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EFFECT OF ENTREPRENEURIAL BARRIERS ON ORGANIZATIONAL FAILURE: SPECIAL REFERENCE TO SMALL AND MEDIUM ENTREPRENEURS IN BATTICALOA DISTRICT

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ABSTRACT

Purpose: *Sri Lanka is rich in resources but vulnerable to economic stability. As believed, entrepreneurial development is one of the mechanisms for economic recovery, the study aims to determine the factors that act as an entrepreneurial barrier and their impact on the failure of small and medium enterprises in Batticaloa District.*

Design/Methodology/Approach: *A quantitative approach is used. A structured questionnaire was administered to collect the data from 200 entrepreneurs of SMEs. Non-probabilistic convenience sampling was used, and SPSS was used to analyze the data. Descriptive Analysis, regression, and correlation analysis were performed.*

Findings: *The findings of this study show that financial barriers, economic barriers, knowledge barriers, cultural barriers, and infrastructure barriers are significantly and positively associated with organizational failure.*

Originality/Value: *The study intends to identify the barriers faced by entrepreneurs that affect the growth and survival of SMEs. The author recommends how the entrepreneurial barriers can be minimalized through better policy decisions.*

KEY WORDS: *Entrepreneurship, Barriers, Organizational Failure, Growth*

01. INTRODUCTION

The Sri Lankan economy is currently recovering from the unparalleled macroeconomic crisis. The country experienced internal policy-driven challenges such as fiscal deficit and sweeping tax cuts in 2019. On top of that, the COVID-19 global pandemic and the conflict between Ukraine and Russia exacerbated the economic vulnerabilities of Sri Lanka in terms of tourism and remittances. On the verge of bankruptcy of the nation, now the economists and policymakers recommend all the possible ways and means to recover the country from tragedy. One of the mechanisms to strengthen the economy is the growth and survival of entrepreneurship.

The output of entrepreneurship is significant to the economy of the country. Other than creating a new business and improving the standard of living of the entrepreneur, it does create many other advantages for the nation. It is the source of new employment opportunities, inventions, and innovations (Iskandarini, 2014). Since the failure rate of entrepreneurship is higher in developing countries than in developed countries (Arinaitwe, 2006), it is essential to address the barriers faced by entrepreneurs of SMEs in developing countries such as Sri Lanka.

Considering the feasibility of collecting data, the study is focused on the Batticaloa district as it is feasible and convenient for the researcher. Batticaloa district is rich in resources but vulnerable in the economy, especially entrepreneurial intention. It takes greater courage and effort to carry out an entrepreneurial activity in Batticaloa and sustain it for a longer period. Though many have started their own business or have potential interest to do so in the future, they feel clueless when facing challenges. Many entrepreneurs give up even before the business has started to function when they face challenges at any stage of the entrepreneurship process. Hence, it is vital to conduct this research to identify the factors that act as setbacks to the growth of the small and medium enterprises in Batticaloa District. Through that, promising career opportunities for an individual can be achieved, and it empowers the community as well.

This study categorizes entrepreneurial barriers into five types: financial barriers, economic barriers, knowledge barriers, cultural barriers, and infrastructure barriers. This study tries to explore the crucial topic of the significance of the entrepreneurial development and survival of SMEs in developing countries such as Sri Lanka and especially a region like Batticaloa with rich natural and physical resources. Many scholars have considered the matter of identifying the impact of entrepreneurial barriers on organizational failure as their area of interest, and multiple studies have taken place over time with different dimensions.

02. LITERATURE REVIEW

2.1Entrepreneurship

An entrepreneur is a person who is willing to take risks to convert the idea of producing goods or services into reality. The contribution of entrepreneurs to the economy is immense.

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However, there are plenty of challenges they have to face to make an impact on the economy. Entrepreneurial orientation plays a significant influence on the performance of the business.

In addition, there are many other setbacks an entrepreneur has to go through in the dynamic business environment (Delima, 2017). Entrepreneurship is involved with creating a new organization or creating a new revenue center for an existing organization. With the introduction of new technology and globalization, individuals are more willing to have small startups on their own, and it has become a new trend as well (Oliveira & Rua, 2018).

2.2 The Role of Small and Medium Enterprises (SME's)

The contributions made by entrepreneurs of small and medium-sized enterprises are well noted around the world. Many studies have explored that SMEs play a pivotal role in economic development. Further, they contribute to GDP growth, employment, and new inventions (Khan, 2022). According to a survey conducted by International Financial Cooperation, SMEs contribute to 70% of employment in Sri Lanka (Wijeratnam & Perera, 2013).

2.3 The impact of entrepreneurship in developing countries

According to the World Bank, a developing nation is referred to as an under-developed or less-developed nation who are in the process of developing its economy and standard of living. Developing nations are always characterized by higher levels of unemployment, poor industrial base, low standard of living, and poor human development index. Though foreign direct investments try to rescue the economy, the contribution given by the SMEs is also immense (Karadag, 2016).

By adding more to GDP, decreasing the level of unemployment, and lowering poverty, SMEs play a key role in the economy of the developing country. Many researchers have found that the failure rate of small and medium enterprises in developing countries is higher than that of SMEs in developed countries. Despite facing multiple barriers in developing economies, SMEs greatly contribute to the transformation process and labour development of transition economies (Khan, 2022). Entrepreneurs face multiple challenges in a transitional economy, namely a poor legal system, administrative pressure, tax burden, corruption, government rules and regulations, and poor property rights (Krasniqi & Krasniqi, 2013).

2.4 Entrepreneurial Barriers

Starting an independent business is essential for the betterment of the economy. However, the process is easier said than done. From the moment, the idea arose in the mind, establishing the business and carrying it forward for the near future is a. great challenge. It requires self-confidence and sheer determination. Many studies have been conducted on identifying the factors that motivate the entrepreneurial intention of individuals, However, there were fewer empirical in entrepreneurial barriers and how to face them effectively (Iskandarini, 2014). Entrepreneurs consider more about the challenges embedded with the external environment than the internal indicators such as employee poor performance and inadequate management skills (Krasniqi & Krasniqi, 2013).

2.4.1 Financial Barriers

The performance of small and medium enterprises mainly depends on financial resources as it enables the organization to expand the business. Lack of finance and capital resources is a major obstacle to the growth of entrepreneurial SMEs. Higher transaction costs on loans, unavailability of information on collateral requirements, and lack of financial literacy are some reasons why entrepreneurs are unable to get finances from external resources (Beck & Demirguc-Kunt, 2006). Firms need money to invest, and SMEs are riskier than larger firms. In developing countries, small and medium companies operate using internal financing as the financial systems are little developed in such countries. Many scholars have found that there is a positive relationship between the success of the organization and start-up capital (Khan, 2022). Development of the startups depends on start-up capital or seed capital, and they need medium- or long-term financing in the long term as well. Due to funding issues, they use their savings or assets or get money from friends and families (Oliveira & Rua, 2018).

2.4.2 Economic Barriers

An unstable economy, excessive tax burdens, higher exchange rates, poor purchasing capability of customers, and higher inflation rates are negatively impacting the development of entrepreneurship in developing countries. It increases the economic uncertainty and affects the performance of the firms. When the country faces an economic crisis, consumers purchase less or avoid purchasing goods and services (Khan, 2022). In the economy, there are many policies imposed by the government that are complex and hard to understand by entrepreneurs (Oliveira & Rua, 2018). The increase in population is higher than the level of creation of jobs, which increases the unemployment rate much higher, and countries try to outweigh that issue by developing entrepreneurship (Polasi et al., 2015).

2.4.3 Knowledge Barriers

Lack of education is also one of the major reasons for the high rate of SMs failure and low level of entrepreneurial activities. Education is fundamental for the establishment of entrepreneurial ventures (Chimucheka, 2013). From initiating the business to the survival of the business, managerial skills are vital. When the management faces financial issues and personal issues, they should know how to tackle them using their managerial skills and knowledge. Improper leadership and lack of technical knowledge and experience are some of the barriers to the success of the business. It is commonly known that entrepreneurs lack basic knowledge and skills when it comes to the management of the business. If they fail to manage their resources and business effectively, there is a greater risk that it will lead to the failure of the business (Khan, 2022).

2.4.4 Cultural Barriers

Cultural barriers include attitude towards risk, support from family and society, availability of intermediaries, and ability to get inputs and raw materials for the business (Jafarnejad et al., 2013).

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In Sri Lanka, the culture towards starting something new on our own is not preferable. The majority of the citizens in the country are not willing to take risks or be entrepreneurs. They prefer to have government jobs that give monthly revenue rather than uncertain future gains. One of the major reasons for that behaviour is several barriers that exist in the country and the failure rate of startups.

2.4.5 Infrastructure Barriers

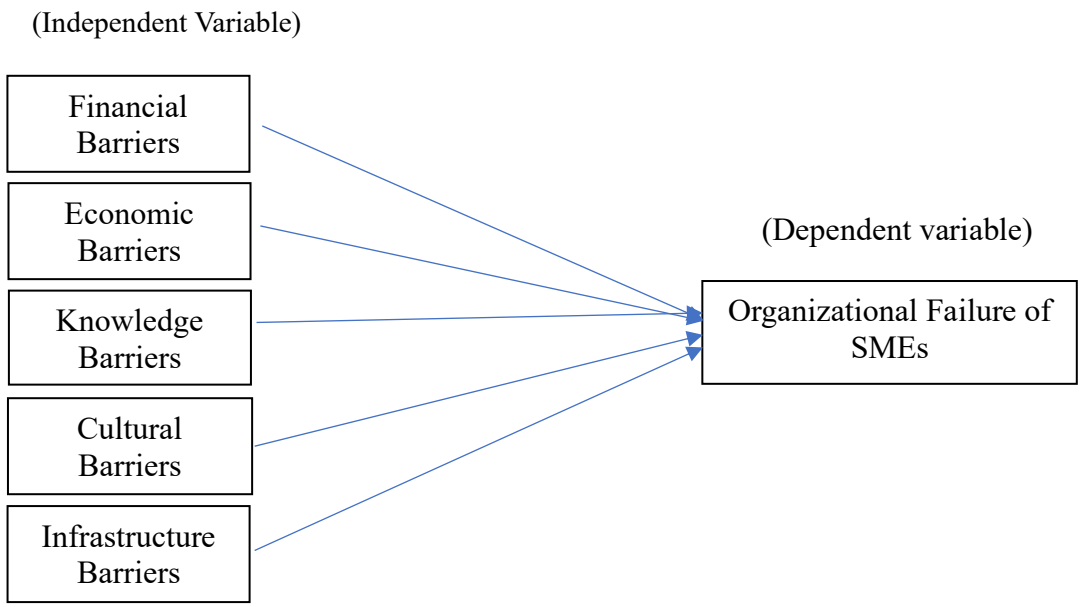
Infrastructure is one of the main determinants of the growth and performance of the organization. Lack of resources hinders the expansion and growth of the business (Stam, 2015). For the development and growth of the SME, infrastructure such as telecommunication, transport systems, energy, electricity, roads and bridges, and other facilities are essential (Spigel, 2017). When there is no proper transport system, it is difficult to exchange raw materials, and finished goods will be a hassle. When poor infrastructure conditions exist, it will increase the cost of the shipping of goods. In developing countries, when infrastructure is not up to the standard, SMEs need to face higher transaction costs in conducting business (Khan, 2022).

03. RESEARCH METHODOLOGY

A questionnaire-based survey was conducted to identify the various barriers that affect the organizational growth of SMEs. Convenient sampling was used to collect the data from respondents who are owners and managers of SMEs located in the Batticaloa District.

The sample size was 200 and data was collected using a 5-point Likert scale (1- Strongly disagree, 5- Strongly Agree). Part- A of the questionnaire addressed the democratic characteristics of the owners/managers of SMEs while part B addressed the multiple barriers faced by the SMEs in Batticaloa District. Descriptive statistics, correlation, and multiple regression analysis were performed by the SPSS statistical software.

3.1 Conceptual Framework



3.2 The Model

$$OF = \beta 0 + \beta 1FB + \beta 2EB + \beta 3KB + \beta 4CB + \beta 5IB + e$$

Where OF is the Organizational Failure, β0 is the intercept, the coefficient of the respective variable is βi (i= 1,2,3,4,5), FB is the financial barriers, EB is the economic barriers, KB is the knowledge barriers, CB is the cultural barriers, IB is the infrastructure barriers, and e is the error term. This approach is in line with the methods used by other scholars.

3.3 Hypothesis

The following hypotheses are tested and relationships will be established after analyzing the data collected.

H1- Financial Barriers have a significant impact on the organizational failure of SMEs

H2- Economic Barriers have a significant impact on the organizational failure of SMEs

H3- Educational Barriers have a significant impact on the organizational failure of SMEs

H4- Cultural Barriers have a significant impact on the organizational failure of SMEs

H5- Infrastructure Barriers have a significant impact on the organizational failure of SMEs

4. ANALYSIS AND DISCUSSION

Demographic statistics of the study indicate that the majority of the SMEs are run by married individuals, and only 48 of the 200 respondents were single. The number of individuals who

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are above 45 years old is 116 and the individuals who have completed advanced level or above is 124 which shows that old people are involved in SME business while completed 16 years of schooling. The majority of the SMEs were old and established the business for more than five years.

Table 01: Demographic Statistics

Variable	Category	Frequency
Gender	Male	116
	Female	84
Age	18-30	24
	31-45	60
	above 45	116
Marital Status	Single	48
	Married	152
Firm Age	Less than 1 year	12
	1-4 years	68
	5-10 years	56
	More than 10 years	64
Education	Below GCE O/L	76
	GCE O/L	40
	GCE A/L	56
	Diploma/Higher National Diploma	20
	Bachelor's Degree	8

(Source: Survey Data:2024)

Descriptive statistics were performed for the research variables for 200 observations. The mean value for financial barriers is 3.51 with a standard deviation of 0.794, for economic barriers, the mean value is 3.30 with a standard deviation of 0.675, for knowledge barriers, the mean value is 2.85 with a standard deviation of 0.774, for cultural barriers, the mean value is 2.53 with a standard deviation of 0.971, and for cultural barriers, the mean value is 2.62 with a standard deviation of 1.

Table 02: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	SD
FB	200	1.00	4.67	3.5067	.794
EB	200	1.00	4.67	3.3000	.675
KB	200	1.00	4.33	2.8467	.774
CB	200	1.00	4.33	2.5267	.971
IB	200	1.00	4.50	2.6200	1.000
OF	200	2.50	4.20	3.2220	.424

Note: FB= Financial Barriers, EB= Economic Barriers, KB= Knowledge Barriers, CB= Cultural Barriers, IB= Infrastructure Barriers, OF= Organizational Failure
(Source: Survey Data:2024)

Table 03: Decision Criteria

Criteria	Decision Attribute
$1 \leq \bar{X} \leq 2.5$	Low level
$2.5 < \bar{X} \leq 3.5$	Moderate level
$3.5 < \bar{X} \leq 5$	High level

The above table indicates the decision criteria of the study when considering financial barriers, the means show it has a high impact on SME failure while other barriers such as economic barriers, Knowledge barriers, cultural barriers, and infrastructure barriers indicate a moderate level of impact.

Linear regression was performed to determine the impact of various entrepreneurial barriers on the organizational failure of SMEs. The ANOVA shows a p-value of less than 0.001 <0.005, which concludes the model is significant. The R square value of the model is 0.659, while the adjusted R square value is 0.65. It indicates that 65% of SME failures are affected by financial, economic, knowledge, cultural, and infrastructure barriers.

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Table 04: Regression Results

Unstandardized coefficients				
Model	**B**	**Standard Error**	**t-value**	**Significant Value**
Constant	.767	.147	5.213	<.001
FB	.139	.024	5.744	<.001
EB	.192	.031	6.106	<.001
KB	.178	.027	6.703	<.001
CB	.157	.021	7.499	<.001
IB	.164	.020	8.050	<.001

(Source: Survey Data:2024)

As per the results, the regression model can be explained as follows,

$$OF = 0.767 + 0.139FB + 0.192EB + 0.178KB + 0.157CB + 0.164IB$$

The correlation results between dependent and independent show that all the barriers have a positive association with the organizational failure of SMEs. There is a strong significant association between the organizational failure of SMEs and knowledge barriers (r = 0.689, **P < 0.01), and a significant moderate association between the organizational failure of SMEs and infrastructure barriers (r = 0.466, **P < 0.01) There is a significant weak association between the organizational failure of SMEs and financial barriers (r = 0.386, **P < 0.01), economic barriers (r = 0.266, **P < 0.01), cultural barriers (r = 0.337, **P < 0.01). The findings of this study are similar to the studies of Khan (2022), Alnassai (2023), and Iskandarini (2014).

Table 05: Correlation Results

	OF
FB	.386**
EB	.266**
KB	.689**
CB	.337**
IB	.466**

Note: **. Correlation is significant at the 0.01 level (2-tailed).
(Source: Survey Data:2024)

5. CONCLUSIONS AND RECOMMENDATIONS

Entrepreneurs are often cited as one of the major engines for the economic growth of the nation. The recent economic crisis and financial distress have created a significant impact on the economy. Though the ultimate motive of the businesses is profit -maximization, the development of entrepreneurship comes along with societal well-being and bottom-line improvement. When entrepreneurship is developed, it provides innovative and practical solutions to social issues as well.

Many scholars have analyzed and found the relationship between new ventures and the economic growth of the country. It is proven that is favourable to the country, region, and individuals as a whole. In the contemporary situation, Sri Lanka deals with the transition of a market economy, decentralizing the power and restructuring the economy. Hence, the development and survival of entrepreneurship will create an unwavering impact on the economy.

Though Sri Lankan citizens have immense capability, the support they have been given to start-ups is very minimal. The support from family, government, financial institutions, and society is not adequate to elevate their business to the next level. The multiple internal and external barriers and unsophisticated system of the country discourage individuals from taking entrepreneurs as their career goal. As we are at the edge of the clip in terms of the economy, we depend on the growth and survival of entrepreneurship.

This study reveals that financial, economic, knowledge, cultural, and infrastructure barriers have a significant impact on SMEs' poor performance which leads to organizational failure. High rates of interest and lack of collateral for bank loans are the main financial barriers. The price volatility incurred due to the economic crisis followed by the COVID-19 pandemic has caused entrepreneurs to keep small profit margins. With the mathematic fundamentals learned in schools, calculate the profit from day-to-day business operations. Married individuals run their businesses with the moral and physical support provided by their spouses and other family members. The entrepreneurs who located businesses alongside their homes are equipped with all the infrastructure facilities while the other shops face difficulties in terms of infrastructure.

It is recommended that the government should take corrective measures to reduce the financial burden of entrepreneurs in starting or expanding their businesses. A policy decision should be made to reduce the high volatility of prices. The majority of this business is run by owners with little knowledge of record-keeping, and inventory management. Lack of proper business knowledge will lead them to failure in the long term, hence it is recommended to conduct awareness programs and workshops. Since the municipal council maintains contacts with entrepreneurs for trade tax collection, annual discussions can be held with entrepreneurs to understand the obstacles faced by entrepreneurs.

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However, the study has its limitations. The collected data was limited to 200 observations, which might not fully represent the entire population. More diversified and inclusive samples can be used in future research. The explanatory power of this model can be further improved by adding more entrepreneurial barriers, such as corruption barriers, management barriers, and personality traits. By taking into consideration of these limitations, more sophisticated insights can be generated to understand the impact on entrepreneurial barriers and organizational failure of SMEs.

Competing Interests: The authors declare that they have no competing interests.

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