Examining the Features of Business and Managing Practices of Small and Medium Enterprises; A case of Urban Entrepreneurs in Sri Lanka

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Abstract

In many countries all over the world, the number of Small and Medium Enterprises (SMEs) is now increasing. SMEs are vital part of those economies. They dominate in many sectors. SMEs also perform a significant role in the economic growth of Sri Lanka. However there is a research gap of focusing the area of business and managing practices of SMEs which have a high impact on their business success. The specific problem addresses in the present study was to examine the business and managing practices of selected entrepreneurs who are owner managers of SMEs. Data were collected through an interview from selected ten urban entrepreneurs who are owner managers of SMEs from Textile and Jewelry trade. Ten cases were developed based on the information of in-depth interviews and observations. Analysis was done on qualitative basis. The conclusions drawn from the study could provide some insight of business and management practices of entrepreneurs who are owner managers of SMEs.

Introduction

It is clear that Small and Medium Enterprises (SMEs) perform a strategic role in all economies in developed and developing countries. SMEs sector is a major source of employment, revenue generation, innovation and technological advancement. In some industries, small enterprises are more effective at servicing customers than large firms. Therefore, SMEs have become a major asset in the economy. But a crucial problem has risen in the process of advanced industrialization how and what will be the adaptation of the SMEs in developing countries to run parallel to the changing economic environment to maintain their higher productivity and competitiveness in global markets. Therefore, it is very important to analyze the business and managing practices of small and medium Scale Enterprises.

In Small and Medium enterprise, entrepreneur is the owner-manager and so, the development is almost synonymous with management development. Evidently, entrepreneurs are more ambitious in profit and growth. To achieve this aspiration they employ innovative strategic management practices for development. The previous researches identified that the entrepreneurs are the change agents in an economy. In particular, innovative entrepreneurs have become the major
contributors towards the economic development of developing countries.

The research problem

In Sri Lanka, there had been only a very few studies made on the identifying management practices not all functions partly, and this has lead to a vast research gap and because of this vast gap, it is important that one should study the understanding of business and management practice of Sri Lankan SMEs.

The Sri Lankan entrepreneurs have concentrated on various businesses. Their methods in business participation have reveled that, several basic business patterns have played a crucial role in their day to day commercial life.

In this millennium, it is apparently seen and proved that the present world markets are engaged in sweeping, radical and confused changes and they are affecting all organizations. Several studies have identified that the “developed world entrepreneurs are equipped with modern technology and possess well trained, experienced, and talented entrepreneurs in adequate numbers. In contrast in developing countries there is too short in supply with in these characteristics and lies a gap between developed and developing countries.

As Sri Lanka is a developing country, the researcher has limited to this study and address the problem to understand and know about

What Business and Management Practices are followed by the selected urban entrepreneurs in Small and Medium Enterprises ?

Objective of the Study

In order to the research problem, the major objective of this study is to identify the business and Management practices of the selected entrepreneurs in Small and Medium enterprises in the Sri Lankan Urban sector.

Theoretical Framework

Entrepreneurship

Entrepreneurship is a process, and all process; it is expected to serve a purpose. But it is very complex. There is no single definition of entrepreneurship that is applicable in every economy. Bob Reiss, a successful entrepreneur says “Entrepreneurship is the recognition and pursuit of opportunity without regard to the resources you currently control, with confidence that you can succeed, with the flexibility to change course as necessary, and with the will to rebound from set backs”. Hisrich and Peters, (1992) defined the entrepreneurship as the process of creating something different with value by devoting the necessary time and effort. Carland (1984) argued that
entrepreneurship could be defined in terms of innovative behavior in pursuit of profitability and growth. Cole (1949) defined entrepreneurship as "the purposeful activity of an individual or group of associated individuals who undertakes to initiate, maintain profit by production or distribution of goods and services". McClelland (1987) identified entrepreneurship, as "do things in a new and better way and decision making under uncertainty."

Entrepreneur

There is also no universally accepted definition of the term entrepreneur. The Oxford English Dictionary defines an entrepreneur is “a person who attempts to profit by risk and initiative.” This definition emphasizes that entrepreneurs exercise a high degree of initiative and are willing to take a high degree of risk. According to the literature, there are range of possible meanings, derived from different ways of looking at the entrepreneur and how she/he operates. Joseph Schumpeter (1949) was a major economist conceptualized the term entrepreneur, and defined as an innovator who is responsible for any economic development. During the earlier time the American economists explained “entrepreneur” in terms of two basic and indispensable functions in the economic process. Technology and Organization. Modern economists have brought into sharp focus of the dynamics of school, political and economical forces the functions of entrepreneur. At the same time Alexander (1963) who considers entrepreneur as a member of the society in pursuit of economic, social and psychological goals and Greenfield (1979) defines entrepreneur as owners/operators of business enterprise. Carland, Hoy, and Boulton (1984) defined entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterized principally by innovative behavior and will employee strategic management practices in the business. The entrepreneur is a person who should have all abilities to handle the activities in the business environment. According to the Asian perspective describes, “Entrepreneur is a person who undertakes, organizes, manages, and assumes the risk of running an enterprise.”

Managers and Owner Managers

Some managers do own the firms they manage and this make up the majority of managers of small firms. They are owner managers. Sole traders are owner managers. Many managers of Small firms do not own or control the firm they are employed by. The firm is controlled by its larger, parent company. The manager is therefore not an owner-manager. But they might be an entrepreneur depending on the way they act.

Many researchers do believe that collectively, owner managers have certain typical character traits although the mix and emphasis of these characteristics will inevitably be differed for each individual. The major character traits associated with owner managers are need for independence, need for achievement, internal locus of control and ability to live with uncertainty and take measured risks. Carland, Hoy and Boulton (1984) conceptualized that small business owner is an
individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be the primary source of income and will consume the majority of one’s time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires. Utsch (1999) investigated recently the differences between entrepreneurs and managers in East Germany and observed that entrepreneurs exhibited greater levels of self-efficacy, higher order need strength, readiness to change and interest in innovation. Managers on the other hand showed higher control rejection or lower autonomy.

Entrepreneurs share certain character traits with owner managers but they also have certain additional, almost magical, qualities that the average owner manager does not possess. Numerous normative and descriptive studies have supported various sets of personality characteristics of entrepreneurs. Schumpeter (1934) believed that innovation was the central characteristics of the entrepreneurial endeavor. In literature, based on the various studies Cariland, Boulton and Carland (1984) listed the entrepreneurial characteristics such as risk bearing, innovation, initiative, desire for responsibility, risk taking and need for achievement, ambition, desire for independence, responsibility, self confidence, human relations, communication ability, technical knowledge, risk measurement, need for power, internal locus of control, personal value orientation, drive self and growth oriented. Further, Chell (2000) has identified there are three types of small business owners like entrepreneur, professional manager and craftsman.

Small and Medium Firm

As with other terms there is no uniformly acceptable definition of a small sized firm and different definitions are there in different situations. The Bolton Report (1971) was very significant in developing the understanding of small business. It defines as relatively small market share, managed by its owners in a personalized way and also independent from part of a large enterprise. However the report also acknowledged the weaknesses of this qualitative definition and offered the quantitative definition for different sectors. The European Commission (1996) has defined the small and medium scale business including the number of employees, turnover and balance sheet criteria. Carl and, Hoy and Boulton (1984) defined that Small business venture is any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices.

Entrepreneur Business Practices and Management Practices

Business practices explain the way of doing business in the organization. Karlof (1993) said that a business practice explains the way of doing business. Robert (1983) found that business practices are the way of making business judgments. However in the area of management, Drucker (1989) identified that the major business functions of an organization can be categorized into four. They are production, marketing, finance and human resource management. The suc-
cessful business practices can be defined as best practices of the business firm.

SMEs are very sensitive to matters of cost and financial efficiency. Bjerke (2000) points out that SMEs entrepreneurs in Chinese have excellent mastery over financial leavers. In their daily business dealings, they pay close attention to managing cash.

**Managing Practices**

Management is the process of planning, organizing, leading and controlling of activities to achieve organizational goals and objectives efficiently and effectively. This explains how the leader is managing the organization. Steven (1986) studied the following four major managing practices of entrepreneurs in established companies. They are planning, organizing, leading and controlling. All management practices are not common in all these entrepreneurs.

Gibb have identified and Burns (2002) quoted the differences between the behaviour of small and big businesses in the area of managing the business. They are:
- Absence of functional managers- the management of a small business resides with one person and overall view of management there.
- On the job training
- Informal systems and procedures
- Top down culture
- Decision making culture- the decision making process in small business is less formal and more personalized than in larger ventures.
- Organizational structure- small firms tend to have simple, flexible, non-differentiated structures and flexible work practices and few features of bureaucracies.
- Control- no formal or recognized controlling systems.
- Lack of formal planning- no formal planning process and well documented plan to the organization.

Further Burns (2001) quoted that according to the Schumpeterian way, the distinguishing characteristics of managing entrepreneurial small firms. The characteristics are:
- Relationship approach to all aspects of business
- Good at resolving conflict
- Uses informal influences in managing people
- Develop personal business network
- Strongly intuitive, but self reliant and confident
- Action oriented- a hands on approach
- Evolves as business growth

Ping (2004) on his research on management practices in Chinese family-owned small and medium enterprises concluded that they are practicing simple management structure, authoritarian leadership style and tight management control and trusting family members. Further, Kirkbride and tang (1992) pointed out that Family owned SMEs are characterized by centralized
decision making, autocratic and paternalistic leadership styles. According to Tsang (2001) the internal system of coordination and control is also highly personal, and tight control is exerted on financial and production management. According to Murray (1996), because of less bureaucracy of SMEs, quicker decision-making is there.

**Conceptual Model related to the study**

From the empirical and theoretical backgrounds, the researcher defined that the practices are the way of doing things and it could focus in two different views, one is business practices and the other is managing practices. Business practices include Human Resource Management, Marketing Management, Production Management, Financial Management and other Ethical Practices. Managing Practices includes planning, organizing, leading, and controlling practices. This study will try to identify what type of business and managing practices are followed by urban entrepreneurs in SMEs in Sri Lanka and whether it is different from each other.

![Figure 1](image)

**Research Methodology**

There is particularly no single theory on the study of entrepreneurial business and management practices in SMEs. But this study starts with facts instead of theory. Further this study is totally a descriptive research based on a qualitative analysis. For the purpose of analyzing the research problem and constrained by the vastness of Sri Lankan Small and Medium Enterprising sector, the study is confirmed to the urban entrepreneurs in Small and Medium enterprises. Therefore, ten urban entrepreneurs who are the owner managers of SMEs are selected from Jewelry and Textile trade in Colombo Sri Lanka. However all these ten entrepreneurs will be
selected based on purposeful sampling and convenient way of accessing to in-depth interviews by the researcher.

According to the literature, there is no single and clear definition of small and medium scale enterprises. Different government agencies and other organizations dealing with small enterprises in Sri Lanka use different criteria to define SMEs. However based on the literature review and definitions given in Sri Lankan context, for this study it is used the definition for SMEs as number of employees less than 50 and fixed capital less than 4 million.

The needed data and information are collected through personal interviews and some observations. One part of the interview is conducted to collect some background and basic data by applying a structural questionnaire as a guide line and the other part of the interview is conducted on researcher`s knowledge. For the literature review, text books, periodicals and journals are used to obtain some secondary data.

Based on the personal in-depth interviews and observations ten cases were developed and they are utilized in the analysis of data qualitatively.

**Analysis and Discussion**

Personal interviews based on a questionnaire, some demographic and basic information are collected from selected ten entrepreneurs who are owner managers of SMEs in Jewelry and Textile trade. According to the sample of the profile, there are 5 Sinhala, Buddhist and 5 Indian Tamil, Hindu sum entrepreneurs aged between 40 to 60 years, males and married. 70% of them have studied up to the GCE O/L and 20% to GCE A/L while about 10% of them have studied up to a diploma. Six entrepreneurs from textile trade and four from jewelry trade. The base for commencing a business as an entrepreneur is influenced by 40% start up the business to keep it in the family and 60% for personal interest and 10% started due to their training and education. According to the data, 80% of the entrepreneurs are running the business as a sole trade while 10% of them are converted into a partnership and 10% of them were became as a companies.

Considering the relationships built among the entrepreneurs and their internal and external parties, the business practices are identified as the practices of human resource management, marketing and financial management.

After having analyzed the developed case studies, important common features could be identified as business practices in selected SMEs.

**Human resource management practices**

Entrepreneur recruitments are informal and when most of the entrepreneurs recruit employees based on the recommendations done by family members, relatives or close friends. There are no established rules and regulations for recruiting employees. Employees are trained on the job within the premises by the entrepreneurs or senior members. There is no long-term training,
but short term and internal methods. The training of employees with in the organization is done under the direct supervision of the entrepreneur. Employees are paid a fixed monthly salary. There is no clear developed promotion policy within the organization. Employees are promoted based on the performance evaluate by the entrepreneur like hard working, punctuality, loyalty etc. Entrepreneurs imply that they all are working as a team and there is a close relationship with employees, but in making decisions and other activities in the organization, the relationship is not close. All employee leaves are approved by the entrepreneur who is the owner manager of the organization. To motivate and long term retain of employees most of entrepreneurs provided free lodging and meals facilities and loan facilities. This practice shows that collective strength and mutual cooperation among the staff.

**Marketing management practices**

Customers are the key drivers of an organization and customer satisfaction is the hub of their success. Based on the interview and it was observed that to achieve this success, these entrepreneurs practice more close friendships and also carrying their customers in the most ethical manner. Further it was proved that these entrepreneurs have not done any pre-marketing researches though they have expanded their target markets. As their main focus on business and customer preference is the city of Colombo with popular and high quality designs. They have established their personal and social net works to have needed information about availability of suppliers, markets, successful products, prices, market fluctuations, industrial trends, business survival etc. The examining of these networks differs from entrepreneur to entrepreneur. Some entrepreneurs are more hierarchically organized and use many occasions to exchange information and service their net works. They have no “formal” marketing research work, but gather information from customers, friends, families, relatives, employees from specialized associations and media. Most of the entrepreneurs do not believe advertisement is an important tool for marketing and they feel it is an unimportant. Therefore, for promoting products all entrepreneurs are using many demonstrations, attractive way of packing and long last packages. The entrepreneurs maintain quality products and services as their strategy to overcome competitors. Considering the pricing system, textile businessmen follow a competitive pricing system but in Jewellery it always depends on the current market rate as gold prices fluctuations. The employees remember first timers in business and they will receive a very pleasant welcome. However, the entrepreneurs maintain quality products and services as their strategy to overcome competitors.

**Financial management practices**

The main source of capital in 70% of these entrepreneurs in financing SMEs is their own funds or from their families. Few of the entrepreneurs obtained bank loans. This is a clear indication that these entrepreneurs are not making use of modern financial facilities. All entrepreneurs maintain good cash management, without proper budgeting. It was noticed that most of them are
concerned not only in their daily sales and expenses depending on short-term gains over long periods. Further, it is observed that entrepreneur’s hard work that has become their basic and healthy financial resource with the best support of their community. They prefer to expand their same or different businesses in different location in a small or medium scale basis. Further, it is observed that those who prefer to take high risk; they expand their current business or start new business.

Managing practices of entrepreneurs of SMEs

Planning practices
It is revealed in the interview that all ten entrepreneurs who are owner managers do not believe and do not have any formal plan for the organization. Further it is observed that the major reason for this situation is lack of much education in the area of management. They collect outside information and make decisions in an informal manner in their own personal way. Their period of planning is much shorter and owing to it, their growth rate is medium. These entrepreneurs are more centralized in decision-making, reluctant to delegate authority. Successful always spend more time in their shops irrespective of the day or time.

Organizing Practices
In these SMEs there are no functional managers and overall management of a business resides with the entrepreneur who is the owner manager. It can be seen that conflicts are minimal due to having flexible organizational structure. Most rules regulations and policies are informal unwritten and conveyed verbally. Owner manager communicates every thing to employees. Therefore, one-way top-down communication system can be seen with in the organization. Further there is no clear division of work to employees.

Leading Practices
The leadership style of entrepreneurs who are the owner managers are somewhat mix of task oriented and people oriented. Most of entrepreneurs are collective in business with their families, but keeping high authority and power as his decision is final. It was also observed that, entrepreneurs are committed to perseverance and hard work. All entrepreneurs spend more hours in their shops.

Controlling practices
As small and medium enterprises are avoid of proper planning, they are committed to informal controlling. There is no clearly established controlling mechanism system. An implicit controlling system is practiced. These entrepreneurs personally and directly inspect their business administration and take note of what is going on. Risen problems during working are settled independent-ly at the shop.
Conclusions drawn from the study

Though there have been certain limitations in the study, the following conclusions drawn from the study could provide some insight of business and management practices of entrepreneurs who are owner managers of SMEs.

In considering the learning process of entrepreneurs, their previous business experience and knowledge has brought in an effective management and growth.

However, based on the analysis and discussion on developed cases, it can be concluded that the identified common features relating to business practices of selected urban entrepreneurs who are the owner managers in SMEs are

- No established policies for recruitment, training and development and promotion for employees.
- Informal recruitments of employees recommended by families, relatives and friends.
- Quicker appointments for recruiting employees.
- Training of employees is within the organization under the direct supervision by owner manager.
- Main compensation is monthly salary and when needed provide loan facilities and bonus for New Year.
- Providing welfare facilities like free accommodation and meals.
- Maintaining close relationship between employer and employee, but not get involve in decision-making.
- Employees must be self-motivated, hard working, cooperative and trustworthy.
- All entrepreneurs are success in finding a good market niche.
- No market research, less advertising and formal promotions based on narrow perceptions of marketing functions.
- Most common marketing strategy is personal relationships with their customers, managing of their risk tolerance and market regulations through only personal relationships
- Good in cash management and cost control, but no formal budgeting system.
- Main source of financing system is own funds and borrow from family members or relatives
- Survival by accumulating short term gains over long periods.

Managing practices

It can be concluded that the founded common features relating to managing practices of selected urban entrepreneurs who are the owner managers in SMEs are

- Not involvement in formal planning and strategic planning. In formal planning is practiced and the period of planning is short term or medium term.
- Absence of rational decision-making and centralized decision-making is practiced based on informal information.
Having informal, flexible organizational structure without clearly defined rules and regulations.

- Absence of functional managers
- Authority centered to the owner manager and minimum level of delegation authority.
- Top down communication system.
- Leadership style is the mix of task oriented and people oriented and leader is hard work, committed, perseverance, and more secretive and act as a role model.
- High value placed on family, society, prestige and loyalty.
- Ready to accept changes and innovation for the profit growth.
- Encourage to teamwork
- Implicit and self-controlling system and main mechanism is direct supervision.

**Other findings**

It is also identified that, the values of the entrepreneurs highly related with their business and managing practices. Some of these values such as loyalty, honesty, family kingship, harmony and high power distance, closely associated with their human resource management. Specially, they followed informal recruitments and unwritten job descriptions to maintain loyalty, honesty and obedient workers in their organizations.

It could be observed that the managerial skills, experience and knowledge are playing an important role in their business success.

Further it could be highlighted that entrepreneurs’ hard work, higher involvement, open relationship and medium level flexibility plays a crucial part in their business.

It is observed that there was close involvement of the business with family, the immediate community and other social and business networks of the entrepreneurs.

Most of the entrepreneurs are not highly educated. As educated people are not attracted by these sectors, the development is in slow phase and it reduces the managerial skills and technical skills of the entrepreneurs. It is a major barrier for them to follow formal business and managing practices and low concern the legal requirements related to the business.

**Suggestions and Recommendations**

As Small and Medium Enterprises play an important role in the economic development, the government policy makers must encourage and support to the entrepreneurship development through educational and assistant programs. The present educational policy in Sri Lanka does not much support to the vocational education for those students who have chosen a particular area as their future career. The vocational education and training prepare individuals as workers as well as for self-employment. Then the Sri Lankan education policymakers should more emphasize the
vocational education with providing facilities. Further, School curriculum also tends to focus on more vocational or practical aspects of knowledge and skills, especially at the higher educational level to develop entrepreneurial qualities. In order to, that the researcher suggests that education can be produce relevant entrepreneurial personality and contribute for the economy at a significant level. In addition, in developing government assistant programs (financing and management) for SMEs by the government, it is very much need of proper understanding of how owner-manager should operate the business in a successful way.

It is suggested that the entrepreneurs business and managing practices should be modernized. It requires continuous consultancy services regarding technological knowledge of advanced technology, employee training and monitoring effectiveness, rules and regulations in respect of business affairs, assist to discover new markets and assist to get modern financial facilities. Therefore, the government, policy makers and other supportive institutions should develop effective and suitable training programs and consultancy services by considering Sri Lankan entrepreneurs values and their practices.

Finally, in conclusion the researcher wishes to highlight the fact that business and managing practices of entrepreneurs in small and medium enterprises are closely related to one’s success. Further they are also related with the entrepreneur culture.

References


