IMPACT OF FINANCIAL CAPITAL AVAILABILITY AND RESOURCES FLEXIBILITY ON FIRM PERFORMANCE EMPIRICAL STUDY OF SME-s IN THE NUWARA-ELIYA DISTRICT IN SRI LANKA

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INTRODUCTION

Small and medium enterprises (SMEs) play an important role in the country as it is the major economic growth driver. It–highlights the importance of innovation, job creation and domestic demand (Ministry of Industry and Commerce, 2012). The development of SMEs is therefore of utmost importance and must be encouraged at all times. "Entrepreneurs are always regularly involved in the decision-making activities of their businesses such as resource acquisition, allocation, and utilization of resources, saving, investment and retirement planning etc. These activities involve the day-to day running of this business that always have financial consequences for the entrepreneur/business" (Ngek, 2016, p. 1). SME owners' financial knowledge may not certainly result in firm performance without access to financing, the operation power of any business and potential for growth is at risk (Adomako & Danso, 2014). Resource flexibility is reflected by the ability of the system to react and accommodate changes**.** (Chauhan & Singh, 2014).

Entrepreneurs are faced with complex financial decisions to turn around the fortunes of their businesses. For example, entrepreneurs make financial decisions in the form of savings, investments, expenses and purchases (Danso et al., 2014). Micro-Small entrepreneurs largely operate from their homes and they have lack of access to finance that limits this sector's potential to reach the next level. Sourcing finance, raw materials and low sales were the top-most common problems faced by these enterprises. Lack of access to finance is a serious concern particularly when businesses require additional capital to support expansion and growth. However, an underlying fear persists in terms of taking collateral-based loans due to past experience/observations. (Ranasinghe et al., 2020)

Much literature is available in Sri Lanka as well as in other countries related to SMEs firm performances. The scholars have taken many independent variables with a common dependent variable. The common dependent variable is firm performance.

The aim of this research is to identify the impact of financial capital availability and resource flexibility and to measure the level of firm performance among the business owners. Research objectives are formed based on the research problem. The first objective is to identify the impact of financial capital availability on firm performance, the second objective is to

identify the impact of resource flexibility on firm performance, the third objective is to identify the relationship between financial availability on firm performance, and last objective is to identify the relationship between financial availability on firm performance. Research questions are formed based on the research problem. The first Research Question is what is the impact of financial capital availability and resource flexibility on firm performance? And second research question is the relationship between financial capital availability and resource flexibility on firm performance?

Development of the research model started with the conceptual framework of the researcher.

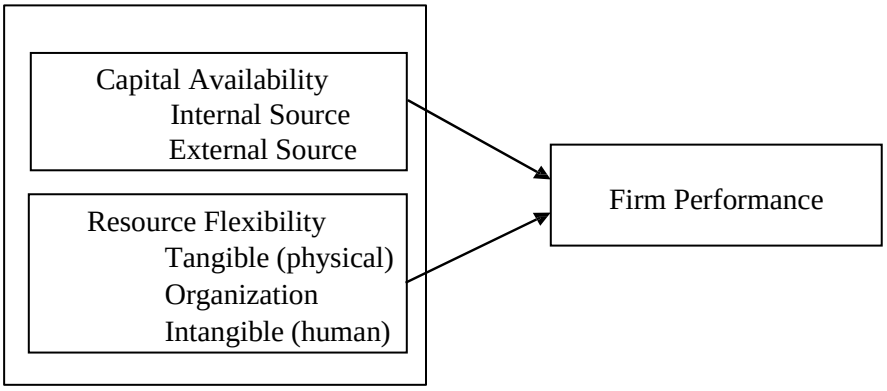


Figure 1: Conceptual framework
Source: Author constructed

Table 1: Operationalization & Variable Association

Variables	Dimensions	Indicates	Source
Capital Availability: Coleman (2007) defines financial capital as the funds that come from the family in business, extended networks, and from commercial banks or other financial institutions or equity infusion from external sources.	Internal Source	1. Owner Capital 2. Selling assets	(Coleman, 2007; Ngek, 2016; Adomako and Danso, 2014; Barney, 1991)
	External Source	1. Family 2. Papers/ Friend 3. Bank lone 4. Leasing	

Resource Flexibility: Flexibility is the ability of the system to react to and accommodate changes (Chauhan and Singh, 2014)	Tangible (physical)	1. Firm's plant and equipment 2. Geographic location 3. Access to raw materials 4. Machin e Capacity.	(Sanchez and Heene, 1997; Li *et al.*, 2008; Denso et al., 2014).
	Organization	1. Firm's formal reporting structure. 2. Formal and informal planning, controlling, coordinating systems. 3. Informal relations among groups within a firm and between a firm and those in its environment.	
	Intangible (human)	1. Training, Experience. 2. Judgment, Intelligence, Relationships. 3. Insight of individual managers and workers in a firm.	
Firm Performance: Firm performance is one of the most important constructs in management research. According to (Richard et al., 2009) organizational performance encompasses three	financial performance	1.Profits 2.Return on assets 3.Return on investment, Etc.	(Özer and Tınaztepe, 2014; Richard et al., 2009; Flatten, Greve and Brettel, 2011; Martinez-
	product market performance	1. Sales 2. Market share etc. 3. Customer service	
	shareholder return	1. Economic value added, etc.	

specific area of firm outcome.		2. Working Environment	Conesa et al., 2017)

Source: Author constructed

METHODOLOGY

Primary data were gathered though a structured online questionnaire. Five-point Likert scale method was used to collect information. The questionnaires were distributed among the 350 Small Enterprise Development Division (SEDD) members. Of whom 216 of the respondents (61.71%) presented their responses. The research conducted in five (05) divisional secretaries and 50 Grama Niladari **(**GN) division covering to collect the data. The sample is represented by two hundred and sixteen (216) respondents who are the members of SEDD from the Nuwara Eliya districts in the central province in Sri Lanka. The sample size is decided according to the Morgan table (Krejcie & Morgan, 1970)

RESULTS AND DISCUSSION

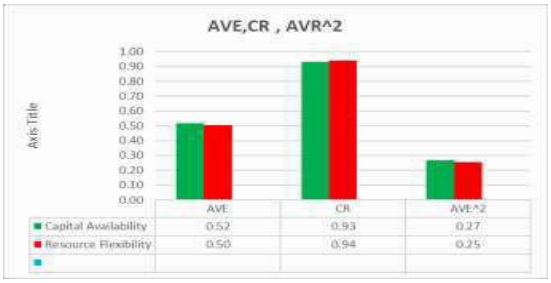
Table 2: Results of the Reliability Analysis-Cronbach's Alpha

No	Variable	Number of Statement	Cronbach's Alfa Of Pilot Survey	Cronbach's Alpha of Final Survey
	N		**30**	**216**
1	Capital availability	14	.814	.910
2	Resource flexibility	17	.913	.965
3	Firm Performance	8	.727	.939

Source: Author constructed

The researcher also noted that a Cronbach alpha of .9 is an excellent goal (Woollins, 1992). It should also be noted that while a high value for Cronbach's alpha indicates good internal consistency of the items in the scale, it does not mean that the scale is unidimensional.

Graph 1: Convergent and Discriminant Validity



Source: Author constructed

Table 3: Results of the Convergent and Discriminant Validity

Validity	Testing	Criteria
Convergent validity	Average Variance Extracted (AVE)	>0.5
	Composite Reliability	>0.7
Discriminant Validity	AVE^2	Should be greater than correlation among independent variable (IVs)

Source: Author constructed
Key Result: In both, testing the validity criteria is achieved.

Table 4: Results of the Model Summary

R	R Sq	Adjusted R Square	Std. Error of the Estimate
.792[a]	.628	.624	.42313

Source: Author constructed

The table provides the R and R^2 values. The R value represents the simple correlation and is 0.792 (the "R" Column), which indicates a high degree of correlation. The R^2 value (the "R Square" column) indicates how much of the total variation in the dependent variable Firm Performance can be explained by the independent variable such as Capital Availability and Resource Flexibility. In this case, 62.8% can be explained as R Square.

Table 5: Results of the ANOVA table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	64.306	2	32.153	179.592	.000[b]
Residual	38.134	2	.179		
Total	102.441	2			
a. Dependent Variable: MFP					
b. Predictor: (Constant), MRF, MCA					

Source: Author constructed

This table indicates that the regression model predicts the dependent variable significantly well. How do we know this? Look at the "Regression" row and go to the "Sig." column. This indicates the statistical significance of the regression model that was run. Here, $p < 0.0005$, which is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable

Table 6: Results of the Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.986	.181			.000

	MCA	.068	.093	.063	.	.467
	MRF	.727	.086	.736		.000

Source: Author constructed

Table 7: Results of the Hypothesis

Model	Significan	Accepted/Reject
MCA	.467	Rejected
MRF	.000	Accepted

Source: Author constructed

Finally, researcher fund. There is a no significance and positive relationship between the Capital availability on Firm performance. Here is a significance and positive relationship between the Capital availability on Firm Performance.

CONCLUSIONS/RECOMMENDATIONS

According to the survey, micro- small enterprises are faced with several challenges when running their business. The top-of-mind perception of the respondents indicates that issues such as sourcing finance, finding space to run the business and low sales of their product or service are the main difficulties faced by this sector. The findings revealed SMEs capital availability had no significant, however, Resource Flexibility had a significant relationship on Firm Performance. The outcome of this study had practical validation as it empirically proved if SMEs' resources are flexible and have alternative uses then it may contribute to SMEs' performances. However, even though sufficient capital is available at some time it may not significantly influence on Firm Performances as it could not be managed wisely. These results could be used by SMEs in Sri Lanka and will add value to the present literature of SMEs in Sri Lanka.

Denso et al., (2014) found that Firm Performance and Resource Flexibility have positive relationship by using theory of RBV. The SMEs owners can control the Resource within the organizational environment which mean: 1) Tangible (physical): Firm's plant and equipment, Access to raw materials, Machine Capacity 2) Intangible (human): Training, Experience, Judgment, Intelligence, Relationships, Insight of individual managers and workers in a firm. 3) Organizational: Firm's formal reporting structure, formal and informal planning, controlling, coordinating systems, informal relations among groups within a firm and between a firm and those in its environment can be controlled by the owner in an effective manner and its lead to Firm Performance.

Based on the finding as revealed by the study, we believe that when the recommendations given below are well implemented, it will help the SME sector in higher Firm Performance. Access to Capital: Most SMEs are finding it difficult in maintaining a good cash flow position to meet their operational needs as well as their financial obligation in respect to servicing their loans as expected. Access to appropriate technology: recommends an establishment a Technology Development Fund and the establishment of technical service centers at district level providing R&D services. Access to information and markets: creation of a SME website, to provide opportunities to participate in trade promotion exhibitions, to provide access to foreign markets through e-commerce facilities, identification of export-oriented products and initiate a business report on SMEs on an annual basis. Business Development Services promote the business incubator programme with joint participation of public private, NGO and donor community. Infrastructure: Industrial parks for SMEs to be set up in rural areas, and to improve the existing infrastructure facilities in existing industrial parks. These results could be used by SMEs in Sri Lanka and it is hoped it will add value to the present literature of SMEs in Sri Lanka.

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