

Unit 06

SMEs as the backbone of an economy

Prepared by: Ms. Ruwanthika Jayaweera
B.Sc.(special)Management, Ph.D(Mgt) reading

Intended Learning Outcomes

- **Assess** the significance of small and medium enterprises (SMEs) in an economy
- **Explain** the ways of enhancing the performance of SMEs



Classification of Enterprises

Micro Enterprises

Small Enterprises

Medium Enterprises

©JMC vLearning

Definition of SMEs

Country/Institution	Definition
Singapore	Companies with less than \$100 million in annual turnover Companies with less than 200 employees
Malaysia	Sales turn over not exceeding 50 RM Million Or Full time employees not exceeding 200
Canada	Small businesses have 5–99 employees. Medium businesses have 100–499 employees

Definition of SMEs in Sri Lankan context

Sri Lanka Export Development board: Enterprises fall in the SME category if its number of employees does not exceed 300 individuals and if its revenue does not exceed 750 million LKR.

Ministry of Industry and Commerce

Size	Criteria	Medium	Small	Micro
Manufacturing Sector	Annual Turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250	Less than Rs. Mn. 15
	No. of Employees	51 - 300	11 - 50	Less than 10
Service Sector	Annual Turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250	Less than Rs. Mn. 15
	No. of Employees	51 - 200	11 - 50	Less than 10

National Policy Framework for Small Medium Enterprise (SME) Development, Sri Lanka.

©JN

Why SMEs are important?

1. Creating employment opportunities



2. Contribute to the gross domestic product of country



3. Mobilizing domestic savings

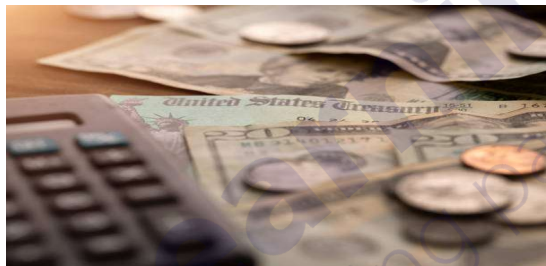


Why SMEs are important? (Cont.)

4. Regional development



5. Income distribution



6. Poverty Alleviation

©JMC vLearning

Why SMEs are important? (Cont.)

7. Assists big enterprises



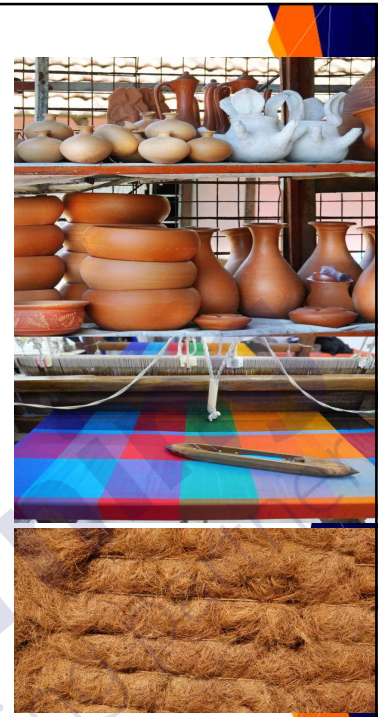
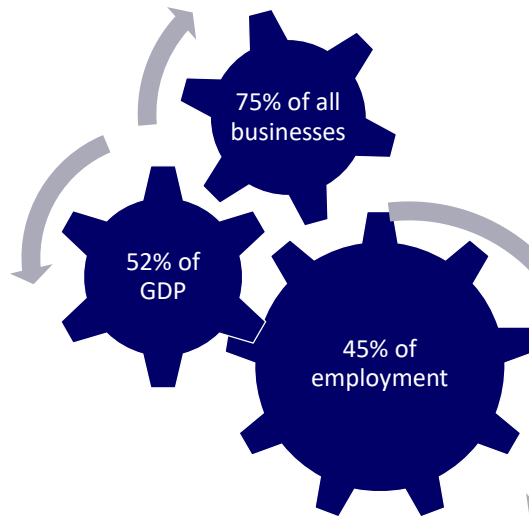
8. stimulate competition

9. Favors flexibility and innovation



©JMC vLearning

Sri Lanka and SME sector



©JMC vLearning

Challenges faced by SMEs in Sri Lanka

- Poor management practices
- Skills shortages
- Lack of economies of scale and scope
- Higher transaction costs relative to large firms
- Lack of networks
- Inability to compete against larger firms



©JMC vLearning

How to enhance the performance of SMEs?

1. Enabling environment



2. Modern appropriate technology



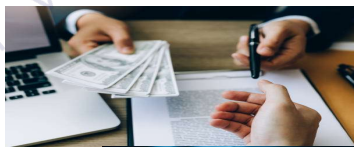
3. Entrepreneurial culture and skills development



©JMC vLearning

How to enhance the performance of SMEs?(Cont.)

4. Access to finance



5. Research and Development



6. Market facilitation

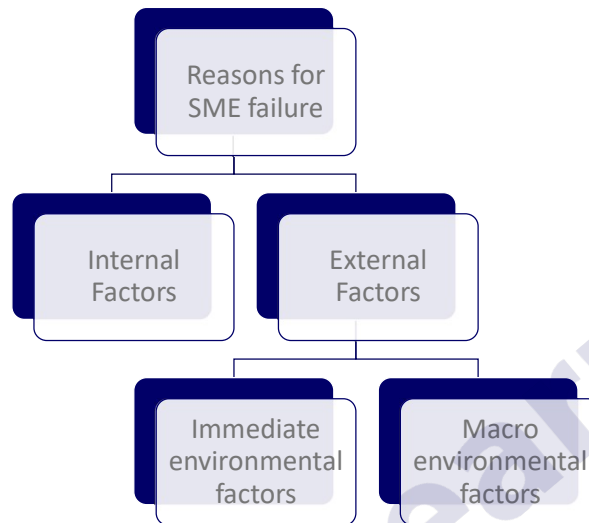


7. Regional balance



©JMC vLearning

Why SMEs fail?



©JMC vLearning

Internal factors cause failure of SMEs

1. Lack of managerial skills and insights
2. Lack of financial discipline
3. Inappropriate personal characters
4. Lack of succession planning to carry out the business to second generation



Immediate environmental factors cause failure of SMEs

1. Lack coordination between supplier network
2. Low service quality
3. Inability to get financial support
4. Bankruptcy of main customer or supplier



©JMC vLearning

Macro environment factors cause failure of SMEs

- Changes in political and legal environment
- Changes in monetary and fiscal policies

©JMC vLearning

Past papers



©JMC vLearning

2024 January

Consider the following statements:

- (a) Creating employment opportunities in the country.
- (b) Contributing to the gross domestic product of the country.
- (c) Represents a major part in the export market.

Of the above, the importances of SMEs are:

- (1) (a) and (b) only
- (2) (a) and (c) only.
- (3) (b) and (c) only.
- (4) All of the above.

©JMC vLearning

2023 July

Consider the following major intervention policies set out by the Ministry of Industry and Commerce:

- (a) Enabling environment.
- (b) Modern appropriate technology.
- (c) Access to finance.

Of the above, policy / policies that enhance the performance of SMEs in Sri Lanka is/are:

- (1) (a) only. (2) (a) and (c) only.
- (3) (b) and (c) only. (4) All of the above.

©JMC vLearning

2023 January

Consider the following statements:

- (a) Contributes to the gross domestic product of the country.
- (b) Lack of continuity.
- (c) Generates employment opportunities.
- (d) Helps to alleviate poverty.

• Of the above, the importances of SMEs are given in:

- (1) (a) and (b) only. (2) (a), (b) and (c) only.
- (3) (a), (c) and (d) only. (4) All of the above.

©JMC vLearning

2022 July

Which one of the following is an internal factor that contributes to the failure of SMEs?

- (1) Inability to get financial support from the banks.
- (2) Bankruptcy of a main supplier.
- (3) Lack of managerial skills and insights.
- (4) Change in government policies.

©JMC vLearning

2022 January

Which one of the following is a challenge faced by Small & Medium Enterprises (SMEs) in Sri Lanka?

- (1) Lack of economies of scale. (2) Skill-shortage.
- (3) Poor management practices. (4) All of the above.

Which one of the following is not a way of enhancing the performance of SMEs?

- (1) Modern technology. (2) Entrepreneurial culture.
- (3) Access to finance. (4) Poor leadership.

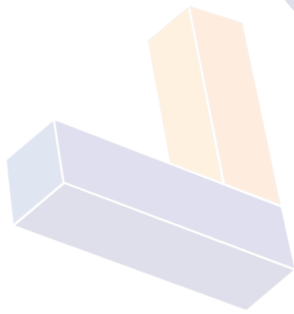
©JMC vLearning

2021 January

Which one of the following is a reason for the failure of a Small and Medium Sized Enterprise (SME)?

- (1) Lack of management skills.
- (2) Developing an entrepreneurial culture.
- (3) Investment in research and development.
- (4) Sound working capital management.

©JMC vLearning



JMC vLearning
"your virtual learning partner"