

**SMALL AND MEDIUM BUSINESS RESPONSES TO THE PRESENT
ECONOMIC CRISIS IN SRI LANKA: EMPIRICAL PERSPECTIVES
FROM BATTICALOA MUNICIPAL COUNCIL AREA.**



By

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ABSTRACT

The small and medium scaled Enterprises (SME) sector in any country including Sri Lanka is considered a vital sector for a country's economic growth. The prevailing economic crisis in Sri Lanka further creates a vulnerable situation for the SMEs sector and it affects highly the growth and performance of most of the SMEs. Therefore, it requires identifying the impact of the prevailing economic crisis on SMEs in Sri Lanka and ways for ensuring the SMEs' survival. Hence, this article analyses small firm responses to a major economic downturn, based on empirical investigation in the Batticaloa municipal council area. This study was based mainly on the positivism paradigm followed by the quantitative approach. The study sample included SMEs which were in the Batticaloa municipal council area of Sri Lanka. The variables of this study were the Sri Lanka financial crisis, the effect of the crisis on the region, and recession-related effects on firms and firm performance. As data analysis techniques, levels of variables are mean and standard deviation values. The paired sample t-test was used to analyze the before the crisis and during the crisis differences and the chi-square analysis was used to measure the firm performance. Key problems faced by the SMEs included: the high cost of production and demand decline due to inflation, shortage of required raw materials, continuous power cuts, working capital and liquidity problems, and breakdown of their supply chain due to fuel issues. This research found that several SMEs were capable to protect as survivors even during the economic crisis period due to adaptive strategies. The researcher identified 34 strategies used by small and medium enterprises in the crisis period. While recognizing that the study focused on surviving businesses, in neither country did the downturn have a consistently negative impact on small businesses, and a significant minority of firms surveyed performed well. The study provides much-needed evidence on small businesses' responses to major economic crises. Conceptually it demonstrates that although many small firms are vulnerable to changes in circumstances over which they have no control, they show underlying resilience and a high level of adaptability and flexibility. Longitudinal follow-up is necessary to show how the types of adaptive behavior observed impact business performance.

Keywords: Small and Medium enterprises, Economic crisis, Adaptive strategy, Recession related effects

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