

## A Study on Management Practices of Selected SMEs in Hambantota District, Sri Lanka

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### Abstract

Small and Medium Enterprises (SMEs) play an important role in any economy through generation of employments, contributing to the growth of Gross Domestic Production (GDP), embarking on innovations and stimulating of other economic activities. SMEs are facing some difficulties in Knowledge about Management (Human Resources, Finance and Marketing). This research explored that what is the level of HR, Finance & Marketing practices of SMEs in Hambantota District. The main objective of the study is to explore the management practices of SMEs in Hambantota District. The SEMs selected randomly. The researcher collected data from 19 SMEs holders through interview guidelines. The data collected from the Owners or Managers of the SMEs via Interview. The Qualitative analyses were conducted. Most of the SMEs have 10-20 employees. Some SMEs are run business with the family support. In the SMEs they prefer to recruit employees with skills and giving on the job training to do their process. In all SMEs, initial capital is invested by the owner itself and the amount is less than Rs. 60,000. In addition to that they sold their assets and also get loan from their friends and relatives. They just only keep their book keeping system. Most of the SMEs outsource accountants from outside to prepare the financial statements. Most of the SMEs, market their products within their district. All the SMEs, used 4P's system as their marketing strategies. The study concludes that SMEs in Hambantota are substantially practicing some of the HRM, Financial Management, and Marketing practices with or without the management knowledge.

**Keywords:** Small Medium Enterprises, Human Resource Management, Marketing Management, Finance Management.

### Introduction

Small and Medium – sized Enterprises (SMEs) play an important role in any economy through generation of employments, contributing to the growth of Gross Domestic Production (GDP), embarking on innovations and stimulating of other economic activities. Therefore, for the developing countries, it is important to accelerate the growth of SMEs in order to gain sustainable development.

Human capital investments associated with training, work experience, and accumulated skills/knowledge, suggests the need for understanding better the role played other related types of capital that may determine networking and valuation of entrepreneurial units.

Financial reporting system is necessary to ensure that SMEs' economic resources are used effectively and efficiently in pursuit of its goals. It also follows that there is a particular need in growing SMEs for the skills of financial analysis which will allow financial statement to be read and understood, whether they contain historical or forecast information.

Marketing function is central to the survival and growth of SMEs. Equally the environments in which the SMEs operate have tremendous impact on their survival and growth. Both of these dimensions are considered in the marketing practice of SMEs under discussion.

Thus Human Resource Management (HRM), Finance, & Marketing Practices are necessary to ensure that the SMEs' economics resources are used effectively and efficiently in pursuit of its goals. Therefore, through this research an attempt is made to ascertain the comprehensiveness of HR, Financial and Marketing practices adopted by SMEs in Hambantota District.

### Literature review

It is recognized increasingly that SMEs are heterogeneous, complex and influenced by a range of factors and encompass firms of various sizes with varying degrees of complexity in management practices (Wagar, 1998).

### Human Resource Management

Generally speaking, small firms pay less attention to human resource management or HRM than their larger counterparts do (Hornsby and Kuratko, 1990). Thus, while on the one hand the rise of the knowledge-based economy increases the importance of human resource management, the increase of the SME sector, which employees roughly half of all employees, is associated with a decrease of HRM practices.

Smaller entrepreneurial firms generally are challenged by HRM because the small size of the firm often does not warrant hiring professionals exclusively dedicated to HRM activities (Hornsby & Kuratko, 1990). SMEs is to adopt formal HRM practices due to the lack of resources, such as time and money (Duberley & Walley, 1995).

The available empirical information on HRM within SMEs suggests that smaller firms make less use of high performance HRM practices than larger organizations do (Hornsby and Kuratko, 1990). This is in line with the finding that small organizations are in general more likely to operate in an informal and flexible manner than larger firms are. For instance, Koch and McGrath (1996) find that, in general, firm size is positively related with the incidence of HRM planning and formal training, and with the level of overall HRM sophistication. Westhead and Storey (1999) find that both managers and employees are less likely to get formal training in a small firm. In a study by Jackson, Schuler and Rivero (1989), smaller companies are found to have less formalized performance appraisals, less likelihood of bonuses based on company productivity and less training than do larger companies. Aldrich and Langton (1997) find that larger companies have more formalized recruitment practices. Firm size is, however, not the only factor in predicting HRM practices: a large heterogeneity exists in the type and formalization of HRM practices found among smaller firms.

### **Financial Management**

Financial management is one of several functional areas of management but it is central to the success of any small business. Financial management is the management of finances of a business in order to achieve the financial objectives of the business. McMahon, Holmes, Hutchinson, and Forsaith, (1993) defines financial management based on mobilizing and using sources of funds: Financial management is concerned with raising the funds needed to finance the enterprise's assets and activities, the allocation of these scarce funds between competing uses, and with ensuring that the funds are used effectively and efficiently in achieving the enterprise's goal. The strong points of financial management practices in the SME sector have long attracted the attention of researchers. Depending on different objectives, researchers emphasize different aspects of financial management practices. McMahon et al., (1993) summarize their review of financial management practices in Australia, the UK and the USA. In their review the context of financial management practices includes the following areas: accounting information systems, financing decisions, investing decisions. However, these previous researchers though looked into financial management; they did not include other key areas like working capital management which would include accounts receivable, inventory, cash management and accounts payable management. It is better to predict the financial position in future while think about the financial management (Velampy, 2006)

### **Marketing Management**

Marketing function is central to the survival and growth of SMEs. Equally the environments in which the SMEs operate have tremendous impact on their survival and growth. Kilby (1971) clearly specified the marketing functions of the SMEs ranging from perception of market opportunities to management of customers and suppliers relations. Also Ogundele (2000) study which examined several factors that affect the SMEs focused on the marketing function.

Owualah (2004) notes that most small business sell their products direct to the final users without the use of intermediaries, this is because they are small and can dispose their products to the people who pass by their workshops. By the characteristics of SMEs which include smallness in share of market within the sector, owner managed and sometimes assisted by family member, not publicly quoted and greater percentage of their raw materials locally sourced, among others, as such, SMEs marketing practices are tailored to meet customers' needs with whom they are in very close contact. There is also the happiness of working in the comparatively simple structured environment of small scale enterprises and markets. Their closeness to customers and employees provides potential marketing practice superiority. Added to this is the fact that substantial percentage of the marketing activities of the small scale enterprises are in the wholesale and retailing areas. Ogundele and Gbadamosi (2006) notes that due to their nature most small scale enterprises are not giving logo corporate identity the significant position it deserves in their marketing strategies. This may be due to the fact that demand for their products depend on price and selling function does not usually distracts the staff from the main task of production

Through the literature and interview, it was able to find out that SMEs are facing some difficulties in Knowledge about HR, Finance and Marketing. This study will explore what is the level of HR, Finance and Marketing practices of selected SMEs in Hambantota District.

### **Objective of the study**

The objective of the study is to explore HRM, Finance and Marketing practices in SMEs at Hambantota District.

### **Methodology**

This study was conducted in Hambantota District. The interview method was adopted to collect the primary data. Interview guideline was developed to collect the data from the owner/manager of the small business enterprises. The interview guideline consist of the followings (1) Organization Profile (2) Description of the business (3) Finance (4) Human Resource (5) Marketing. The researcher planned to collect data from 20 SME holders in Hambantota district, finally research assistants could interview with 19 SME holders. The researcher could not

find organizations in same industry so the researcher collected different organization and compare them using general management practices to know their perspectives. The selected It is 95% response rate on planning. Qualitative analyses were conducted to analyze the collected data. The content analysis was used to analysis the qualitative data. The table 1.1 shows the details of the organizations.

**Table 1.1 Details of the sample organization in Hambanthota**

Name of the organization and its products/services	Name of the organization and its products/services
1. Ishara Beauty Saloon – Saloon Service	11. D.S.J. Marketing – Produce mix fruit drink.
2. Kavishka Toys – Doll & Teddybear manufacturing	12. Tharanka Studio & color lab – Photograph
3. Hanaz Industry – Moaquito curtains and ladies slippers	13. Sewana lanka string hoppers factory – String hoppers production
4. Samanali Advertising Services – Cutting Vinyl stricker	14. Haritha Plantation – Vegetable, Fruit & Flower plantation & Delivering
5. Mallikaarachchifurnitures – Manufacturing carpentry work	15. Sudarshana Industries – Manufacturing & Distribute spices.
6. Thissa Inn Hotel – Provide good and quality service for local and foreign people.	16. Dinith offset printers – Printing activities
7. Saloon Dilani - Saloon Service	17. Mandinu bag Fasion – Bag manufacturing.
8. Mayura Rice Mill – Manufacturing Rice.	18. Ajith Safari Jeep Tours – Tourism oriented services
9. Ruhunu bakers (Pvt) Ltd – Bakery product	19.ITL Home design – Home designing, Building designing, Estimating.
10. Pasan Concrete Workers – Manufacturing & Construction oriented	

### Result and Discussion

The study considered 19 SMEs in Hambantota District. The owner/manager responded their human resource, finance & Marketing practices in their organization

#### **Human Resource Management Practices in SMEs**

From the visited 19 SMEs, most of the SMEs had 10-20 employees. In some SMEs have family support. It means the family embers work together with employees. All the SMEs pay salaries to their employees at the market rate. Most of the owners of the SMEs have not educated much. Most of the places owners are the managers and they take all responsibility. As far as concerned recruitment and selection, they are not practice similar large organization. Some have recruitment and selection process in small scale ie they are not find the employees via employees' referrals and stick notices in important locations. They are not practicing standard recruitment method because they do not know it and they are not ready to spend much money for this purpose. Most of the SMEs, selection is made by the owner via conduct personal interview. After recruitment most of the SMEs holders are providing on the job training to perform their job. But most of the them are leaving from the SMEs after gained their training. Some SMEs (37%) pays their employees EPF & ETF. As like as some of the SMEs provide their employees non financial benefit. For example emergency loan without interest, transport facilities etc. Most of the SMEs holders are not practices Performance Appraisal, Human Resource Planning etc. Pushpakumary (2007) found that no established policies for HRM practices (Recruitment & selection, training, promotion for employees, compensation, welfare facilities). This research result compatible with pushpahkumary's study findings.

#### **Financial Management Practices in SMEs**

In all SMEs, initial capital is invested by the owner itself and Most of the organization (63%) invested initial capital the amount is less than Rs. 60,000 Some Organization (37%) invested more than Rs.200, 000. In addition to that they sold their assets and also get loan from their friends and relatives at the same time financial institution and other organization such as Chamber of commerce, Banks etc. Chamber helped most of the SMEs. Most of the SME holders manually prepare the accounting by accounting officer or account assistant. Financial statement is prepared by the accounting firms for knowing the Profit or loss and tax purpose. Some SMEs had not kept their financial records. They just only enter the day to day transaction in a book. Some SME holders anlyse the transaction to know whether organization generate profit or loss based on the day to day recording of transactions. Most of the SME holders responded that they earn profit. Only two out of nineteen organization pay income tax, VAT and SES tax to the government. Some SME holders involve Bank reconciliation accounts. Most of the SME holders are not practicing financial planning (Budget), ratio analysis etc. So they do not know real impact of the investment. Pushpakumary (2007) study result on financial management practices (source of finance, Finacial plan, are similar to this study result.

### ***Marketing Management Practices in SMEs***

Most of the SMEs, markets their products within their district. Very few SMEs, only markets outside. Most of the organizations produce their product according to their own designs. All the SMEs, used 4P's (product, price, place and promotion) system as their marketing strategy and Most of the SMEs use banner to attract new customers, Word of mouth, Cutouts, Selling goods to low prices, offer the discount for some goods. Most of the SMEs, advertises their products & services through Banner, Visiting cards, Hand Bills, Leaflets, Oral – When customers get the service from the organization; they give information to their friends and relations about the product or services.

Some SME holders are giving important to other components of product in terms of branding, packaging, qualities and others. Most of the SME holders determine their price based on the market price, they are not much analysis the pricing. Most of the SMEs practice some of the distribution modes such as direct-selling, middlemen. Some SME holders practice promotional activities such as personal selling, sales promotion, publicity and public relations. Most of the SME holders are still infant level in Marketing it is big challenge to sell their product and it impact their expansion too. Form the interview of the owner /manager they responded that they are not practicing some of the marketing management practices such as branding, packaging, marketing strategy; the practice of social responsibility; Relationship marketing, and Consumer attitude perception. This study result match with Pushpakuamry's (2007) study result on Marketing management practices in SMEs such as market niche, market research, advertisement, promotional activities, marketing strategy (word of mouth).

### **Recommendation & Conclusion**

During this study we had to chance to intermingle with entrepreneurs who have different kind of ideas, innovations and the way of thinking. Although they have the creativity and talents within themselves, they are unable to implement those due to several reasons such as;

They have poor management skills. So, they can't get suitable decision in right time. They want to improve their management skills through participating management skills through participating management workshop & other successful entrepreneurs.

Most of the owner's did not feel comfortable talking about HR practices, as they were not sure what if any HR practices their company used. Our research team found that most of the SMEs practice some of HRM practices, but the HRM practicable was not how they would describe the practices as how they managed their people. Owners had not much HRM knowledge & HR tactics, so he or she recruit a suitable employees at the same time he could train employees, give motivation, financial & non financial benefits to recruit employees to maintain their position in the SMEs. They should maintain employees 'records and owners/managers should obtain knowledge about HRM.

All the SMEs must keep all their financial recordings. Maintaining a double entry book keeping system is very important for the business. It is better to adopt accounting software for the accounting purposes. The SMEs do not prepares cash flow statements, however the business is able to know the total cash out flows and inflows. That will be very helpful for the business to make decisions regarding the cash flows. Then only they could observe their correct profit & losses. Ratio analysis is also very helpful to analyze the current business position by comparing with previous years information. Therefore SMEs should perform ration analysis. Maintain the well financial recordings; the owner's must appoint a employee with good financial knowledge. SMEs should not depend only on the bank loans & should find out another source for financing.

SMEs must extend their geographical coverage of their marketing. It leads more profit & innovating the product. Also they must develop their marketing strategies as like as to attract the customers on their product & Services. Give more attention on marketing side if there is a possibility recruits a marketing manager or officer. Still most of the SMEs have not have SLS certificate but it is necessary to capture customers and market.

The study concludes that SMEs in Hambanthota are substantially practicing some of the HRM, Financial Management, and Marketing practices with or without the management knowledge.

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