



Do Strategic Management practices improve the performance of Small and Medium Enterprises (SMEs) in Sri Lanka?

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DOI: 10.5281/zenodo.5890378


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Small and Medium Enterprises (SMEs) act as an engine of the economic growth of Sri Lanka, as it enables to eradicate poverty, resolve unemployment, rural development, and advancement of technology. Hence, the performance of SMEs is vital for the accomplishment of sustainable economic growth of the country. Many scholars have argued that Strategic Management practices are one of the salient factors which contribute to the performance of SMEs. In this milieu, the main aim of this study is to investigate the relationship between Strategic Management practices and the performance of SMEs in Sri Lanka. Since there is very few studies have been conducted on this phenomenon in the Sri Lankan context, this research study enables to fulfill the empirical research gap in the existing body of literature. This study was inspired by the quantitative approach under the positivistic research paradigm. Data were collected through an online structured questionnaire distributed among the owners and managers of SMEs in Sri Lanka. Collected data were analyzed by using descriptive statistics and correlation. The findings of the study revealed that the performance of the SMEs in Sri Lanka is influenced by the Strategic Management practices: strategy formulation, implementation, and evaluation. Thus, by implementing the Strategic Management practices, SMEs can improve their performance; market share, revenue, profits, and return on investments. The findings of the study pave the eye of owners, managers, trainee institutes, and policymakers on how Strategic management practices can be used to boost the performance of the SMEs in Sri Lanka.

Keywords: SMEs, Performance of SMEs, Strategy Formulation, Strategy Implementation, Strategy Evaluation

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Manuscript Received
2021-07-03

Review Round 1
2021-07-09

Review Round 2
2020-08-15

Review Round 3
2021-10-10

Accepted
2021-10-10

Conflict of Interest
No

Funding
No

Ethical Approval
Yes

Plagiarism X-checker
Nil

Note



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Background of the Study

When it goes back to the 1970s and 1980s with the booming industrial economy, Small and Medium Enterprises (SMEs) emerged as the focal point which led the economic driven development in the world. Hence, the SME sector of the country is identified as a backbone of the economy, especially for the developing economies (Strokes & Prasad, 2004 cited in Wijethunga & Pushpakumari, 2014). The importance of the SME sector is well recognized worldwide because it significantly contributes to satisfying various socio-economic objectives, such as higher growth of employment, increases Gross Domestic Product (GDP), encouraging exports, rural development, equitable distribution of limited resources, and fostering entrepreneurship (Keskin et al., 2010; Cravo et al, 2009; Beck 2005; Fening, 2008). Since, the SME sector is creating jobs, technology development, revenue development, and creation of innovation, it is acknowledged as the key driver of the economic growth of the country (Malik et al., 2020; Mumba & Njuguna, 2019)

By deploying parameters such as the number of persons employed, amount of capital invested, amount of the turnover and nature of the business, etc. Sri Lanka has articulated the definition for SME in Sri Lanka. According to the Central Bank (2017), SME is an enterprise which an annual turnover not exceeding Rs. Mn. 750. SME is an enterprise which mainly characterized, annual turnover less than Rs. Mn. 750 and deploy less than 300 employees in both the service and manufacturing sectors (Ministry of Industry and Commerce, 2016) SMEs play a crucial strategic role by accounting for 90% of the total enterprise, 45% of the total employment, and 52% of the total GDP of the country economy in Sri Lanka (Ministry of Industry and Commerce, 2016; Gunawardena, 2020).

Further, to accomplish the Millennium Development Goals (MDG), eradicate poverty, and uplift the standard of living of people in Sri Lanka, the SME sector provides a dramatic contribution (Gamage, 2003). Sri Lanka has been recorded an improvement in the international business engagement mainly, direct exporting due to the SMEs (Gamage, 2003). The growth of direct exporting is one of the development reasons for the country's economy further.

Not only the urban development but also the rural development of the country can be seen due to the expansion and growth of SMEs. Thus, the performance and growth of SMEs are enormous especially, in the developing economy like Sri Lanka (Javed, Khan, et al., 2020).

Performance of the SMEs is vital in order to accomplish the desired outcomes which were mentioned afore. In simply, the performance of an enterprise is conceptualized as the ability of the enterprise to fulfil the customer demand while being effective, attaining the desired ends at a minimal cost (Kirigo, 2008: Mumba & Njuguna, 2019). In the contemporary world of business, the overall performance and sustainable growth of enterprises are heavily dependent on the practices of Strategic Management (Farrukh et al., 2021; Javed, Malik, et al., 2020; Javed & Husain, 2021). (Agwu, 2018) Strategic Management defines the organizational end desires then, identify the plans and actions to accomplish the end desire of the organization (Nyariki, 2013). Hence, Strategic Management can be viewed as a lighthouse as it gives the overall direction to the enterprise where the enterprise is heading towards. Though large organizations often deploy the practice of Strategic Management and experience the advantages, SMEs do not often engage in the practice of Strategic Management (Ali & Wang, 2019). Since it is revealed that the performance of SMEs extends the enormous contribution to the country, SMEs need to focus to uplift the performance and its growth.

As per the above discussion, Strategic Management practices cause to uplift the performance of the SMEs. Though there are plenty of studies undertaken to investigate the relationship between the practice of Strategic Management and the performance of SMEs in another country context, in the Sri Lankan context this is not a significant area that paves more attention. Therefore, this study attempts to fulfil the gap of the existing body of empirical studies of the literature. In this background, this study is aimed to investigate whether Strategic Management practices improve the performance of SMEs in Sri Lanka.

The research objective of the study unfolds as follows.

01. To empirically investigate the relationship between Strategic Management practices and the performance of SMEs in Sri Lanka.

Literature Review

This study is enlightened from the previous literature to conceptualize and build hypotheses. The most relevant literature sources under the different areas of the scope were reviewed to ensure a systematic approach in carrying out the study. The existing literature under the related areas such as SMEs, SME sector, Strategic Management practices, SMEs' performance, and the relationship between the Strategic Management practices and SMEs' performance were diligently reviewed in drawing the way to address the aim of this research.

Small and Medium Enterprises

The importance of the SMEs is well recognized worldwide because it significantly contributes to satisfying various socio-economic objectives, such as higher growth of employment, increases Gross Domestic Product, encouraging exports, rural development, equitable distribution of limited resources, and fostering entrepreneurship (Keskin et al., 2010; Cravo et al, 2009; Beck 2005; Fening, 2008; Husain & Javed, 2019; Javed, Husain, et al., 2020; Javed, Khan, et al., 2020). The term SME is used to denote micro, small and medium enterprises (Maximilian, 2013). The definitions of SMEs are generally built in each country, based on the SMEs' role in the economy, policies, and programs designed by institutions authorized to develop SMEs (Obosedede, Obasan, & Alese, 2016). In defining the SMEs, some institutions have given significant importance to the number of employees while others have given more importance to the turnover of the enterprise (Keskin et al., 2010). It can be observed different categorizations for small and medium-sized enterprises since socio-economic conditions vary based on economic region or country-focused (Karadag, 2015). (Husain et al., 2021; Husain & Javed, 2019a; Javed, Khan, et al., 2020) World Bank defines SMEs under the microscale; less than 50 employees, small scale; 50 employees, medium scale; 50-200 employees (Keskin et al., 2010). European Union defines SMEs as enterprises that include fewer than 250 employees (European Commission, 2003).

In Sri Lanka, various institutions use various criteria to define small and medium-scale businesses. In defining the small scale businesses industrial Development Board, the Small Industries

Department, and the Institute of Industrial Technology refers to small scale enterprises where the invested capital does not exceed Rs. 4 Million. Ministry of Industrial Development identifies small scale businesses under the criteria which the invested capital does not exceed Rs.20million. According to the Department of Census and Statistics, it is a business with less than 25 employees. Ministry of Rural Industries Development refers to small-scale businesses where there are less than 50 permanent employees. Central Bank of Sri Lanka defines small-scale businesses under the criteria of usage of electricity less than 50Kw amperes (Bandaranayake, 2017). However, the timely validation of some of these definitions is controversial.

In defining the SMEs in Sri Lanka for this study, it is considered the definition is given by the National policy framework. According to the National policy framework (2015), the category of SME is consists of enterprises that employ less than 300 employees and which have an annual turnover not exceeding Rs. 750 Million.

Strategic Management and Strategic Management Practices

Strategic Management can be conceptualized as a set of theories and frameworks, supported by tools and techniques, designed to assist the Management of organizations in thinking, planning, and acting strategically (Stonehouse & Pemberton, 2002, p.853). According to Dess et al., (2004), strategic management consists of analysis, decisions, and actions an organization undertakes to create and sustain competitive advantage. Enterprises involve in the form/s of strategy for the decision-making process to be proactive which should be approached logically, systematically, and objectively (Branislav, 2014). Generally, strategic Management is referred to as a top management activity, which deals with decisions making in, regards to the purpose of the organizational mission, vision, philosophies, objectives, strategies, and well-designed policies (Palladan & Adamu, 2018, p.1). Therefore, strategic management can be considered as a dynamic process of aligning strategies, performance, and business results; it is all about people, leadership, technology, and processes (Rao, 2015, p.4).

According to Johnson and Scholes (2011) strategic Management primarily involves understanding the strategic position of an organization, making

Strategic choices for the future, and managing strategy in action. The strategic management process is dynamic and continuous since a change of any element of the process may require changes to the other elements of the process (Khemesh, 2017). The elements of the strategic management process by Wheelen and Hunger (2012) will be considered as the strategic management practices of this study. According to Wheelen and Hunger (2012), strategic management is a process with three key phases or elements which involve strategy formulation, strategy implementation, and strategy evaluation and control.

Strategy Formulation

Strategy formulation refers to creating the vision, translating vision into the mission, and establishing long-term objectives, and identifying and setting strategic options to strengthen the competitive position of the firm (Elbanna, Katheri, & Colak, 2018). It is the phase or sub-process of strategic management which includes creating future direction, defining objectives of the firm, and setting a course for the organization to follow (Thompson & Strickland, 2003). The strategy formulation involves analyzing the organizational environment in which it operates, then developing a series of strategic decisions of how the organization will compete (Obosedo, Obasan, & Alese, 2016). Generally, strategy formulation is the process of setting future directions and developing strategic options to sustain and enhance the competitive position of the enterprise.

Strategy Implementation

Strategy implementation is primarily concerned with the modification of structures and processes of the organization to ensure that the planned outcomes are obtained (Galbraith & Kazanjian, 1986). It depends on ensuring that the organization has a suitable structure, the right resources, and competence (skills, finance, technology, etc.), right leadership, and culture (Rao, 2015, p.11). Further, it involves ensuring that a firm has proper strategic controls and strategic designs i.e. at implementation it is ensured whether the firm has established effective means to coordinate and integrate activities within the firm as well as with its suppliers, customers, and alliance partners (Dess et al., 2004).

In a broader sense, it can be defined strategy implementation as the process by which strategies are put into action after ensuring that strategy follows the organization's systems, structure, shared values (culture), style (leadership), skills, and staff.

Strategy Evaluation and Control

Strategy evaluation is aimed to emphasize and generate solutions to correct any deviations of the results that the implemented strategies were intended to generate (Pollanen et al., 2017). Organizations set up appropriate monitoring and control systems, develop standards and targets to judge performance is known as strategy evaluation and control (Rao, 2015, p.11). According to Wheelen and Hunger (2012), the evaluation and control process ensures that a company is achieving what it set out to accomplish. It compares performance with desired results and provides the feedback necessary for management to evaluate results and take corrective action, as needed. Further, Wheelen and Hunger (2012) present a five-step feedback model in reviewing and controlling the strategy. Those steps involve determining what to measure, establish standards of performance, measure actual performance, compare actual performance with the standard, and Take corrective action. By considering the different definitions given, strategy evaluation and controlling can be defined as the process of monitoring the actual overall performance of the business to ensure the successful implementation of strategies and the ultimate achievement of desired performance outcomes.

SMEs' Performance

Since the major objective of businesses is to make profits, the concept of organizational performance is vital to businesses (Gure & Karugu, 2018). SMEs may not utilize complex and comprehensive accounting formulas to decide their performance, but simple profitability measures (Mutemi, 2013). The actual output of an organization measured against its intended outputs is comprised of organizational performance (Ngui, Mukulu & Gachunga, 2014). (Javed & Khan, 2017) In a broader sense, organizational performance is the combination of financial performance, business performance, and organizational effectiveness (Terziovski & Samson, 2000; Husain et al., 2021;

Husain & Javed, 2019b, 2019a; Javed, Aldalaien, et al., 2019; Javed, Atallah, et al., 2019; Javed, Khan, et al., 2020; Javed & Husain, 2020, 2021; Javed & Khan, 2017; A. A. Khan & Javed, 2017).

The different perspectives such as profits, growth, economic value-added, balanced scorecards, activity-based analysis, and customer satisfaction are identified as effective in undertaking the performance of the enterprise (Drucker, 1985 cited in Njeru, 2015). Both financial and non-financial have been utilized to measure the performance of SMEs, (Gibson & Cassar, 2005). (Alhroob et al., 2017; Javed & Husain, 2021; A. A. Khan & Javed, 2017) From a financial point of view, the enterprise is used conventional financial performance measures such as sales level, sales growth rate, return on shareholder equity, gross profit margin, net profit from operations, profit to sales ratio, return on investment, and ability to fund the business growth from profits (Covin, 1991). Most firms interpret their performance outcomes based on accounting measures such as profits and returns and their components like revenues, costs, assets, and liabilities (Mutemi, 2013). In the present context, business performance is not only measured through financial measures but also nonfinancial measures. New product success, industry leadership, creating new jobs, business stability, and community development are few non-financial measures used to measure the performance of SMEs (Blackman, 2003).

Strategic Management Practices and SMEs' Performance

The effect of business strategy on organizational performance has become an area of growing interest in the field of strategic management (Mutemi, 2013). Therefore, the strong re-enforcement on the impact of strategic management has a significant influence on the development of small and medium-sized enterprises around the Globe (Gweh, 2018). Even though some strategic and policy management experts encourage companies to practice strategic management practices to improve their competitiveness, still there is an unresolved argument over the influence of strategic management practices on the performance of the enterprises (Omsa, Ridwan, & Jayadi, 2017).

It can be observed plenty of studies have revealed

The relationship between strategic management practices and SMEs' performance. Strategic management practices enhance both the profitability and market share of small-scale businesses (Dauda, Akingbade, & Akinlabi, 2010). Moreover, the competitive advantage and business strategies of SMEs contribute significantly to increase the number of customers and market shares respectively (Agwu, 2018). Therefore, strategic management practices assist the SMEs to address the challenges through the understanding of their operating environment, develop strategies to undermine the threats in the environment, and grab the opportunities of the environment and it leads to performance and growth (Sopha & Kwasira, 2016).

Strategy formulation, strategy implementation, strategy evaluation, and overall strategic management practices have a significant relationship with the performance of SMEs (Ali & Qun, 2017). Those strategic management practices have a positive significant impact on sales volume, Break-Even Point achievement, and profits of SMEs (Omsa, Ridwan, & Jayadi, 2017). In another context, environmental scanning, strategy formulation, strategy implementation, and strategy evaluation positively affect the financial performance of professional service SMEs (Otieno, Namusonge & Mugambi, 2018). Moreover, the adoption of strategic management practices (strategy formulation, implementation, and evaluation) influences the performance of the organization which explains that higher adoption strategies lead a superior organization performance (Njeru, 2015). The existing literature highlights that the stimulation of strategic management practices re-enforces the organizational performance in terms of profitability, market share, customer satisfaction, sales volume, etc.

This study will contribute to the existing body of literature regarding how strategic management practices are related to SMEs' performance. In the local context, although there is a considerable amount of researches to measure strategic management practices and corporate performance, it can be observed an empirical gap in the context of SMEs (testing and verifying the researches in a different context).

Conceptual Framework

Subsequently reviewing the existing pool of literature, it was realized that the previous studies reveal a significant relationship between strategic management practices and SMEs' performance. The elements of the strategic management process of Wheelen and Hunger (2013) namely strategy formulation, strategy implementation, and strategy evaluation and controlling (i.e. strategy review and control) have been considered as the independent variables while SMEs' performance of Sri Lanka has been considered as the dependent variable.

Please insert Figure 1 here

Hypotheses

H1: There is a positive significant relationship between strategy formulation and SME's performance.

H2: There is a positive significant relationship between strategy implementation and SME's performance.

H3: There is a positive significant relationship between strategy evaluation and SME's performance.

H4: There is a positive significant relationship between strategic management practices and SME's performance.

The above hypotheses are supported by Ali & Qun (2017); Phina (2020); Ibrahim & Musa (2020), Mohamud (2021) indicating the positive significant relationship between the strategic management practices (strategy formulation, strategy implementation, and strategy evaluation) and the SME performance.

Methodology

The purpose of this section is to provide an overview of the research design which has been used in this research study to achieve the stated research objective. This section presents the main methodological strategy, data sources, and data collection methods in detail.

The research methodology refers to the systematic way to address the research problem. This study followed a quantitative research approach under the positivistic research paradigm (Husain et al., 2021; Husain & Javed, 2019a; Javed, Atallah, et al., 2019; Javed, Husain, et al., 2020; Javed, Khan,

Et al., 2020; A. Khan & Javed, 2016). Since the study attempts to explain and predict reality by searching for patterns and relationships between people this study comes under the positivistic paradigm. Research design provides a framework that reflects the nature of the study, time horizon, type of the study, study setting, unit of analysis, sampling design, data collection methods, and data analysis method (Sekaran, 2003). Research design is, therefore, viewed as a "blueprint" (Sekaran, 2003, p.124) of the research.

To succeed in an empirical part of the research designing, the study needs to demarcate the boundary. Thus, identifying the population and sample is vital to locate the research. The population of the study was Small and Medium Enterprises which registered in the Industrial Development Board under the Ministry of Industry in Sri Lanka. The whole 131 SMEs registered under this data base is considered for the study. Therefore, this study is a census study.

Though the study can be utilized primary as well as secondary data collection sources (Albabsheh et al., 2018; Husain et al., 2021; Husain & Javed, 2019b, 2019a; Javed, Aldalain, et al., 2019; Javed, Husain, et al., 2020; Javed & Azhar, 2017). This empirical study was mainly used the primary data collection source. According to Sekaran (2003), there are various ways to collect primary data such as questionnaires, interviews, observations, etc. This study deployed the questionnaire method and has been used an already tested questionnaire since it facilitated to gather of the same set of data from the respondents. Thus, a structured questionnaire which is administrated through google form was used in this study. The questionnaire itself comprises two parts; demographic information and items related to the construct variables (Husain et al., 2021; Javed, 2017; Javed, Malik, et al., 2020; Javed & Husain, 2021; Javed & Khan, 2017).

Demographic information of the questionnaire was measured by using nominal and ordinal scale measurements. Further, items that measure the independent and dependent variables; construct variables, were measured by using the Likert scale. 01-to-05-point range Likert scale has been used; where one refers to the strongly disagree and 05 refers to strongly agree. Refer Annexure 01, operationalization table.

Data Analysis and Interpretation

This section was dedicated to formally present the primary data which has been collected through the questionnaire. Relevant analysis and key findings of the study were presented aligned to the objective of the study. The first part of this section illustrates the profile of the respondents. Then, it has been presented the analysis of the construct items. 80 out of the 131 only responded to the questionnaire. Thus, the response rate of the study is 61.07%.

Demographic Data Analysis

The demographic characteristics included the age of the SME, gender, education qualification, SME sector, and size.

Please insert Table 4.1.1 here

As per Table 4.1.1, for the research purpose researcher has intended to collect the age of the SME under four age categories as 01-03, 04-06, 07-09, and above 10 years. The majority of respondents were fallen under the 01-03 age category which is comprised 62.5% of the total respondents and the rest were fallen under 04-06, above 10 years, and 07-09 reserving 20%, 12.5%, and 5% of the total number of respondents.

As per Table 4.1.2, the sample of the study was represented by 62 males and 18 females. The male representation is higher than the female representation in the sample.

Please insert Table 4.1.2 here

Please insert Table 4.1.3 here

As per Table 4.1.3, the majority of the respondents were bachelor's which is counted for 67.5% of the total number of respondents, and then the largest percentage was owned by respondents who had diploma level qualification which is 17.5% of the total respondents. 15% of them were holding postgraduate level qualification.

Table 4.1.4 presents the sector composition of the SME. It indicates that 42% of the respondents are engaging in the service sector while 38% of the respondents are engaging in the manufacturing sector out of the total respondents.

Please insert Table 4.1.4 (a) here

As per Table 4.1.5, 77.5% of respondents out of the total respondents were coming under the below 50 employees' category. 12.5% of respondents were having over 100 employees

And the least percentage was 10% who were having 51-100 employees in their SME.

Please insert Table 4.1.4 (b)

Descriptive Analysis of Construct Items

There are four construct items, strategy formulation, strategy implementation, strategy evaluation, and SMEs performance in this study.

Five-point Likert scale ranging from 'strongly disagree'; scale 1, to 'strongly agree'; 5 was used to measure the construct items. According to Table 4.2.1, 3.8542(\pm 0.7038), 3.9063(\pm 0.7019), 3.7000(\pm 0.7493) and 3.8500(\pm 0.7700) are the mean values of the aforementioned construct items respectively. As per this analysis, the mean score range of the construct items lies between 3.8500(\pm 0.7700) to 3.9063(\pm 0.7019). All items reported mean scores between agree point (4) and strongly agree point (5).

Please insert Table 4.2.1 here

Table 4.2.1 demonstrates the means and standard deviations of the variables which are taken into the study. If the mean value is close to 1, it indicates strongly disagree, and if close to 5, it indicates strongly agree. It can be observed that all three independent variables in the table which are strategy formulation, strategy implementation, and strategy evaluation and control represent the positive side of the scale (close to 4) indicates that overall the respondents practice the strategic management practices in an agreeable state. The mean value of the dependent variable, 3.8500 (0.77) explains the level of performance of the SMEs in Sri Lanka. According to the scale used, it can be said that the overall performance of the respondents is at a satisfactory level.

Reliability and Validity

Hence, the study has been used the already tested questionnaire content validity and construct validity of the study are ensured. In testing the reliability of the selected variables, Cronbach's Alpha value is calculated as it is demonstrated in Table 4.3.1.

Please insert Table 4.3.1 here

According to the analysis, all the independent variables and dependent variables show a higher degree of reliability with having Cronbach's Alpha value higher than 0.7 which satisfies the rule of

Thumb. The variable of "strategy formulation" has the highest reliability among the independent variables with a Cronbach's Alpha value of 0.905. The dependent variable (performance of SMEs) shows the highest reliability among all the variables with a Cronbach's Alpha value of 0.931.

Correlation Analysis

The correlation analysis is conducted to investigate whether there is any significant relationship between each independent variable (strategy formulation, strategy implementation, and strategy evaluation) and the dependent variable (performance of SMEs in Sri Lanka).

As it is demonstrated in Table 4.4.1, all factors namely strategy formulation, strategy implementation, and strategy review and control are found to be significant with the performance of SMEs in Sri Lanka at a 95% confidence level. As the highest coefficient value among three of the elements, strategy implementation shows a moderate positive significant relationship with SMEs' performance with 0.550 of the correlation coefficient. Strategy formulation and strategy evaluation and control are found to be weakly, positively correlated with SMEs' performance hence correlation coefficients are shown as 0.366 and 0.331 respectively. However, each three of the elements of the strategic management process show a positive significant relationship with the SMEs' performance in Sri Lanka.

Please insert Table 4.4.1 here

Please insert Table 4.4.2 here

According to Table 4.4.2, it can be observed that there is a positive significant relationship between the strategic management practices and performance of SMEs in Sri Lanka at a 95% level of confidence. The correlation coefficient of 0.485 indicates a moderate positive correlation between strategic management practices and SME performance.

Hypothesis Results

H1.1: There is a significant relationship between strategy formulation and SMEs' performance in Sri Lanka.

According to Table 4.4.1, the significant value of the variable of strategy formulation (0.001) is greater than the significant level of 0.05. Therefore

The null hypothesis is rejected and it can be concluded that there is a significant relationship between strategy formulation and SMEs' performance in Sri Lanka.

H1.2: There is a significant relationship between strategy implementation and SMEs' performance in Sri Lanka.

According to Table 4.4.1, the significant value of the variable of strategy implementation (0.000) is greater than the significant level of 0.05. Therefore, the null hypothesis is rejected, and it can be concluded that there is a significant relationship between strategy implementation and SMEs' performance in Sri Lanka.

H1.3: There is a significant relationship between strategy evaluation and control and SMEs' performance in Sri Lanka.

According to Table 4.4.1, the significant value of the variable of strategy evaluation and control (0.003) is greater than the significant level of 0.05. Therefore, the null hypothesis is rejected, and it can be concluded that there is a significant relationship between strategy evaluation and control and SMEs' performance in Sri Lanka.

H1.4: There is a significant relationship between strategic management practices and SMEs' performance in Sri Lanka.

According to Table 4.4.1, the significant value of the variable of strategic management practices (0.000) is greater than the significant level of 0.05. Therefore, the null hypothesis is rejected, and it can be concluded that there is a significant relationship between strategic management practices and SMEs' performance in Sri Lanka.

Discussion

The sample of the study consisted of 62 males and 18 female SME owners in Sri Lanka. The gender composition of the sample enables us to illustrate the real picture of SME sector gender representations in Sri Lanka, as the Department of Census and Statistics presents out of the total economic inactive population, 69% are female. According to the survey data, most of the SME owners are in their early stage of business since the majority of them are having less than 3 years of cooperating age and the majority of SMEs occupied less than 50 employees in this context.

When it comes to the education background, as per the survey findings all almost all SMEs owners have a good education background, having postgraduate, bachelors, and diplomas as their education qualification. Sound education qualification of the owners might affect to practice of Strategic Management in an organizational context.

The mean value of strategic management practices namely, strategy formulation, strategy implementation, and strategy evaluation and control indicate that the respondents practice the strategic management practices in an agreeable state. In other words, respondents of the study are engaged with strategic management practices to a considerable extent. Similarly, the mean value of the SME performance shows that the overall performance of SMEs is at a satisfactory level. It indicates that overall the SMEs in Sri Lanka are having a positive level of performance.

Correlation results exposed that there is a positive significant relationship between each element of the strategic management process (strategy formulation, strategy implementation, and strategy review and control) and SMEs' performance in Sri Lanka. Further, it concludes that overall, there is a positive significant relationship between strategic management practices and SMEs' performance. In this study, the quantitative indicators such as market share, revenue, profits, and return on investments were incorporated in measuring the performance. The results are consistent with the findings of the previous studies also. As Dauda, Akingbade, and Akinlabi (2010) investigated, strategic management practices improve both the profitability and market share of small-scale businesses. It is also consistent with the findings of Njeru (2015) which indicates that the adoption of strategy formulation, implementation, and evaluation influence the performance of the organization which explains that higher adoption strategies derive a higher organizational performance. As per Ali and Qun (2017), the strategic management practices of strategy formulation, strategy implementation, strategy evaluation, and strategic management practices overall show a positive significant relationship with the performance of SMEs. Omsa, Ridwan, and Jayadi (2017) investigated that strategic management practices have improved the sales volume, Break-Even Point achievement,

And profits of SMEs. (Alhroob et al., 2017; Husain & Javed, 2019b; Javed & Husain, 2021; Javed & Malik, 2021; A. A. Khan & Javed, 2017; Rutskiy et al., 2021; S & Singh, 2021) according to studies, strategic management practices of strategy formulation, strategy implementation, and strategy evaluation positively affect the financial performance of professional service SMEs (Otieno, Namusonge & Mugambi, 2018). Therefore, the fact that strategic management practices contribute to improving the performance of SMEs is statistically proved and further discussed its consistency with the similar findings of other countries.

Conclusion

Thus, SMEs are the backbone of the country's economy, performance of the SMEs is vital despite the development level of the country. This analysis indicates that strategic management practices such as strategy formulation, strategy implementation, and strategy evaluation (review and control) positively contribute to the performance of the SMEs in Sri Lanka despite the size of the organization. Hence, it can be concluded that There is a positive significant relationship between the strategic management practice and SME performance. Further, it can be concluded that the performance of the SMEs in terms of market share, revenue, profits, and return on investments has been improved by the Strategic Management practices of SMEs in the Sri Lankan context.

The findings of the research provide some important implications for the current and prospective owners and managers of SMEs in Sri Lanka. Owners and managers of SMEs can pay attention more to the practice of Strategic Management before decision making since it will enable to enhance the performance of the enterprise. Further, the findings of the study contribute to the existing body of literature as it is not so popular area for researchers in the Sri Lankan context. Further, this study can be expanded utilizing a qualitative approach. Thus, it will help to capture the in-depth exploration in this regard. Future researchers further can be expanded this research work by simultaneously looking at Strategic Planning and Strategic Management practices towards the performance of SMEs. This study sample size is limited to the SMEs which are registered in the Industry Development Board under the Industrial Ministry, Sri Lanka 2021.

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Figure 1: Conceptual Framework

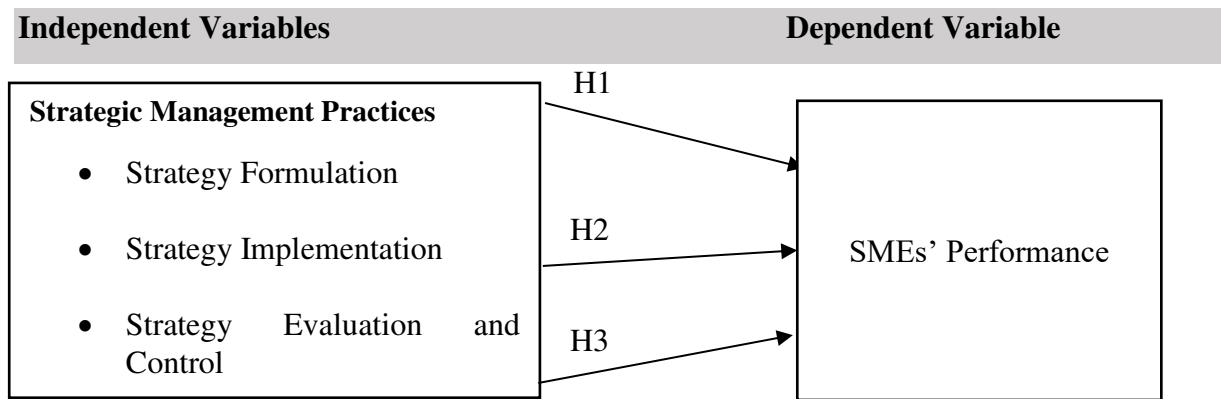


Table 4.1.1: Age of the SME

Age of the SME					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3 Years	50	62.5	62.5	62.5
	4-6 Years	16	20.0	20.0	82.5
	7-9 Years	4	5.0	5.0	87.5
	10 Years or above	10	12.5	12.5	100.0
	Total	80	100.0	100.0	

Source: Survey Data, 2021

Table 4.1.2: Gender

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	62	77.5	77.5	77.5
	Female	18	22.5	22.5	100.0
	Total	80	100.0	100.0	

Source: Survey Data, 2021

Table 4.1.3: Highest Education Level

Highest Education Qualification					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma Level	14	17.5	17.5	17.5
	Bachelor's Degree	54	67.5	67.5	85.0
	Postgraduate	12	15.0	15.0	100.0
	Total	80	100.0	100.0	

Source: Survey Data, 2021

Table 4.1.4 (a): Sector of SME

		SME Sector			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manufacturing	38	47.5	47.5	47.5
	Service	42	52.5	52.5	100.0
	Total	80	100.0	100.0	

Source: Survey Data, 2021

Table 4.1.4 (b): Size of SME (in terms of employees)

		Size			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 50	62	77.5	77.5	77.5
	51-100	8	10.0	10.0	87.5
	Over 100	10	12.5	12.5	100.0
	Total	80	100.0	100.0	

Source: Survey Data, 2021

Table 4.2.1: Mean value analysis

		Statistics			
		Mean_Formulation	Mean_Implementation	Mean_Evaluation_and_control	Mean_Performance
N	Valid	80	80	80	80
	Missing	0	0	0	0
Mean		3.8542	3.9063	3.7000	3.8500
Std. Deviation		.70380	.70191	.74931	.77001

Note: Five-point Likert scale was used (1- Strongly Disagree; 5- Strongly Agree)

Source: Survey Data, 2021

Table 4.3.1.: Cronbach's Alpha Value

Variable	Cronbach's Alpha Value	Number of Items
Strategy Formulation	0.905	6
Strategy Implementation	0.759	4
Strategy Evaluation and Control	0.839	3
SMEs' Performance	0.931	5

Source: Survey Data

Table 4.4.1.: Correlations

	Correlations	Mean_Performance
Strategy Formulation	Pearson Correlation	.366**
	Sig. (2-tailed)	.001
	N	80
Strategy Implementation	Pearson Correlation	.550**
	Sig. (2-tailed)	.000
	N	80
Strategy Evaluation and control	Pearson Correlation	.331**
	Sig. (2-tailed)	.003
	N	80
SMEs' Performance	Pearson Correlation	1
	Sig. (2-tailed)	
	N	80

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

Source: Survey Data

Table 4.4.2.: Correlations

	Correlations	Mean_Performance
Strategic Management Practices	Pearson Correlation	.485**
	Sig. (2-tailed)	.000
	N	80
SMEs' Performance	Pearson Correlation	1
	Sig. (2-tailed)	
	N	80

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

Source: Survey Data

Annexure: Questionnaire

Operationalization Table

Variables (Independent and Dependent)	Definition	Indicators	Scale	Author
Independent Variables				
1.Strategy Formulation	Strategy formulation refers to creating the vision, translating vision into the mission, and establishing long-term objectives, and identifying and setting strategic options to strengthen the competitive position of the firm (Elbanna, Katheri, & Colak, 2018)	<p>Strategies are consistent with any external environmental threats and opportunities</p> <p>Strategies are consistent with strengths and weaknesses</p> <p>Both management and employees participate in developing strategic alternatives</p> <p>Long term impacts are considered in developing alternative strategies</p> <p>Your firm develops budgets for all strategic alternative</p>	<p>5 Likert Scale</p> <p>1= Strongly Disagree 5= Strongly Agree</p>	Wijetunga & Pushpakumari (2014)
2.Strategy Implementation	Strategy implementation is primarily concerned with the modification of structures and processes of the organization to ensure that the planned	<p>Once strategy has been selected it is implemented consequently</p> <p>The structure of the organization is considered when implementing the strategy</p> <p>You consider the norms, beliefs, attitudes, policies you have been practicing so far in your firm in implementing the strategy</p>	<p>5 Likert Scale</p> <p>1= Strongly Disagree 5= Strongly Agree</p>	Wijetunga & Pushpakumari (2014)

	outcomes are obtained (Galbraith & Kazanjian, 1986).	Your firm believes that there should be an appropriate leadership to implement the strategy		
3.Strategy Evaluation (Review and Control)	Strategy evaluation is aimed to emphasize and generate solutions to correct any deviations of the results that the implemented strategies were intended to generate (Pollanen et al., 2017).	<p>Your firm has developed a systematic method for reviewing and evaluating strategies</p> <p>Both management and employees participate in the review and evaluation of strategic plans</p> <p>There is an annual review and evaluation of the strategic plan</p>	<p>5 Likert Scale</p> <p>1= Strongly Disagree</p> <p>5= Strongly Agree</p>	Wijetunga & Pushpakumari (2014)
Dependent Variable				
4.Performance of SMEs	Organizational performance is the combination of financial performance, business performance, and organizational effectiveness (Terziovski & Samson, 2000).	<p>The market share has increased during the last three years.</p> <p>The revenue has increased during the last three years</p> <p>The percentage of profit has increased</p> <p>The percentage of Return of Investment has increased during the last three years</p> <p>The total trend of the company's performance has improved</p>	<p>5 Likert Scale</p> <p>1= Strongly Disagree</p> <p>5= Strongly Agree</p>	Wijetunga & Pushpakumari (2014)