

# **Drivers For Export Engagement of Small And Medium-Sized Enterprises (SMEs) In Developing Countries: With Special Reference Agro-based SMEs in Sri Lanka.**

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## **1. Introduction**

There are various sizes of enterprises within a country, including small, medium, and large enterprises. The small and medium enterprises (SMEs) sector is an influential driver in the growth of any economy in the world. It contributes to the countries' Gross Domestic Product (GDP) and domestic employability. The World Bank released a report in 2016 with the theme of "Levelling the Trading Field for SMEs," highlighting the significance of SMEs' involvement in global trade (World Trade Organization, 2016). There are some definitions for SMEs based on sector-specific and country-specific characteristics. According to Prasanna et al. (2019), the primary factors include the number of workers, yearly turnover, capital assets, input consumption, production capacity, degree of technology adoption, and management techniques. According to the policy framework in Sri Lanka, SMEs are classified according to annual turnover and employee count.

SMEs are defined in Sri Lanka as having fewer than 300 workers and an annual revenue of no more than 750 million (Ministry of Industry and Commerce, n. d.). Exporting is the most adopted mechanism for the entry and expansion mode of SMEs in the international market (Madushanka and Sachitra, 2021). In the business strategy literature, the Resource-Based View (RBV) is one of the leading theoretical viewpoints (Stoian et al., 2011). The RBV theory for internationalization explains that a company's decision to engage with exports depends on the quantity and quality of the firm's internal resources (Madushanka & Sachitra, 2021). The RBV is the first attempt in the literature to discuss why companies attempt to increase their operations in international markets. In the Sri Lankan context, the Department of Census and Statistics (2014) reported that around 103,7267 micro, small, and medium firms operate in Sri Lanka. Around 75% of SMEs are in the rural sector, thus showing the socio-economic impact of the sectors in rural areas (Export Development Board, 2021). However the contribution to the national export from the SME sector is less. It contributes only 5% of total export earnings. Some SMEs disappear quickly, and some businesses survive and engage in export activities. This study investigates the drivers for export engagement of Small and Medium Enterprises (SMEs) in Sri Lanka.

## **2. Materials and Methods**

The study used the most commonly acceptable criteria for defining SMEs in Sri Lanka as businesses with less than 300 employees and an annual turnover of less than Rs. 750 million. (Ministry of Industry and Commerce, n. d.). Due to the nature of the topic under investigation, our methodology is qualitative and centred on in-depth interviews for Interpretive Thematic Analysis. According to Mahajan (2018), qualitative characterization of research allows a broad field of study to be narrowed into a single, manageable topic, offering a comprehensive understanding of a specific situation or issue. We have hidden the company names, which reveal the respondent's identity. We conducted the study in rural settings in three districts in the country. The districts were chosen based on the contribution criteria to the exports from agro-based industries in Sri Lanka. The export earnings from coconut-based productions are 817 US\$ Mn, which is 6.2% of total export earnings (Coconut Development Authority, 2022), and the export share of coconut-based products is 3.1% (Central Bank Report, 2021). Puttlam, Kurunegala, and Gampaha are the central districts in the study. These three districts are

considered the coconut triangle and produce 3391.36 million nuts annually. The study was performed in the Kurunegala, Puttlam, and Gampaha districts based on their importance. The study sample consists of owner-managers of SMEs. Fifteen owner-managers were selected as the judgemental sample covering coconut-based industries. Coconut product is a vast area. At least one respondent was selected purposely from each sub-sector, such as coconut kernel product, coconut fibre product, coconut peat product, and coconut water product. They were interviewed according to the pre-arranged time of the SME owners currently engaged in export activities. The interview guide, which was prepared using standard guidelines (Mack, 2005), consists of open-ended questions in the Sinhala language. We documented the interviews using tape recordings and writing field notes. Immediately after the interviews, we expanded those notes with the recordings. The personal and demographic information of the respondents are in the first part of the interview. The second part consisted of questions about the drives for export engaging in export activities. We tape-recorded all interviews with the participants' permission. Maintaining data confidentiality is essential in this kind of research due to the severe competition between the companies for raw materials, positioning, and market information. We explained our primary objective before starting the interviews. The study used an interpretive thematic analytical technique and, using open-ended interviews, attempted to identify common ideas or themes that emerged based on the phenomenon under investigation.

### 3. Results and Discussion

The drivers for SMEs' engagement in export activities can be broadly defined as the factors that influence a firm's decision to enter the international market. The study investigated 15 cases and derived 06 thematic areas under the drivers for SME export engagement. They are financial capability, human capital, management capability, marketing capability, institutional support and network (Table 1). The respondent quotes support each theme to provide a broader invest

#### 3.1. Thematic Areas

Table 1: Derived thematic areas on drivers for export engagement

Driver	C 1	C 2	C 3	C 4	C 5	C 6	C 7	C 8	C 9	C 10	C 11	C 12	C 13	C 14	C 15
Financial Capability															
Human capital															
Managerial capability															
Marketing capability															
Institutional support															
Network relationships															

Source: Author Constructed

This criterion of financial capability includes the company's ability to obtain sufficient credit from commercial banks and to finance its activities with the amount of retained capital, the liquidity of the company, and the ability to purchase capital requirements (Madushanka & Sachitra, 2021). "There is no problem regarding the financial situation of our company. Banks always provide loans to us....." (C7). "As a company, we rarely take large loans.... (C11). We used our own funds to build it...." (C15).

Human capital is defined as the knowledge, skills, competencies, and attitudes of the individuals in an organisation (Ployhart, Weekley, & Baughman, 2006). Scholars have pointed out that collective knowledge, abilities, competencies, experiences, and specific skills lay the foundation for firm-level capabilities to achieve competitive advantage in the international market (Onkelinx et al., 2016). Respondents C1, C3, C4, C10, C11, and C12 provide evidence of Human capital as a driver for SME export engagements. "I used my skill to develop this

*business....” (C1, C10). “As a graduate, I have a lot of energy to export a product” (C3, C12). “Firstly, I got the experiences from my father about the local market operations. Then, I wanted to touch the foreign market gradually. After analysing the market situation, I started to export virgin coconut oil to the international market. ” (C3). “We know how to manage our business in the risky environment with our experience”(C1).*

“Dynamic managerial capabilities are the capabilities with which managers build, integrate, and reconfigure organisational resources and competencies” (Adner & Helfat, 2003, p.1012). C3, C6, C7, C11, C12, C13, C14 and C15 reported that the managerial capabilities of the managers have positively influenced their international performances. Finding a new market, being highly involved in the international market, finding a stable market, taking first mover advantage, following peer reactions, and having a manager's international experiences are included in the category of dynamic management capability. *“My father started this business.... I also thought that traditional businesses should be diversified....” (C3).“We are among the top five export companies. We have the ability to face international competition well....” (C7)(C11). “Quality is our main concern when competing with other competitors.” (C11)(C13). “We don’t embrace everything. We only do what we do best. Because I am an engineer, I have been able to design more than 300 machines needed for this industry” (C12).* The above discussion provides evidence of firms’ decision-making logic and entrepreneurial resourcing behaviours combined to create value for the business.

A company's ability to use its resources to carry out marketing tasks in ways that produce the intended marketing results is considered its marketing capabilities (Morgan,2018). This study highlights the key components involved. *“Customer demand is the main factor that has brought us this far. I am correct in saying that international consumer choice has taken us international”(C1)(C4).* The second important point they highlight is the assessment of market trends, opportunities, and threats. *“I have done a market analysis first to start my new business because I wanted a sustainable business” (C3).* Being competitive is essential for business success. Organisations must make higher profits and attract more customers or gain brand loyalty among existing customers. Cost leadership, differentiation, and focus are the three main strategies for competitiveness (Porter, 2008). *“Looking at the price factor, if the quality is there, we can gain an advantage in marketing...(C12).*

C1, C3, C8, and C11 have highlighted the importance of institutional support. The Export Development Board (EDB) is the key institute that promotes coconut-based exports in Sri Lanka. *“The Export Development Board (EDB) has helped us promote our exports. They give us good training about export import procedures”. C1, C3, C8, and C11 also mentioned the special training given by the EDB. In addition to training programmes, the “Export Development Board helps to find foreign buyers” (C5) (C6). “In the past, the government sent us to exhibitions in countries around the world through EDB. It was a big support to take this business to the international level” (C4). At that time, the international trade fairs provided by the government were significant for us. That trust is built when people meet and talk there” (C13).* In addition to EDB, some SME owners highlighted the service given by the Coconut Development Authority (CDA). *“CDA website helps us plan future production because we want to have total coconut production and domestic consumption as we use only one-third of the total coconut production for the export industries. So CDA websites are always useful for us” (C11).*

SMEs obtain the necessary benefits from external partners and see them as complementary assets(Singh,2022). In this study, the respondents identified three major networks: business associations (Business networks), social networks, and subcontractors (intermediaries). Business networks help to share market information, exchange market knowledge, and market their products. *“Our product associations make a big contribution in solving common problems” (C2). “I have a good relationship with other companies who produce the same*

product. We meet together and discuss the contemporary issues” (C3). Meanwhile intermediary firms provide a platform for facilitating international trade among other countries. With quality products, the raw material supplies in the middle part of the supply chain have the probability of becoming exporters with the help of direct exporters(C11). Business people also often use social networks to enter the foreign market, as business relationships usually start with social relationships “My friend started exporting because his friend found an order from a foreign country. Therefore, various network connections in foreign countries are crucial in finding export markets”(C2).

#### 4. Conclusion

This study sought to investigate the drivers to the export engagement of agro-based SMEs in Sri Lanka Using a qualitative study approach, The findings enable us to draw the conclusion that the main internal-level domestic drivers of SME internationalization are financial capability, human capital, managerial capability, and marketing capability. Domestically, institutional support and the network connections between members and institutions also have an impact on external motivations for the export engagement of SMEs in Sri Lanka.

There are a few issues with this research report that can be resolved in later studies. The first disadvantage is that it is challenging to generalize the results due to the non-probability sampling technique used. SME owners were the primary target participants, and the study's scope was restricted to agro-based SMEs.

#### 5. References

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