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**The Influence of Social Relations on Entrepreneurial Orientation of Rural Entrepreneurs: With Special Reference to Small and Medium Scale Manufacturing Enterprises in Kurunegala District, Sri Lanka**

A.W.G.N.M. Abeyrathna

Department of Geography, University of Sri Jayewardenepura, Sri Lanka  
nadeesha@sjp.ac.lk

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**Abstract**

Entrepreneurship is a driving force behind worldwide economic growth in a variety of areas. This trend is exemplified by a growing population of rural entrepreneurs involved in small and medium-scale manufacturing firms, which is causing substantial transformations in labor force dynamics. In this context, this research assesses the impact of social relations on the entrepreneurial orientation of rural entrepreneurs in Kurunegala district, Sri Lanka. This comprehensive analysis takes a holistic approach, combining inductive and deductive research approaches and utilizing a dual quantitative and qualitative data collection strategy. The research findings highlight the pivotal role of "social relations" as a spatial factor, demonstrating a moderate positive correlation with entrepreneurial orientation, accounting for 30.4% of the variation in the dependent variable. Furthermore, the study emphasizes the importance of humanizing neighborly ties, emphasizing mental well-being, increasing life happiness, participating in social work, and cultivating a culture of sharing and caring. Qualitative research reveals the intangible, hidden aspects of the entrepreneurial scene. As a result, this study advises for the region's entrepreneurial orientation to be reinforced by creating strong social links and implementing future-oriented industrial planning. More research is needed to uncover the unknown features of the link between independent and dependent variables. Such investigation promises to reveal more about the dynamics of entrepreneurial orientation in the Kurunegala district. Finally, this research endeavor has the potential to stimulate the growth of small and medium-scale manufacturing firms in rural areas, thus considerably contributing to the region's overall economic development.

**Keywords:** Social Relations, Entrepreneurial Orientation, Rural Entrepreneurs, Small and Medium Scale Manufacturing Enterprises

**1. Introduction**

Entrepreneurs play an important role in the economic development of both developed and developing countries in a variety of industries. Entrepreneurs are distinct individuals who run their own businesses, take risks, reap the benefits of their accomplishments, and suffer losses in the event of failure (Henderson, 2002). Rural entrepreneurs are particularly important among these entrepreneurs because they develop new organizations, introduce new products, create new markets, and introduce new technology to rural areas (Wortman, 1990). There has recently been

a considerable growth in the number of rural entrepreneurs involved in small and medium-scale manufacturing companies, resulting in major alterations in a country's labor force contribution (Ruchkina et al., 2017).

Small and Medium Scale Enterprises (SMEs) have developed as an important business arena in Sri Lanka, not only offering employment opportunities but also efficiently dispersing resources by utilizing local human and material resources. Manufacturing entrepreneurs have a high preference for cooperation with SMEs, making them a substantial source of income in both developing and developed countries (Islam et al., 2011). According to Gamage (2003), SMEs are the backbone of all countries.

According to Miller (1983), the success of manufacturing SMEs is dependent on a single important aspect, Entrepreneurial Orientation (EO), which includes risk-taking, innovation, and proactive behaviors (Lumpkin & Dess, 1996). Entrepreneurial Orientation is acknowledged as a fundamental contributor to corporate success (Miller, 1983) and has three dimensions: innovativeness, reactivity, and risk-taking (Frank, Kessler, & Fink, 2010, as quoted in Guth & Ginsberg, 1990).

Although a variety of factors influence entrepreneurial orientation, spatial factors, particularly social relations, play a considerable role. Spatial analysis, anchored in Geography's spatial tradition, is crucial for understanding the geographical features that influence entrepreneurial orientation (Pattison, 1990). Social relationships, such as a sense of place, proximity to home with family relations, and access to social networks, have a considerable impact on entrepreneurial orientation and have far-reaching implications for a country's economic progress.

In Sri Lanka, the Kurunegala district stands out as a hotspot for rural manufacturing enterprises. Recent data, however, reveal a decrease in the number of firms, which is mostly due to a lack of progress in entrepreneurial orientation (Small Enterprises Development Division Kurunegala, 2018). As a result, the primary goal of the study is to assess the impact of social relations on the entrepreneurial orientation of rural entrepreneurs in small and medium-sized manufacturing businesses, as well as to emphasize the importance of social relations in future industrial planning. Geographers study social relations, a critical geographical aspect in Geography, using ideas from sociology. The quality of social connections is investigated using two basic approaches: structural and functional, which assess social integration and perceived relationship quality, respectively (Gottlieb, 1983).

According to Durkheim's (1973) research, social interactions play an important role in protecting individuals, and connection with others is essential for pleasure (Haller & Hadler, 2006). Contentment is greatly influenced by close and healthy relationships with family, friends, and colleagues. As Xiong et al. (2021) point out, social capital has a direct impact on the sustainable livelihoods of rural households, particularly those attempting to overcome poverty. Social network, social participation, and social trust are all measures of household social capital (Xiong et al., 2021).

Previous study in Sri Lanka has focused on various economic concepts and government policies that influence entrepreneurial orientation, with a little attention on geographical elements such as "social relations." This research gap is the fundamental motivation for this study which was carried out in one of Sri Lanka's leading districts with a high concentration of rural

entrepreneurs. The research findings are projected to make a significant contribution to the improvement of rural entrepreneur-engaged SMEs and provide useful insights for future industrial planning and GDP growth in Sri Lanka.

## **2. Literature Review**

Social contacts, according to Durkheim's (1973) research, play a crucial role in protecting individuals, and connection with others is essential for pleasure (Haller & Hadler, 2006). Close and healthy relationships with family, friends, and colleagues have a significant impact on contentment. As Xiong et al. (2021) note out, social capital has a direct impact on rural households' sustainable livelihoods, particularly those seeking to escape poverty. Household social capital is measured by social network, social participation, and social trust (Xiong et al., 2021).

Human capital, unlike in the past, now plays a vital part in the improved performance of business enterprises. Expansion of human capital in terms of intelligence, health, attractiveness, and personality is crucial, as is acquiring knowledge, training, and work experience (Tanveer et al., 2013). Many academics believe that high levels of human capital ensure organizational survival and development. Entrepreneurs with strong links, social networks, proper contacts, connections with others, and relationships with others gain more knowledge and access to resources, which ultimately leads to the success of entrepreneurial orientation. Tanveer et al., 2020 found a favorable association between organizational success and social capital in a German study including 1700 enterprises.

According to Cooke and Wills (1999), based on research of remote forms in Denmark, Wales, and Ireland, social capital creation entails improved business, knowledge, and inventive performance. Entrepreneurs with strong social networks, proper contacts, connections with others, and relationships with others benefit from more knowledge and better access to resources, which ultimately leads to commercial success.

According to Hodgson (1998), social interaction fosters firm knowledge and the formation of collective knowledge. Similarly, collaborative learning supports the expansion of social ties in varied networks, hence improving the conditions for innovation. "Trust" is the fundamental component that forms networks and behaviors (Murphy, 2014), and it is a highly significant component in anchoring social ties as well as facilitating subsequent transactions (Granovetter, 1985). Trust, which is always a critical component of network relations as well as an incentive for sociability (Abeyrathna & Wijesinghe, 2020), has a significant impact on risky investments and corporate decision making. Although the relationship between social relationships and two dimensions of entrepreneurial orientation, namely innovativeness and risk-taking, has been thoroughly discussed in these works, other important dimensions such as Level of autonomy and competitive aggressiveness have received insufficient attention. The most apparent forms of social capital include information sharing networks, mutual exchange, and collective action (Flora & Flora, 1993).

Storper (1995) believes that collective capacities and business network norms are markers of social capital, but Woolcock (1998) believes that social capital is a norm and network-enabling collaborative behavior among entrepreneurs. However, the author has not stated how these

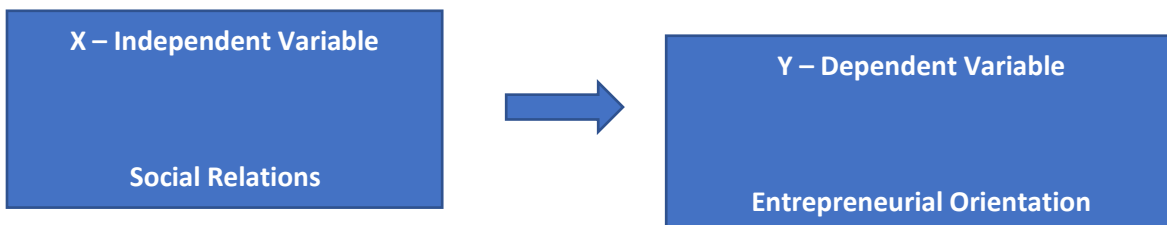
features maintain collaborative actions under market competition, which is one of the most successful dimensions of autonomy. The study by Li, Li, and Liu (2011) on steel measuring tape manufacturing clusters in Nanzhuang village, China, emphasizes that networks developed in traditional manufacturing clusters are much more involved in emotive linkages than those developed in high-tech clusters in developed regions; a significant factor emphasized under social relations and entrepreneurial orientation.

Nonetheless, the significance of emotional links to trustworthiness in autonomy has not been emphasized. The evolution of social network interaction can be divided into four stages, which are dominated by family networks, local invention networks, global supply networks, and internal division production networks. Nordqvist et al. (2008) state that social relationships can promote external autonomy by empowering suppliers, consumers, and other important entities for greater entrepreneurial orientation. However, the internal autonomy provided by social relationships has not been addressed.

**3. Methodology**

This study used both inductive and deductive research methods, with pragmatism serving as the overarching research philosophy. In our study, the independent variable was social relations, which we measured using a variety of variables such as neighbor relations, mental well-being, life satisfaction, association with social work, and sharing and caring. We measured Entrepreneurial Orientation using multiple factors, including Level of Autonomy, Level of Innovativeness, Level of Risk Taking, and Competitive Aggressiveness. The conceptual framework of the study is illustrated below.

**Figure 1: Conceptual Framework**



**Source: Author Developed (2020)**

Following are the tested hypotheses of the research.

H0: There is no significant relationship between Social Relations and Entrepreneurial Orientation of Rural Entrepreneurs in Manufacturing sector SMEs in Kurunegala district.

H1: There is a significant relationship between Social Relations and Entrepreneurial Orientation of Rural Entrepreneurs in Manufacturing sector SMEs in Kurunegala district.

The population in this study encompassed all small and medium-sized enterprises (SMEs) within the rural manufacturing sector of Kurunegala district. According to the Department of Census and Statistics (2018), this area is home to a total of 6,794 rural manufacturing sector SMEs. The sample for the study was comprised of 300 SMEs, selected using the Stratified Random

Sampling method. This approach was chosen due to the population being divided into eight distinct manufacturing strata based on the International Standard of Industrial Classification. To gather qualitative data, the researcher employed quota, convenient, and purposive sampling techniques.

Data collection methods included both primary and secondary sources. Primary data was obtained through questionnaires, in-depth interviews, focus group discussions, and case studies. Questionnaires, structured around predefined concepts, were distributed to respondents after conducting visits to the study area. The other primary data collection methods aimed to uncover concealed insights related to the research problem, making them particularly valuable in the context of deductive (Theory Building) research. As for secondary data, the researcher drew upon books, journal articles, statistical reports, and websites. These sources played a pivotal role in gaining a deeper understanding of the existing literature pertaining to the research topic.

In terms of quantitative data analysis, the researcher's approach involved descriptive statistical analysis, including factor analysis, reliability testing, validity testing, normality testing, and frequency analysis. Inferential analysis comprised simple regression analysis, and correlation analysis. The primary objective of the regression analysis was to evaluate the influence of independent variables on the dependent variable and determine the strength of this influence. The study employed simple regression, which investigates the association between one independent variable and a dependent variable. This was conducted to assess the impact of the independent variable on the dependent variable and its magnitude. The model's explanatory power determined whether it could effectively predict the linear relationship between the social relations and entrepreneurial orientation. Additionally, Pearson correlation analysis was used to gauge the strength, direction, and significance of bivariate relationships between social relations and entrepreneurial orientation.

Regarding qualitative data analysis, the researcher employed content analysis and triangulation. Content analysis involved a systematic technique for condensing extensive text into concise content through a coding method. Triangulation was employed to collect and analyze qualitative data, as it involves utilizing multiple approaches to investigate and enhance confidence in the findings. Different data collection methods have their respective advantages and drawbacks and employing a range of methods helped mitigate weaknesses associated with individual approaches, ultimately increasing data validation through cross-verification.

#### **4. Results**

In terms of the business landscape, the most favored types of rural manufacturing SMEs in Kurunegala district are those falling under the categories of "Other manufacturing industries" (42.3%) and "Food, beverage, and tobacco manufacturing" (17.0%). Conversely, the least represented manufacturing sector was "Chemicals and Chemical, Petroleum, Coal, Rubber and Plastic Products" (0.7%). The majority of SMEs (61.0%) have employee counts ranging from 5 to 10, whereas a mere 1.3% of SMEs fall within the range of "More than 50, Less than 199" employees in the manufacturing sector of Kurunegala district.

In order to ensure the reliability of measures, Cronbach's coefficient alpha was calculated. All Cronbach's Alpha values ranging from 0 to 1 show the consistency or stability of the collected

data for the study. The Cronbach’s Alpha values of the questions under two variables show significant relationships. The Alpha values for Social Relations was 0.813. The factor Entrepreneurial Orientation was determined by the dimensions “Level of Autonomy”, “Level of Innovativeness”, “Level of Risk Taking”, and “Competitive Aggressiveness”. There were three measures of indicators for each dimension and for the questions under these items, the Cronbach’s alpha was 0.728, 0.824, 0.782, 0.806, respectively. It suggests very strong reliability. The correlation coefficient between Social Relations and Entrepreneurial Orientation is 0.551 with p-value of  $0.000 < 0.01$  (Table 1). Thus, null hypothesis ( $H_0$ ) is rejected. There is a moderate positive correlation between Social Relations and Entrepreneurial Orientation. Accordingly, good social relations lead to better entrepreneurial orientation.

Table 1: Correlation between Social Relations and Entrepreneurial Orientation

		<b>SRTOTAL</b>	<b>EOTOTAL</b>
<b>SRTOTAL</b>	Pearson Correlation	1	.551**
	Sig. (2-tailed)		.000
	N	300	300
<b>EOTOTAL</b>	Pearson Correlation	.551**	1
	Sig. (2-tailed)	.000	
	N	300	300

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Data (2020)

Regression analysis was run to quantify the relationship between independent variable and dependent variable. Also, it was important to test the intensity of the independent variable. According to the below table (Table 2), the  $R^2$  or the Coefficient of Determination is the proportion of variance in the problematic variable that can be explained by independent variable. Therefore, it can be decided that social relations explain **30.4%** of the variability of dependent variable. In accordance with the coefficient results, Standardized Coefficients Beta value for social relations is 0.551. The regression coefficient of the independent variables is 0.999. With regards to the respective statistical significance levels, the value is less than 0.01 and therefore it can be concluded that the variable is statistically significant.

Table 2: Regression Analysis

<b>Variables</b>	<b>R</b>	<b>R Square</b>	<b>F change</b>	<b>B value</b>	<b>Beta value</b>	<b>t value</b>	<b>Sig.value</b>
SR	0.551	0.304	130.041	0.999	0.551	11.404	0.000

Source: Survey Data (2020)

Some statistical findings were proved further by the qualitative data analysis and found more invisible realities related to the association between independent and the dependent variables. Accordingly, in-depth interviews and focus group discussions were conducted to achieve



objectives of the research. Similarly, case studies were used to find the intensity of the variable, "Social Relations".

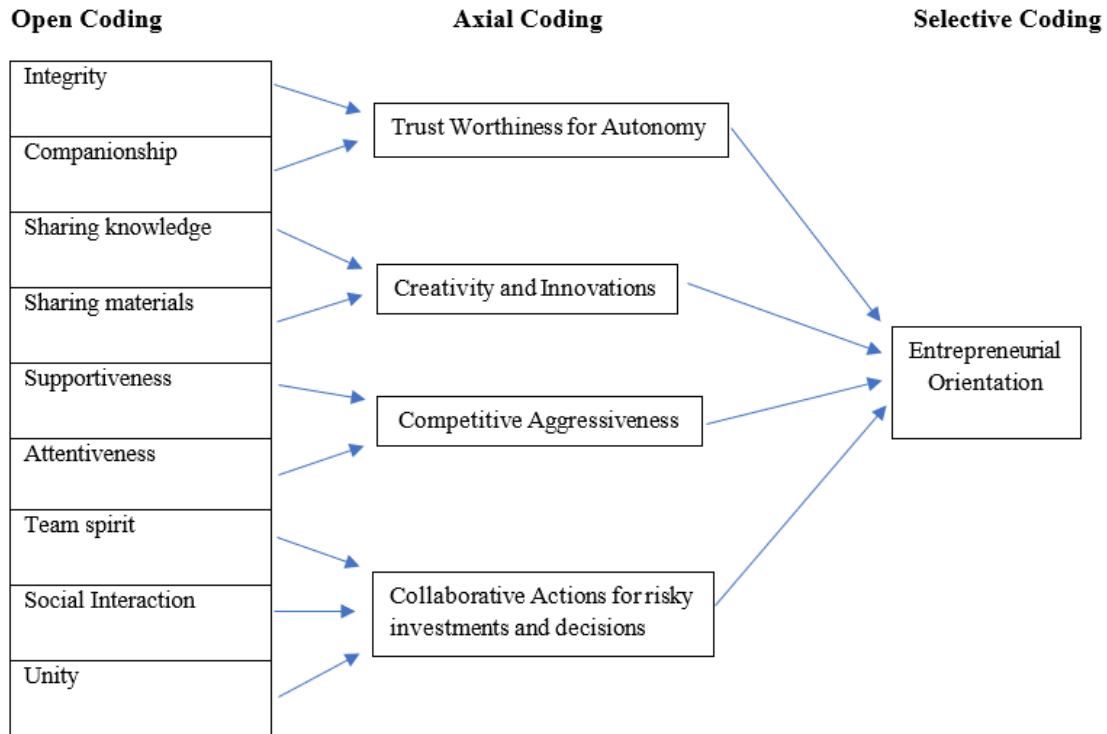
Based on the insights derived from in-depth interviews, it becomes evident that Social Relations wield a substantial influence on Entrepreneurial Orientation. These interviews have unveiled tangible real-world factors that shed light on the interplay between these two variables. In particular, the interviews have underscored the strong connection between social integration and emotional support with Autonomy. It appears that the metrics relating to indicators like "Autonomy in problem-solving and decision-making" are significantly contingent on the trustworthiness of the rural populace in this region. According to the entrepreneurs interviewed, they entrust decision-making and problem-solving authority to all their nearby employees, who are essentially their neighbours. However, older entrepreneurs display hesitancy in delegating such powers, expressing concerns about the potential risks associated with the involvement of youth in ambiguous business situations due to their relative lack of experience.

In the case of the relationship between Social Relations and Level of Innovativeness, a moderate correlation is evident. The indicators for Level of Innovativeness encompass aspects like Creativity and Experimentation. It is apparent that Creativity and Experimentation are, to a considerable extent, influenced by social integration and emotional support. As per the entrepreneurs in question, having robust social relations makes experimentation more accessible. Younger entrepreneurs, in particular, can draw upon the knowledge and experiences of their older counterparts, thereby integrating traditional wisdom into the creation of new products. Moreover, social relations facilitate the sharing of raw materials not readily available within one's immediate vicinity.

Eight participants from each manufacturing cluster have consistently emphasized that social relations constitute a pivotal element in cultivating a strong entrepreneurial orientation. They stress the significance of factors such as trust-building, social interaction, commitment, resource-sharing, emotional support, and social connections in maintaining a healthy entrepreneurial orientation. These elements can be regarded as trust-building factors when it comes to delegating authority for problem-solving and decision-making. Furthermore, they have emphasized the value of knowledge exchange and resource sharing among diverse members of society as a means to enhance creativity and experimentation, thereby elevating levels of innovativeness. The entrepreneurs unanimously underline the vital role that social linkages play in risk-taking, investments, and trustworthiness, as they function as a tightly knit social support network within the rural community. In the realm of competitive aggressiveness, social relations serve as crucial conduits for the exchange of materials, technology, and commodities. Consequently, entrepreneurs are better equipped to navigate competition through strategic promotional initiatives.

Exploratory case studies have proven instrumental in uncovering real-life factors relating to the nexus between Social Relations and Entrepreneurial Orientation. These case narratives were subjected to a rigorous analysis employing coding techniques, ultimately culminating in the development of the researchers' own theory, underscored by inductive reasoning.

Figure 2: Theory Building through Coding Method



Source: Author Developed (2020)

## 5. Discussion

Hodgson (1998) underscores the pivotal role of social interaction in fostering the accumulation of collective knowledge within firms. Likewise, collective learning serves as a catalyst for expanding social relations across diverse networks, thus providing a fertile ground for innovation. At the heart of shaping these networks and behaviors lies the cornerstone of "trust" (Murphy, 2014), an inexpensive yet profoundly significant element in anchoring social relations and facilitating future transactions (Granovetter, 1985).

In this present study, the distribution of social networks among manufacturing SMEs in the Kurunegala district has been delineated across two distinct phases, shedding light on various forms of interrelationships during the pre-start-up and start-up phases. This discovery stands in contrast to Chu's (1996) study on Chinese entrepreneurship and social networks. The Matured stage represents an advanced phase, where members from both the pre-start-up and start-up phases interact with individuals in this group. This interaction enhances the status of the firms, leading to public recognition. In this stage, business-related connections become pivotal to the



success of the firms, a dynamic rarely experienced in the context of social networking and entrepreneurial orientation among rural manufacturing SMEs in the Kurunegala district. This finding also differs from Birley's research in 1985, which noted that in Indian entrepreneurship, the "family and friends" network acted as a barrier to the formal network.

Trust, an ever-critical component of network relations and a catalyst for sociability (Murphy, 2014), exerts a significant influence on risky investments and enterprise decision-making. Social capital finds its most tangible expression in information-sharing networks, mutual exchanges, and collective actions (Flora & Flora, 1993). Storper (1995) highlights that the collective capacities and conventions within business networks serve as indicators of social capital, while Woolcock (1998) underscores that social capital represents a norm that enables network-enabled collaborative action among entrepreneurs.

Research conducted by Li, Li, & Liu (2011) on manufacturing clusters of steel measuring tape in Nanzhuang village, China underscores the profound emotional linkages prevalent in networks within traditional manufacturing clusters, as compared to high-tech clusters in developed regions. This emotional component plays a significant role within the realm of social relations and entrepreneurial orientation. The evolution of the interaction within social networks can be discerned through four stages: those dominated by family networks, local innovation networks, global supply networks, and internal division production networks.

As per Porter (1985), competitive aggressiveness can be approached in three ways: doing things differently, changing the context, and outspending the industry leader. This serves as an essential element of Entrepreneurial Orientation, aiding firms in gaining a competitive advantage. According to entrepreneurs in the selected area, vigilance regarding competitors and aggressive promotional campaigns hinges largely on the acumen of the entrepreneur and their workforce. Yet, social relations are also considered a potent factor in keeping a close eye on competitors and executing successful promotional campaigns. Social relations facilitate the sharing of information about competitors, necessary resources for high-quality products, and new knowledge for entering competitive markets. Notably, the researcher has observed that older entrepreneurs derive more substantial benefits from social relations in their competition with rivals, in comparison to their younger counterparts.

## **6. Recommendations**

In conclusion, this study offers valuable recommendations to enhance entrepreneurial orientation through the strategic integration of Social Relations, with a keen eye on future industrial planning in the selected area.

The connection between social relations and Entrepreneurial Orientation appears to be of moderate significance among rural entrepreneurs in Kurunegala district. Consequently, when aiming to bolster the level of autonomy in decision-making and problem-solving, entrepreneurs should prioritize the development of social relations. Given that most workers are close neighbors, the delegation of authority for business-related decisions and problem-solving hinges on trustworthiness and strong social ties, fostering a sense of belonging within a committed working environment. Moreover, establishing robust connections with diverse social networks is

crucial for the timely sharing of technical know-how and raw materials, facilitating innovative endeavors. In this context, the willingness to take risks in decision-making and investments relies on trustworthy social interactions within the community. In terms of competitive aggressiveness, robust social connections and relationships ease the execution of promotional campaigns and vigilant monitoring of competitors. Social skills, often referred to as soft skills or interpersonal skills, play a pivotal role in nurturing both personal and professional relationships, fostering the growth of connections with neighbors, friends, clients, customers, suppliers, and new contacts.

To maintain and strengthen social relations in the area and, consequently, achieve a strong entrepreneurial orientation, entrepreneurs can consider implementing the following methods.

- **Effective Communication:** Cultivate the ability to communicate effectively, enabling the clear and concise sharing of ideas with workers. Strong communication skills empower entrepreneurs to articulate manufacturing goals and strategies effectively.
- **Improve Information and Communication Technology (ICT):** Enhance ICT capabilities through collaboration with service providers and facilitators. Establishing systematic linkages between external and internal data is essential for technological improvement, ensuring access to updated data relevant to all business activities.
- **Conflict Resolution:** In the manufacturing sector, disagreements may arise. Entrepreneurs should possess the skills to identify the root causes of problems and develop workable solutions.
- **Active Listening:** Develop the ability to actively listen to communicating workers by eliminating distractions and preparing thoughtful responses.
- **Relationship Management:** Effectively maintain and build relationships and connections, particularly between the firm and other stakeholders in manufacturing firms.
- **Respect:** Foster a culture of respectful communication where all workers are encouraged to share their ideas in problematic situations within the manufacturing process. Embrace new ideas originating from workers.

By incorporating these methods, rural entrepreneurs in manufacturing SMEs can realize several benefits, including:

- Enhanced mutual support in challenging situations.
- Expansion of entrepreneurs' networks for learning and discovering new opportunities.
- Collaboration toward achieving shared goals.
- Access to techniques, information, knowledge, and perspectives from individuals with various areas of expertise.
- The creation of an interactive, committed, and free-working environment.

Additionally, the selected area can enhance industrial linkages through subcontracting and specialization, offering cost-benefit advantages that extend beyond similar economic activities within the region. This approach can be particularly advantageous for industries related to coconut products, wood products, paper products, textiles, apparel, food and beverages, non-

metallic products, and chemicals. Such interconnectivity aligns with spatial industrial planning. For instance, various products, such as food and beverages, handicrafts, Koppara products, hair products, and powders, can be manufactured using coconut shells, husks, leaves, heartwood, and the core. One coconut-related manufacturing firm can utilize the finished products of another as inputs, fostering backward industrial linkage. Conversely, if the output of one firm serves as the input for another's production process, it leads to forward industrial or economic linkage in the area.

It is important to note that there may be other unexplored factors, such as economic, political, socio-cultural, and environmental considerations, that also influence entrepreneurial orientation in Kurunegala district. Future research endeavors could delve into these dimensions to gain a more comprehensive understanding of the entrepreneurial landscape.

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