

Determinants of Small Firm Growth:-A Study of Manufacturing
Sector SMEs in Sri Lanka



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MCOM (2003/13)

This is presented for the Requirement of Master of Commerce Degree Program
Of
University of Kelaniya
Kelaniya
Sri Lanka

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December 2010

ABSTRACT

Small and Medium Sized Enterprises (SMEs) have contributed significantly to the economic growth of Sri Lanka. The factors influencing the growth of SMEs are many complex and erratic. This research investigates and explores the growth determinants of SMEs in manufacturing sector of Sri Lanka.

This study was based on 164 SMEs in manufacturing sector which were at least 5 years old during the period of 1996 to 2006. The research design was quantitative in nature and testing hypotheses using multiple regression analysis.

The result of the regression analysis showed the relationship between firm growth and financial variables. Profitability, return on investment, liquidity, credit practices and assets turnover ratio were related to positively with SMEs' growth. On the other hand, capital turnover was related negatively with SMEs' growth. Size of the firm was not related with the SMEs' growth. Recommendations are made for business practitioners in manufacturing sector. Moreover, the findings provide references for policy makers to design policies and provide necessary assistance. Further, research directions also have been discussed in this study.

Keywords; Small and Medium Sized Enterprises (SMEs); growth; profitability; Return on Investment (RIO); capital turnover.