

Unraveling the Effects of the Financial Crisis on the Going Concern of Sri Lankan SMEs: A Qualitative Inquiry

Wickramanayaka W.D.A.¹, Nilumindi M.P.D.R.², Deepanayake K.V.A.P.C.³

Wijayasundara T.P.⁴, Lokeshwara A.^{5*}

Sri Lanka Institute of Information Technology, Sri Lanka,

bm20474164@my.sliit.lk, bm20458706@my.sliit.lk, bm20475154@my.sliit.lk, bm20473792@my.sliit.lk, anuja.l@sliit.lk

ABSTRACT

Small and medium-sized enterprises (SMEs) play a pivotal role in the growth, employment, and social stability of national economies. The objective of this research is to explore the impact of the financial crisis on business continuity by taking Sri Lankan SMEs as a case. Past literature does not adequately address how severely SMEs are affected, how they are still surviving, or potential techniques for overcoming the difficulties. To achieve this objective, the purposive sampling method was utilized to select a sample of twelve SME owners, representing the Sri Lankan SME landscape, with at least five years of operational history from the years 2018 to 2022. In-depth interviews were conducted to identify and analyze the effects of the financial crisis on the going concern of SMEs. The findings revealed that the financial crisis had affected SMEs in varying degrees. Numerous SMEs have grappled with escalating costs, insufficient working capital, and the threat of bankruptcy. Moreover, it's evident that the financial crisis significantly affected SMEs, marking the onset of Sri Lanka's recovery journey. Despite these challenges, the study also uncovers a positive aspect for SMEs in Sri Lanka. The crisis has spurred domestic production due to currency fluctuations and import restrictions. The paper explored how the increased availability of financial resources, amidst macroeconomic restrictions, could influence these dynamics. In summary, this study sheds light on the specific repercussions of the financial crisis on SMEs in Sri Lanka. By implementing the recommended strategies, SMEs cannot only navigate the challenges posed by the financial crisis but also capitalize on new opportunities for growth, development and advancement. The insights gleaned from this study hold great value for policymakers, SME owners, banks, financial institutions and other stakeholders in crafting effective strategies and support systems to sustain and bolster the SME sector during financial tumult.

Keywords: Case Study, Financial Crisis, Going Concern, SMEs

INTRODUCTION

Small and Medium-Scale Enterprises (SMEs) have gained significant recognition as a strategic sector, particularly in developing countries facing pervasive economic challenges such as unemployment and poverty. SMEs are characterized by their smaller employee count, assets, and revenues compared to large-scale businesses. The specific definition of SMEs varies from

country to country, however, it is observed that these enterprises play a crucial role in providing employment opportunities, especially for the youth, and contribute to the fight against poverty (Sri Lanka Export Development Board, 2021). SMEs are the engine of sustainable growth of economies in developing countries and economic growth includes increase in GDP and income per head (Nyanga et al., 2013). A significant section of Sri Lanka's population is supported by SMEs, which play a key role in the country's development (Central Bank of Sri Lanka, 2021).

The vulnerability of SMEs to economic changes has been well documented in the literature. Currently, Sri Lanka is experiencing a financial crisis, which reached its peak in 2022. That poses significant challenges for SMEs operating in the country. Given the circumstances, it is crucial to examine how this ongoing crisis has impacted the ongoing concerns of SMEs in Sri Lanka. However, there is a lack of comprehensive studies on this specific topic, especially in the Sri Lankan context, as the ongoing crisis is unique and unprecedented. Therefore, this study fills a significant gap in the existing literature by providing valuable insights into the effects of the recent financial crisis on SMEs in Sri Lanka. The research draws information directly from relevant sources, ensuring a reliable and accurate analysis of the situation.

However, there is a lack of comprehensive studies on this specific topic, especially in the Sri Lankan context. Therefore, this study fills a significant gap in the existing literature by providing valuable insights into the effects of the recent financial crisis on SMEs in Sri Lanka. The research draws information directly from relevant sources, ensuring a reliable and accurate analysis of the situation. By filling this gap in the literature, this study has the potential to generate valuable insights and the reliable and accurate analysis provided can serve as a foundation for further research and can contribute to the broader academic knowledge on the subject. Researching the obstacles that SMEs encounter during a financial crisis and the tactics they use to overcome these hurdles can yield important insights and advance knowledge of the dynamics that exist within the SMEs sector. The conclusions from this study can be advantageous to a wide range of stakeholders and have numerous practical implications. The research study is a useful tool for academics, industry practitioners, policymakers, and SME owners since it sheds light on the difficulties faced by SMEs in Sri Lanka during the financial crisis and the techniques used by these SMEs to remain sustainable. To enhance the resilience and sustainable future of SMEs in Sri Lanka, it can provide useful guidance, influence policy initiatives, and educate decision-making processes.

REVIEW OF LITERATURE

Defining SMEs and their significance

In the Sri Lankan context, SMEs are defined based on the number of employees and annual turnover, as outlined in Table 1 of the national policy framework for SME development published by the Ministry of Industry and Commerce in 2020.

Table 1: Defining SMEs in Sri Lanka

Size Sector	Criteria	Medium	Small	Micro
Manufacturing Sector	Annual Turnover	Rs. Mn. 251 – 750	Rs. Mn. 16 – 250	Less than Rs. Mn. 15
	No. of Employees	51 – 300	11 – 50	Less than 10
Service Sector	Annual Turnover	Rs. Mn. 251 – 750	Rs. Mn. 16 – 250	Less than Rs. Mn. 15
	No. of Employees	51 – 200	11 – 50	Less than 10

Source: Based on (Ministry of Industry and Commerce, 2020)

According to the Asian Development Bank, SMEs account for more than 75% of businesses in Sri Lanka and contribute to over 20% of exports, 45% of employment, and 52% of the Gross Domestic Product (GDP) (Chen & Sabyasachi, 2022; International Finance Corporation, 2020). However, the current financial crisis has significantly impacted the Sri Lankan economy. The country is facing an unexpected economic downturn marked by high inflation, rising commodity prices, power shortages, and fuel scarcity. This crisis is further compounded by a notable decline in agricultural production resulting from failed agricultural development initiatives. Recent assessments conducted in nine districts in June indicate that 58% of households have lost over 50% of their income, and the crisis has also affected businesses nationwide (OCHA, 2022).

In the present global economy, SMEs are crucial to the industrial systems of developed as well as developing countries. They are recognized as the most productive organizations in the world's economy, and they are crucial to the growth of a country. SMEs are essential to the private sector of every country. Additionally, as globalization progresses, they have come to play a crucial role in expanding local businesses' access to global markets and engaging in local

market competition with multinational rivals. In the process of internalization, SMEs in the global market face several benefits and drawbacks. The advantages of being small, adaptable, and responsive to adjust, on the other hand, the drawbacks of size may offer SMEs alternative options during the globalization period. SMEs will benefit from different variables through internalization depending on the economic, geographical, and cultural variations between nations (Ensari & Karabay, 2014). In emerging economies, SMEs are possibly the most dynamic businesses. According to empirical data from around the globe, the growth of SMEs has captured the attention of the entire world. It is impossible to overstate the significance of SMEs in the modern economy. An enterprise survey found that the main barrier to the expansion of a SME is access to financing (Wang, 2016).

The continuity and survival of SMEs in the financial crisis

In the field of accounting, the concept of going concern suggests that businesses will continue their operations for an indefinite period. It assumes that the business will be able to operate in the foreseeable future. The risks that can impact the going concern of SMEs are significant and need to be effectively managed (Kaya & Uzay, 2017). The Going Concern Assumption (GCA) is a fundamental prerequisite for economic growth and stability, both at the national and corporate levels. During economic and financial crises, when internal and external resources become scarcer or uncertain, management decisions increasingly focus on corporate efficiency and effectiveness (Zéman et al., 2018).

In 2022, the deepest economic and political crisis happened in history. Therefore, the power outages, queues, and shortages of essential commodities made the people suffer highly due to the economic crisis (Weerakoon, 2023). As per the information published by the (The World Bank, 2022) there was a decrease in growth and poverty and signs were showing in the last five years. External imbalances were heavily influenced by a restrictive trade system, a poor environment for investing, times of weak monetary policy, and a fixed exchange rate. Tax cuts in 2019 along with ongoing fiscal inequalities, which are mostly caused by inadequate revenue collections, have led to substantial fiscal deficits, significant gross financing needs, and a quick increase in unsustainable debt. Further, it is evident that, in the year 2019, the government had cut down taxes resulting in a loss of substantial revenue (Perera, 2023).

Despite the recognition of their importance, significant progress in SME development has been limited. Government incentives and benefits, along with support from banks in previous years, have helped SMEs sustain their operations. However, recent financial crises, including the

COVID-19 pandemic, have deteriorated the survival conditions for SMEs in Sri Lanka. Previous research indicates high failure rates and low growth compared to other countries in Sri Lanka (Sriyani, 2022). The financial crisis further exacerbates the unfavorable environment for SME growth and survival. Access to capital is a major constraint for SMEs due to lending conditions and the reluctance of banks in developing countries to provide credit. High loan interest rates, inflation, and overall sluggish economic development pose significant challenges for SMEs (Santos, 2021). SMEs face various difficulties during the crisis, such as liquidity problems due to revenue losses and increased inflation impacting their ability to pay wages. Demand for goods and services has significantly decreased, leading to order cancellations and reduced customer visits (Robinson & Kengatharan, 2020). These challenges, combined with high production costs, reduced demand, raw material shortages, power outages, and working capital and liquidity issues, have adversely affected the financial performance and capacity utilization of SMEs (Sriyani, 2022).

The negative consequences have put a significant number of jobs at risk, particularly due to import restrictions (Kulatunga, 2022). Industries like tourism and construction have been particularly affected, with delays in construction projects and losses in the hospitality sector (Shukla, 2022). It is important to note that all the previous literature clearly explains how important SMEs are to the economy of a country. Certain external factors and forces that are uncontrollable affect the survival of these SMEs. During financial crises, high inflation rates have a significant impact on SMEs, leading to increased operational expenses (Dawood, 2022). To navigate challenges, SMEs are becoming more outward-focused, seeking opportunities in the surrounding environment (Kottika et al., 2020). All decisions made before the crisis become unimportant, while survival becomes the key factor. With the sudden fluctuations in the inflation rate, it is challenging for SMEs to keep up with their daily business expenses.

SMEs struggle to obtain loans and meet their capital requirements due to limitations in the financial system, which prioritizes larger and more qualified clients. Government interventions such as grants, special loans, refinancing schemes, and credit guarantee schemes have been proposed to address this issue. The "Twin Pillar Approach to Access to Finance" advocates for ensuring funds are available to SMEs and improving banks' perception and support for SMEs (Wijesinha & Perera, 2015). In Pakistan, SME performance is affected by various barriers, including infrastructure and funding limitations, economic constraints, corruption, and managerial concerns. These challenges have a significant positive correlation with entrepreneurial SME failure (Khan, 2022).

Overall, SMEs face numerous challenges during financial crises, but their ability to navigate and innovate is crucial for survival. Government support, access to finance, and strategic resilience are key factors that influence SME success during economic downturns.

DATA AND METHODOLOGY

The study was exploratory and was among the initial studies that focused on the 2022 financial crisis in Sri Lanka. Primary data was collected from SME owners to facilitate a multiple-case study approach. Purposive sampling was used to select the twelve SME cases, representing the entire population of SMEs impacted by the financial crisis in Sri Lanka. The sample consisted of SMEs that have been in operation for at least five years, from 2018 to 2022. Data was gathered through interviews with SME owners. Thematic analysis, a qualitative analysis method, was employed to analyze the data and identify recurring themes (Braun & Clarke, 2006; Kiger & Lara, 2020). To ensure the trustworthiness and quality of the study, the eight Big-Tent criteria proposed by Tracy were considered. The study aimed to make a significant contribution by providing new knowledge and insights from SME owners, and ethical considerations were followed by ensuring confidentiality and obtaining the owners' approval for data usage. The meaningful coherence of the study was reflected in the results and their implications (Tracy, 2010).

Table 2: Respondent profile

Respondent No.	Category of the Respondent	Industry	Number of Employees	Location
SME Owner 01	Partner	Cottage textile industry	15	Kurunegala
SME Owner 02	Owner	Plastic manufacturing industry	Contract	Colombo
SME Owner 03	Owner	Automotive industry	15	Kurunegala
SME Owner 04	Owner	Herbal industry	32	Galle
SME Owner 05	Owner	Cushion manufacturing industry	50	Biyagama
SME Owner 06	Owner	Spice industry	Contract	Kandy
SME Owner 07	Owner	Automotive industry	08	Colombo
SME Owner 08	Owner	Furniture industry	15	Colombo
SME Owner 09	Owner	Pharmaceutical industry	17	Colombo
SME Owner 10	Owner	Bakery industry	10	Gampaha
SME Owner 11	Owner	Water Supply and vehicle rental service industry	10	Galle
SME Owner 12	Owner	Building Contract Industry	15	Colombo

Source – Author’s work

Each interview is named case-wise to maintain the anonymity of the SMEs. These interviews have been conducted with the voluntary participation of SME owners, and the interviews were recorded with their consent. The confidentiality of the data collected through the interviews was maintained by adhering to the institutional ethical guidelines.

RESULTS AND DISCUSSIONS

Exploration of Financial Impact on SMEs

SMEs face a range of financial challenges that impact their growth, sustainability, and competitiveness. Adapting financial strategies, seeking funding options, and focusing on efficiency can help SMEs navigate these challenges and thrive in the market.

When investigating how the financial crisis affects the going concern of SMEs, most of the SME owners stated that the Sri Lankan financial crisis has resulted in a significant fall in SMEs' profitability. SMEs are dealing with decreasing demand for their products and services because of reduced consumer expenditure and business uncertainty. Limited credit availability and increasing borrowing rates hindered their capacity to invest and develop, reducing profitability. The general financial crisis has produced a tough environment in which SMEs face several hurdles to maintain good profit margins.

“Even though we did not have a profitable business, we were given all the things that our customers needed.” (SME Owner 02)

SME owner 02 emphasizes that although their business didn't generate significantly higher profits, they successfully met their customers' needs. He believes that safeguarding and serving their customers hold greater value.

“There are times when the business runs at a loss. That means less profit and less business.” (SME Owner 03)

SME Owner 03 mentions that it's challenging for the business to thrive when it operates with a deficit, resulting in reduced profits and decreased business activity during the financial crisis period.

“I am not happy about the way it is going on right now after 2022 due to this country's economic crisis. The sales have come down. As a result, profits come down. So overall, I would say it is terrible for the business. I am not very happy with the current situation.” (SME Owner 09)

SME owner 09 mentioned that he is dissatisfied with the current trajectory since 2022 due to the country's financial crisis, which has led to a decline in sales and subsequently reduced profits. Further, this situation has left him with a strong sense of unhappiness and dissatisfaction.

Due to the financial crisis, SMEs in Sri Lanka experienced a decline in business activity. The crisis affected consumer spending and investment confidence, slowing economic development. SMEs, who are more vulnerable to economic changes, led the overall fall in business. Numerous SME owners have highlighted that they encountered difficulties stemming from fuel and dollar crises, exacerbating the already challenging situation.

“In 2021, our sales decreased with the dollar crisis. Sales decreased because people did not have money. Our business has been zero since January, February 2022. When we don't have dollars, we can't import anything.” (SME Owner 01)

SME owner 01 mentioned that the negative impacts of the dollar crisis were evident in dropping sales throughout 2021, which were caused by customers' financial constraints. These challenges intensified, causing a complete cessation of business activities from January 2022 to February 2022 due to the inability to import goods without an adequate supply of dollars.

“Before 2022, I think it's when the crisis started, so before that, we were performing really smoothly, but during 2022, there was an instant breakdown. Time breakdown because of the fuel problems. In 2022, our liquidity decreased a lot because we were not able to distribute regularly, so the pattern was instructed, which is that in 2022, it was tough to run the business.” (SME Owner 04)

The perspective provided by SME owner 04 highlights that the business had been operating smoothly without major issues in the years prior to 2022. However, a sudden and substantial breakdown emerged in 2022, largely attributed to fuel-related problems. This disruption not only gave rise to operational challenges but also resulted in reduced liquidity due to irregular distribution.

“During the crisis, we lost many jobs. Tenders decreased. During the Corona virus, we didn't face it like that. We did jobs in hospitals. Then, with the dollar crisis, materials could not be purchased. The price today is not the price tomorrow. Imports stopped.” (SME Owner 08)

The crisis had a significant impact on the workforce of SME Owner 08, leading to substantial job losses. Additionally, he added that there was a notable decrease in the availability of tenders. Unlike their approach during the COVID-19 pandemic, they have managed to secure hospital projects; however, the challenges posed by the dollar crisis disrupted their operations. Fluctuating material prices and the uncertainty of future costs became prominent issues as the

crisis unfolded, resulting in a halt in imports and further complicating the business environment.

The SME owners' decision to keep the business operational despite the financial crisis showcases their determination and resilience. Rather than opting to close the business, they demonstrated their commitment to weathering the challenges.

“There are no plans to close. There is no plan as our partnership is with my wife's brother. Then, because we have separate financial strength, we can hold on to this.”

(SME Owner 01)

The SME Owner 01 made it clear that the business will continue operating, primarily due to the familial partnership with his brother-in-law. The commitment to sustaining the venture is resolute, and his personal financial solidity serves as an additional pillar fortifying their capability to uphold the business over an extended duration.

“No, we didn't think so because, as we had our own internal savings, we had a good amount of savings from our previous business operations, so we had enough savings to run the business without much problem.” (SME Owner 04)

SME Owner 04 stated that their own savings were set aside. Moreover, he mentioned that their successful past business endeavors had generated a substantial amount of savings, providing them with a comfortable buffer to smoothly continue their operations without major concerns.

“No, we did not want to close. Actually, because you know that, normally businessmen, we should have entrepreneurship skills. We have to find out how to run the business.”

(SME Owner 05)

According to the owner of SME 05, it's crucial for entrepreneurs to tackle obstacles and discover methods to maintain their businesses. As businesspeople, it's ingrained in their nature to embody the entrepreneurial mindset, always striving to discover inventive methods to ensure the ongoing prosperity and functionality of their ventures.

“I didn't want to close. I used to do a bigger business in marketing. We are trying to move forward with the experience and have not thought of closing the business.” (SME

Owner 07)

The owner of SME 07 mentioned having overseen a more extensive marketing venture before. Drawing on their amassed expertise, they're resolute about advancing, and the idea of closing the business hasn't even been considered.

Amidst the financial crisis, the decisions made by SME owners, whether to persist or contemplate closure, were shaped by diverse factors like the business's growth potential, customer retention, and strategic maneuvering in adversity. This demonstrates their faith in problem-solving and adaptability, reflecting their entrepreneurial spirit. While most SME owners chose to endure the crisis, a minority contemplated shutting down due to factors like reduced earnings, resource constraints, and the challenging economic environment.

“There were times when I thought to close the business. That means that without the business we used to have, some of my employees went abroad. That is because they also had a problem with the situation in the country.” (SME Owner 03)

The owner of SME 03 contemplated shutting down the business due to the departure of certain employees who had previously worked there. These employees have chosen to leave the country owing to their individual apprehensions about the prevailing conditions.

“After the financial crisis, the dollars were completely lost. After that, we could not import anything without dollars. I couldn't bring anything. Then many factories here were closed.” (SME Owner 02)

SME Owner 02 has mentioned that the aftermath of the financial crisis resulted in a complete loss of their dollar reserves. This has left them unable to import goods without dollars, leading to the closure of several local factories.

Managing Resources in SMEs

For a business to achieve its goals and objectives efficiently and effectively, resource management has to be done properly. In a crisis, an enterprise's performance can also be changed based on the methods that they use to manage their business resources. In the 2022 financial crisis, SMEs had to face difficulties managing their resources. As per the interviews that were conducted, different SME owners from different SME sectors had to face various challenging problems.

The increase in raw material prices can have an impact on different aspects of operational activities as well as financial activities. The raw material price increase is a common problem faced by many of the SME owners that were interviewed.

“During the crisis, the price of raw materials increased by three times.” (SME Owner 01)

“So, as I see it, the main impact is on raw material expenses and transport expenses, and overall, many expenses have increased for small and medium-scale businesses. At that time, the normal raw material price was increasing like three times.” (SME Owner 04)

SME Owner 01 and SME Owner 04 mentioned that the raw material prices have increased by three times. According to SME Owner 04, transportation expenses had increased due to the fuel crisis that occurred during the financial crisis period.

“In our case, the business decreased a lot. That means we could not import parts, and that decreased our sales.” (SME Owner 03)

“After the import of new vehicles stopped, we repaired and sold secondhand vehicles. Then we had a problem with the economic crisis, and the price of paint rose a lot.” (SME Owner 07)

SME Owner 03 and 07 both highlighted that they had to face difficulties in importing the parts, and this was mainly due to the dollar crisis. As they mentioned, due to the short supply of dollars, the prices of parts increased.

“Reduction in consumption or spending power of consumers then number three cost of operation has increased due to the increase in power, fuel, or energy. And also due to the dollar. With the rupee being revalued against the dollar, some of the input’s costs have increased.” (SME Owner 06)

SME Owner 06 from the spice industry explains how the cost of operation increased due to the increase in raw material prices and the increase in costs.

“Then, with the dollar crisis, materials could not be purchased. The price today is not the price tomorrow. Imports stopped. It became harder to purchase material.” (SME Owner 08)

As mentioned by the SME Owner 08 from the furniture manufacturing industry, the dollar crisis impacted a higher amount when purchasing materials. Many of the SME owners mention that the dollar crisis has affected the purchasing of raw materials, as it has increased the operational costs of the business.

Labor is a key factor for a business organization as it determines the organizational performance and has an impact on the overall effectiveness of the organization. For organizational survival, the SME owners had taken different actions regarding their employees.

“Then something like this happened to us. There were about 25 weavers in our business. There were about 100 lakhs of finished goods, and the first thing we did was reduce the workforce by about fifty percent, and then we reduced production.” (SME Owner 01)

SME Owner 01 was straight in that he mentioned that he had to reduce the workforce when their sales were reduced. He was interested in the well-being and satisfaction of the employees.

“When it was closed, we always gave them their food and dry food, and from time to time, we put them in the cars and went to their houses, and we fed them that way for some time.” (SME Owner 01)

He mentions that even though, due to the crisis, he had to cut down the employee force, he took care of his employees.

“Yes, we actually increased their salaries.” “No, we gave them the same employee benefits without cutting down on any because we had old staff.” (SME Owner 03)

SME Owner 03 said that during the crisis, he did not cut employee salaries or any other benefits given to them since they had employees who were working for a long time.

“My mattress division was running for ten to twenty days per month, and still we are paying their basic salary and some incentives, and this year I paid some bonuses. Promotional bonus. I don't want to throw people away during this harsh period. This is a very harsh period for everyone.” (SME Owner 05)

SME Owner 05 was trying to keep the job security of the employees even though this was a rough time for every business.

The SME Owner 02, who was not maintaining permanent staff, was not focused on employee benefits, as he mentioned that he was not bound to pay a monthly salary for the staff.

“The advantage we have is that we do not maintain a permanent staff. Engineers and electricians hire when necessary. Then there was no problem for the employees to see what happened.” (SME Owner 02)

“At one point, I had to improve the morale of the employees. As soon as the economy fell, there was an opinion that it would be difficult to stay in the country due to the high living costs. I also could not increase their salaries according to the economic situation in the country. Then I encouraged them to work to open another branch and increase the work.” (SME Owner 07)

The SME Owner 07 was trying to motivate the employees by encouraging them to work hard to open another shop and increase the business. When we asked whether he cut the salaries of the employees, he said

“No, I haven't cut anyone's salary yet. First, when the economy fell, it was difficult to live. After increasing the salary by Rs.2000, I could not afford that either. But no one's salary was reduced. I usually raise the Salaries of employees once a year. But the salary has not been increased yet; I keep paying the same amount. The salary has been paid on time. On the business side, I am carrying out losses and balancing myself with additional income.” (SME Owner 07)

The SME Owner 09, who reduced the facilities of the employees without cutting down the salaries, said that,

“Well, we have not gone into pay cuts so whatever, as most other companies suggest, but we have cut down on certain facilities, like air conditioning. We have taken decisions to cut down on all air conditioners like that. There were some other costs we have cut down. But with those we were managing, there are salaries and other things.” (SME Owner 09)

SME Owner 06 is using a different kind of business model; he is not maintaining a permanent staff.

“It's always a temporary arrangement. It's work on a requirement basis. So, what I've done is, whenever I do production, I try to roster. They are not working full-time. So, I give them the opportunity to work on a roster basis as much as possible.” (SME Owner 06)

Surviving in the resource management industry for SMEs requires a keen focus on efficiency, adaptability, and innovation. Since SMEs frequently have constrained resources, efficient allocation and optimization are essential for success.

SME Owner 05 mentioned that every business had to face challenges to find out new experiences.

“I'm trying to develop a business in India to run the full capacity of the business. I started in June and now after nine months, I'm into those projects, so that's how I'm trying to overcome that.” (SME Owner 05)

SME Owner 04 said that she survived during the crisis since she was doing business in the local markets as well as in the international market.

“Now we have a range of products for all problems, most of them health problems, and also for beauty, and so currently we are doing business in the local market as well as in the overseas market.” (SME Owner 04)

Effect of External Parties to the Business

Relationship between bank loans and business

SME owners expressed their opinions about obtaining bank loans for business purposes during the crisis period. Most SME owners spoke about their difficulty to paying back the loan after obtaining bank loans due to the high interest rate.

“There was a loan. 4% interest rate. We have difficulty paying back the loans. So, they gave a grant. Extending the period of the loan. However, it became a major trouble. But when we were going to pay the loans, there was huge interest for the period that we did not pay the loan. I am talking about the COVID days. Then we got a grant. However, for the interest alone, I had to pay 10 Lakhs. So now I pay around 30000s monthly for the interest, and they again introduced a new scheme for the interest payment, saying it was interest-free. However, I think for that scheme too, there was an interest rate. So, what they did was, even though they extended the loan period, there was another interest rate charged by us. So then what they did was let them pay the interest amount over four years. So, we were able to do some work with that money.”
(SME Owner 08)

SME Owner 08 said that with previous experience in obtaining bank loans during the COVID-19 period, it is not feasible to obtain loans. As a relief to pay back the loans, the grace period with no interest rate was given; however, there was a hidden interest rate.

Some SME owners have mentioned that they did not obtain loans during the crisis period.

“We did not take any bank loans to continue the production.” (SME Owner 01)

“Loans were not taken. We used to pay salaries from the business itself.” (SME Owner 03)

According to SME Owner 05, there is no difficulty in obtaining loans if there is a strong financial ability to pay back the loans. Banks are willing to provide bank loans.

“Actually, I was running the business for around 15 years, so by my standards, it's not difficult to obtain the loan from the banks. yes. So, they would pull up to get bank loans during this time? Actually, I can still get bank loans even if I have some facilities. That depends on your financial control and the financial disciplines. If banks see that your discipline is high and concerned about finance, then they are monitoring our expenses and our earning patterns.” (SME Owner 05)

Relationship between customer retention and business continuation

Without a customer, there is no business. Customer retention has led to profit maximization and business continuation. The business can be developed because the retention of customers gives new customers confidence in the business. SME Owner 01 stated that consumers' cost of living has increased.

“And now our main customers are school teachers. Ok. School teachers and women working in government offices if that happens, their salary will be between 50,000 and 70,000, and then their cost of living will double.” (SME Owner 01)

The consumer's and workers cost of living has increased more in the crisis period than before, and due to that increase, it has affected the business activities of SMEs in several ways. SME Owner 04 mentioned that the increase in living costs has affected their workers, and they are requesting a salary increment.

“How I see this is mainly impacting the raw material expenses and transport expenses, and overall, the many expenses have increased for small and medium-scale businesses. So, the increase in living costs especially because people are demanding salary

increments, is a rough time for small and medium scale businesses and prices.” (SME Owner 04)

SME Owner 07 mentioned that the jobs done by consumers were reduced, so their purchasing power also decreased, which affected SMEs.

“Person who still lives by three-wheel hires can’t continue that job today. He has to pay the lease installment, repair service, and the cost of living. The hire price has decreased. That man’s income has dropped a lot. That man has no money to repair it. Many people drive their vehicles without repairs. The 3000 km-4000 km service is done by changing only the oil in 7000 km.” (SME Owner 07)

SME Owner 05 mentioned that as purchasing power decreased, new product development was carried out according to their income, therefore he could decrease losses.

“For my business, I’m doing some new product developments. Do you know that the entire country’s purchasing power has decreased? I am selling mattresses; people are buying mattresses, but I have a sofa factory as well. So, their purchasing power is now really low. So, for sofas, we don’t have solutions, but for mattresses, I’m looking for solutions and adjusting according to their income.” (SME Owner 05)

SME Owner 02 mentioned that Sri Lanka was unable to export any goods due to the loss of dollars; therefore, many customers decreased and had to shut down some of their business during the crisis period.

“The dollars were completely lost. After that, we could not import anything without dollars. I couldn’t bring anything. Then many factories here were closed. Two or three customers were lost.” (SME Owner 02)

SME Owner 09 revealed that due to the increase in the product price, some of the customers were looking for cheaper alternatives.

“I have to pay almost double what I used to import a year ago. So, then I have to add equability to the cost of the product. So then some of the customers are unable to buy because they were looking for cheaper alternatives.” (SME Owner 09)

Relationship between suppliers and the business

In Sri Lanka, suppliers play a key role in ensuring a steady supply of goods and services, influencing the SMEs' operational efficiency and competitiveness in the market.

SME Owner 05 mentioned that due to lack of money to pay the suppliers, the suppliers were lost during the crisis.

“When the crisis begins, what people do is put all the stock into an urban account. Then there is no probability of us paying our supplier. But it happened because the supplier doesn’t have patience and wants money. So, then what we are doing is indubitably spending the money.” (SME Owner 05)

Government assistance and support and the business survival

SME owners have shared their opinions and ideas on how the government acts and supports them during a crisis period. Accordingly, many participants have mentioned that no support was received. These SME owners were expecting the government to provide some support during the crisis period.

“We didn't get anything from the government.” (SME Owner 03)

“No, during the crisis, the government didn't give any help at all.” (SME Owner 04)

These SMEs were expecting to get government support for their business survival during the crisis period.

However, some SME owners have mentioned that there were different schemes and offers provided by the government. Interestingly, however, the owners who were aware of the offerings and schemes were not expecting any support from the government.

“During the pandemic and crisis, the government has offered delayed payment plans for loans to SMEs. But I had not obtained loans, so it was not applicable to my company.” (SME Owner 09)

“I knew that there were many offerings, but of course, having taken a loan, I was not interested.” (SME Owner 06)

For these SMEs, depending on the previous loans, capital reserves, and savings within the business, they do not require financial or any other form of assistance from the government. Hence, for the continuity of their business, they do not expect government support.

“How can the government provide an assistant without money?” (SME Owner 05)

On the contrary, SME Owner 05 has mentioned a different opinion: during the crisis period, since the country was in a very crucial situation, the government was also not in a good position to provide favorable assistance to SMEs. Adding further to this, it is important that certain schemes are provided for SMEs to face such situations.

With the import restrictions and the dollar crisis, SMEs, which import certain raw materials, machinery and equipment, and other products, were in a critical condition. The survival of the business was impacted by these restrictions. SME Owner 02 said that;

“Our business has been zero since January, February 2022. When we don't have dollars, we can't import anything. Banks do not give dollars.” (SME Owner 02)

This indicates that this business didn't have any sales in the first two months of 2022, with the beginning of the financial crisis. Since the dollar has appreciated, Sri Lanka doesn't have enough foreign reserves. SME Owner 3 said the same situation affected their business sales.

“In our case, the business decreased a lot. That means we could not import parts, and business decreased with them. With the dollar problem, we could not import parts. That affected us greatly.” (SME Owner 03)

Accordingly, for that business, importing parts was essential to making sales. This situation had primarily affected the business. SME Owner 9 shares the same opinion.

“Then, with this financial crisis, all our budgets and everything went heavier because our estimated costs were low; we could not import those items.” (SME Owner 09)

He says that, with the previous estimations made, it was harder to import items. SME Owner 8 shares a similar opinion about the dollar shortage and import restrictions.

“Then, with the dollar crisis, materials could not be purchased. The price today is not the price tomorrow. Imports stopped. It became harder to purchase material.” (SME Owner 08)

He mentioned the uncertainty of prices when purchasing imported materials. So, all these lead to the general idea that the financial crisis, the dollar shortage, and the reason for imposing trade restrictions in the country all led to the determination of the survival of the business.

CONCLUSION

In conclusion, SMEs hold a critical role in Sri Lanka's economy, contributing significantly to its development, employment, and social stability. As the current financial crisis continues to escalate, its negative effects are increasingly felt across the country. Among the various sectors impacted, SMEs have emerged as one of the most vulnerable, facing substantial challenges due to the crisis. Despite this, limited research has been conducted specifically on the 2022 financial crisis, with most studies focusing on previous global financial crises and the COVID-19 pandemic.

To analyze the objective, the study employed a qualitative approach, conducting interviews with twelve SMEs in Sri Lanka. The findings revealed a significant impact on business operations, such as increased raw material prices, reduced customer bases, and the necessity of downsizing workforces. Additionally, SMEs faced challenges in loan repayments, leading to financial constraints and even the consideration of business closure.

The primary objective of this study was to investigate how the financial crisis affects the going concern of SMEs. Through a comprehensive literature review, we have highlighted key findings from existing research, including decreased capacity utilization rates, increased costs, and difficulties accessing finance during periods of crisis. Previous findings indicate that lack of infrastructure and funding, as well as economic constraints and managerial concerns had affected SME performance. The failure of entrepreneurial SMEs is positively and significantly correlated with these difficulties (Khan, 2022).

The crisis has worsened liquidity issues for SMEs, further hindering their operations. Previous research revealed that government support has significantly improved SME performance and favourably moderated the association between innovation capability and SME performance (Otache & Usang, 2022). Research carried out on the survival of SMEs during an economic downturn has found that the SMEs should develop and employ specific dynamic capabilities when facing an economic crisis (Weaven et al., 2021).

RECOMMENDATIONS

SME owners can tackle financial crisis challenges by using lower-quality raw materials to offer products that align with customer preferences. Expanding into international markets presents a strategic growth opportunity for Sri Lankan SMEs, allowing access to new consumer segments,

increasing revenue, and reducing dependency on a single market. This approach will help maintain market presence and cater to target audience needs.

Sri Lankan SMEs are focusing on improving organizational performance, especially during financial crises, through innovative and adaptable strategies. These strategies aim to fortify businesses against adverse impacts, ensuring ongoing growth despite economic uncertainties. The adaptability and proactive measures reflect the determination of SMEs to maintain resilience and prosperity in the evolving economic landscape.

SMEs often implement cost-cutting strategies, such as reducing unnecessary costs, adjusting workdays, and maximizing labor resources, to streamline operations and adapt to market conditions. They may focus on developing new products, digital marketing, and alternative energy sources.

SMEs in Sri Lanka can adapt and innovate during the financial crisis by adjusting production processes, exploring new markets, implementing cost-cutting measures, developing new products, optimizing resources, and seeking government support. These techniques will help sustain operations and position SMEs for future growth.

LIMITATIONS OF THE STUDY

This research study was limited since the interviews were conducted only with twelve SME owners. These twelve SMEs represent only a few percentages of the total SMEs all around Sri Lanka. Some owners did not understand the questions due to their lack of knowledge about some areas. The conduct of unstructured interviews was time-consuming since they should be analyzed to generate codes. The qualitative interviews rely on the details provided by the SME owners; therefore, the information should be accurate.

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