

Internationalization of Sme's, and Economic Downturn in Sri Lanka

G.H.R.B Silva¹, P.N.D Fernando²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}
rashanbhashitha25@gmail.com¹, pndfernando@kln.ac.lk²

Abstract

Introduction & Objectives: Small and Medium-sized Enterprises (SMEs) play a crucial role in the global economy, making substantial contributions to employment, innovation, and overall economic growth. Recognizing SMEs as the backbone of the economy, the Government of Sri Lanka acknowledges their significance, constituting over 75% of the total number of enterprises, providing 45% of employment, and contributing to 52% of Gross Domestic Production. In today's globalized world, the internationalization of SMEs has emerged as a vital factor for economic growth and development. In present, firms Small and Medium Enterprises to remain competitive in the market, internationalization is important. However, various economic indicators, including gross national product, unemployment, interest rates, and exchange rates, have influenced this internationalization. Consequently, the recent economic downturn has also impact on internationalization of Small and Medium Enterprises in Sri Lanka. This study aims to investigate whether there is a significant impact of an economic downturn on the internationalization of SMEs in the country.

Methodology: A quantitative research approach is adopted to measure phenomena based on numerical analysis methods. To address the research question, time series regression analysis is employed to determine the significance of the relationship between economic downturn and SME internationalization. Secondary data are collected through export development information to measure the depended variable of internationalization of small and medium enterprises, and other secondary data are collected to assess key economic indicators such as Gross Domestic Production fluctuations, Unemployment, Interest rate and Exchange Rate in Sri Lanka. The research sample take as consists of all the export-oriented SMEs in Sri Lanka for the study.

Findings & Conclusions: Internationalization of Small and Medium Enterprises is significantly influence by Gross Domestic Production, Unemployment and Exchange Rate with the significance at 5% level. Interest Rate is not a significant factor in the Internationalization of Small and Medium Enterprises. Gross Domestic Production and Exchange Rate positively impact the Internationalization of SME and Unemployment negatively impact with the Internationalization of SMEs in Sri Lanka. Unstable GDP, changes in exchange rates, a shortage of skilled workers, and job migration are major factors affecting the measurable aspects of an economic downturn. Finally, this study findings more important to policy makers and business owners

Keywords: Internationalization, Small and Medium Enterprises, Gross Domestic Production, Economic Downturn, Unemployment