

**Issues in Internationalization and Their Impact on
Performance of Internationalized SMEs
in Sri Lanka**

by

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Declaration by the Author

The work described in this thesis was carried out by me under the supervision of Mr. M.V.S.S. Udayanga, and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree or Diploma.



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Declaration by the Supervisor

I certify that the above statement made by the candidate is true, and this thesis is suitable for submission to the University for the purpose of evaluation.

.....

Mr. M.V.S.S. Udayanga.

.....14/12/2015

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List of Abbreviations

| | |
|---------------|---|
| SMEs | – Small and Medium Enterprises |
| IDB | – Industrial Development Board |
| EDB | – Export Development Board |
| CBSL | – Central Bank of Sri Lanka |
| PLS Technique | – Partial Least Square Technique |
| GDP | – Gross Domestic Product |
| ADB | – Asian Development Bank |
| FDI | – Foreign Direct Investments |
| R&D | – Research and Developments |
| WTO | – World Trade Organization |
| MBV | – Market to Book Value |
| CSSI | – Cottage and Small Scale Industries |
| ICT | – Information Communication Technology |
| AVE | – Average Variance Extracted |
| ISP | – Internet Service Provider |
| SEM | – Structural Equation Modelling |
| SMEDSU | – Small and Medium Enterprises Development Support Unit |

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Issues in Internationalization and Their Impact on Performance of Internationalized SMEs in Sri Lanka

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ABSTRACT

The study mainly focuses on identifying issues faced by Sri Lankan SMEs when internationalizing their business operations. SMEs play a major role in any economy irrespective of the economic strength of the country. Specially developing economies largely depend on the SMEs. SMEs provide ample benefits for a country including new job opportunities, contribute to GDP growth, reduce inequality, use rural resources and solution for urbanization. Even though they contribute largely to the economic development still they have to face a number of difficulties when carrying out their business operations. Specially they are facing many challenges when entering to the international markets.

This study focuses on identifying major challenges faced by SMEs when internationalizing their operations. Based on the empirical evidences, five basic challenges have been identified by the study and they are competition, technology, legislative requirements, managerial knowledge and capabilities and marketing capabilities. These challenges largely threaten the success of Sri Lankan SMEs. Study used 120 observations from internationalized local SMEs to achieve its objectives and they are collected mainly from four provinces, Sabaragamuwa, Wayaba, Central and Western. Collected data were analyzed using PLS-SEM model to identify the relationship between internationalization issues and performances of internationalized SMEs.

The study reveals that out of five identified variables, only four variables positively affect the performances of internationalized SMEs while only one variable negatively affect the performance. Out of those variables technology and management knowledge about international markets have recorded highest impact to the performances of internationalized SMEs.