



## **Internationalization Issues and Export Performance of Manufacturing SMEs in North Western Province, Sri Lanka**

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### **Authors' contributions**

*This work was carried out in collaboration between both authors. Author WKMHVf designed the study, performed the statistical analysis, wrote the protocol, and wrote the first draft of the manuscript. Author SMAKS designed the study and managed the analyses of the study. Both authors read and approved the final manuscript.*

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### **ABSTRACT**

Small and Medium sized Enterprises (SMEs) plays a major role in the Gross Domestic Product (GDP), providing job opportunities, reducing poverty etc. Even though they have contributing in large to the economy still they are facing number of challenges when internationalizing their businesses. Since this study focused on the factors influence on SMEs internationalizing their businesses. Based on review literature and discussion of expert in the field, four critical factors were identified namely competition, technology, legal requirements and support from the government. Researches received fifty-five questionnaires from the manufacturing Small and Medium sized Enterprise (SME) owners in North Western Province. Fifty completed questionnaires used to measure the effect of four issues on export performance in Sri Lanka. Descriptive statistics, correlation analysis and regression analysis used to analysis data using SPSS.

The study reveals that out of four critical factors competition, support from the government showed a positive relationship with performance of internationalized Small and Medium sized Enterprises (SMEs) while technology showed a negative relationship and legal requirements showed no relationship. Among these four critical factors most significant factor was competition. Second most

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significant factor was support from government and technology; legal requirements were at last. This study will give a big support for Small and Medium sized Enterprise (SME) owners, policy makers, researchers and etc. Policy makers and government should encourage internationalization of SMEs to achieve higher performance and give big contribution to the country. Further research needs to conduct on SME internationalization and their issues with massive sample covering both manufacturing and service industries.

*Keywords: Internationalization; small and medium size enterprises (SMEs); manufacturing sector; export performance.*

## 1. BACKGROUND OF THE STUDY

Many countries specially developing countries have recognized the value of small and medium enterprises (SMEs). Past policymakers and government believe that only large firms could give great contribution to the Gross Domestic Product (GDP) of a country. At present, this idea is entirely rejected and they recognized Small and Medium sized Enterprises (SMEs) as the backbone of any economy in the world [1]. Therefore, SMEs plays a vital role in any economy and it is irrespective from their level of development. Not only in developing countries, developed countries like USA defined Small and Medium sized Enterprises (SMEs) as their heart of the economy. Small and Medium sized Enterprises (SMEs) contribution to the economy is not limited to the Gross Domestic Product (GDP) contribution. Providing employment opportunities, uplifting entrepreneurship and innovativeness, minimizing poverty are some of the major contribution to the economy. When it comes to the world economy, the Small and Medium sized Enterprises (SMEs) take a very huge part in that context. Percentage of 60 to 70 of the employment in the world is in SMEs (OECD). In developed economies, SMEs specialize in niche markets and generating huge revenues whereas developing economies, SMEs tends to compete with large firms in the same market. In developing countries, 60% of total employment is provided by formal SME sector [2]. Moreover, developing countries have informal SME sector, which is not included in statistics [3]. Once these two sectors combine in statistics, SME accounts for 80% of total employment across all countries [3]. All the statistics prove the importance of the SME sector to the economic development of a nation. Small and Medium sized Enterprises (SMEs) can have categorized from different aspects such as size of the firm, no of employees of the firm or the annual turnover of the firm. Another way to categorize these Small and Medium sized Enterprises (SMEs) are according to the nature of the businesses. Manufacturing SMEs, Service-providing SMEs,

Trading SMEs without value addition are some types of SMEs found in every economy. In the National Export Strategy of Sri Lanka 2018 – 2022 states that their vision is “Sri Lanka – an export hub driven by innovation and investment” [4].

Although, still there is no commonly accepted definition for the Small and Medium sized Enterprises (SMEs). Existing definitions of SME differs from region to region, country to country, from time to time and so on. Moreover, different countries define Small and Medium sized Enterprises (SMEs) by using different parameters. According to the European Union, Small scale businesses consists of fewer than 50 employees and the annual turnover is less than EUR 7 million and for medium scale businesses consisting 50-250 employees and annual turnover less than EUR 40 million are considered as Small and Medium sized Enterprises (SMEs). In Japan SMEs definition is broad and they define under three categories including manufacturing SMEs, Wholesaling SMEs, retailing and service SMEs. In India, they are defining the Small and Medium sized Enterprises (SMEs) by using several criteria's such as limits on investment in plant and machinery, excluding investment in land and building anti-pollution measures and testing equipment. When it comes to Sri Lanka, different institutions define Small and Medium sized Enterprises (SMEs) according to various parameters. According to Industrial Development Board (IDB) Capital investment of less than Rs.4 million is define as a SME. Department of Small Industries define SME as capital investment of less than Rs.5 million and employ less than 50 employees. One of the important institution Export Development Board (EDB) define SMEs as follows; Capital investment of less than Rs.20 million in plant, machinery and equipment excluding land and buildings and an annual export turnover not exceeding Rs.40 million and annual turnover not exceeding Rs.100 million. Finally, Central Bank of Sri Lanka (CBSL) states that Annual turnover less than 600 million and

borrowing below 200 million can be identify as a SME.

Developing this SME sector is the best solution to unemployment and poverty, which are the crucial problems in a developing country [5]. From a social development perspective, Small and Medium sized Enterprises (SMEs) gives their fuller support to the economy by providing employment and reduction of poverty [6]. Further, social contribution from Small and Medium sized Enterprises (SMEs) are the improving women employment and offering jobs to old age population who are looking for work [7].

Some Small and Medium sized Enterprises (SMEs) are becoming giants in the country's economy by winning the international market. On the other hand, some SMEs are facing number of issues due to modification of business environment. With the globalization, internationalization becomes a very important factor for survival and growth of a business. Because of SMEs operates in a saturated market majority of SMEs select export as a tool to win the international market. The creation of open markets, increasing foreign investments, technology development has created great opportunities for SMEs to internationalize their businesses and extend their boundaries to the world market. The reason for selecting export as a tool to internationalize is less foreign investment and the risk associated with exporting is less compared to another mode of internationalization.

According to current statistics, Small and Medium sized Enterprises (SMEs) in Sri Lanka are still not harnessing its full potential in the export sector while comparing with other countries. Looking at the contribution of SMEs in Sri Lanka for exports with respect to other countries, we can clearly understand there is still an insufficient level of commitment to adopt internationalization. In Sri Lanka, there are about 4700 exporters and 80% of them are under SME category [8]. Apart from this, still there is no proper survey conducted to find how many Small and Medium sized Enterprises (SMEs) are actually existing in Sri Lanka. Therefore, it is clear that if we take into account formal SMEs and informal SMEs there will be large number of SMEs in Sri Lanka. However, a survey revealed that the survival rate of the Small and Medium sized Enterprises (SMEs) in Sri Lanka after 5 years from the date of commence is low as 4.9% [9]. It can be note that due to some reasons

small proportion of businesses was able to survive in the market. When we take into account the global Small and Medium sized Enterprises (SMEs) behavior, it also shows high failure rates but this matter is more severe in Sri Lanka because of sustainability of SME is comparatively less.

Last few decades the business environment, technology, customer behavior and so on changed very rapidly. Moreover, many of foreign products came to the local market and created huge competition within the country. Therefore, internationalization becomes the survival tool for the SMEs. However, Small and Medium sized Enterprises (SMEs) which are willing to internationalize their businesses should have good international entrepreneurship skills, international market experience etc. [10]. Furthermore, internationalization benefits SMEs in many ways. Disperse business risk across different markets, generates more revenues to invest in new technology and production, improving productivity and operational efficiency, improving creativity and innovation skills are some of the benefits through internationalization. It has a broad variety of activities such as direct exporting, direct importing, investment abroad, being subcontractors to foreign enterprise, having foreign subcontractors, and cooperation with foreign enterprises under joint ventures, non-equity alliances, licensing, and franchising. Many large-scale firms with sufficient capital, infrastructure facilities and modern technology are successful in international market. However, most of Sri Lankan SMEs limited to the domestic market and some of SMEs failed in the long run because of Sri Lanka having a saturated market when comparing to other countries. Some of Sri Lankan manufacturing Small and Medium sized Enterprises (SMEs) who have dreams of exporting their products. It is a great challenge to some SMEs in Sri Lanka. Moreover, as a one nation all the entrepreneurs should enter to a new race where local Small and Medium sized Enterprises (SMEs) winning the international market and strengthening our economy by generating revenues and increasing employment opportunities. Sri Lankan researchers also have compassion issues in the SME sector and importance of giving quick solutions for existing issues. Sri Lanka policy makers also realized the importance of Small and Medium sized Enterprises (SMEs) and they are facilitating new policies and strategies to bring them to the international market.

Many scholars have identified the barriers in internationalization and they categorized those barriers as firm specific, industry specific and country specific. From geographical view, many of the studies related to this topic has been carried out mainly in America and Europe. Because of not having an exact one definition for SMEs, the findings from a Europe study may not be applicable to Asian country. When it comes to Sri Lanka, different scholars have carried out few studies related to this topic and it is hard to find a study, which specifically identified the issues faced by manufacturing SMEs and their impact on export performance of internationalized manufacturing SMEs in Sri Lanka.

Many scholars have studied the issues faced by Small and Medium sized Enterprises (SMEs) when internationalizing. From the reviewed literature, it is clear that SME internationalization is a crucial topic to address with the time being. Findings from such empirical studies largely contributed to the development of SME sector. At the same time, the results shown by those empirical studies are contradictory results. Therefore, more and more studies and findings are important to create a solid knowledge base. When it comes to the Sri Lankan context, literature relating to such studies are limited. Few scholars have studied about this topic and among them most of them have studied the ways of internationalizing Small and Medium sized Enterprises (SMEs) and the internationalization of businesses. However, in developing countries many SMEs do not engage in exporting or any other internationalization forms. When it comes to Sri Lanka it is even less than the other developing countries.

### **1.1 Problem Statement**

In most of the countries, Small and Medium sized Enterprises (SMEs) contribution to the total exports lies between 30 percent to 50 percent. However, in Sri Lanka that contribution of SMEs is only 5 percent. These statistics prove that, though 75 percent of total number of enterprises in Sri Lanka represents SMEs, their contribution to the exports is very low when comparing with other countries. Therefore, without market expansion SMEs cannot survive. The study of issues in internationalization and their impact on performance of internationalized manufacturing SMEs in North Western province, Sri Lanka will provide ample support for Small and Medium sized Enterprises (SMEs) in Sri Lanka to have a clear understanding about the issues they may

face when entering to the global market and to overcome those issues.

Small and Medium sized Enterprises (SMEs) are very essential for the economic development of a country. The Central Bank of Sri Lanka states that, SME sector plays a vital role in economic development through creation of employment opportunities, poverty alleviation, income distribution, regional development and training of workers. Small and Medium sized Enterprises (SMEs) face lot of difficulties when carrying out their operations. Internationalization or market expansion is one of the major problems faced by them. Miesenbock [11] stated that recent academics shows a significant interest on SME internationalization. Researchers [12] have described that internationalization offers benefits for SMEs including better survival prospects, growth revenue, better innovative capability and upgraded productivity [13] compared to non-internationalized SMEs. Further, internationalization is valuable for organizations and that helps to obtain enhanced performance and success. However, researchers have argued that Small and Medium sized Enterprises (SMEs) face difficulties to move in into international market such as lack of capital, insufficient infrastructure, lack of innovation and market information, higher competition, obsolete technology, managerial skill [14]. Jalali S.H., [15] pointed out the export barriers seriously affected to the export activities of the SMEs. Many of internationalization issues may have influence of performance of SMEs and it is important to identify effect of each factors. However, there are few studies done by different scholars related to the above problem. From this study, the researcher is going to examine the identify critical factors though the literature review and examine their impact on export performance of SMEs in North Western province, Sri Lanka. The objective of the study is to examine identified four critical factors influence on export performance of Small and Medium sized Enterprises (SMEs) in North Western province, Sri Lanka.

## **2. LITERATURE REVIEW**

### **2.1 Internationalization**

Internationalization has acquired the attention by many scholars due to its emerging and upcoming behavior. Further authors offered various definitions to interpret the internationalization. Ruzzier [16] defined it as the expansion of economic activities geographically over domestic boundaries. Moreover, Welch and Luostarinen

[17] defines it as, business activities that cross-national borders; it is intended to create value in organizations. According to Singh [18], internationalization is not only limited to exporting, but also collaboration, branches, joint ventures, subsidiaries that extend beyond national boundaries. Among the various scholars, Johanson [19] defined it in a different aspect. According to his findings, internationalization is a “cumulative process, in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objective of the firm”. Therefore, it is clear that this is a multidimensional concept.

Though there are many ways of internationalization, in the case of Small and Medium sized Enterprises (SMEs), export is the most common entry mode for foreign market [20]. Internationalization is an important concept for modern businesses and it is irrespective from the firm size. For SMEs, it is more important since it provides new markets to them.

According to Miesenbock [11] recent academics shows a significant interest on SME internationalization. Pleitner [21] identified that, the interest about SMEs arose from the fact that SMEs shows a rapid growth in internationalizing their businesses recently. Luostarinen [17], defined internationalization of SMEs as the “the process of increasing involvement in international operations”. According to Ruzzier [16], without having a clear idea about the risks and opportunities in the global market it is impossible for Small and Medium sized Enterprises (SMEs) to operate in the market. In Sri Lanka, large organizations who have enough resources like capital, market information, infrastructure and latest technology are successful in internationalization but SMEs have to face many challenges when internationalizing their businesses.

## 2.2 Internationalization Issues in SMEs

Further he explains that the effect of internationalization on Small and Medium sized Enterprises (SMEs) is not same as that for well-stabilized large companies. Previous researchers mentioned that level of Internationalization of SMEs depends on various factors. Welch and Welch [22] mentioned that the assembly of the networks of internationalized business organization vary environment characteristics such as governmental involvement structure of the existing industry. Because of this, barriers for

global commerce reduces and internationalization become prominent throughout Small and Medium sized Enterprises (SMEs) [23]. New opportunities are opening for entrepreneurs to expand their market territory. Unfortunately, this opportunity becomes a threat to most of the SMEs and they are struggling to manage these global opportunities. According to the writings of Chen and Huang [24] there are many disadvantages inherently faced by SMEs when they internationalize their businesses. Small and Medium sized Enterprises (SMEs) who are not engage in exporting activities perceive the international environment as a risky, unprofitable and unmanageable because of less awareness and experience with the global businesses [25].

With the open economic policies introduced by Sri Lankan government, policymakers assumed that the country would move with the global economy. Unfortunately, that move was negatively affect to the country because of not having a proper foundation to face international challenges. As a result, all the giants or the multinational companies acquired SMEs who had a potential to internationalize their businesses. Though, the literature review researcher identified different internationalization related issues faced by the SMEs.

### 2.2.1 Managerial knowledge and competence

The study conducted by Karagozgu and Lindell [26] stated that, inadequate knowledge of management of SME owners and the management is the main problem, which hinders internationalizing their businesses. Hall [27] explains that, poor understanding about the foreign markets, lack of managerial knowledge in internationalization and lack of skilled workforce are the constituents of managerial knowledge and competence. Szabo [28] has identified lack of entrepreneurial, managerial and marketing skills as a major barrier among the 14 barriers he has discovered in his study. Further Bilkey [29], identified lack of knowledge about foreign sales practices as the major problem when internationalizing business operations. According to many scholars, lack of information about exporting and relevant information is the main problem face by Small and Medium sized Enterprises (SMEs) in developing countries.

### 2.2.2 Technology

The findings of Neto [17] shows that, if SMEs are willing to invest in latest manufacturing

techniques, develop innovative products and increase production capacity; their export performance will give better results. Siringoringo [30] identified that, for long-term success all the SMEs should develop their businesses including information technology features. According to Deshpande [31], "exporting products by using an electronic means depends on high-end hardware, software and communication equipment and services". Further Todd and Javalgi [32] explains in their writings, when businesses develop through information systems, government support for the telecommunication infrastructure is a major barrier. According to Deshpande [31], though Small and Medium sized Enterprises (SMEs) are developing by using information systems, they suffer from the slow development of the telecommunication sector.

### **2.2.3 Competition**

Singh [18] identified that, during the process of internationalization, various firms or various products may have different market depending on the demand and the preference of customers. It may differ according to the nature of the product, quality of the product, price of the product and for many other factors. According to Porter [33], aggressive domestic competition frequently backs to achieve international competitive advantage. The scholars, Seth and Thomas [34] and Singh et al. [18] identified that, economies of scale, diversification, product differentiation, the degree of concentration and barriers for market entry and exit are the determinants that have to consider when compete in the international market successfully. Further, Czinkota and Rocks [17] identified, quality standards that will meet importers preference is largely affects to the SMEs when they operate in international market.

### **2.2.4 Procedural and legislative requirements**

The study of Leonidou [35], legislative barriers are highlight under the external barriers and it consists with foreign rules, regulations and tariff barriers. Siringoringo et al. [30] states that, procedural barriers limit Small and Medium sized Enterprises (SMEs) to domestic market, and documentation required to comply with foreign market is a major barrier. Further, International Journal of Emerging Markets [36] identified that, inability to proceed documentation, because of cumbersomeness or due to lack of time, constitute a barrier for internationalize domestic

businesses. Siringoringo et al. [30] explains in his writings, apart from documentation procedures there are some other barriers like lack of proper trade organizations to assist paper works, lack of having a common trade policy among the country, international trade agreements between economies and these barriers restrict Small and Medium sized Enterprises (SMEs) to enter into the international market. Therefore, procedural and legislative requirements is an important barrier to overcome by SMEs when entering to the international market.

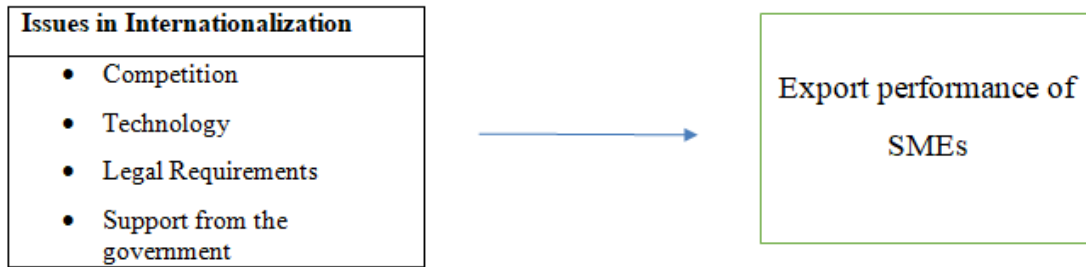
### **2.2.5 Support from government and institutions**

European Commission et al. [37] highlights, Small and Medium sized Enterprises (SMEs) experience lack of adequate institutional support when engage in international businesses. According to Katsikeas [38], lack of awareness programs and export promotion offered by the government is a major barrier in SME internationalization. A survey conducted by Morawitz [39] in Taiwan, revealed that government agencies were the least useful of seven sources of market information. Further, in his study conducted in Columbia, none of the exporters he interviewed was positive with that country's export promotion office. Naidu [40] identified that, though Indian government created complex institutions and agencies to promote exports but it showed negative results. Author conclude that high levels of government interference have inhibited international entrepreneurship.

### **2.2.6 Firm size**

Bodur and Cavusgil [17] identified that, firm size is the most related factor for organization when operates in the international market. According to the author, size of the firm is a key element of the propensity to export. Further [41] states that, larger firms possess more "slack" in managerial resources, financial resources and production capacity and hence they create a good platform to operate in the international market than SMEs. According to Naidu [40], Indian SMEs expressed their ideas that multinational companies are better equipped with resources to operate in the international market. Further Kalantaridis [42] explains that, due to the size limitations, SMEs face difficulties to match the global price since they rely on small customer base. Researcher identified four external issues face by the SMEs to the further study.

**2.2.7 Conceptual framework of the study**



**3. METHODOLOGY OF THE STUDY**

According to the Export Development Board (EDB) there are about 4700 registered exporters in the country and 80 percent of them are under SME category. Furthermore, EDB statistics shows that the majority of registered exporters are from Western province and North Western province. Many of researchers paid attention to do the study base on the western province. But it is difficult to find North western province-based studies since researchers selected to the North Western province in Sri Lanka. For the study, manufacturing Small and Medium sized Enterprises (SMEs) are select through the EDB registration database and among them 75 SMEs selected randomly within North Western province. Primary data will be collected through a structured questionnaire; it consists two parts. First part of the questionnaire measures the demographic factors. Second part of the questionnaire measure the four independent variables and dependent variable using five-point Likert scale. Descriptive statistics, correlation and regression analysis used to analysis the data.

**4. DATA ANALYSIS AND RESULTS**

Fifty questionnaires received from respondents. However, fifty complete questionnaires utilized for the data analysis of the study. Demographic data analysis results show the characteristics of the selected sample. The characteristics of respondents are described in terms of age, education level, type of SMEs etc. Table 1 shows the age distribution of the sample.

Further, respondents age analyzed shows Table 1 and it presents under four age groups. The age groups 36 to 45 and 46 to 55 years shows the 28% percentage of the sample. Lowest percentage represents the group between 25 to 35.

Table 2 shows the education level of the study respondents. Twenty-one (42%) of SME owners of the respondents studied only up to GCE A/L, fifteen (30%) of SME owners only obtain first degree and only six (12%) SME owners obtained the postgraduate degrees.

The ownership of the business contained 28% of sole proprietorship businesses, 22% partnerships and 44% limited companies. Since there are more benefits like tax exemptions and international recognition there can be more tendency for starting limited companies to involve in international operations.

Table 4 shows the type of products exporting to the international markets by SMEs. There are 44% from coconut-based products, 12% from rubber-based products and 8% from fishery.

Based on organization’s experience ranged from more than 1 year but less than 5 years to more than 15 years. Twenty-one businesses (42%) have experience more than 15 years and nine (18%) businesses have more than 1 year but less than 5 years.

**Table 1. Age distribution of the sample**

		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	25-35	9	18.0	18.0	18.0
	36-45	14	28.0	28.0	46.0
	46-55	14	28.0	28.0	74.0
	Above 55	13	26.0	26.0	100.0
	Total	50	100.0	100.0	

Source: Researcher’s Study

**Table 2. Educational qualification of the sample**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	GCE O/L	8	16.0	16.0	16.0
	GCE A/L	21	42.0	42.0	58.0
	Bachelor's degree	15	30.0	30.0	88.0
	Postgraduate	6	12.0	12.0	100.0
	Total	50	100.0	100.0	

Source: Researcher's Study

**Table 3. Type of SMEs**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sole proprietorship	14	28.0	28.0	28.0
	Partnership	11	22.0	22.0	50.0
	Limited Company	22	44.0	44.0	94.0
	Joint Venture	2	4.0	4.0	98.0
	Other	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

Source: Researcher's Study

**Table 4. Type of products export**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Coconut	22	44.0	44.0	44.0
	Rubber	6	12.0	12.0	56.0
	Textile	2	4.0	4.0	60.0
	Fishery	4	8.0	8.0	68.0
	Other	16	32.0	32.0	100.0
	Total	50	100.0	100.0	

Source: Researcher's Study

**Table 5. Sample distribution based on experience**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	More than 1 year but less than 5 years	9	18.0	18.0	18.0
	More than 5 years but less than 10 years	9	18.0	18.0	36.0
	More than 10 years but less than 15 years	11	22.0	22.0	58.0
	More than 15 years	21	42.0	42.0	100.0
	Total	50	100.0	100.0	

Source: Researcher's Study

Moreover, researcher analyzed based invested capital for the business and it represents is as follows: less than Rs.1million 4%, Rs.1- 5million 4%, Rs.5- 10million 20%, Rs.10- 50million 30%, more than Rs.50million 42%.

The way of engage with international markets is crucial for understanding the current situation of the country's international activities. Table 7 shows the engagement with international market.

According to the Table 7, twenty-nine (58%) of the businesses are selling their products to foreign countries directly while twelve (24%) businesses are selling their products to the foreign agent. Eight (16%) of the businesses are doing indirect exports. Only one (2%) business out of fifty businesses is maintaining their own sales office in international markets.



**Table 6. Invested capital**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than1 Mn	2	4.0	4.0	4.0
	More than 1 Mn but less than 5 Mn	2	4.0	4.0	8.0
	More than 5 Mn but less than 10 Mn	10	20.0	20.0	28.0
	More than 10 Mn but Less than 50 Mn	15	30.0	30.0	58.0
	More than 50 Mn	21	42.0	42.0	100.0
	Total	50	100.0	100.0	

**Table 7. Engagement with international market**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Indirect Exports	8	16.0	16.0	16.0
	Selling products to a foreign agent	12	24.0	24.0	40.0
	Direct exporting to foreign countries	29	58.0	58.0	98.0
	Opening outlets in foreign countries	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

Source: Researcher's Study

**4.1 Relationship between Critical Factors and Performance**

Performance is representing both growth and profitability. Therefore, researcher tested four independent variables with growth, profitability and performance. Table 8 provides the results of correlation analysis.

According to the correlation analysis, there are marginally significant p values between competition, growth as well as competition and profitability. They are having positive coefficient of correlations and the results say that competition is positively related to with growth and profitability. Probability and coefficient of

correlation between competition and performance are respectively 0.02 and 0.335. These results say that competition and performance significantly correlated positively. Technology has a significant negative relation with the growth. This is because coefficient of correlation is – 0.303. Technology is not correlated with profitability and performance. There are having insignificant p values. Support from the government is marginally positively correlated with growth but insignificant relationship with profitability and performance. Legal requirements are not having any association with growth, profitability and performance as the p values are insignificant.

**Table 8. Relationship between critical factors and performance**

Factors		Growth	Profitability	Performance
Competition	Pearson Correlation	.253	.244	.335*
	Sig. (2-tailed)	.082	.094	.020
	N	48	48	48
Technology	Pearson Correlation	-.303*	.081	-.227
	Sig. (2-tailed)	.036	.582	.120
	N	48	48	48
Support	Pearson Correlation	.258	-.038	.209
	Sig. (2-tailed)	.076	.800	.155
	N	48	48	48
Legal	Pearson Correlation	.166	-.197	.054
	Sig. (2-tailed)	.259	.180	.717
	N	48	48	48

Source: Researcher's Study

**Table 9. Model summaries**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.477 <sup>a</sup>	.228	.156	.52087	2.377

Source: Researcher's Study

**Table 10. Regression ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.443	4	.861	3.173	.023 <sup>a</sup>
	Residual	11.666	43	.271		
	Total	15.109	47			

Source: Researcher's Study

**Table 11. Individual effect of critical factors**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.009	.627		3.205	.003		
	Competition	.364	.150	.328	2.421	.020	.979	1.022
	Technology	-.296	.157	-.263	-1.881	.067	.918	1.090
	Support	.321	.153	.297	2.095	.042	.895	1.117
	Legal	-.064	.124	-.072	-.513	.610	.918	1.089

a. Dependent Variable: Performance; Source: Researcher's Study

According to the model summary, R value is 0.477 and R square value 22.8%. It means 48% of explain average level of performance. Durbin-Watson test statistic is 2.377. Therefore, selected four variables explain around 48% export performance. Table 10 provides results of Regression ANOVA.

Probability of F test statistic is 0.023. This says that competition, technology, support from the government and legal requirements have jointly influence on performance of SMEs. As the model is jointly significant, individual effect of the critical factors has been given by Table 11.

In relation to individual effect, probability of competition is 0.02 and it is significant positive effect on export performance. It is having positive beta value that is 0.364. Support from the government is also significant at 5% with positive beta value. Individual probability and beta values are respectively 0.042 and 0.321. Accordingly, support from the government also has a significant positive effect on performance. Technology has a marginally negative effect on performance. This is because p value is 0.067 with negative beta value. Legal requirements are individually insignificant as the p value is more than 5%. According to the standardized coefficient of beta, most influencing factor is

competition. Second influencing factor is support from the government and third one is the technology but it has a negative effect in the current situation. All the VIF values are less than 10. Therefore, independent variables are not perfectly correlated. Accordingly, regression model does not have a multi collinearity problem. Model is appropriate.

## 5. SUMMARY AND CONCLUSION

The objective of this study has been addressed by using multiple regression model to determine the most significant factors affecting on performance of internationalized Small and Medium sized Enterprises (SMEs) in North Western province, Sri Lanka. According to the model summary, multiple correlation was 0.477 that is close to 0.5. This value indicated that all the independent variables or the issues in internationalization were having a joint relationship with performance in an average level. Probability of F statistic was 0.023 and it indicated that identified critical factors jointly influence on performance of SMEs. According to the individual beta values, the highest value was represented by competition. Therefore, this finding was supported the literature of Singh [18]. Further, Seth and Thomas [34] and Singh et al. [18] supported this finding by showing the

importance of competition when compete in the international market successfully. By supporting the literature, the second highest influencing factor was support from the government. According to European Commission et al. [37], Small and Medium sized Enterprises (SMEs) experience lack of adequate support when engage in international businesses. Further, Katsikeas [38] explains that, lack of export promotion and awareness programs sponsored by the government as major barrier in SME internationalization. According to the study, the third influencing factor was technology but showed a negative effect on performance. Many scholars have identified technology as a crucial factor when internationalizing their businesses. However, in this study it showed a negative relationship by confirming the finding of Christensen et al. [43] as cited in Siringoringo et al. [30]. According to Christensen et al. [43] as cited in Siringoringo et al. [30], if Small and Medium sized Enterprises (SMEs) export and market their products in developed countries, technology becomes the important source of competitive advantage over local manufactures. When it comes to the developing countries, other source of competitive advantage such as low cost would be more prominent. Further, most of the SMEs in the selected sample was manufacturing products relating to coconut based. Among them most of the SMEs are exporting coconut fiber-based products to developing countries like China, Korea etc. Therefore, the above finding was acceptable and confirmed by the literature provided. Legal requirements were the last critical factor identified by this study and this factor do not individually influence, as the probabilities were insignificant but influence jointly on SMEs performance. Moreover, the researcher used one-way ANOVA in order to achieve the third objective of the study. Identifying the effect of experience and capital investment on performance was the third objective. Probability of F test statistic was 0.147 for experience in relation with performance. This was insignificant at 5%. Therefore, experience does not have any effect on performance. Further, researcher tested probability of F test statistic for capital investment in relation to performance and found that it was highly significant as the p value is 0.000. This finding was supported the literature of Fairbairn [44] as cited in Rajapaksha [17]. According to Fairbairn [44] as cited in Rajapaksha [17], one of the major barriers, affecting the performance of Small and Medium sized Enterprises (SMEs) was capital shortage.

Therefore, all the objectives were addressed with the support of analytical tools and literature provided.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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