

The Impact of Organizational Structure on Performance of Small and Medium Enterprises in the Western Province of Sri Lanka

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Abstract: The organizational structure of a business which is a key aspect of the venture for the development of the Small and Medium Enterprises has attracted greater attention. It displays the manner in which the work, resources and authority have been distributed, organized and coordinated in order to achieve the common objective of an organization. This study intends to scrutinize the impact of organizational structure on performance of Small and Medium Enterprises in the Western Province of Sri Lanka. This article investigates this effect in relation to the diverse theories, models and approaches. A sample of 383 Small and Medium Enterprise holders were used for data collection done based on a structured survey questionnaire. The analysis consisted of descriptive and inferential statistics. Seven dimensions were used to examine organization structure and the results indicated Specialization with an impact (0.030) on Performance of Small and Medium Enterprises, Departmentalization showed (0.035), Span of Management value was (0.010), Hierarchy with (-0.024), Delegation demonstrated (-0.022), Formalization had (0.013) and Coordination was (0.003). The Five dimensions illustrated statistically significant impact of organizational structure on Performance of Small and Medium Enterprises while two dimensions namely Formalization and Coordination demonstrated statistically insignificant results.

Keywords: Entrepreneurial Culture, Growth of the business, Organizational Structure, Performance of SME sector, Profitability

1. Introduction

The organizational structure (OS) has been getting a greater attention and created a greater association in the current research and development in numerous disciplines. OS has a wide-ranging connotation with regard to the different systems of work in the organization, methods of managing the available resources and division of authority of among key individuals in an organized manner with coordination enabling to reach the common objective. Literature reveals of numerous business related research that focus on modern markets of business formation to acquire market share, the customers' asset and the employees of low profile current businesses [1].

Further it is worthwhile to examine the striking consideration in the present, extended towards small business research and practical expansion in social sciences [2]. Moreover, among the few empirical studies conducted in the area of OS on performance of SMEs under diverse disciplines in the current research, only some published studies serve as exceptions [3]. This situation highlights the obligatory necessity of SME sector for any country stressing the precious concept of entrepreneurship for the sustainability of the nation [4] and the reality that OS increases the use of existing knowledge and skills to advance performance of SMEs in different levels[5].

However, due to the inadequate study results in hand realistic outcomes in relation to impact of OS on performance of SMEs in diverse contexts cannot be generalized to include developing countries in the world. Many studies reveal that OS is considered as one of the most prominent factors that determine the performance of SME[6]. Further OS is accepted as a vital necessity to run the small business effectively and show the way to performance of SMEs required for the modern society [7]. It also represents the notion that proper OS needs to give prominence to the conduct of the individuals in an organization who exhibits creativity, innovativeness, capability and the talent to carryout duties while solving problems [8]. It is believed that performance of SMEs is the most suitable method to gauge activity or process of conducting work successfully to discover the efficiency and effectiveness of the small business within a given time period [9]. Furthermore, it is evident that businesses carried out with increased data collection and analysis in addition to goal setting and human resource practices focused on performance of SMEs exhibit enhanced productivity while reaching to greater heights of output growth in comparison with businesses that are limited to few formal management procedures[10]. Even

though this stipulation is established at a higher level in manufacturing industries as a result of the large number of studies conducted in this field, dispersion to service industries too can be observed.

This intention of this article is to examine the impact of OS on performance of SMEs in different disciplines that could lead to future studies based on the contribution of the SMEs sector in different parts of the world. There are seven elements of organizational structure, identified for discussion in relation to the performance of SMEs. In order to have proper application of those elements, definitions and effects of each element and common mechanisms are used. Further, OS and firm size display a suitable arrangement for yielding better results as literature suggests. Hence, the objective of this article is to examine how and to what extent the above mentioned dimensions of OS has an impact over performance of SMEs in the Western province of Sri Lanka. Therefore, considering the importance of each dimension of OS and the following questions are formulated:

- (1). How is the impact of Specializations over the performance of SMEs in Western Province of Sri Lanka?
- (2). How is the impact of Departmentalization over the performance of SMEs in Western Province of Sri Lanka?
- (3). How is the impact of Span of Management over the performance of SMEs in Western Province of Sri Lanka?
- (4). How is the impact of Hierarchy over the performance of SMEs in Western Province of Sri Lanka?
- (5). How is the impact of Delegation over the performance of SMEs in Western Province of Sri Lanka?
- (6). How is the impact of Formalization over the performance of SMEs in Western Province of Sri Lanka?
- (7). How is the impact of Coordination over the performance of SMEs in Western Province of Sri Lanka?

In the present context, unless better consideration is given the difficulties and failures faced by the SMEs in operating their businesses, these could become major issues to their structures of the ventures. It is the aim of the SMEs to obtain suitable knowledge and talents that become advantageous to their businesses. Hence it is essential to have the strategic nature of SMEs' attitude to learn for having a distinctive structure and superior atmosphere exhibiting the SMEs behaviour.

The theories of OS, hypothetically relate to building an internal setting of SMEs that permits strategic processes, practices and decision-making activities of the business organization [11]. The conduct displayed in business strategy is the dimension of OS since all such actions are connected to SMEs traits, attitudes and behaviors [12]. Therefore, in order to manage a business with a successful performance, OS is a critical talent for SME. A positive association was revealed between OS and performance of SMEs with regard to the impact [13] and parallel links observed in relation to OS dimensions such as Specializations, Departmentalization, Span of Management, Hierarchy, Delegation, Formalization, and Coordination. Two main techniques namely, mechanistic design and organic design which were developed initially can be observed in the literature for organizational design [14],[15]. The differentiation between these two designs in relation to the selected seven structural elements is shown in the Table 1.

Table 1: Mechanistic Model and Organic Model of Organizational Structure

Structural Element	Mechanistic Model	Organic Model
Division of Work	High	Low
Departmentalization	Rigid, Inflexible	Loose, Flexible
Span of Management	Narrow	Wide
Hierarchy	Clear, Tall	Few Levels
Delegation	Centralization	Decentralization
Formalization	High	Low
Coordination	Low	High

Nonetheless, existing literature on OS has the main focus on internal operation of the whole business level of the SME sector and there is a shortage of studies examining OS at diverse levels. It is vital to evaluate OS at the SME level as it is linked to the individual's decisions that have an effect on Performance of SMEs. The limited number of studies done on OS at dimension [16] level is of great concern and the shortage of studies based on OS is observed [17],[18]. The government of Sri Lanka has tried to raise the propagation standard of the industry in an attempt of sharing knowledge and cannot be considered as backward in the expansion of SMEs within the country. As a result several different authorities facilitated the creation of SME businesses to assist small ventures in an attempt to meet the gap of the national income and the employment generation of the country, relevant to global changes.

Nevertheless SMEs even now have the state of mind of starting their own businesses without being employed and the appropriate entrepreneurial culture is required to be promoted. Moreover, many countries

continue to deal with issues such as lack of enthusiasm of business holder to have a successful SMEs and the deficiency of association with non-business disciplines [19]. In spite of the measures undertaken so far to encourage SMEs based on entrepreneurship culture, Sri Lanka has not yet achieved an adequate level with regard to the number of SMEs in the country. In the present context the country has no proper OS system established that would ensure the success of businesses [20], on which the background to the question for this study was originated. Therefore, the significance of investigating how the SMEs could surmount the existing issues facing their businesses through performing best practices within the SME segment is apparent [21],[22]. Consequently, the question arises as to how the OS impacts on SME performance and to what extent does it have an impact on Performance of SME in the Western Province of Sri Lanka.

2. Literature Review

Ventures in the category of SMEs are mainly considered as the backbone of national economy of a country [23] and the driving force of growth in developed and developing countries [24]. Different scholars have recognized a wide range of factors as the determinants of SME performance throughout the literature. It is also clear that these determinants are classified in diverse manner which makes their effectiveness vary among countries depending on the geographical, economic and cultural. Performance of SMEs, in the recent times, has been found to depend mainly on the internal factors of the company and OS is considered to be one [25].

OS is mainly regarded as the manner in which the work, resources and authority are distributed, arranged and coordinated with the aim of achieving the common objective. This concept has been proved by many authors based on research findings [26]. SMEs need to have proper orientations in order to deal with different, unfamiliar and erratic challenges simultaneously in their countries. Therefore, in order to measure Performance of SME as well as OS, it is clear that for a considerable period, different theories, approaches, perspectives and models were used in numerous ways. Further, business entrepreneurs in the SME sector point out in their theories that entrepreneurial SMEs can be considered as crucial transformer of economic development, and they are model personalities of the society but not remarkable ordinary individuals [27],[28]. Furthermore, prominent theory of Contingency approach propose the consequence of different issues in relation to OS and fitting behavioral practices for successful performance of the SMEs in a professional condition in many angles [29].

The view point of some entrepreneurial SMEs explains how the connection of the exact fields affect while others accept the sufficient position of businesses. This article is based on the theoretical view construed by Lumpkin and Dess model giving pragmatic consideration for specific variables including OS and Performance of SMEs [30]. Initially the definition and descriptions of OS, its components, determinants and the mechanistic and the organic models are endorsed.

OS is explained in numerous ways in the literature and it has been defined it as the manner in which the work in occupation is methodically divided, grouped and coordinated [15]. Furthermore, structure illustrates the relationships between the resources of the management process in order to achieve the company objectives [31]. It is also seen that OS displays the arrangement of work and groups of work in an organization [16]. In other words the term OS demonstrates the official arrangement among individuals and groups in organizations with regard to the division of tasks, responsibilities, and authority [32]. OS shows the manner in the activities of an organization are divided, organized and coordinated. Besides, three major roles played by the OS are identified as: (1) Affects the individual's behaviour in the organization while controlling it against the standards, (2) Bring about reasonable consistency to organizational activities, (3) Project the behaviour of individuals in the organization in the direction of its goals [14]. Having considered all the concepts mentioned above OS can be illustrated as the way the work, resources and the decision making authority are distributed and coordinated between the personnel of an organization.

Scholars unanimously agree on the effect OS has on SME performance. The structure of an organization plays a major role in the manner objectives and policies are set and how resources are allocated which mainly depends on OS [33]. Hence, due to the direct influence the structure of an organization has on the competitive advantage sources, any lapses to combine structure properly with strategy can drastically affect strategy implementation of the organization [34]. It is understood that the OS can either enhance or hinder organizational performance [35]. OS is known to be a vital factor responsible for the behaviour of individuals and groups which leads to organizational effectiveness comprising quantity of production, the quality of the product, efficiency, flexibility, satisfaction of employees, competitiveness of the organization, its productivity, development, and survival [14]. In-appropriate structure has been highlighted in literature as one of the factors that curtails SME growth.

OS consists of ongoing arrangement of activities that result in a formal consistency. Furthermore, since the strategy can be indisputably influenced by OS it is essential that the structure be revamped as an when the company strategy change [33]. At the outset the contingency theorists put forward this concept [36]. According

to them, the organizations that focus on redesigning their OS on a continuous basis to adjust to the frequently changing environment are the ventures that progress in an unstable surroundings. The main factors which holds responsible for the kind of structure that leads to achieve the company objectives are the environment, its technology and the size of the company [36]. On analyzing the components which are beneficial and obstructive in different types of OS, it is possible to find out the kind of structural modifications required to be executed in order to ensure the achievement of strategy by changes in the internal and external environmental factors.

Therefore, an appropriate assessment of the OS can be conducted by examining the components of the structure. Mainly, the structural components reveal the manner in which the OS influences the performance of any organization. Literature defines structure as a combination of officially allocated tasks, prescribed reporting arrangement, indicating authority, responsibility, levels of hierarchy, spans of control, and method of coordination among individuals and departments. Hence, this analysis helps to recognize a number of components of the OS i.e. distribution of work, different departments, hierarchy, span of management and coordination. Likewise, another analysis describes constituents of OS as allotment of work, details of departments, span of management, scalar chain, delegation, and coordination [31]. It is therefore advocated that allotment of work, setting up of departments, extent of control and delegation of power are the main areas to be decided in designing an OS[14]. Some research have discovered distribution of labour, departmentalization, hierarchy of power, span of control, and delegation as the structural dimensions[32]. The analysis of others show five common essentials namely work specialty, departmentalization, chain of command, span of control, delegation of power and formalization as the components of OS[15]. It is evident from earlier research that diverse instruments were considered as a substitute for Performance of SMEs [37]. Mainly, economic viewpoint were taken in to account for measuring BP in small businesses.

Apparently there are many different ways to measure Performance of the SME sector. Specialists and other interested individuals inspect this concept in different approaches. Literature suggests that Goal Approach and System approach are the theoretical contexts that support measuring the efficiency to evaluate the utilization of resources in a business. Further, traditional and new methods seem to be used for measuring Performance of SMEs in the Sri Lankan context [38]. Fluctuations that take place in a competitive environment and strategies of ongoing businesses cannot be evaluated using conventional methods for measuring the performance of SME while the need of special application methods is highlighted [38].

In the mid-1980s, it was confirmed by theories and scientific examination that sustainable advancement and persistent survival of a business could be attained merely by paying attention to the shareholder value. Hence, it is essential to consider the importance of the numerous stakeholders that exist in businesses. A stakeholder is regarded as a person who is able to influence the activities leading to the accomplishment of organizational objectives or an individual who is associated with it. The stakeholder theory is associated to a great extent with the status of the business organization which is effected by the social changes and other social views that surface. Thus, a range of measurement techniques are used by different business organizations in assessing Performance of SME while a suitable method is selected depending on the type of practices of the business[38].

Numerous instruments have been implemented to measure Performance of SME based on the purpose of the business since it is not easy to find a single model to evaluate Performance of SMEs individually due to the multidimensional nature [39]. Empirical research conducted on the Performance of SME concept has used the consequences of OS to a greater extent. These research studies have been categorized into specific areas such as current discussion fields, theory and research application as well as country wise [40].

An empirical study was conducted in Ecuador with a sample of 750 microenterprises on the financial literacy and Performance of SME in free economy businesses and the results revealed that both financial literacy and role models are important for evaluating Performance of SME for some but not all [41]. The outcome of another study carried out in the USA using a sample of 300 new ventures showed that the specific link between OS and Performance of SME is influenced by political networking in a negative moderating manner whereas financial networking indicated a reverted U-shaped association and also business networking has a explicit link. The effect of managerial networking on the performance of new ventures are elaborated by these findings, and it also implies the use of structural pattern and a variety of managerial networking systems in new businesses to enhance the development within the changing economy in China[42].

2.1 Relationship of Organizational Structure on Performance of SMEs

The impact of OS on Performance of SMEs has been exposed using different types of perspectives as spelt out in literature. It is clear that small businesses implement simple arrangement portrayed by fewer specialty areas, lesser level of departmentalization, extensive scope of management, increased centralization, a small number of hierarchical levels and little formalization [6]. However it is reiterated that this structural arrangement need to be redesigned to accommodate unobstructed performance as the a business progresses

Several authors emphasize that structure should follow strategy which is a basic principle in OS and strategy of latest business organizations are associated with innovation, cost-minimization and imitation[6]. It is evident that these strategies are mainly similar to OS dimensions considered in this study. Therefore, this clarification affirms the connection between OS on Performance of SME. Further, it can be sensibly demonstrated that OS has a positive relationship with business performance of SME, considering several arguments [6]. It has been proved that an appropriate combination between OS on Performance of SME is required in order to have optimal progress [43]. These research outcomes illustrate that OS-Performance relationship is positively influenced by organic structure while it is negatively impacted by mechanistic structure. However, they reiterate that mechanistic structures can result increased performance for conventional, non-entrepreneurial ventures. It is also evident that an organic structure facilitates OS to enhance performance of large businesses in addition to SMEs[44]. Hence the impact of OS on Performance of SMEs is illustrated using diverse kind of point of view as shown in the literature.

3. Data and Methodology

The research strategy and the research instruments are led by research procedure for setting up the research objectives and research questions. Further, a synopsis consisting of the methods that are used to examine the research problem is given, which is considered as the major focal point of this study. This section proposes to highlight how and to what extent OS impacts on Performance of SMEs. The research study employed 35 indicators (29 for final analysis) for OS and 11 indicators for Performance of SMEs. The prominent data collection method implemented was Structured Survey Questionnaire (SSQ). The respondents' awareness of OS on Performance of SMEs was taken into account through this questionnaire which served as the survey instrument. The sample of 383 SMEs in the Western Province of Sri Lanka was selected through simple random sampling method, and the unit of analysis was the SME who run his/ her businesses. The collected data were analyzed using SPSS and Structural Equation Modeling (SEM) technique with AMOS.

3.2 Proposed Conceptual Model

The hypotheses are developed mainly on scientific research based on a theoretical framework which is mainly the starting point. Theoretical framework that serves as the basis of hypothetico-deductive research, consists the researcher's viewpoint on the association of the variables in the conceptual model, and the researcher's rationalization of theoretical relationship of the variables (Sekaran & Bougie, 2013). This research study endeavours to study the SME performance using few variables of OS that can be managed, in its conceptual framework. Fig. 1 illustrates the conceptual framework of this research based on the literature review.

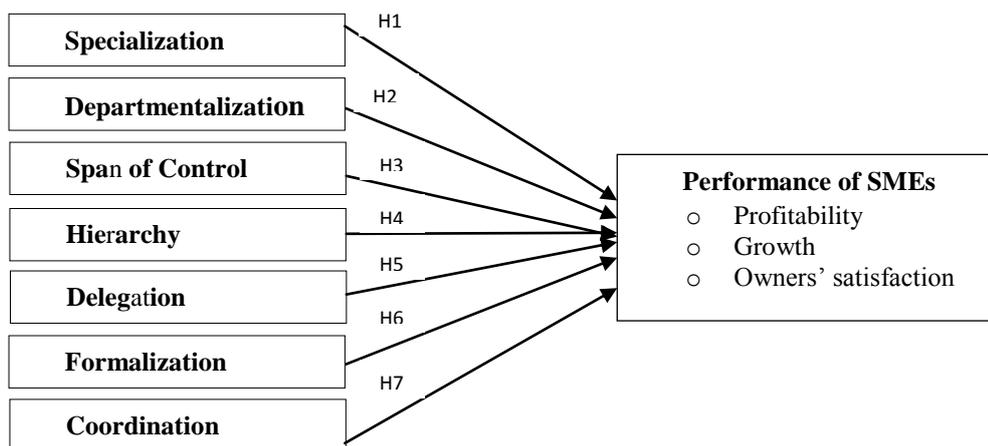


Figure.1: The Conceptual Framework

3.3 Research Hypotheses

Considering the relationships illustrated in the theoretical framework, the hypotheses were formulated for this research study. Theory-based facts emerging from the literature survey acted as the basis for the conceptual framework and for the possible associations between the two variables of OS on Performance of SMEs as shown in the proposed model, while it substantiates these relationships among the variables. The following hypotheses were developed by the conceptual framework in the study for empirical testing:

- H1: Specialization has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.
- H2: Departmentalization has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.
- H3: Span of Control has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.
- H4: Hierarchy has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.
- H5: Delegation has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.
- H6: Formalization has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.
- H7: Coordination has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.

3.4 Data Collection Process

Three activities involved in the data analysis process were data collection, data coding, data analysis, statistical technique of data analysis, and ethical consideration which were discussed. The procedure of data collection was planned carefully giving due importance to access of exact data, method of data collection, and the process of data collection [45]. This study employs primary and secondary data while structured questionnaire is used to collect primary data on OS and business performance of SMEs. Further, demographic information on the background of individual SMEs too were collected. Secondary data were gathered on scrutinizing on-line empirical and conceptual studies and printed journals, reports published by local and foreign institutes.

3.5 Test Procedures for Instrument Development

Pre-test, pilot-test and actual test are the steps in the sequence of assessing a thesis for the reliability and validity measurements of the instrument. Few statistical techniques were employed for the measurement of data during these periods for diverse tests.

4. Findings and Discussions

The main aim of this article is to evaluate pertinent data to examine the impact of few selected dimensions of OS on Performance of SMEs in the Western province of Sri Lanka. The structured questionnaire was distributed among 383 of SMEs holders for data collection. Analysis of data was done using The Software Package of Social Sciences (SPSS- version 23) and Structural Equation Modeling (SEM) using AMOS techniques. Quantitative analysis was used to test the hypotheses which led to evaluate the impact of dimensions of OS on the Performance of SMEs of the selected sample.

Testing the Measurement Model and the Structural Model to evaluate the relationship are the two major stages of the SEM which is a multivariate data analysis technique [46]. Specializations, Departmentalization, Span of Management, Hierarchy, Delegation, Formalization, and Coordination. (Lumpkin & Dess, 2005) are the seven dimensions of OS that were chosen to evaluate the impact of OS on Performance of SMEs which were measured using 35 indicators. Performance of SMEs which is the dependent variable was assessed in terms of Profitability, Growth and Owner Satisfaction measurements and these dimensions were measured by 11 indicators.

The responses from the sample were obtained on a five point Likert scale. The reliability of the instrument was tested by Cronbach's Alpha while the validity was evaluated by factor analysis. The completed questionnaires were collected and initial data screening was conducted in order to obtain an accurate data set for the analysis. The questionnaire was modified based on the results of the Pre-test to be used for the pilot test. The 62 responses received from the pilot test were analyzed using Cronbach's Alpha for reliability (> 0.7) and Factor analysis to assess validity (> 0.5). Thereafter, final test was carried out using 383 SMEs in the Western province of Sri Lanka and the results were analyzed. During this process of the analysis Construct validity was checked and factor analysis was considered to be the most appropriate validity test. For this purpose Exploratory Factor Analysis (EFA) was conducted. Table 2 illustrates the results of the EFA process showing values corresponding to the KMO and Bartlett's test.

Table 2: KMO and Bartlett's test of Sphericity

Construct	KMO	Bartlett's test of Sphericity		
		Approx. Chi-Square	Df	Sig
Business Performance of SMEs	0.830	2477.295	55	0.001
Organizational Structure (OS)	0.921	9175.940	595	0.001

Most of the variables indicate KMO values higher than 0.7 which is the threshold point, demonstrating factor analysis satisfying sample adequacy. Bartlett's test of Sphericity specifies that if all the variables indicate significant value of 0.001 it shows that the variables are correlated. The threshold criteria of EFA is that it should be greater than 0.5. EFA results highlight the interrelationship between the Performance of SMEs and its selected dimensions along with indicators. The values of EFA for all dimensions of OS illustrate greater than 0.5 which is satisfactory level under the decision criteria as presented in table 3.

Table 3: Summary of the Factor Analysis Results

Variable	No. of Item Selected	No. of Item Dropped	KMO	VE %	Min. Factor Loading
PF	3	-	.701	77%	.807
GR	4	-	.766	63%	.709
OS	4	-	.768	54%	.678
SP	5	-	.832	54%	.615
DP	5	-	.753	75%	.847
SM	5	2	.753	75%	.847
HI	5	-	.892	72%	.806
DL	5	-	.872	59%	.671
FO	5	1	.744	50%	.576
CO	5	1	.767	61%	.666

In summing up, forty two out of forty six items were allowed, based on the EFA result. Three factor loadings confirmed the construct of Performance of SMEs while seven factor loadings construed OS, which is one of the main constructs. Further, all dimensions showed values higher than 0.7 at the reliability analysis of Performance of SMEs. Reliability of the two main constructs, Performance of SMEs and Organizational Structure are shown below.

Table 4: Reliability Analysis

Construct	Dimension	Alpha Value
Performance of SMEs	Profitability	.905
	Growth	.858
	Owner Satisfaction	.809
Organizational Structure	Specialization	.851
	Departmentalization	.893
	Span of Control	.901
	Hierarchy	.928
	Delegation	.877
	Formalization	.793
	Coordination	.859

Validly and the Reliability of the instrument of the study was tested as the two main criteria and both emerged to be in the satisfactory level of measurement for the actual test of the study. The descriptive statistics showed that at least 50% of the values with regard to medium values such as profitability, growth, owner satisfaction, specialization, departmentalization, span of management, hierarchy, delegation, formalization and coordination were higher than the mean value. Further, the SEM technique implemented for the data analysis process is exposed as a blend of path analysis and factor analysis. Hence, two stages of validating measurement

models using confirmatory factor analysis (CFA) and fitting a structural model through path analysis are entailed in the SEM processes.

The main intention of this model is validating measurement models through CFA which is used to check the meaningfulness of the model and assess results by the Measurement Model (MM). The items that have factor loading values higher than 0.5 were taken for the MM while rejecting any with co-variances higher than 0.85 which create a problem of multicollinearity variable. This section highlights three types of validities. Convergent validity which is conveyed by Average Variance Extracted (AVE) for all constructs which have 0.5 or higher values. Fitness Indexes at the necessary levels for constructs described by Construct validity. Discriminant validity of the constructs specifies whether MM does not have redundant indicators using higher modification indices.

4.1 Reliability in Measurement Model

Reliability of the latent construct is evaluated in this analysis. Internal reliability of Alpha value should be 0.7 or higher while Composite or Construct Reliability (CR) value need to be 0.7 or above and AVE value 0.5 or more for eligible to be considered as the alleged criteria for the measurement. The model of this study encompasses 46 measured indicators along with 10 variables. Test of validity and reliability demonstrated the numbers of indicators selected where BP included 11 indicators and OS restricted to 31 indicators by removing the 4 indicators: SM4, SM5, FO5 and CO4 of OS.

4.2 Measurement Model for Performance of SMEs

The first model was used to test the three performance dimensions. The initially analyzed model is shown as an individual MM in three parts as PF, GR and OW. The initial MM of Performance of SMEs suggested the need to modify the model. The regression weights, and CR values indicated that in the multivariate normality test, the critical value for multivariate kurtosis was 46.571. Since this is higher than 5 the assumption of multivariate normality is not fulfilled and modification is required. Fig. 3 presents the modified MM for Performance of SMEs as shown below.

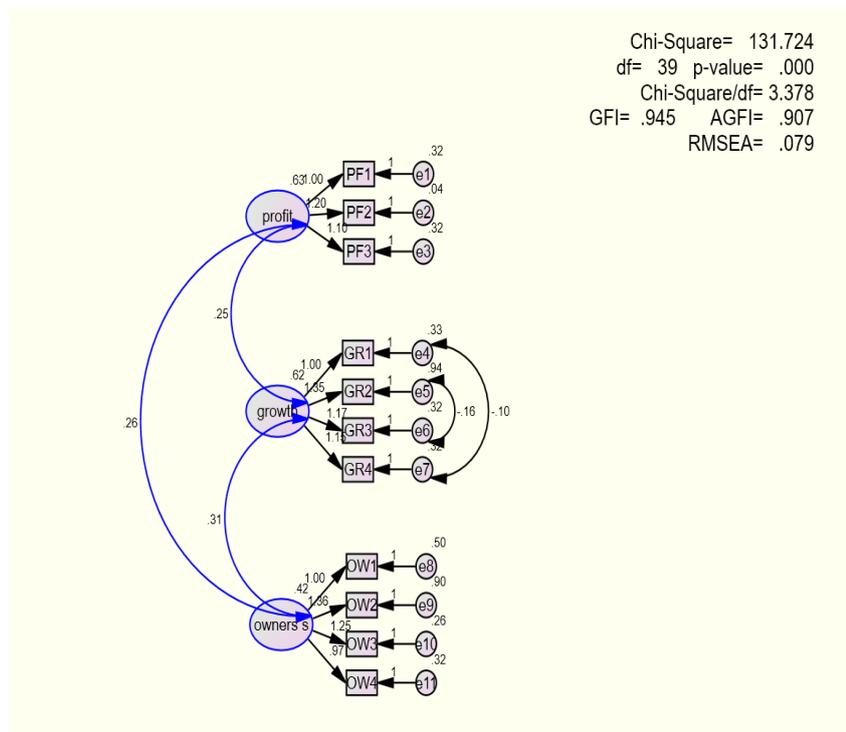


Figure 1: the modified measurement model for performance of SMEs

The results revealed that all the factor loadings were higher than 0.5. Further, AVE too showed values greater than 0.5, the CR values were higher than 0.7 and the values were greater than the relevant AVE values.

The Estimated modified measurement model of the OS indicated MM with an output for Chi-square value of 1733.58 which should be stated as $p > 0.05$. RMSEA value obtained was 0.076 which should be less

than 0.08. Further GFI value was 0.801 while AGFI indicated 0.767 which should be greater than 0.09 and Chi/df was 3.216 which should be less than 0.5 that suggest the need to modify the MM.

4.3 Modified Measurement Model for Organizational Structure

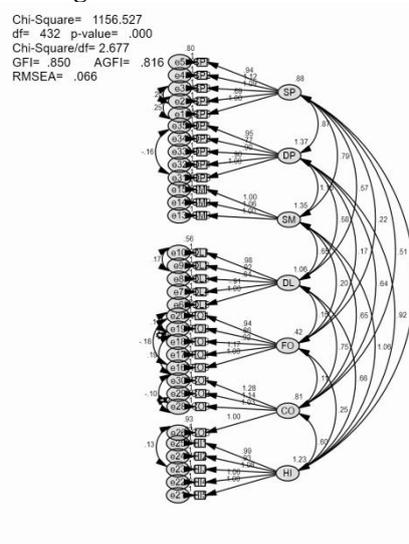


Figure 4: the modified measurement model for organizational structure.

Fig. 4 presents the estimated modified measurement model for the construct of OS. Output of the modified MM obtained a Chi-square value of 1156.52 which should be stated as $p > 0.05$. RMSEA value which should be less than 0.08 was indicated as 0.066. GFI value was 0.850, AGFI showed as 0.816 which should be greater than 0.09 and the value obtained for Chi/df was 2.677 which should be less than 0.5. All the factor loadings indicated values higher than 0.5. The AVE values were greater than 0.5. The CR values indicated to be higher than 0.7 and the CR values were greater than the respective AVE values. A strong positive association between OS and performance of SMEs can be identified based on the modified measurement model due to its correlations > 0.7 . Specialization, Departmentalization, Hierarchy, Span of Management, Delegation, Formalization and Coordination are the seven sub dimensions of OS which were analyzed to find impact of the variables in the Hypothesis 1 to hypothesis 7.

4.4 The Impact of Dimensions of Organizational Structure on Performance of SMEs

The seven selected dimensions of OS were used to measure the validity of OS and the impact of these dimensions on Performance of SMEs is shown in table 5 as follows.

Table 5: The impact of dimensions of OS on Performance of SMEs

			Estimate	S.E.	C.R.	P	Supported/Not
Performance of SMEs.	<---	SP	.030	.008	3.882	***	Supported
Performance of SMEs.	<---	DP	.035	.007	3.723	***	Supported
Performance of SMEs.	<---	HI	-.024	.005	-4.398	***	Supported
Performance of SMEs.	<---	SM	.010	.005	3.833	***	Supported
Performance of SMEs.	<---	DL	-.022	.006	-3.951	***	Supported
Performance of SMEs.	<---	FO	.013	.007	.763	.063	Not Supported
Performance of SMEs.	<---	CO	.003	.004	.647	.517	Not Supported

The relationships among the dimensions of OS and Performance of SMEs as shown by the hypotheses were enumerated in the above table. The path coefficient illustrates consistent values only for five dimensions of OS that have an impact on Performance of SMEs which show statistically significant strong positive associations. However, Formulation and Coordination dimensions indicated an insignificant impact.

4.5 Hypotheses Testing

This study is an attempt to examine how dimensions of OS impact on business performance of SMEs in the Western province of Sri Lanka. Hence impact of seven selected dimensions of OS on Performance of SMEs was assessed using the sample. Consequently, the seven hypotheses that were formulated as H1 to H7 based on the seven dimensions corresponding to OS construct were evaluated.

H1: Specialization has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.

Hypothesis one focuses on the impact of Specialization (SP) on Performance of SMEs. The path coefficient value of 0.030 as illustrated in table 5 indicated a positive impact between these two. CR value was 3.882 and P value which is less than 0.05 which highlights a statistically significant impact of SP on Performance of SMEs. Hence, these two variables show a positive effect. This finding is in agreement with earlier research [14], [31], [32]. A direct effect of SP on Performance of SMEs is confirmed by a great deal of research [14].

This revealed that SP is an essential constituent on Performance of SMEs business in the Sri Lankan context too. This emphasizes that SP in the Sri Lankan context has an impact on Performance of business environment as mindful by SMEs which can lead to improve the ability to manage the businesses successfully.

H2: Departmentalization has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.

Hypothesis two lays emphasis on the impact of Departmentalization (DP) on Performance of SMEs. A positive impact is indicated by DP on Performance of SMEs which is expressed with the path coefficient value of 0.035. P value obtained was less than 0.05 showing a statistically significant impact between the two. Hence, it demonstrated that there was positive impact of DP on Performance of SMEs. It is evident that this finding is equivalent to previous research [6]. A direct impact of DP on Performance of SMEs has been demonstrated by numerous research [14].

This demonstrated that DP plays an essential part on Performance of SMEs business in the Sri Lankan context too. Hence, SMEs awareness was that DP in the Sri Lankan context has an effect on Performance of business environment which promotes the successful management of the businesses.

H3: Hierarchy has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.

Hypothesis three is based on the impact of Hierarchy (HI) on Performance of SMEs. HI indicated a negative impact on Performance of SMEs with a the path coefficient value of -0.024 as illustrated in table 5. It is also clear that this impact is statistically significant due to the CR value of -4.398 and P value which is less than 0.05. Hence, Hierarchy has a negative effect on Performance of SMEs when above two variables are considered. This finding is compatible with previous research [6]. Many research revealed a direct effect of Hierarchy on Performance of SMEs [6].

This highlights that HI is a vital component in considering the Performance of a business in the Sri Lankan context too. Hence SMEs perception was that HI is responsible for the performance of business environment in the Sri Lankan context which has bearing on the influence to manage businesses.

H4: Span of Management has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.

Hypothesis four refers to the impact of Span of Management (SM) on Performance of SMEs. The Table 5 shows the path coefficient value of 0.010 indicating a positive impact between these two variables. A statistically significant impact is shown as the P value was 0.033 which was less than 0.05. Therefore, a positive impact by Span of Management on Performance of SMEs is indicated between the above two variables. Previous research [14] can be seen that is similar to this finding. A direct effect is indicated by SM on Performance of SMEs in several research [47].

Therefore it is clear that **SM is an essential factor that has as impact on Performance of a business in the Sri Lankan context too.** It can be seen that SMEs perception was that in the Sri Lankan context SM has an effect on Performance of business environment which empowered to manage businesses.

H5: Delegation has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.

It is clear from the output that these two variables indicate a negative impact as the path coefficient value was -0.022. Further a statistically significant impact is shown as the P value was less than 0.05. Hence, a negative effect of DL between the above two variables can be observed. This finding is supported by previous research [31],[48]. A direct effect of DL on the impact of DL on Performance of SMEs is revealed by many research [49],[50].

It is apparent that ***DL is an essential element in the Performance of a business in the Sri Lankan context too.*** This brings to light that SMEs perception was that DL in the Sri Lankan context has an effect on Performance of business environment which influences their strength to manage businesses.

H6: Formalization has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.

Hypotheses six is based on the impact of Formalization (FO) on Performance of SMEs. The path coefficient value of 0.013 indicated a positive impact between these two factors. P value of 0.063 was greater than 0.05 which showed that the relationship was not statistically significant. Hence, a positive effect of FO on Performance of SMEs could be observed with regard to the above two variables. Previous research bear evidence to this finding[14]. Further various other research proved a direct effect of FO on Performance of SMEs[14],[50].

Hence this denotes that ***FO is an important constituent of Performance of a business in the Sri Lankan context too.*** SMEs perception was that FO in the Sri Lankan context EO bears an impact on Performance of business environment which increased their prospective of managing businesses.

H7: Coordinating has a significant impact over the Business Performance of SMEs in the Western province, Sri Lanka.

Hypotheses seven emphasizes the impact of Coordination (CO) on Performance of SMEs. Table 5 illustrates the path coefficient value of 0.003 indicating a positive impact between these two variables. CR value of 0.647 and P value of 0.517 which is higher than 0.05 did not prove significant relationship suggesting a statistically insignificant impact. There was a positive impact of CO on Performance of SMEs and this is equivalent with previous research findings[14],[50]. Many research demonstrated a direct effect of CO on Performance of SMEs[48],[49].

It is evident that ***CO is a vital element in relation to Performance of a business in the Sri Lankan context too.*** This elucidates on the SMEs perception that CO in the Sri Lankan context has an impact on Performance of business environment which affects their strength to manage businesses.

Focusing on the objective of this study the seven hypotheses of OS were assessed with Performance of SMEs. The above information reveal the impact of each dimension of OS on Performance of SMEs. ***Specialization presented with its major areas:*** Job Descriptions available for all employees/members in the organization who have regular duties to perform. ***Departmentalization presented with its major areas:*** Assembling jobs in to departments and distribution of employees among departments (Job Rotation). ***Span of Management presented with its major areas:*** The ability of the Managers / supervisors to have a close supervision of each and every employee under his / her direction. ***Dimension of Hierarchy presented with its major areas:*** The arrangement of positions of the organization in a sequence focusing on the level of authority. Orders and communications pass through the hierarchy and formal channels emphasize in getting work done. ***Dimension of Delegation presented with its major areas:*** Discretion of decision making is offered to the people who are responsible for performing the tasks. ***Dimension of Formalization presented with its major areas:*** Encompass standards such as rules, regulations, policies and procedures to guide the methods of carrying out the regular work. ***Dimension of Coordination presented with its major areas:*** Having a common plan to direct the actions of each and every member. Lack of restrictions for employees to have direct communication with relevant persons, irrespective of the departmental and hierarchical boundaries and synchronization are created through informal relationships with cooperation.

5. Conclusion

It can be concluded that SMEs in the Western Province of Sri Lanka have strong principles and they recognize Innovation, Risk-taking, Proactiveness, Autonomy and Competitive Aggressiveness as prominent factors. The dimensions Specialization, Departmentalization, Hierarchy, Span of Management, Delegation are the components of OS that influence Performance of SMEs while Formalization and Coordination have shown an impact on Performance of SMEs but it is not significant. The result of this study condenses management implications and proposes necessary recommendations for the SME field in relation to Performance of SMEs in Western province of Sri Lanka.

It is clear that the factors of OS have a vital role in the SME industry, especially for the new business enterprise holders who plan to start new ventures and display entrepreneurial action. Hence enhanced awareness of OS is a new trend among them in order to achieve the appropriate mindset. The seven dimensions of OS that directly affect Performance of SMEs and have a distinctive influence are SP, DE, SM, HI, and DL. The finding of this study leads to enhance the empirical nature of OS construct in relation to Performance of SMEs.

Hence it is therefore imperative that business holders around the world, who run their own ventures exhibit entrepreneurial actions of SMEs, serve as change agents of a country. It is the responsibility of the policymakers in the government and non-government institutes to focus on development with requisite OS of

businesses for economic advancement that have implications to the academic field, to the entrepreneurs and to the policy makers along with regulators who are accountable for sustainable environment for the businesses in any country.

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