and pollution
- 33% of SD practices relate to social aspect such as staff training, training subsidy and career development programs
- 16% of SD practices relate to economic dimensions such as control systems in monitoring cost effectiveness of reducing energy/ materials and employing low skill labor or disabled employees

After explaining the three key elements of SD, the sampled population attached approximately similar importance of these elements to their business:

- 37% environment protection
- 24% of social aspect
- 39% of economic considerations

According to the survey, the perception of entrepreneurs' towards the SD can be highlighted as follows:

- 44% of SMEs say that they have limited resources (both cost and time) for SD initiatives. Survival is the biggest challenge in their day-to-day business.
- 14% of SMEs think it costs too much to implement SD initiatives
- 44% of SMEs comment that the government is not doing enough to promote or support SD in SMEs. The government should take a leading role in the promotion of SD practices in Hong Kong.

Therefore the above discussed three main criteria are essential measurement criteria to assess the SME contribution towards sustainable development.

## **CHAPTER 04: RESEARCH METHODOLOGY**

### **4.1 Research Design**

A research design means structuring all the issues involved in planning and executing a research. It represents the framework for collecting and analyzing data (Bryman, 2008). It represents “an overall view of the method chosen and the reason for that choice” (Saunders et al 2004:31). This research is an empirical study aimed at evaluating the role of SMEs in the Matara District, Sri Lanka and what contribution they provide to achieve sustainable development. While the service sector category of SMEs was aimed for the study, the Automobile Service Stations in Matara district were selected for the sample. Mixed research methods were used because it might be a good idea to mix qualitative and quantitative research methods for optimal retrieval of information. Quantitative and qualitative data were collected through survey methods and interviews with owners of Automobile service agents. At the information collection activity, it was considered to pay attention to three areas to find information. The first was about the existing nature of SMEs, the second was owners’ perceptions towards the private-public corporation and the third was the role of SMEs towards achieving sustainable development of the province.

### **4.2 Conceptualization Variables**

The study was expected to establish the influence of SMEs in relation to the automobile service stations for sustainable development processes of the country. According to the research objectives variables were introduced as depicted below.

With regard to the first objective it was needed to identify the nature of the service sector entrepreneurs. The criteria are mentioned in table 02.

**Table 02: Measurement criteria for existing nature of the entrepreneurs**

|                             |   |
|-----------------------------|---|
| Nature of the Entrepreneurs | Measurement Criteria                                      |
|                             | Ownership of business (single, partnership and company )  |
|                             | Age of business   |
|                             | Number of employees in the firm                           |
|                             | Prioritization of given objectives (Owners’ expectations) |

*(Source: Author, 2011)*

The second objective was to identify government and Non-Governmental Organizations (NGOs) support for the enhancement of the SME sector in Southern SL. The study therefore tried to measure owners’ perceptions in relation to the received cooperation from the above parties. Measurement criteria were:

1. Received business consulting services
2. Received support for solving financial constraints
3. Support for solving taxation related problems
4. Support for training and skill development
5. Support for building networking relations for the improvement of the business
6. Support for solving disaster related problems
7. Provided feedback in relation to the supplied services to the owners of SMEs.

The third objective was to assess the impact of automobile service stations towards sustainable development of the Matara District in the Southern Province of Sri Lanka. The study tries to measure owners’ perceptions of their business under the variables of economic development, social development and environmental development. Criteria are included in table 03.

**Table 03: Measurement criteria for Sustainable Development**

| Variable                     | Measurement Criteria   |
|------------------------------|--|
| Economical<br>Development    | Increasing daily services  |
|                              | Increasing number of services  |
|                              | Increasing number of employees in the organization                         |
|                              | Perception towards profits level   |
|                              | Increases in market shares for the business firm                           |
| Social<br>Development        | Owners' attention to the security condition of employees at the work place |
|                              | Training opportunities given to all employees                              |
|                              | Necessary arrangement for ensuring good health of employees                |
|                              | Provision of welfare facilities to enhance their life cycle                |
|                              | Nature of commitment to perform social responsibilities to the society     |
| Environmental<br>Development | Cleanliness of the firm and its environment                                |
|                              | Drainage system for removing wastage                                       |
|                              | Re-cycling and re-using efforts and re-production of some wasted things    |
|                              | Steps to prevent noise and dust problem                                    |
|                              | Winning certificates held through competition for environment protection   |

*(Source: Author, 2011)*

#### **4.5 Sampling**

All the owners of service sector SMEs in the Southern province were considered as the population of this study. The sample framework was considered as all automobile service stations in the Matara district. 50 owners of automobile service stations were selected as a subset of the population. Convenient sampling techniques were applied. This technique covered at least three service stations under sixteen secretariat divisions in the Matara district.

## **4.6 Data collection methods**

Both primary and secondary data were collected for this study. The techniques for the data collection method which were applicable for the qualitative and quantitative research methods were used. Both primary and secondary data collection methods were mentioned as follows.

### **4.6.1 Self completion questionnaire method**

Questionnaires were administered among the selected entrepreneurs who were involved in automobile services. The questionnaire includes both open ended and closed questions to give their perceptions, preferences and ideas etc. (See appendix I for the questionnaire). The questionnaire consisted basically of three parts and the questions in total were 32. With regards to the research objectives part I of the questionnaire was to find information about the SMEs such as nature of business, age of business, number of employees and owners' expectations etc. In part II, questions were developed to find the owners' perceptions towards the government and NGO sector support. And part III considered the owners' perceptions towards sustainable development goals and their organizations. Five point Likert type scales (strongly disagreed, disagreed, neutral, agreed, and strongly agreed) were applied for the owners' responses on the part two and three of the questionnaire.

### **4.6.2 Interviews**

Both structured and unstructured interviews were used to collect necessary information. A structured interview is when the interviewer has a series of questions written down on a piece of paper and the process involves asking those questions verbatim and then noting the answers given. The officers who are in SEDD and Chamber of commerce in Matara were interviewed in a structured way to collect the information. The appendix-II indicates the used questions for interviews. Further unstructured interviews used to collect extra information from the owners. That information helped to build mini stories of SMEs and to clarify the findings.

### **4.6.3. Observation**

The direct observations were also used for this study as a source of obtaining information. This method could be applied without any harm to the garage (auto service) workers. It could help to observe the different types of behaviours while they are working in garages. Further these observations were helped to examine the facial expressions of the owner while they are

answering the given questions. Further it helped to observe the environment where the garages are normally held.

#### **4.6.4 Secondary data include**

Official statistics and publications from,

- Central bank reports in Sri Lanka
- SME white paper in Sri Lanka
- Publications on the Matara district secretariat
- Research publications and
- Web based data

#### **4.7 Data Analysis and presentation method**

Under the analysis part, it is presented information regarding to the role of Small Enterprise Development Division and Chamber of commerce in Matara. This information was collected through the interviews held with executives of the both organization. Most of the data was collected through the questionnaire survey which was held with the owners of SMEs. The questionnaire consisted with three parts including the role of SMEs, owners' perceptions towards the received support from the PPP and the owners' perceptions towards sustainable development. A five point Likert type response scale ranging from 1 (strongly disagreed) to 5 (strongly agreed) is used to formulate the statements in the questionnaire. The data used in the study were analyzed with the support of Statistical Package for Social Sciences (SPSS). The reliability measurements are submitted to confirm the measurement criteria. It is vital to ensure the reliability of the statements to decide whether questions asked are suitable to measure the owners' perceptions of sustainable development and received support from government and NGO sector towards sustainable development. The Cronbach's Alpha was used for reliability measurement of instruments. Cronbach's Alpha reliability coefficient normally ranges between 0-1. The closer Cronbach's Alpha coefficient is to "01" the greater the internal consistency of the items in the scales. George and Mallery (2003: 231) .provide the following rules of thumb to decide the level of Cronbach Alpha.As they show, If  $r > 0.9$ = excellent,  $r > 0.8$ = good,  $r > 0.7$  =acceptable,  $r > 0.6$  = questionable,  $r > 0.5$  poor and unacceptable".

The analysis part also consists of three main sections. The first of them highlights the role of the service sector SMEs in the Matara district, secondly, it considers the owners' perceptions in relation to the received support through the private-public cooperation for the development

of SMEs and finally it considers the owners' perceptions in relation to the economic, social and environmental factors for sustainable development of the country. A one way ANOVA (Analysis of Variance) was applied to determine the significant differences among the role of SMEs and sustainable development. While the dependent variable was sustainable development, the independent variables were considered as the characteristics of SMEs such as age of business, number of employees and nature of the ownership. Mean and Standard deviation were calculated to identify the central tendency and dispersion of the respondents. Pierson's Correlation was used to identify the relationship between received support and sustainable development of SMEs. Further data presentation was carried through tables and Bar charts to clarify the finding of the study.

#### **4.8. Limitations of the study**

This study focuses on the role of SMEs towards sustainable development goals in the Southern Province of Sri Lanka. This was a somewhat vast study and faced many limitations as well. Though this study focuses on SMEs in the Southern region, it was conducted on only automobile service stations in the Matara district. A sample of automobile service entrepreneurs were selected due to the time and barriers to reach all of them.

Under the private-public partnership, there are many services providing centers that have been established for the enhancement of the SME sector in Sri Lanka. The Southern province chamber of commerce and the SEDD are playing a vital role for the entrepreneur sector development. Therefore both organizations were interviewed to collect information and the researcher asked questions from the owners of SMEs on how they perceive the received support from both the chamber and SEDD in Matara.

Many questions could rise under the received support from the PPP and under the criteria of sustainable development. But limited numbers of questions were entered to the questionnaire under the economic, social and environmental influences. This situation could be managed through the informal questions which were asked by the researcher. Further the owner's attitudes, body language and their facial expressions could be applied to gather more information. The researcher faced some limitation to review relevant information regarding to the economic factors. Some owners have not interest to review their economic position.

## **CHAPTER 05: DATA ANALYSIS AND PRESENTATION**

### **5.1 Role of the Private-Public Participants in the Matara District**

According to the interviews held with Small Enterprise Development Division (SEDD) and the Chamber of Commerce in Matara, the role of them could be understood. As the major players with SMEs they are performing many activities to boost the SMEs in this area.

The SEDD is one of the sections of the District Secretariat in Matara. SEDD has been established under the Ministry of Youth Affairs and Skill Development. There are 16 district offices that have been established to cover 16 districts in Sri Lanka. It has been started with the vision “Entrepreneurship and small business development for sustainable development of the district”. The objectives of this office are as follows:

- i. Improving the entrepreneurial ability among the unemployed younger generation.
- ii. Engaging them in small business activities
- iii. Developing efficiency and effectiveness of the small scale business sector in the area
- iv. Providing all types of business development services for the enhancement of the SME sector to achieve e sustainable development goals in Sri Lanka.

The basic requirement is that any entrepreneur must register his or her business under the relevant SEDD office of the relevant area. It will be the basic information source of the relevant entrepreneurs of the district. This information base (SME profile) will be very useful for any SMEs related activity of any private or public body. While there are numbers of programmes planned for a particular year, the implementation capacity will depend on the allocated budget by the government. Normally they are not providing any funding support to the entrepreneurs. They provide only business consultancy services. As a registered entrepreneur under the government body, these entrepreneurs have received the priority by the others such as funding organizations like banks, NGO support etc.

The following table: 04 shows the programme schedule per year.

**Table 04: Programme schedule of SEDD per year**

| <b>No</b> | <b>Activity</b>  | <b>No: of Days</b> | <b>No: of programmes</b> |
|-----------|--|--------------------|--------------------------|
| 1         | One day Awareness Programme  | 01                 | 120                      |
| 2         | Business Start-up Programme  | 03                 | 30                       |
| 3         | Business attitude Development Programme  | 02                 | 04                       |
| 4         | Technology Programme (according to the programme no of days will be changed)   | Flexible           | 08                       |
| 5         | Follow-up meetings   | 01                 | 08                       |
| 6         | Project Inspections  | Flexible           | 16                       |
| 7         | Productivity Programme   | 05                 | 04                       |
| 8         | Special Attitude Development Programme   | 02                 | 04                       |
| 9         | Trade Fair (for special occasion during the year: new year festival, Christmas, vesak festival.....)                 | 07 or 10           | 04                       |
| 10        | Special Project (Awareness)  | 05                 | 04                       |
| 11        | Officers coordinating Meeting  | 01                 | 04                       |
| 12        | Buyers and Sellers Meeting   | 01                 | 04                       |
| 13        | Re-organizing Society  | 01                 | 04                       |
| 14        | Business Consultancy (marketing , package, accounting legal programmes for SMEs)                                     | 02 Or more than 02 | 04                       |
| 15        | Loan Programme (with funding organization & SMEs)  | 01                 | 04                       |
| 16        | Management Programme   | 05                 | 04                       |
| 17        | Business Clinic (solution for the every problems with SMEs: electricity, water, sanitation, market, promotion etc..) | 01                 | 04                       |
| 18        | Special Trade Fair   | -                  | 04                       |
| 19        | Others programmes due to the existing circumstances.   | -                  | -                        |

(Source: Progamme schedule: 2010, SEDD-Matara)

The Chamber of Commerce in Sri Lanka is having a collection of a provincial network. Within the southern province there are three main offices for each district Galle, Matara and Hambantota. The primary objective is to serve the needs of the members by making available, a wide range of development services, and to help accelerate economic growth and enhance prosperity throughout the district. The foreign agreements are implemented via the Chamber for country development purposes. A key role is to prepare the business community to face challenges by identifying, planning and implementing relevant projects and programmes which will benefit them and the Matara district as a whole. Currently this means ensuring that the business community is properly prepared to take the advantages of the changes that will come to the region as a result of the major development projects already underway or planned for the Southern region.

In the Southern Province the role of the Chamber is vast. Many times they cooperate with SEDD. As the first task they start to deliver their service with Membership Development Task. There are a number of services provided under this section. They are:

- i. Providing guidance and advice for business development
- ii. Provision of business information service
- iii. Financial advice in the area of preparation of project reports to be submitted to lending organizations and financial institutions.
- iv. Organizations of visits by members to national and international events.
- v. Arrangement of training programmes
- vi. Advice and service in information technology.
- vii. Organization of member representation at local and national entrepreneur awards.
- viii. Lobbying and making representations to authorities (Ex: government department) on behalf of members.

The next task of the chamber is providing Business Development Services. Therefore the chamber has coordinated with the financial institutes to obtain business development services for members and prospective members: introducing suitable loan schemes, giving advice to solve their financial requirements, preparing their business plans and coordination with the financial institutions. Their business consultancy services can be classified as follows,

- i. Facilitating book keeping and preparing final accounts
- ii. Preparation of project reports

- iii. Organize entrepreneurship award presentations at national, regional and district level
- iv. Consultation services including improvement of business services, introduction of new business ideas, identification of various projects and provision of advice on obtaining bank loans and other financial support for businesses.

The third task means providing Information Technology (IT) services to SMEs. The Chamber provides all the IT related services including: enhancing IT knowledge and training, developing practices to apply accounting packages, pay role systems, human resource information systems, product designing, checking etc., providing support to maintain computers enabling them to manage backup files, virus guards, computer audits etc. With reference to the above empirical findings, under the section 5.5 of this chapter is considered the owners' perceptions towards the received support by SEDD and chamber.

## 5.2 Few Cases Carries from the Field Survey

### **Case-01: One success Story with KN Motors.....**

Twenty years ago the KN motors was started by Mr: Susith who was a 20 year old boy. During his secondary education period he was fluent with motor mechanic activities. Therefore he could receive the chance to follow a motor mechanic course. At the beginning he started to repair motor bicycles and three-wheelers. As an apprentice he received some support from the SEED, Chamber and Industrial Development board in Matara, both he and his wife committed to develop their business and they could receive the Service Dealership of Devid Pieris Motor Vehicle Company Ltd.(for Bajaj Three Wheelers). The company provided a special support to enhance his business from time to time. He has participated in the following programmes held by the company such as: workshops for Bajaj related maintenance and services, to enhance the awareness with new technology and fitting three wheelers, to manage existing workers, to enhance customer relationship, to develop positive thinking, to manage an eco-friendly environment, introducing 5S system to the garage (auto service center), etc. As he says, he could manage his business activities mentioned under the 5S concept in proper order. Now he knows the concept of "Seiri" (sorting), "Seiton" (set in order), "Seiso" (shiny clean), "Seiketsu" (standardized clean up) and "Shitsuke" (sustain). He always advices and

*Continue case 01.....*

manages his followers to secure these steps for the easiness of the business activities and keeping the Environment. He is doing all kinds of activities such as: engine repairs, vehicle body wash, interior cleaning, oil changing, cut and pushing, running repairs etc. He mentioned, “the company always gets the responsibility to implement activities offered through the training”. As an example the company officers came to the garage and they advised to maintain implemented systems such as 5S system, to implement suggestion boxes, methods to enhance customer relations etc. As he has a considerable amount of employees, the government officers advised him to manage a formal pay system such as paying for Employee Provident Fund (EPF), Employee Thrust Fund (ETF) etc. Unfortunately, due to the tsunami disaster he and his family had to fight with the death. He mentioned “it was my second birth. I lost all the things. But I could save my family. It is enough for me. Now I must build up all the things again for my family”. After the tsunami disaster he received much support such as lower rate loan facilities, technical equipment, counselling etc. from the government and NGO parties as well as Bajaj company. Due to this he could boost-up his business successfully. Now the Devid Peris Company has decided to offer the service dealership of motor cars in near future and he is practicing it. Being a social worker and a reputed person, he is very happy about his success. Now he is a millionaire having a marvelous house, businesses, vehicles etc. As he mentioned that his elder son will become an engineer in near future and it will help for achieving to sustain of his business also.

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### **Case 02 : Story from Amal Motors**

Mr: Amal is running a work shop repairing vehicles with less than 10 employees. He does not like to talk positively about his business and he is suffering from something. He said “being an entrepreneur, I am doing a particular service to this area. I have offered jobs for young males; I am performing my social responsibilities as much as I can. But I haven’t received any support from any government or NGO type organization. The government always keeps behind us and pulls the leg back. It is a very bad practice in our country. It means that officers always come to find my paying process to employees, troubles raised with electricity board and central government authority etc. But I haven’t any political or any other support to solve these problems. So I am not happy about my business, however I must run the business for my survival”.

### **Case 03: Success Story from Sujith Auto Electricals**

Sujith Auto electrical started a small service firm in Matara with his inherited knowledge received from his uncle. Now it is a big company with two branches in Galle and Hambantota. He has employed around 40 employees. The company possesses mobile services also. At the first begging stage he and his wife faced a lot of difficulties to run the business. However both of them were able to develop the business and got the help of business consultancy. While the owner manager had a good creativity and innovative ability, he applied it for his business. Now he is a producer of starter motors, high ampere alternator, IC regulator, coil convertor, turbo timer, and turbo power etc. His services are mainly producing the above products for various parts of the country, offering every kind of maintenance services, vehicle air conditioning, offering mobile service to his customers who are in the country. He is performing well with his clients as well as employees. He always thinks about his social obligations. He said “If we perform our duty to the society, the society will secure us. I have no problem with the government or any other. I am happy to say, I am employing many disabled employees in my company”.

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### **Case 04: a story carries with a courageous widow**

The Preethi motor in Matara is a famous and old age garage. Now the age is passing 35 years with many employees. Mr. Preethi was the pioneer of this business and passed away 15 years ago. He started the business when he was very young and he had a good ability for motor mechanic. He was an excellent person for car race. Therefore day by day he became a famous person in the automobile sector. He always received support from his wife and parents. After his death, the widow could manage the business well and today this business is very famous for the vehicle repair, spare parts as well as for other services such as: issuing validation reports, insurance complains etc. They have provided their services to the vehicles of both vehicles private and government sector vehicles. As a good woman entrepreneur she said “*I could not bear the departure of my husband. It was very sorrowful to me and my kids. But I must not destroy the effort of my husband. I think that I received the courage from my husband and I could survive in the business world successfully*”

(Source: Author, 2011)

### 5.3 Reliability Analysis

It is vital to ensure the reliability whether the applied variables are suitable to measure sustainable development or not. As point out by Choudhury A. (2010) Cronbach's Alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. According to George and Mallery (2003: 231), the acceptance level of the reliability value (Cronbach's Alpha) must be higher than 0.7 ( $>0.7$ ). If the Cronbach's Alpha is higher than 0.7, these questions are suitable measurements. On the other hand, these questions are not suitable to measure sustainable development, if this Cronbach's Alpha is less than 0.6.

The table 05 shows the reliability analysis of questions which was used to measure the variable on received support from private-public cooperation towards the development of SMEs. It included 08 items to clarify the nature of received support. All Cronbach's Alpha is more than 0.7 and value received for overall Cronbach's Alpha is 0.904. Therefore the used measurements are highly reliable. The table 06 demonstrates values received for all variables with regard to the perceived importance of economical, social and environmental dimensions. Here all Cronbach's are more than 0.7. So it provides a clear idea about the reliability of the criteria. The overall value is 0.784. It means that all the measurements used to measure sustainable development are valid.

**Table 05: Reliability Analysis of the used criteria for the private- public cooperation**

| Criteria                        | Cronbach's Alpha<br>if Item Deleted |
|---------------------------------|-------------------------------------|
| Business Consultancy Services   | .898                                |
| Financial Support               | .888                                |
| Tax Support                     | .885                                |
| Technical Support               | .891                                |
| Support for networking          | .879                                |
| Support to rebuild the business | .911                                |
| Feedback of provided services   | .891                                |
| Held competitions               | .891                                |
| Overall Cronbach's Alpha        | .904                                |

*(Source: Field survey data: 2011)*

**Table 06: Reliability analysis of the criteria of sustainable development**

| <b>Dimensons</b>               | <b>Cronbach's Alpha if<br/>Item Deleted</b> |
|--------------------------------|---|
| <b>Economic Dimensions:</b>    |   |
| No of Daily Services           | .791  |
| Type of Services               | .735  |
| No of Employees                | .708  |
| Profit Level                   | .774  |
| Market Share                   | .752  |
| <b>Social Dimensions:</b>      |   |
| Employee Safety                | .779  |
| Training Opportunities         | .777  |
| Employee Health                | .765  |
| Employee Benefits              | .792  |
| Social Responsibilities        | .754  |
| <b>Environment Dimensions:</b> |   |
| Attractiveness of Environment  | .760  |
| Drainage System                | .742  |
| Recycling Wastage              | .785  |
| Noise & Dust Control           | .797  |
| Received Certificates          | .703  |
| Overall Cronbach's Alpha       | .784  |

(Source: Field survey data: 2011)

#### **5.4 Role of the service sector SMEs in the Matara district**

There are four variables are used to analyze the role of the service sector SMEs. It includes the ownership of SMEs, age of the business, number of employees that have been employed and the owners' expectations with their businesses. This evaluation provides exact situation of the SME sector in the Matara district.

**Table-07: The nature of the ownership**

| <b>Ownership</b> | <b>Frequency</b> | <b>Valid Percent</b> | <b>Cumulative Percent</b> |
|------------------|------------------|----------------------|---------------------------|
| Single Ownership | 28               | 56.0                 | 56.0                      |
| Partnership      | 15               | 30.0                 | 86.0                      |
| Company          | 7                | 14.0                 | 100.0                     |
| Total            | 50               | 100.0                |                           |

*(Source: Field survey data: 2011)*

According to the automobile service sector survey, the ownership was categorizing three ways (table 07) such as single ownership, partnership and company. The survey data highlights that more than 50% of service sectors are single ownership businesses. Other 1/3 of 50 service sectors are partnership. Very limited numbers of businesses are company type businesses.

**Table-08: Age of the business**

| <b>Age category (years)</b> | <b>Frequency</b> | <b>Valid Percent</b> | <b>Cumulative Percent</b> |
|-----------------------------|------------------|----------------------|---------------------------|
| between 01-05               | 3                | 6.0                  | 6.0                       |
| between 05-10               | 7                | 14.0                 | 20.0                      |
| between 10-20               | 24               | 48.0                 | 68.0                      |
| More than 20                | 16               | 32.0                 | 100.0                     |
| Total                       | 50               | 100.0                |                           |

*(Source: Field survey data: 2011)*

The table 08 shows the age of the businesses. It has been divided into four groups. They are between 1-5 years, between 5-10 years, between 10-20 years and more than 20 years. According to the sample, around 20% of it includes the age category less than 10 years. Between 10-20 years businesses are having around 50% of the sample. It was the highest representation. Around 32% of SMEs are having more than 20 years of age. The age of the businesses is very important to decide the nature of stability of SMEs. It is an evidence for their continuous service to the society.

**Table-09: Number of employees in the business**

| <b>Employment category (number)</b> | <b>Frequency</b> | <b>Valid Percent</b> | <b>Cumulative Percent</b> |
|-------------------------------------|------------------|----------------------|---------------------------|
| Below 5                             | 7                | 14.0                 | 14.0                      |
| Between 5-15                        | 7                | 14.0                 | 28.0                      |
| Between 15-25                       | 15               | 30.0                 | 58.0                      |
| Between 25-50                       | 18               | 36.0                 | 94.0                      |
| Between 50-100                      | 3                | 6.0                  | 100.0                     |
| Total                               | 50               | 100.0                |                           |

*(Source: Field survey data: 2011)*

Table 09 demonstrates the number of employees in selected SMEs. Around 28% of the sample is having less than 15 employees. 15-25 employees are in 30% of the businesses of the selected sample. Around 1/3 of the sample has 25-50 employees. Very few SMEs have employed more than 50 employees in their businesses.

According to the selected sample around 95% of the sample is represented as small scale businesses due to the number of employees (see table 9) engaging in businesses. Only three businesses have employed more than 50 employees. According to the above table 7, 8 and 9 it clearly shows that most of the automobile services are single owned businesses. The age of many of the organizations are more than 10 years. Also they have provided many employment opportunities to the society. According to the above details it is evident that many service stations are maintaining as small scale businesses in this area and they have been operating more than 20 years. It means that the automobile sector contributes considerably to the development of the area. Though many of SMEs are single owned they have provided many job opportunities to the society as well as they have the ability to continue their businesses. Many of the businesses of the sample have more than 10 years of lifetime.

**Photo 01: Small scale three wheeler service station**



*(Source: Author2011)*

The photo 01 shows the small scale three wheeler service garage. This is a single owned service station and it is more than 20 years old about 15 employees. The photo 02 depicts a company type service station with more than 50 employees.

**Photo 02: Company Type vehicle service station**



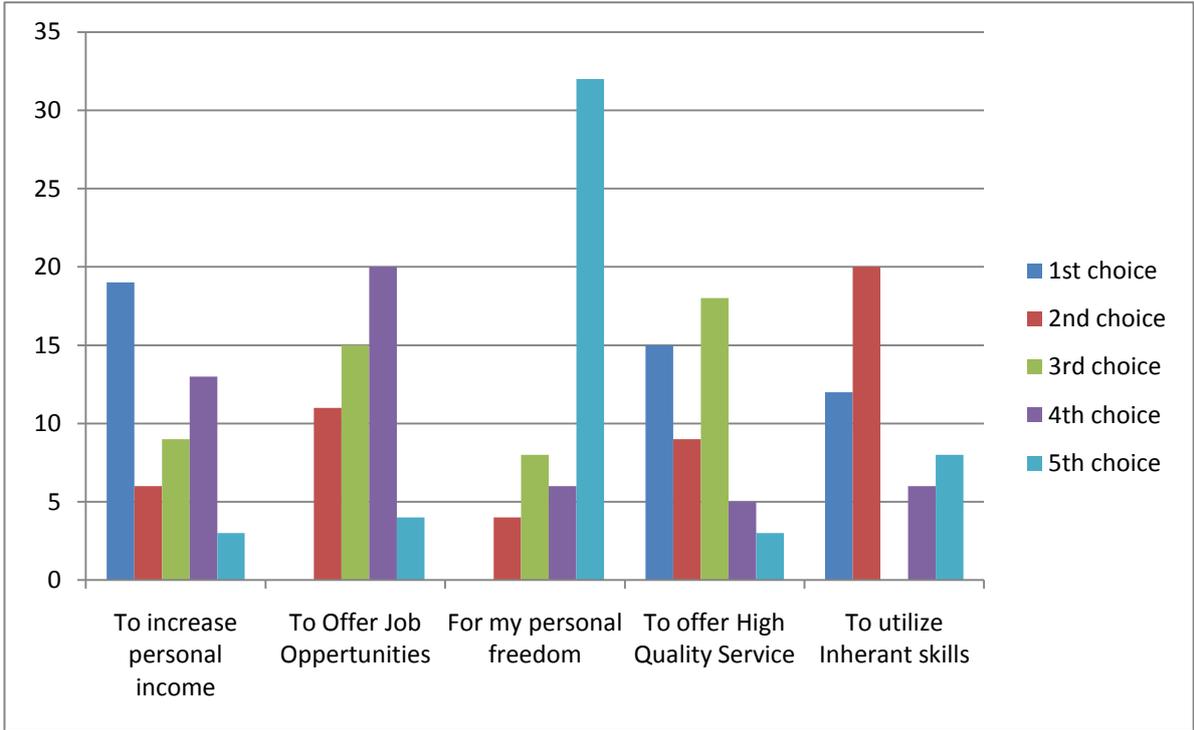
*(Source: Author, 2011)*

**Table-10: Expectations of Entrepreneurs**

|            | To Increase Personal Income | To offer job opportunities | For My Personal Freedom | To Offer High Quality Service | To Use Inherent Skills |
|------------|-----------------------------|----------------------------|-------------------------|-------------------------------|------------------------|
| 1st choice | 25                          | 0                          | 0                       | 9                             | 12                     |
| 2nd choice | 6                           | 11                         | 4                       | 21                            | 24                     |
| 3rd choice | 9                           | 15                         | 8                       | 12                            | 0                      |
| 4th choice | 7                           | 20                         | 6                       | 5                             | 6                      |
| 5th choice | 3                           | 4                          | 32                      | 3                             | 8                      |
| Total      | 50                          | 50                         | 50                      | 50                            | 50                     |

(Source: Field survey data: 2011)

**Figure 04: Expectations of Entrepreneurs**



(Source: Field survey data: 2011)

According to the table 10 and figure 04, five types of owners’ expectations have been categorized upon their preferences. Exactly 50% of the sample expects to increase their personal income. It was the 1<sup>st</sup> choice. Under the case 01: the owner manager mentioned that

he hoped to rebuild his business after the tsunami on behalf of his family because, the personal income is the first. It is evident from the figure 04; most of the owners expect to earn more economic benefits from their businesses. The second choice is to use inherent skills and to offer high quality service to the society and it is a very important incident to clarify. The inherent skills and quality services are interrelated terms. If anyone has inherent skills for the motor vehicles he has the opportunity to deliver quality services and to become popular among the customers. As mentioned by the Preethi motors (case 04) due to his inherent skills he could earn more. He sacrificed all his time for motor vehicles and he could become a regular winner of motor vehicle races also. The most important thing of the third and the fourth choices is to offer job opportunities to the society. All the owners are happy to offer jobs to young males and they are satisfied about it. All the owners of the above four cases (KN Motors, Amal, Sujith and Preethi motors) said that they are happy to offer job opportunities and they have provided training opportunities to the trainees who are coming from the government institutions such as technical colleges, training centers etc. The fifth preference of the owners is to manage their personal freedom. It has become the last choice. According to the discussions held with them, they said that they have no freedom from work. They have sacrificed their whole life for their businesses. Therefore it has become the final choice. As the owners have to handle all the task such as received orders, arrangement of payments, money transactions, family matters, social matters etc they have no any freedom.

Under the role of the automobile service sector it is important to consider what they are doing and how they combine their businesses towards the development of the country. Therefore, the owners' expectations of the southern service sector can be described as following: As an entrepreneur, first they expect to increase their earnings through the business and the priority has been given to it. After accomplishing it they like to offer high quality services to their customers as well as to utilize their inherent skills to their businesses. Having inherent technical skills is an added advantage for those employers. It means that they could have received the opportunity to create new equipment, extra parts to offer quality services as well as to fit with the new technology etc. After that many of them would like to offer more job opportunities to the society. The last choice they have mentioned is the personal freedom. It is highlighted that no one considers their personal freedom as the most important choice. They have other important expectations other than the personal freedom.

According to the above related issues it is highlighted that owners who have belonged to the automobile service centers give their contribution to the development of the country. They have high expectations to earn economical achievements. They always think how to increase their income through quality products and their inherent skills. Secondly they try to link with social development by providing job opportunities in their businesses. Further they have high commitments towards the development of their businesses. Without any personal freedom of their own they try to sustain in the business world. Those expectations are very valuable to achieve development needs as well as to manage a long term development. According to the given comments by the owners, further they enjoy the following: achieving high satisfaction through innovations, applying new technological advancement moreover, they expect to become famous persons in the society.

### **5.5: Private-Public Support for the enhancement of the SME sector in Southern of SL**

Information regarding the private-public cooperation was discussed under the chapters of literature findings and the research area. Without any support from the government or any other related area people cannot survive with their businesses. Therefore the owners' perceptions of the received support can be categorized as follows.

**Table 11: Owners' perceptions to the received support from Government and NGOs**

| Support                         | Minimum | Maximum | Mean | Standard Deviation |
|---------------------------------|---------|---------|------|--------------------|
| Business Consultancy Services   | 1       | 5       | 3.34 | 1.118              |
| Financial Support               | 1       | 4       | 2.94 | .935               |
| Tax Support                     | 1       | 4       | 2.66 | .982               |
| Technical Support               | 2       | 5       | 3.28 | .882               |
| Support for networking          | 2       | 4       | 2.94 | .867               |
| Support to rebuild the business | 1       | 4       | 2.90 | 1.111              |
| Feedback of provided services   | 1       | 4       | 2.92 | .922               |
| Held competitions               | 1       | 5       | 3.06 | 1.009              |

*(Source: Field survey data: 2011)*

The role of private-public collaboration within the province was discussed under the topic 5.1. While the Chamber and SEDD have implemented a number of activities, the owners' ideas about them can be highlighted here. The table 11 indicates how they perceive the support provided to the SMEs by the government or any other external parties.

Here the mean value explains the average position of their preference towards the received support. The maximum and the minimum columns show their agreed levels on Likert scales. The standard deviation represents the dispersion level of their preferences.

According to the mean values of received support, the owners' preferences can be ordered as following. Most of them have received business consultancy support, technical support and support to held competitions. According to table 11, more than 03 mean values indicate three times. Many of the owners have a favourable perception on received support to business consultancy services and they could have improved their knowledge to manage their tasks. Especially under the role of the Chamber after a particular programme they held competition and offered awards for their talents. These competitions help to motivate them to manage their businesses properly. Secondly they have appreciated the financial support and received support for net working. Many of the success entrepreneurs mention that they received support from funding institutions as well as loans with lower interest rates through government banks. The lowest mean values are represented on feedback of provided support, received support to re-build the organization and tax support. It means that they have received support from field officers and field officers have visited their work stations. SEDD and the Chamber have used their field officers for the field survey and consultancy service. Flooding and the tsunami had huge impacts in the southern area and SMEs have received support to manage such disasters.

As mentioned by the owner of KN motors, his whole businesses were destroyed due to the tsunami disaster. He has received financial support, technical equipment like generators, tool collections, sheds etc and counselling services. Having favourable idea about it they appreciate received support. According to the idea of owners most of them are suffering from taxation related problems. As Amal motors said that he can't afford the payments to the government. Always he has problems with the officers of the government. He mentioned that some have received good guidance to manage their problems as well as they have received some support from the government or other parties. But Amal did not get any support from the government and other parties. It means that people believe that they have not received

any benefits through those programmes and no positive ideas. Still they are working alone and have no support received from external party. Further Amal has mentioned about the delay of the services provided by these type of organization.

## 5.6 Owners' perceptions in relation to the economical, social and environmental factors towards sustainable development of the country

**Table 12: Perceived importance of Economical Factors**

| <b>Economical Factors</b> | <b>Minimum</b> | <b>Maximum</b> | <b>Mean</b> | <b>Standard Deviation</b> |
|---------------------------|----------------|----------------|-------------|---------------------------|
| Number of Daily Services  | 2              | 5              | 3.52        | .814                      |
| Types of Services         | 2              | 5              | 3.72        | .858                      |
| Number of Employees       | 2              | 5              | 3.92        | .944                      |
| Market Share              | 2              | 5              | 3.78        | .840                      |
| Profit Level              | 2              | 5              | 3.32        | .957                      |

*(Source: Field survey data: 2011)*

For the economical development of a particular country there are specific variables needed to be measured. Among them a number of services provided by the companies, different kinds of services, number of employees employed in the business, acquired market share and the profit level are important. According to table 12, no one strongly disagrees with these measurements. It is evident from the minimum column of the table 12 and minimum agreed level has started from level 2 of Likert scales (from minimum level: disagreed to maximum level: strongly agreed level). According to the mean comparison many of owners highly agree that they have provided many job opportunities to the society. It will be a major factor for development issues. They have considerably contributed to solve the un-employment problem in the country. Except this factor the owners' idea towards other factors also are positive. Further they highly agree with the improvement of their market share. Also time to time they could have the opportunity to increase types of delivered services. It means that except the basic automobile service they are delivering extra parts, validation reports, preparation of insurance claims etc. As mentioned by the Sujith Auto (case-3), he has introduced a mobile service and also he has produced new kinds of products for vehicles such as: starter motors, high ampere alternator, AC regulators, coils etc. The owners' attitudes

towards the number of daily services provided by them have been increased favourably. Due to the above factors they have mentioned that they could have the opportunity to increase their profit level also. So the owners' perceptions on economical development are favourable. The standard deviation also expresses the validity of the above mentioned facts. It explains that the values of the standard deviation column is lower than 01 and it indicates that they are bearing strong ideas towards the economical development. But many of them do not like to give real information about their earnings. The photo 03 shows an example how they are playing their role for the enhancement of economic activities of the society and its continuous improvement.

**Photo 03: Preethi motors and its services**



*(Source: Author, 2011)*

**Table 13: Perceived importance of Social Factors**

| <b>Social Factors</b>   | <b>Minimum</b> | <b>Maximum</b> | <b>Mean</b> | <b>Standard Deviation</b> |
|-------------------------|----------------|----------------|-------------|---------------------------|
| Employee Safety         | 4              | 5              | 4.26        | .443                      |
| Training Opportunities  | 4              | 5              | 4.26        | .443                      |
| Employee Health         | 4              | 5              | 4.26        | .443                      |
| Employee Benefits       | 3              | 5              | 4.26        | .565                      |
| Social Responsibilities | 4              | 5              | 4.44        | .501                      |

*(Source: Field survey data: 2011)*

Not only the economic factors, but also social factors are essential for a country's development. The owner managers have provided facilities to improve the life cycles of the employees. According to table 13 the owners' perceptions are very high. There is no disagreed idea with social factors. All are in agreed and strongly agreed position of Likert scale. This is indicated in the minimum and maximum columns of table 13. Except the social responsibility, the mean values of all other factors are similar. It means that the owner managers have taken similar responsibility to treat his internal customers (employees). When employees are keeping well without any harm they have the ability to perform his or her duty as expected. So the health and safety issues are very important. According to case 01 the owner mentioned that he has taken advice from the district factory engineer for building a safe environment. The 5S system in factory layout has been shown in photo 04 and 05.

Photo 04 shows a very clean environment where it is easy to manage tools with tool racks and labeling the places where it is needed to store body parts of three-wheelers. But one of employee is working without any personal protection equipment such as uniform, mask, shoe, helmet etc. Photo 05 shows the way of managing tools. It may help employees to perform their tasks easily and quickly. But when the employee is working without any personal protection equipment it may badly influence his health.

**Photo 04: 5S implemented work environment**



*(Source: Author, 2011)*

**Photo 05: Properly managed tool board**



*(Source: Author, 2011)*

Further some organizations hold health camps annually for their employees. Training opportunities are also essential for both organizations as well as employees. Through the training programmes employees receive awareness of their work and they are satisfied with the organization. If they receive job awareness they can provide good support to develop the organization and it will be a favorable factor for survival. It directly supports sustainable development of the country. While the salary provides the basic needs, non financial benefits help to enhance the quality of the employees' life cycle. As mentioned by the owner of case 1, he is providing tea and meals for every employee and annually he provides New Year gifts to all. All permanent employees receive EPF and ETF benefits from him and he has provided motor bicycles to all the permanent members. According to the Sujith Auto (case 3), he has also provided more facilities. He has provided many job opportunities to the disabled employees in his company as a special task. He has provided all meals and housing facilities to them. The 4.44 mean value is representative of the perceived importance to the social work. Further employees who are sent from the government institutions are trained by these entrepreneurs. It is also a good advantage to the society. Throughout the year owner managers perform various kinds of social responsibilities such as: New Year, Vesak, Christmas celebrations, blood donations etc. and important events done by the schools, temples and other social institutions. Therefore not only for the business survival but also for the survival of the existing society, SMEs are performing an essential role for the social development as

well as for the sustainability of the society. One example for the social service performed by the Preethi motors is depicted in photo 06. They have received a number of certificates for their social services as well as their valuable service. Therefore they are conducting these events or sponsoring these events as a social responsibility. It is also of mutually benefit and help them to sustain their businesses in the long run.

**Photo 06: Preethi motors as a good social worker**



*(Source: Author, 2011)*

**Table 14: Perceived importance of Environmental Factors**

| <b>Environmental Factors</b>  | <b>Minimum</b> | <b>Maximum</b> | <b>Mean</b> | <b>Standard Deviation</b> |
|-------------------------------|----------------|----------------|-------------|---------------------------|
| Attractiveness of Environment | 3              | 5              | 4.14        | .495                      |
| Drainage System               | 3              | 5              | 3.94        | .550                      |
| Recycling Wastage             | 2              | 4              | 2.92        | .566                      |
| Noise & Dust Control          | 2              | 5              | 3.46        | .885                      |
| Received Certificates         | 2              | 4              | 3.68        | .551                      |

*(Source: Field survey data: 2011)*

Table 14 gives the values received regarding owners’ perceptions of environmental friendliness. The normal situation in garages is that it always harms the environment and inhabitants in the vicinity. Therefore the certificate issued by the Central Environment Authority is essential. All SMEs like to keep its environment attractive and healthy. Many SMEs have paid more attention to keep their lobby area and working area attractive. The

photo 07 shows one example, how they try to keep customers satisfied. They have created a nice surrounding with many notices to give several kinds of messages to customers, providing newspapers and televisions for their entertainment as well as water filters to quench their thirst.

**Photo 07: Beautiful entrance and lobby area**



*(Source: Author, 2011)*

Further they have prepared a proper drainage system and covered all the area with reference to the advice received from the Central Environment Authority and it helps to control dust and noise also. They have no clear idea of recycling the wastage. They have taken steps to remove them through the Urban Council and some intermediate people who collect wastage for other usage like grease, wasted oil, pieces of iron, unnecessary parts etc. According to the mean value of the table 14, the mean values of the perceived importance are very high. The dispersion level of their idea is also very low (lower than 01 standard deviation). Therefore SMEs have considered protecting their environment and they good expectations to protect their environment as well as their businesses. It will be helpful for the sustainable development of the country. Though they have favourable ideas towards environmental protection, the researcher found some unsuitable situations with environmental protection. Due to lack of facilities like limited ownership of property (rented factory spaces) and limited spaces, they are suffering from some problems. Due to these reasons they are unable to build proper buildings in an environmental friendly way. Further they have the problem of getting funds to build new buildings and for making new adjustments suitable for the environment.

**Photo 08: Back side of a Garage**



*(Source: Author, 2011)*

As mentioned under the topic of SMEs and environmental issues on literature review, owners do not like to invest money to improve environmental conditions such as to prepare proper drainage systems, garbage management etc, because they are profit oriented and they have more urgent daily work to perform. After receiving the environment certificate, they think that they have paid enough attention to protect the environment. But photo 08, 09 and 10 show a particular unsafe environment for inhabitation. It may lead to a polluted atmosphere which can be harmful to inhabitants of the area.

**Photo 09: Scenery for vehicle service**



*(Source: Author, 2011)*

Further photo 09 shows a particular unsafe work floor. It may be slippery and can be harmful to the employees and it may cause environmental pollution. There may be problems like breeding mosquitoes and spreading diseases to the inhabitants.

**Photo 10: Unsafe work floor, not friendly to the environment**



(Source: Author, 2011)

According to, Starkey (1998), he expects more advantages for owners to undertake environmental management such as cost saving, ensuring legislative compliance, anticipating future legislations, reducing environmental risk, meeting supply chain requirements, improved relations with regulators, improved public image, increased market opportunities and employee enthusiasm. Although they can get many advantages from the environmental management they do not think of them. They have no exact plan to protect the environment. They think, *“We are giving a valuable service to the society, the government must appreciate our role and they must take the responsibility to manage proper environmental conditions such as preparing proper drainage systems, implementing proper garbage management systems, offering proper sanitary facilities and taking action to prevent diseases etc”*

However for the sustainable future we all must take the responsibility to secure and to manage environmental friendly products and services. As a service sector these SMEs may have a particular threat to create eco-friendly businesses in future. Therefore they must pay attention to earn more benefits becoming environmentally friendly firms.

## 5.7 Significant differences among the Role of SMEs regarding Sustainable Development

The level of statistical significance was assessed to find out whether the roles of SMEs have a particular level of influence towards sustainable development. Under the role of SMEs it is considered the ownership of SMEs, age of businesses and number of employees in the businesses. While the independent variable is the role of SMEs (ownership of SMEs, age of the business and number of employees), the dependent variable is the perceptions towards sustainable development. The one way ANOVA (Analysis of Variance) was applied to determine the significant differences among the role of SMEs and sustainable development. The level of significance is measured in order to the behavior of the P value (significant level). If the P ( $p > 0.05$ ) value is lower than the 0.05, there is a significant difference among the dependent and the independent variables and vice versa.

**Table 15: Significant differences among the ownership of SMEs and Sustainable Development**

| Ownership        | Mean   | Standard Deviation | F Value | P Value |
|------------------|--------|--------------------|---------|---------|
| Single Ownership | 3.8857 | 0.23855            | .558    | .576    |
| Partnership      | 3.7911 | 0.28269            |         |         |
| Company          | 3.8952 | 0.49719            |         |         |
| Total            | 3.8587 | 0.29405            |         |         |

*(Source: Field survey data: 2011)*

The table 15 depicts whether the ownership of SMEs is significant to sustainable development. As the significant level is 0.576 ( $P > 0.05$ ), revealed no statistically significant differences among the factors. It means that there is no significant difference between ownership of SMEs and the sustainable development. Though the SMEs are in any position (single owned, partnership and company) all are performing equally for the development of the country and sustainable development. It is evident from the mean values of table 15. While all mean values are above 03, the standard deviations are less than 01.

**Table 16: Significant difference among No: of Employees of SMEs and Sustainable Development**

| No: of Employees | Mean   | Standard Deviation | F Value | P Value |
|------------------|--------|--------------------|---------|---------|
| Below 5          | 3.7048 | .15803             | 8.270   | .000    |
| Between 5-15     | 3.6190 | .16651             |         |         |
| Between 15-25    | 3.9067 | .18653             |         |         |
| Between 25-50    | 3.8667 | .29638             |         |         |
| More than 50     | 4.4889 | .26943             |         |         |
| Total            | 3.8587 | .29405             |         |         |

(Source: Field survey data: 2011)

According to the above table 16, it shows the significance of number of employees of SMEs to sustainable development of the area. The significant level is lower than 0.05 ( $P < 0.05$ ) of table 16. Among the received mean values, the highest mean value is received for the category of more than 50 employees. It means that there is a significant difference between two variables. . When SMEs have employed many employees in their businesses, they have well contributed to sustainable development.

**Table 17: Significant difference among Age of SMEs and Sustainable Development**

| No of Years   | Mean   | Standard Deviation | F Value | P Value |
|---------------|--------|--------------------|---------|---------|
| between 01-05 | 4.2000 | .23094             | 4.714   | 0.006   |
| between 05-10 | 3.7905 | .10491             |         |         |
| between 10-20 | 3.7444 | .21862             |         |         |
| More than 20  | 3.9958 | .36227             |         |         |
| Total         | 3.8587 | .29405             |         |         |

(Source: Field survey data: 2011)

The table 17 shows a significant difference of the age of SME and sustainable development. When the age is growing year by year their commitment towards sustainable development is also increasing. This is clear from the significant value. Here the P value is 0.006. It is lower than 0.05 ( $P < 0.05$ ). Therefore it can be mentioned that if a particular business has a longer life time it has influenced thoroughly to sustainable development of the country. According to the findings there are many businesses with a long lifetime and many of the SMEs are operating since more than 10 years. So they are performing a supportive role for sustainable development.

## 5.8 Relationship between Government and NGO Support for Sustainable Development

**Table 18: Relationship between Government and NGO Support for Sustainable Development**

|                  | Mean   | Standard Deviation | r Value | P value |
|------------------|--------|--------------------|---------|---------|
| Overall SD       | 3.8587 | .29405             | 0.392** | 0.005   |
| Received Support | 3.0029 | .74737             |         |         |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

(Source: Field survey data: 2011)

The impact of the owners' perceptions on received support from the government and NGOs towards actions for sustainable development was measured. Pearson's correlation method was applied. It is a useful measurement to measure the relationship between two variables. The "r" value represents the correlation between the observed values and predicted values. Here it is considered whether there is any relationship between received support and owners' perceptions. According to the r values the level of the relations varies. If it keeps between 0.75-1.0, there is a very strong positive relationship. If the value keeps 0.5-0.75, there is a strong positive relationship. If it keeps 0 - 0.5 value, there is a weak positive relationship. Here the r value represent 0.392 ( $r = 0.392$ ) and it means there is a weak positive relationship. But it is a significant relationship in order to the significance level of the relationship (P value = 0.005). Therefore it is highlighted that the service sectors SMEs have not received considerable support from the government and NGO sectors. Therefore owners are not satisfied with the support received from them. If the support from the government and NGO increases, there will be a possibility to enhance business performances towards sustainable development of the area.

According to the definition given by the United Nation Commission on Environment and Development in 1987, development is sustainable if it "*meets the needs of the present without compromising the ability of future generation to meet their own needs*". With reference to this idea it is needed to consider whether SMEs in the southern province are playing a supportive role to enrich the above statement or not. With reference to the above analysis, under the role of SMEs of automobiles in the southern province they have to face a continuous improvement

of all activities. It means that they could have the ability to improve the nature of the ownership (from single ownership to company), number of employees in their organizations and the age of businesses gradually. Also they are having favourable attitudes towards their future business journey. These continuous improvements are favourably impacted to secure the existing development and to maintain the existing level of the development.

With regard to the economical, social and environmental dimensions of SMEs the owners' perceptions are very high. According to the mean values of their preferences (table 12, 13 and 14), they have contributed to economical development, social development and environmental development. As mentioned under the Venn diagram of figure 03, sustainable development covers a very wide range of objectives and indicators. It is based on three main overlapping circles of economical, social and environmental issues. For the achievement of overall sustainability, there must be both interdisciplinary and transdisciplinary approaches. Under the interdisciplinary approach economical, social and environmental factors have been discussed on the analysis part. The transdisciplinary approach can be clarified as below.

Under the transdisciplinary approach economical development and environmental development create "ecological economies". It means that due to the economical development many buildings, machineries and vehicles are used for the business purposes. The existing capacity is needed to enhance the development. It may be harmful to the environment such as harming to the minerals, forests species of flora, air, water, oil etc. Therefore for the safeguard of the ecological economies it is needed to manage the emission of pollutants, waste, investment in environmental protection etc.

Under the transdisciplinary approach the economical development and social development may be helpful to the achievement of "community health". The figure 03 shows, due to the economic development there may be vast business capacity, the social development gives opportunities for generating income, good health of people, improvement of skills, knowledge and building community spirit etc. Therefore owners should pay more attention to build a balanced development on behalf of their employees as well as for community health. It will be help to create community health. Therefore owners need to pay their attention to keep their businesses attractive and favourable way for both employees and customers. Further they must link with social work for the development of the society.

Under the transdisciplinary approach the environmental development and social development may be helpful to the achievement of the favourable feeling towards the “sense of place”. It impacts the human activity, environmental awareness and actions to protect the environment pollution.

Further the figure 03 of chapter 3 under the criteria for sustainable development shows the way of creating economical capital, environmental capital, social and human capital. This interrelationship is also equal to the above mentioned facts under the Venn diagram.

Basically under the analysis part it was discussed the way of achieving economical, social and environmental development of SMEs and their perceived importance towards them. Therefore the southern province automobile owners are trying to achieve the above type of development. It has provided evidences through the above discussed cases as well as the above statistical analysis.

As the sustainability is vital for today’s world for the survival of future generation, it is rapidly developing all over the world. It has become a word in everyone’s mouth as this concept is a necessity to the present generation to share the resources with the future generation. With regard to the above evaluation there is no doubt; SMEs in the Southern part of Sri Lanka are performing a significant role for the achievement of sustainable development goals.

## 5.9 SWOT factor analysis

With regard to the above analysis it is highlighted that the service sector SMEs in Southern Province plays a vital role to manage sustainable development in our country. According to the above findings the following table 19 and 20 can be presented as Strengths, Weaknesses, Opportunities and Threats (SWOT) of SMEs to achieve sustainable development goals in the Southern Province of Sri Lanka.

**Table 19: Analysis of strengths and weaknesses**

| Strengths  | Weaknesses   |
|--|--|
| <ul style="list-style-type: none"> <li>• Have strong market opportunities to service sector SMEs</li> <li>• Owners use their inherent capabilities to develop their businesses.</li> <li>• Due to the experience and capacity of owners, they have done innovative things to perform their tasks easily.</li> <li>• Many SMEs are linked to the dealership network of international parent companies.</li> <li>• Owners have good expectations to develop their own businesses</li> <li>• Family support is a very specific feature among them.</li> </ul> | <ul style="list-style-type: none"> <li>• Lack of proper support to the service sector SMEs from supportive bodies in Sri Lanka</li> <li>• No favorable perceptions of government and NGO responses to SMEs</li> <li>• Problems to retain employees no more interest to work in garages</li> <li>• Owners are suffering from unfavorable rules and regulations enacted by the government (EPF, ETF and tax etc.)</li> <li>• Lack of own buildings and facilities of spaces to develop work floor</li> <li>• Problems raised by the central environment authority.</li> <li>• Lack of financial awareness to adopt new technology.</li> <li>• Limited infrastructure facilities</li> </ul> |

*(Source: Author, 2011)*

**Table 20: Analysis of opportunities and threats**

| <p style="text-align: center;"><b>Opportunities</b></p>  | <p style="text-align: center;"><b>Threats</b></p>  |
|--|--|
| <ul style="list-style-type: none"> <li>• More market opportunities for the service sector SMEs than others</li> <li>• Opportunity to link network with international vehicle companies</li> <li>• Can develop own business portfolio (not only delivering service support, to deliver extra parts, issuing validation certificates etc.)</li> <li>• Need to develop good attitudes towards the sense of place among the employees as well as the customers.</li> <li>• Need to administer knowledge about sustainable development and our future.</li> </ul> | <ul style="list-style-type: none"> <li>• Lack of awareness with high technology</li> <li>• Facing financial constraints</li> <li>• Lack of space to develop businesses</li> <li>• Receiving environment certificate</li> <li>• Political support</li> <li>• Employment</li> <li>• Existing taxes and other related payments</li> <li>• Threat from the inhabitants in the area.</li> <li>• Lack of awareness of the English language to read some catalogues or other instructions regarding the operations of modern vehicles.</li> </ul> |

*(Source: Author, 2011)*

## **CHAPTER 06: CONCLUSION AND RECOMMENDATIONS**

This study was considered to review whether SMEs have a role in achieving the sustainable development in the southern province of Sri Lanka. Due to the analysis part in chapter 05, it is explained that SMEs are playing a major role to the development of this area. With reference to the research objectives, the conclusion is discussed under three parts. The first deals with the current role of SMEs in the Southern Province, the second is the owners' perceptions towards the private-public partnership received by private public partnership. Finally it was discussed whether SMEs play a role for achieving sustainable development in the province.

With reference to the role of SMEs the nature of ownership of SMEs, numbers of employees in the businesses and the age of the SMEs were highlighted. The following conclusion could be made.

1. In Southern Sri Lanka there are many small scale service sector SMEs. It is difficult to find medium scale SMEs.
2. Most businesses have employed few employees; less than 50 employees.
3. According to the owners' expectations they are committed to uplift their businesses. Though the major thing they expect to increase is their personal income, they have given priority to provide quality service and to offer job opportunities.
4. According to the existing vehicle market in Sri Lanka, in the future there may be a vast demand for vehicle maintenance activities. Due to future market opportunities, these SMEs must develop themselves for their survival as well as sustainability.
5. According to the findings many of the automobile services are linked to international parent companies. They are performing dealership support such as: Devid Peris Motors, Piagio Company, Demo Company, United Motors etc. Therefore those companies are very much helpful for developing Sri Lanka SME sector. The parent companies always follow-up the tasks done by SMEs in our country. As an example these companies do some customer satisfaction surveys regarding automobile services and they report the feedback to relevant dealers (SMEs). It is a good way to reach international linkages with SMEs and help to apply developed technological support to our country. It will be a significant support for development and survival of SMEs in Sri Lanka.

Under the role of the government and NGO support to SMEs, the following may be concluded:

1. Many entrepreneurs have no strong positive ideas about received services from the government and other sectors. . It also shows the lower correlation value in the table 18 of the chapter 05. If the government and NGO sector can enhance their commitment to the development of service related SMEs, it will have a positive influence on sustainable development of the country. According to the discussion held with the supportive bodies they have not created separate programmes for the service sector SMEs. Still they are offering a common package to all SME sectors (production and service sector SMEs). But it is not suitable for the automobile sector. According to the ideas of owners, they expect the officers' arrival to the business floor. If the officers come to these service firms owners can improve their businesses with their comments and the expertise knowledge given by the officers.
2. According to owners' ideas they are facing many problems with documentation procedure, employee related problems, lack of awareness with technology etc. But still they haven't received proper solutions for them.
3. According to the owners' perception they think that favoritism is influenced towards the private-public support. According to owners' perception they think that without any political or other relations they cannot receive the private-public support to enhance the businesses.
4. Many of SME owners do not participate in the consultancy services, because they do not receive financial or any other rewards.

With regard to the role of SMEs to sustainable development in the Southern Province, the following factors could be found.

1. According to analysis of economic, social and environmental dimensions, owners' perceptions of sustainable development are kept at favourable levels (see table 12, 13, 14) as well as the standard deviation of them are also good. It means that there is not much dispersion among the preference level. This is evident from the tables 12, 13 and 14.

2. In relation to the significant differences among the role of SMEs and sustainable development there are several factors that could be found. There are significances among the age of SMEs towards sustainable development and the number of employees towards sustainable development. So in conclusion, when there is an increase in the number of employees, there is also an increase in the support given for sustainable development. When there is an increase in the age of business, this will be a favourable impact on the efforts to achieve sustainable development goals.
3. Further the support of the government and NGOs are needed to expand the service sector. Owners' perceptions to the received support are not good. The correlation between received supports and the sustainable development is not a strong one according to findings depicted in table 18. Therefore the government and other NGO sectors must provide their helping hands towards the development of the automobile sector. .

With support in the above findings the researcher can suggest the following recommendations.

1. The role of the auto service sector is important to our country, and it should expand at the provincial level.
2. The government should consider how to develop SMEs. It is essential to manage favourable rules and regulations within the country. The government should pay special attention to services related to particular SMEs rather than the whole SME sector.
3. As the SMEs in Sri Lanka have been linked with dealership networks the government should provide support to it in various ways. It may be the way to carry funds, technology, knowledge and new methods to our country.
4. Government should link with the agreement with NGOs to provide support to develop them and need to implement proper feedback by the government to manage those activities.
5. Since there are no favorable attitudes among the owners of SMEs about the government support, the government needs to give recognition for the valuable service rendered by SMEs for the development of the country.

6. With reference to the environmental awareness among the SMEs, attention to build environmental friendly businesses should be emphasized. Therefore the owners must be knowledgeable towards their factory system and how to keep it in a friendly way. They currently have no clear idea how to manage their garbage and recycling process properly.
7. It is needed to provide the knowledge to entrepreneurs what sustainable development is and it is important how the SMEs may contribute to reach it. That is the way to promote SMEs to reach sustainable development.

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**QUESTIONNAIRE**

I am a student of Master of Development programme, University of Agder, Norway and currently conducting an academic research to find out “Does Small and Medium Enterprises have a Role in Achieving the Sustainable Development in the Southern Province of Sri Lanka” , with special reference to the Automobile Service Sector SMEs in the Matara District.

This questionnaire is designed for gathering necessary information for this research study. While I certify the secrecy of given information by you, I use collected information for my research purpose only. Yours’ correct information will be helped for the success of my activity.

Thank you very much for giving your precious information to the research.

Please tick mark (√) where necessary

**PAR-01: Role/nature of the SMEs in Southern Sri Lanka:**

1. Ownership of your Organization:

|                  |  |
|------------------|--|
| Single ownership |  |
| Partnership      |  |
| Company          |  |

2. Nature of your organization:

|                     |  |
|---------------------|--|
| Vehicle maintenance |  |
| Providing services  |  |
| Selling spare parts |  |
| Other               |  |

3. Age of your Enterprise :

|                    |  |
|--------------------|--|
| Less than 01 year  |  |
| 01-05 years        |  |
| 05-10 years        |  |
| 10-20 years        |  |
| More than 20 years |  |

4. How many staff does your company have :

|              |  |
|--------------|--|
| Less than 05 |  |
| 05-15        |  |
| 15-25        |  |
| 25-50        |  |
| 50-100       |  |

5. As an owner of this enterprise, please mention your priorities for the following objectives: ( Please rank and write down 1-05 on the given boxes)

|  |  |
|--|--|
| To increase my personal income                       |  |
| To gain employment opportunities for the society     |  |
| For my personal freedom                              |  |
| For utilization of my own creativity and initiatives |  |
| To provide high quality services                     |  |

6. If you have other objectives with your enterprise please mention them:

.....

.....

.....

.....

***PAR-02: Owners' perceptions towards the received support from the Government and NGO type organizations to the SMEs***

Please mention the level of your preference with the following statements

| <b>Description</b>   | <b>Strongly Dis-agree</b> | <b>Dis-agree</b> | <b>Neutr al</b> | <b>Agree</b> | <b>Stron gly Agree</b> |
|--|---------------------------|------------------|-----------------|--------------|------------------------|
| 8. Provided proper business consulting services (Ex: management knowledge, financial administration, |                           |                  |                 |              |                        |

|   |  |  |  |  |  |
|---|--|--|--|--|--|
| cost controlling, business plans etc.)  |  |  |  |  |  |
| 9. helped for solving financial constraints   |  |  |  |  |  |
| 10. helped to solve taxation related problems   |  |  |  |  |  |
| 11. helped for training and skill development   |  |  |  |  |  |
| 12. helped to build networking relations among the SMEs for the improvement of the businesses     |  |  |  |  |  |
| 13. helped to solve disaster related problems (such as tsunami.....)                              |  |  |  |  |  |
| 14. Provide good feedback to implement given support or supplied services                         |  |  |  |  |  |
| 15. Organized competition among other related businesses for the enhancement of the entrepreneurs |  |  |  |  |  |

16. If you have received another support from the government or NGO type organization or any other organization, please mention them:

.....

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***PAR-03: Owners' perceptions with regarding to the impact of SMEs towards sustainable development***

Please mention the level of your preference to with the following statements

| Description   | Stron<br>gly<br>Dis-<br>agree | Dis-<br>argee | Neutr<br>al | Agree | Stron<br>gly<br>Agree |
|---|-------------------------------|---------------|-------------|-------|-----------------------|
| <b><u>Owners' perceptions regarding to the economical development:</u></b>                |                               |               |             |       |                       |
| 17. There is an improvement of daily services provided by my the firm                     |                               |               |             |       |                       |
| 18. There are different types of services provided by my firm                             |                               |               |             |       |                       |
| 19. There is an improvement of number of employees in the business than in the past years |                               |               |             |       |                       |
| 20. Now I am earning more profits than in the past  |                               |               |             |       |                       |
| 21. I think that I could have expanded the market share for my organization               |                               |               |             |       |                       |
| <b><u>Owners' perceptions regarding to the social development:</u></b>                    |                               |               |             |       |                       |
| 22. I have provided high attention to the security condition of employees at work place   |                               |               |             |       |                       |
| 23. The training opportunities are given to all employees                                 |                               |               |             |       |                       |
| 24. I have taken necessary arrangements for ensuring good health of employees             |                               |               |             |       |                       |
| 25. Employees are provided attractive welfare facilities to enhance their life cycle      |                               |               |             |       |                       |

|  |  |  |  |  |  |
|--|--|--|--|--|--|
| 26.I have taken a good commitment to perform social responsibilities to the society                          |  |  |  |  |  |
| <b><u>Owners' perceptions regarding to the environmental development</u></b>                                 |  |  |  |  |  |
| 27. I have prepared my organization and its environment in a satisfactory way                                |  |  |  |  |  |
| 28. There is a proper drainage system for removing wastage in the firm                                       |  |  |  |  |  |
| 29. I have provided my attention to the re-cycling effort and re-production of some wasted things in my firm |  |  |  |  |  |
| 30. I have taken correct steps to prevent noise and dust problem in my business                              |  |  |  |  |  |
| 31. I have won certificates for environment protection competition held by government or any other society.  |  |  |  |  |  |

32. With reference to the above statements, if you have faced any problem please mention them:

.....

.....

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.....Thank You.....

**Questions used for interviews held with the Assistant Director of SEDD**

1. Could you explain the main role of Small Enterprise Development Division in Matara district?
2. What is its hierarchy?
3. How could you study strengths and weaknesses with SMEs?
4. How do you support to the SME related activities?
5. Do you think it helps to the sustainable development in the area?
6. If yes, please explain what the activities for economical developments of SMEs are  
Please explain the basic task to enhance social background of SMEs as well as employees
7. What are the programmes for environmental development surrounding with SMEs?
8. How many consultancy programmes were held by this division per annum?
9. What do you think about the government funding allocation for this division?
10. What do you think about owners' awareness towards sustainable development?
11. Due to the activities held by SEDD, could they reach to economic enhancement?  
Please explain them
12. Due to the activities held by SEDD, could both the owners and employees reach to social uplift? Please explain them
13. Due to the activities held by SEDD, could they enhance awareness in relation to the environment protection? Please explain them
14. How do you collect the feedback from the SMEs?
15. What is the way to get corrective actions after feedback?
16. Do you believe that SMEs support is very important for the sustainable development of the country?
17. If yes, what should be future needs with SMEs?

**Questions used for interviews held with the Executive Officer of Chamber in Matara District**

1. What is Chamber of Commerce?
2. How many SMEs have been registered under the membership network of Chamber in Matara?
3. Explain your main role to them?
4. How do you study shortcomings with SMEs?
5. How do you target their economic development focused activities?
6. How are you going to develop their social background?
7. What are the steps have been taken to develop environment related protection of SMEs.
8. Are you thinking that the foreign funds allocation focuses to the sustainable development of the country?
9. What do you expect for future development in SME sector?
10. Especially do you hope to do something for automobile sector SMEs?
11. What are they? Explain briefly.

