

NEXUS BETWEEN INTERNAL ENVIRONMENT AND SME PERFORMANCE IN SRI LANKA

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The firm's capabilities are the most significant component in setting a company's direction and differentiating itself from competitors. Unlike the external environment of a firm, the internal environmental factors are mainly within the control of the management of a business enterprise. This study uses the resource-based view (RBV) hypothesis to evaluate the impact of the internal business environment on the export performance of Small and Medium Enterprises (SMEs) in Sri Lanka. The constructs used in this study are adopted from the literature. The firm capability was measured using ten items. Meanwhile, seven items were used to measure financial capability. These items measure the extent of a company's ability to finance its resources to continue its production. Six items are used to measure the management capability of the company. The Entrepreneurial Orientation was measured using nine items covering innovativeness, proactiveness, and risk-taking. Eight items were used to measure the export performance of business companies. The Partial Least Squares (PLS) method using Smart PLS 3 software was used to measure the measurement model in this study with 118 SMEs as the sample. According to the findings, all internal business environment proxies were found to have a significant positive impact on the performance of SMEs. Further, the study reveals that the firm capability, financial capability, management capability and entrepreneurial orientation all have a positive and significant impact on SMEs' performance. Finally, it is concluded that firm capability (Technology, Leadership, Research and Development) and entrepreneurial orientation capacity determine overall business performance. Expanding business market shares within and outside a business's location significantly improves SMEs' performance. The competence of SME managers or management has a significant impact on improving business enterprise performance. This study could be useful for policymakers to plan their activities towards entrepreneurship development.

Keywords: Internal environment, Small and Medium size Enterprises (SME), resource-based view (RBV)

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