

External support and enterprise performance: evidence from SMEs in Sri Lanka

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It is widely accepted that SMEs have an essential role to play in the process of economic development in advanced and developing countries where SMEs make up over 95 percent of the total enterprises and account for 40-80 percent of jobs. In recent years, SMEs have been seen as an engine of economic growth and their contribution has been widely recognised. There seems to be a renewed interest on SMEs as drivers of technology development and innovation. As literature suggests, the role of SMEs as innovators depends on interaction between the external knowledge base and expertise within the SMEs that could enhance the technological and innovation capabilities of SMEs.

This paper is based on a research that investigated technology and innovation performance in small and medium-sized enterprises (SMEs) operating as home-based enterprises and in commercial locations in Sri Lanka. This research involved quantitative and qualitative analysis of 90 SMEs responded to a survey carried out in 2002 and 2003. The data collected from this survey was analysed and the results are discussed in relation to technology and innovation performance of enterprises; linkages with external support systems and the extent to which owner/manager and firm-level characteristics influence their technological and innovation performance.

In this paper, I examine the effectiveness of formal and informal business support on the performance of enterprises and the role of existing policies and support institutions. In this paper, while interrogating new approaches concerning how technological knowledge and learning can be transformed into products and services, I argue that considering the vital role SMEs play in the Sri Lankan economy, enhancement of technology capabilities undoubtedly contribute to the higher economic performance of SMEs. In addition to the macro-level determinants of technology activity, I argue that micro-level factors that include firm and owner/manager characteristics and accessibility to support services influence SME performance.

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