

### **6.13 Working capital management issues faced by SMEs in Sri Lanka**

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#### **ABSTRACT**

Even though having an expanded sector of Small and Medium Enterprises is a basic feature of a healthy economy, the attention paid to their issues especially in developing Countries such as Sri Lanka is inadequate. Instead, researchers have involved in studying issues related to large scale organizations. Enterprises are categorized using several measurements. Some of the quantitative factors used in measuring an enterprise are the value of the equity, tangible assets, healthiness of the balance sheet and number of employees. On the other hand, the most famous qualitative measure has been the ownership and the operating structure. In the world, more than 90% of organizations are SMEs. Central Bank defines the small industry as an establishment having employees less than 25 and an investment less than 1 million. Ministry of Industry classifies it as one whose fixed assets are less than 5 million. National Development Bank (NDB) classifies small enterprises as the enterprises with investment less than RS.20 million, excluding land & Buildings.

The objective of this study is to identify the Working Capital Management Issues of SMEs, the reason for those issues and how they have affected operations of SMEs. The study interviewed owners and accountants of 12 companies including garments, food manufacturing and furniture manufacturing industries and printing firms. Further, data were collected through administering a questionnaire. The sample comprising of 12 SMEs was divided into two basic groups based on the number of employees and the value of investments. Out of the total sample 75% firms employed less than 20 employees and investment is less than Rs 500,000. Rest of the firms comprise of 20 to 200 employees and investment Rs. 500,000 to Rs 5,000,000. Finally the sample included of 75% of small and 25% of medium scale firms. The study finds that the lack of knowledge on working capital is the main problem of SMEs in Sri Lanka. This shows the requirement of organizing awareness programmes on working capital management for SMEs. Thus, it seems that SMEs would be able to improve their financial efficiency if they get their working capital issues solved.