Factors Influencing the Business Success of MSMEs in Sri Lanka: The Empirical Evidence from Kurunegala District


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ABSTRACT

The Micro, Small and Medium Enterprise (MSME) sector plays a major role in Sri Lankan economy. It immensely contributes to regional development, employment generation and poverty alleviation and hence, this sector has been identified as the backbone of the Sri Lankan economy. The focus of this study was to identify the factors affecting the business success among MSMEs in Sri Lanka. Based on the survey of 150 entrepreneurs, the study discloses that marketing, technology, access to capital, government support and infrastructure affect the business success significantly and positively. The results of the ANOVA and t-test revealed that origin of enterprises and the education level significantly affected the business success. It further explained that the educational background did not give applicable skills for running the business. These findings suggest that, to be a successful MSME, the owner of the MSME should pay more attention to improve their marketing strategy, to acquire and demonstrate advanced sophisticated technology, and to get capital access. Other interested parties with development of MSMEs such as government agencies, business development services, and business supporting institutes should also be prepared to offer the assistance with relate to those aspects.

KEYWORDS: Business success, Micro enterprises, Small and medium enterprises

Introduction

The Micro, Small and Medium Enterprise (MSME) sector has been identified as the backbone of the Sri Lankan economy. It is identified as a driver of change for inclusive economic growth, regional development, employment generation and poverty alleviation. They also play a prominent role in developing appropriate technology, entrepreneurship and business innovations. It covers broad areas of economic activities such as agriculture, mining, manufacturing, construction, and service sectors.

The Micro, Small and Medium Enterprises are defined differently by different countries and multilateral agencies based on different parameters such as number of employees, business turnover and capital investment. Different definitions are also
being used by different organizations within the same country to define MSME for different purposes which is a fact that practiced in Sri Lanka.

In the Sri Lankan context, the definition of a MSME is based on the annual turnover of the enterprise and under the latest credit line for MSMEs from the World Bank, MSMEs were defined as an enterprise with an annual turnover of less than Rs.350 million. For the purpose of taxation, the 2012 budget proposal defines small industries as an enterprise with an investment of less than Rs.25 million. (Somaratne, 2012). The SME policy framework in Sri Lanka defines MSMEs based on the number of employees and annual turnover (Anon, 2015). According to the survey of non-agricultural economic activities in Sri Lanka conducted by Department of Census and Statistics (2013/2014), 91.8% of the establishments in the country are micro enterprises where as 7% are small, 1% are medium and the balance 0.2% are large enterprises (Anon, 2014).

The MSME sector has enormous potential in generating high level of socio-economic benefits to a developing country with a low level of investment. However, according to the Department of Census & Statistics of Sri Lanka, "investment to generate employment" or "investment per employee" is said to be the low. The MSME sector is an ideal platform for the Government to invest and support to reduce the gap between the haves and the have-nots (Weerakkody, 2015).

According to the national policy framework for small medium enterprises, MSME accounts for more than 75% of the total number of enterprises, provides 45% of the employment and contributes to 52% of the Gross Domestic Production (GDP). However, in developed countries the contribution by the SME sector to the GDP and employment is as high as 65% and 70% respectively (Weerakkody, 2015). Hence, these statistics reveal that there is immense potential to enhance the present level of contribution made by the MSMEs to the economy when compared with the GDP contribution in other countries in small-scale industries compared to large entities.

From the inception of industrialization of the Sri Lankan economy micro and small business sector was recognized as an important to be developed. But the progress of this sector is not up to expectation. The empirical evidence shows that 45% of the start-ups entering to the market in Sri Lanka disappear at their first year after establishment (Bandara, 2016).

Running a micro, small and medium business is a difficult and risky matter. The path from starting a business to launching continually is operating with challenges and issues. The Banking Survey of the SME Market in Sri Lanka (2006-2007) of the International Finance Corporation (IFC) listed five principal constraints faced by the MSME sector. They were difficulties in obtaining bank finance, absence of technical and management skills, marketing constraints, inadequate infrastructure facilities for production, and outdated technologies (Nanayakkara, 2011).

Causes for business failure differ from country to country, region to region, and business to business, but there are common factors such as lack of managerial skills, lack of improper accounting, lack of financial control, lack of internal control systems, lack of business experience etc. Apart from these mentioned causes, integrity and business policies as disciplines are critical. The lack of these critical factors can bring
misfortune to business. Therefore, business success cannot be expected without practicing integrity and business disciplines (Bandara, 2015).

In Sri Lanka, despite the fact that some MSMEs have been declined or stagnant, some others have been growing and successful. Even though there were lots of studies regarding constraints and barriers for the MSME failure in Sri Lanka, there are a few of studies on business success factors among MSMEs. Therefore, it is an essential need to conduct a research regarding the factors affecting the business success among MSMEs in Sri Lanka.

The aim of this study was to identify the factors affecting the business success among MSMEs in Sri Lanka. It further examined the relationship between the identified factors and the Business Success.

**Methodology**

**Theoretical Framework**

Storey (1994) identified key components to be important in analyzing the growth of MSMEs; the characteristics of the entrepreneur, characteristics of the MSME, and the type of the strategy associated with the growth. Instead of the last component, contextual elements of MSME development have been added. The theoretical framework was developed by using these three adjusted components shown in the Figure 1.

**Figure 1: Theoretical Framework**

*Note: MSMEs- Micro, Small and Medium Enterprises*
Multiple Linear Regression Model

The relationship between the Perceived Business Success and the Contextual Variables has been developed using a Multiple Linear Regression Model, which is expressed as,

\[
PBS = \beta_0 + \beta_1 MKT + \beta_2 TEC + \beta_3 ATC + \beta_4 ATI + \beta_5 SCN + \beta_6 LGL + \beta_7 ERS + \beta_8 BP \\
+ \beta_9 GS + \beta_{10} INF + \beta_{11} HR + \beta_{12} INV + \beta_{13} FL + \varepsilon
\]

Where,
- \(PBS\) = Perceived Business Success
- \(ERS\) = Entrepreneurial Readiness
- \(\beta_0\) = Constant
- \(\beta_1, \beta_{13}\) = Regression Coefficients
- \(MKT\) = Marketing
- \(TEC\) = Technology
- \(ATC\) = Access to Capital
- \(ATI\) = Access to Information
- \(SCN\) = Social Network
- \(LGL\) = Legality
- \(\varepsilon\) = Error term

Index Construction

Responses for contextual variables and the perceived success were obtained through a set of statements rated on five-point Likert scale ranging from strongly disagree to strongly agree. For the analysis, fourteen indices were prepared using these statements. The developed indices are ranging from point two to one. The business success index (BSI) was developed as follows.

\[
BSI = \frac{\sum_{k=1}^{K} X_k}{K \times X_{\text{max}}} 
\]

Where,
- \(X_k\) - score given to the statement by the \(k\)th respondent
- \(X_{\text{max}}\) - maximum score that could be given by a respondent
- \(K\) - Total number of statement in a group

Similarly, indices for contextual variables were developed.

Data Collection and Analysis

Primary data were collected using a pre tested questionnaire from a randomly selected sample of 120 owners of the MSME in the Kurunegala district covering all the divisional secretariats during the period from March to April 2016.

As a basis for developing the questionnaire, focus group discussion and in-depth interviews with business owners, and officers of some business development institutes were used to identify the factors affecting the business success. The questionnaire was comprised of demographic information of the respondents and a set of items to measure business success. Five-point Likert scale anchored by strongly disagree and strongly agree were applied to measure perceived success. Under the demographic information, age was categorized according to the survey conducted for
non-agricultural economic activities in Sri Lanka by the department of Census and Statistics.

Next, the respondents were asked to score the importance of thirteen factors (contextual variables) considered to take part in determining business success using five-point Likert scale anchored by very unimportant to very important. The respondents were asked to rank the statements on contextual condition related to each success factors faced by the respondents.

Data were analyzed using both descriptive and inferential statistics with the statistical package SPSS version 16. In addition to descriptive statistics, correlation analysis and regression analysis were employed. Before applying the regression analysis, the reliability of the research instrument was examined using factor analysis and value of Cronbach’s alpha. The t-test and ANOVA were used as appropriate tests to examine the relationship between characteristics of entrepreneur and MSMEs and business success, while regression analysis was employed to look at the relationship between contextual variables and the business success. Post hoc test using LSD (least significant differences) method was also applied when ANOVA revealed significant difference among group compared.

Results and Discussion

Descriptive Statistics
As depicted in the Table 1, the majority of entrepreneurs (69.2%) were male and the female enrollment in the businesses was 30.83%. Most of the entrepreneurs (60.8%) were within the age range of 25-44 years. According to their education, the vast majority of respondents (87.5%) had secondary or tertiary education. However, the business engagement of the respondents who were having higher education was considerably low (8.3%).

These results revealed that the entrepreneurs with secondary or tertiary education tend to do business more than the others. Despite the general education level, 62.5% of the entrepreneurs had business education. A large percentage (62.5%) of entrepreneurs had former work experience prior to run the business which was mostly (92.5%) established by themselves.

Obviously, personal savings (64.2%) and the banks (25%) were the dominant source of capital. Most of the MSMEs (58.3%) were running in agricultural industries. In terms of employee, the higher percentage (80.8%) of establishments in Kurunegala district was micro enterprises.

Relationship between Demographic Information and Business Success

Characteristics of the Entrepreneur
The results revealed that age of the entrepreneur had no any significant relationship with business success. Similarly, there was no any significant impact in terms of gender for business success. Previous employment of the entrepreneur had no significant relationship with business success. Neither previous experience nor business education had significant effect on business success.
Table 1: Background Information of MSMEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>(%)</th>
<th>Variable</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td>Previous experience</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>30.8</td>
<td>Yes</td>
<td>69.2</td>
</tr>
<tr>
<td>Male</td>
<td>69.2</td>
<td>No</td>
<td>30.8</td>
</tr>
<tr>
<td>Education of the entrepreneur</td>
<td></td>
<td>Sources of capital</td>
<td></td>
</tr>
<tr>
<td>No school education</td>
<td>1.7</td>
<td>Personal savings</td>
<td>64.2</td>
</tr>
<tr>
<td>Primary education (grade 1-5)</td>
<td>2.5</td>
<td>Joint ventures</td>
<td>2.5</td>
</tr>
<tr>
<td>Secondary education (grade 6- G.C.E. O/L)</td>
<td>40.8</td>
<td>Family investment</td>
<td>8.3</td>
</tr>
<tr>
<td>Tertiary education (G.C.E A/L)</td>
<td>46.7</td>
<td>Bank</td>
<td>25</td>
</tr>
<tr>
<td>Higher education (university etc.)</td>
<td>8.3</td>
<td>Other</td>
<td>-</td>
</tr>
<tr>
<td>Size of the business (in terms of employee)</td>
<td></td>
<td>Age</td>
<td></td>
</tr>
<tr>
<td>Micro (1-4)</td>
<td>80.8</td>
<td>18-24 years</td>
<td>1.7</td>
</tr>
<tr>
<td>Small (5-24)</td>
<td>13.3</td>
<td>25-44 years</td>
<td>60.8</td>
</tr>
<tr>
<td>Medium (25-199)</td>
<td>5.8</td>
<td>45 years&lt;</td>
<td>37.5</td>
</tr>
<tr>
<td>Business education</td>
<td></td>
<td>Type of the sector</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>62.5</td>
<td>Agricultural</td>
<td>58.3</td>
</tr>
<tr>
<td>No</td>
<td>37.5</td>
<td>Nonagricultural</td>
<td>41.7</td>
</tr>
<tr>
<td>Origin of enterprise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Established</td>
<td>92.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inherited</td>
<td>7.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results of the ANOVA test found that there was a relationship (p value=0.02) between education level and business success at the significant level of 0.05. Surprisingly, entrepreneur with university education was significantly less successful than those with secondary and tertiary education. The appropriate p values were 0.004 and 0.011 respectively. It reveals that education up to secondary or tertiary level enough for running the business to success. Another possible explanation is that the Sri Lankan Education system does not cater for entrepreneurial skill development.

**Characteristics of MSMEs**

The relationship between origin of the enterprise and business success was statistically significant at the level of 0.1 (p value=0.066). Comparing the mean values of success related to the origin of the enterprise, inherited businesses were more successful than businesses which were established by themselves. Business which inherited from family were already existed and established in the market. The market for those establishments was developed up to some extent. Therefore, the expenditure on those activities may be minimum with compared to the enterprises which were established by themselves.
There was no difference in business success in terms of size of enterprise, length time in operation and source of capital. The study examined that whether there was any relationship between business success and type of enterprise as agricultural and nonagricultural. However, there was no significant relationship between business success and type of the enterprise. It further reveals in other way that, whatever the type of enterprise, research findings related to business success were common for all enterprises.

Reliability Analysis
The results of the Cronbach’s alpha were depicted in the Table 2. As seen in the Table 2, each variable consisted of at least 3 items. The value of the Cronbach’s alpha are greater than 0.6 for each variable and hence considered acceptable (Nunally, 1978). The results conclude that the research instrument used in the study is valid and reliable.

Mean Ratings of Perceived Importance of Contextual Variables
The Table 2 also summarizes mean ratings that indicate perceived importance of variables related to business success. Marketing (mean= 4.53) was considered to be most important factor in running the business, while government support (mean= 3.96) was perceived to be less important in business operation.

Table 2: Cronbach’s Alpha Values of Contextual Variables, Perceived Business Success and Results of the Mean Ratings of Perceived Importance of Contextual Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>No. of Items</th>
<th>Cronbach’s alpha</th>
<th>Mean Rating</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>MKT</td>
<td>4</td>
<td>0.760</td>
<td>4.53</td>
<td>0.62</td>
</tr>
<tr>
<td>TEC</td>
<td>4</td>
<td>0.796</td>
<td>4.34</td>
<td>0.77</td>
</tr>
<tr>
<td>ATI</td>
<td>5</td>
<td>0.824</td>
<td>4.36</td>
<td>0.68</td>
</tr>
<tr>
<td>ATC</td>
<td>3</td>
<td>0.768</td>
<td>4.28</td>
<td>0.70</td>
</tr>
<tr>
<td>FL</td>
<td>5</td>
<td>0.778</td>
<td>4.16</td>
<td>0.81</td>
</tr>
<tr>
<td>SCN</td>
<td>3</td>
<td>0.691</td>
<td>4.12</td>
<td>0.86</td>
</tr>
<tr>
<td>LGL</td>
<td>2</td>
<td>0.792</td>
<td>4.25</td>
<td>0.66</td>
</tr>
<tr>
<td>BP</td>
<td>2</td>
<td>0.888</td>
<td>4.06</td>
<td>0.99</td>
</tr>
<tr>
<td>ERS</td>
<td>4</td>
<td>0.867</td>
<td>4.23</td>
<td>0.73</td>
</tr>
<tr>
<td>GS</td>
<td>3</td>
<td>0.808</td>
<td>3.96</td>
<td>0.99</td>
</tr>
<tr>
<td>INF</td>
<td>4</td>
<td>0.892</td>
<td>4.09</td>
<td>0.91</td>
</tr>
<tr>
<td>INV</td>
<td>3</td>
<td>0.826</td>
<td>4.28</td>
<td>0.83</td>
</tr>
<tr>
<td>HR</td>
<td>2</td>
<td>0.789</td>
<td>4.26</td>
<td>0.81</td>
</tr>
<tr>
<td>PBS</td>
<td>4</td>
<td>0.872</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Result of the Multiple Linear Regression Analysis
Using the multiple linear regression, the impact of contextual variables on business success were examined (Table 3). It was revealed that the regression model was significant (probability value =0.000) and the model explains 73% of the variables.
Table 3. Result of the Multiple Linear Regression

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>MKT</td>
<td>0.470</td>
<td>0.000*</td>
</tr>
<tr>
<td>TEC</td>
<td>0.156</td>
<td>0.018*</td>
</tr>
<tr>
<td>ATI</td>
<td>0.067</td>
<td>0.349</td>
</tr>
<tr>
<td>ATC</td>
<td>0.198</td>
<td>0.003*</td>
</tr>
<tr>
<td>FL</td>
<td>-0.023</td>
<td>0.750</td>
</tr>
<tr>
<td>SCN</td>
<td>0.032</td>
<td>0.633</td>
</tr>
<tr>
<td>LGL</td>
<td>-0.050</td>
<td>0.378</td>
</tr>
<tr>
<td>BP</td>
<td>-0.096</td>
<td>0.114</td>
</tr>
<tr>
<td>ERS</td>
<td>0.067</td>
<td>0.322</td>
</tr>
<tr>
<td>GS</td>
<td>0.116</td>
<td>0.076**</td>
</tr>
<tr>
<td>INF</td>
<td>0.116</td>
<td>0.081**</td>
</tr>
<tr>
<td>INV</td>
<td>0.015</td>
<td>0.788</td>
</tr>
<tr>
<td>HR</td>
<td>0.063</td>
<td>0.330</td>
</tr>
</tbody>
</table>

Note: *Significant at 5% level, ** Significant at 10% level; Adj.R²=73%; Probability value of the model<0.000

The Table 3 indicated that, marketing, technology and access to capital affected business success significantly and positively at the significance of 0.05 level.

The probability value of the government support and infrastructure were 0.076 and 0.08 at 0.1 significant level and it was found that they affected the business success in positive direction. However, in the mean ratings of perceived importance of contextual variables, it showed that the government support was less important for success of a business (Table 2).

According to the results, marketing, technology, access to capital, government support and the infrastructure were the determinants of the business success.

However, access to information, social network, legality, business plan, entrepreneurial readiness, human resources, innovativeness, and financial literacy were not found to be statistically significant (Table 3), even though they were depicted as important in the Table 2.

**Conclusions**

The analysis revealed that origin of the enterprise was significantly related to business success while education also positively significant with business success. However, the higher education level was not significantly impact for running a business. It further explains that the education system in Sri Lanka does not cater for developing entrepreneurial skills. The success of a business does not depend on the type of the sector as agriculture or non-agriculture.

The regression analysis implied that marketing, access to capital, technology; government support and infrastructure were the determinants of the business success of MSMEs. These findings have to be taken into consideration in programmes designed to develop MSMEs.
Infrastructure
Lack of adequate infrastructure, particularly in the field of power, water, telecommunication and road access affect production, its cost, delivery and finally market competitiveness of any enterprise irrespective of its size. The MSMEs specially, find it difficult to compete with existing firms when they do not even have access to essential common facilities that are required for a business to run efficiently. The severity of this need issue needs to be analyzed in terms of availability, quality, reliability and cost of supply. Obviously, solutions to infrastructure problems need to be worked out at the national level.

The introduction of industrial park for MSMEs in rural areas is a good strategy to provide infrastructure facilities for industrial development. Another possible strategy is to improve facilities of existing industrial estates and industrial parks.

Technology
Technological under development is widely recognized as a key determinant of narrow and vulnerable industrial base of many developing countries. This is of particular relevance to MSMEs as they are at the lowest end of technological learning process compared with their counterparts in the large scale sector. The majority of MSMEs are ignorant of the need to improve and upgrade the quality of their product on a regular basis. They seem to be content with to continue production according to traditional, time-honored techniques and methods instead of adopting new, technologically more advanced methods. This is because; MSMEs are largely family- based enterprises and have limited access to information and technology. Hence, the majority of them do not recognize the need for modern technology as vital for growth and expansion of their business activities. Among those who realize the need for adopting new technology, the majority face significant problems in accessing technology. Moreover, technologies adopted by many small-scale enterprises are not appropriate. Inappropriateness occurs through long delays in recouping the investment in new technologies, high initial investment required to technology and lack of suitable technology related to the specific needs.

The purpose of establishing a Technology Development Fund is to provide assistant in the development of new products and technologies and supporting the individual or joint R&D effort of MSMEs. Initial funding for this purpose should be met by the state in view of potential welfare benefits to the national economy. The NGOs and donor agencies should also be encouraged to intensify their efforts to build up such a fund in addition to transfer technologies. The fund should be managed jointly through a public-private partnership. A voucher scheme should also be introduced for effective implementation of the proposed R&D project.

As a remedial measure it is better to encourage universities and other technical institutions to participate in MSME development by providing access to information and appropriate technology. Introduction of an annual award scheme for the “Best Innovative firm” and Best MSME Friendly Innovations” would also contribute towards creating a market for local R&D.
Access to Capital

Problems related to capital were identified as the foremost affecting MSMEs. This broadly includes four sub-sets of problems: availability of funds and other credit instruments, access to equity and loan capital, cost of borrowing and management of finance. These problems are more serious for MSME as they do not have access to other sources of finance such as the capital market.

With respect to remedial measures for increasing availability of funds, the state has to encourage equity providers to MSMEs. Such providers could be Venture Capital companies, Fund Managers or even private individuals. Legislative protection and incentives for such risk takers need to be provided. Legislative protection even for those investing on partnership basis must be provided. Legislative protections suggested are that such investments be regarded as personal liability of the main entrepreneur and quick and economical legal process to recover such investment. Additionally, the liability of partnerships too should be limited.

The banking and related sector should be encouraged to extend loans and other financial instrument to MSMEs. Obviously, serving MSME is costlier for them and such costs cannot be passed over to the MSME sector too. However, considering the broad socio-economic benefits associated with MSME development, the government should encourage the banking and related sectors such as leasing, factoring, bill discounting companies, by reducing the tax on profit on the lending to the MSME sector.

Access to finance is primarily due to lack of collateral. In a developing country such as Sri Lanka it is not many MSME owners who will have the assets to provide the collateral. Neither can the banks, who too are commercial enterprises, be called upon to risk their depositors’ money. They are also burdened with heavy overhead costs. Even the land owned by MSMEs is not bankable due to Title problems. In fact, the land market in Sri Lanka is virtually closed and the volume of business the land market generates is minimal for both private and state lands. The lack of development orientation on the part of both commercial banks and development banks has also been cited as a factor relating to limited access to finance. As viewed by MSME owners, Sri Lankan banking institutions are traditional and collateral conscious in their lending practices and hence, making the MSME sector less attractive for credit support. The MSMEs are also not in a position to prepare bankable project proposal for bank finance due to lack of knowledge and skills in project feasibility studies. In addition, the area wise-outreach of existing banking institutions is inadequate to fulfill funding requirements of MSMEs located outside the Western Province.

In order to overcome this problem, State Lands need to be leased out for minimum periods of 50 years and leaseholds made transferable. The Registrar of Companies requires mortgages of movables and immovable of Companies to filed with him. This facility needs to be extended to Partnership and Proprietorship and stricter rules applied so that movables too could have greater security for the lender. Industrial Estates referred to earlier should be encouraged to provide Bonded Warehouse as to enable Banks to operate Pledged loan facilities.
Credit and advice are mutually inclusive factors in SME development. The latter refers to advice and guidance on project feasibility studies, project reports, technology and product quality, financial management, human resources development and marketing. Obviously, such services have to be provided by business development service (BDS) providers jointly with the bankers. Accordingly, disbursement of funds and allied facilities will be provided with the assistance of BDS providers, Management Companies so that they closely supervise the financial aspects of the MSME thus securing the position of the Banks. In addition to those amendments of loan recoveries act, provision of opportunities for sick industries to reconstruct and installation of good financial discipline in MSMEs are also important remedial measures in developing MSMEs.

**Access to Market**

Linked with technology upgrading and quality control is the issue of availability of timely information and services that enhance the market access to MSMEs. Information is expensive and not widely available and yet it is the most powerful competitive edge for business success. More specifically, this refers to information and suppose services required for selecting target market, product development, and packaging, distribution and sales promotion. This is yet another obstacle affecting the growth and expansion of MSMEs in developing countries. In addition to domestic completion from large-scale enterprises, presence of completion pressure from foreign sources clearly demonstrates the need for an efficient, timely and affordable information system for MSME development.

Small firms virtually have no sources of information on other market or opportunities outside their immediate surroundings. The lack of knowledge and limited access to information on market opportunities have caused small-sector enterprises to depend on judgment and speculation. In a competitive business environment, this is very costly and limits their ability expand the market. Existing arrangement to supply such information to MSMEs are grossly inadequate and the lack of access to modern information technology (IT) has further aggravated the situation.

Most MSME services regional or local markets. Their market information is often limited to their specific market segments. Quite often, information relating to developments in market demand and innovation is received through word of mouth. Moreover, the information requirements of MSMEs depend on the size of the enterprise, stage of growth and type of business. The diversity in needs and the sheer number of MSMEs makes it difficult for any government organization to fulfill the information requirement of MSME sector enterprises in the national economy. In addition to those, the absence of marketing skills at enterprise level has led to MSMEs being more production orientated rather than becoming more market orientated. Many of the MSMEs especially small-scale enterprises lack skills on product design, packaging and sales promotion which are vital for being attractive and competitive in the market. The typical selling method of MSMEs especially small-scale enterprises is to operate through their own outlets. Many of them are also not in a position to promote their products and service through advertising and sales promotion mainly due to lack
of skills and high costs. In fact, the absence of marketing skills has resulted in the early demise of business enterprises.

As a strategy appropriate for MSME development. This broadly include providing opportunities for MSMEs participate in trade promotion exhibitions in local and foreign markets, identification of export oriented projects, and introduction of low cost advertising and sales promotion. Considering the budgetary constraints and the national level and pro-private sector orientation of development activities, it is recommended that these activities be carried out jointly by government, non-government, private sector and donor organizations

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