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OWNER'S RISK ATTITUDE, RISK MANAGEMENT AND BUSINESS PERFORMANCE OF SMES IN SRI LANKA WITH SPECIAL REFERENCE TO NORTH CENTRAL PROVINCE

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Abstract

Small and Medium Scale Enterprises (SMEs) are known as an important strategic sector and give their contribution towards GDP, employment generation, poverty alleviation and regional development in the developing countries such as Sri Lanka. The main issue of SMEs is poor business performance and it adversely affects to survive in the long run. Among several reasons, poor risk management practices have been identified as a main cause for the failures. Although risk taking is fundamental for business performance, not managing the former properly will have an adverse impact on the latter. Therefore, this study developed a conceptual framework to investigate the mediating impact of risk management on the relationship between owner's risk attitude and business performance.

The study was a basic, explanatory type quantitative study followed by the deductive reasoning method. Developed conceptual framework based on literature survey was used with questionnaire survey to address the research question. The population of the study was number of SMEs established in North Central Province and 200 SMEs were selected as sample of the study based on the random sampling procedure. Data was collected on researcher-administrated questionnaires and were analyzed using SPSS statistical packages. The comparative analysis indicated that private limited companies are better in terms of educational qualification of owners, risk management and business performance. As per the stepwise regression analysis, risk management practices of SMEs mediate the relationship exist among the owner's risk attitude and business performance and it was statistically significant. Based on the findings, the study recommends that owners of SMEs should initiate necessary action to improve the level of risk management as well as specially government institutions related to the SME sector should support to improve the quality of risk management of SMEs.

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