

The Moderating Impact of Owner's Characteristics on Risk Management and Business Performance of SMEs in Sri Lanka

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Abstract

Small and Medium Scale Enterprises (SMEs) are known as an important strategic sector and give their contribution towards economic development. Risk management has become a challenging task for SMEs, especially due to the current economic crisis. Therefore, owners of SMEs face challenges in managing risk as well as keeping business performance. Thus, a systematic literature survey was carried out in the financial management and risk management field. The study identified existing empirical, theoretical, methodological and practical research gaps. Thus, the study investigated the moderating impact of owner's characteristics on the relationship between risk management and business performance. The study was a basic, explanatory type quantitative study followed by the deductive method. Study used questionnaire survey method. The population was the number of SMEs in North Central Province. The sample was 200 SMEs based on the convenience sampling. The independent variable was risk management while the dependent variable was business performance. The moderator variable was the owner's characteristics of SMEs. A hierarchical regression used to test hypotheses. Study conducted prerequisite tests, Reliability, Validity, Correlation Analysis, Variance Inflation Factor, Shapiro-Wilk Test and Normal Probability Plots. The study generated two regression models, Model one confirmed risk management significantly impacted on business performance of SMEs. Model two confirmed both risk management and owner's characteristics of SMEs significantly impact on business performance even though owner's characteristics were insignificant previously. Further, Model two confirmed owner's characteristics significantly moderate the relationship between risk management and business performance. The study recommends that owners of SMEs and policy makers should initiate necessary action to improve the level of risk management and financial literacy.

Keywords: business performance, owner's characteristics, risk management, SMEs