

Sri Lankan SMEs and Perceived Export Barriers: Evidence from Manufacturing Sector

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Authors' contributions

This work was carried out in collaboration between both authors. Author JMDSW designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Author MPSRP managed the analyses of the study. Both authors read and approved the final manuscript.

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ABSTRACT

At present globalized world, export sector plays a vital role in promoting economic growth in each and every economy. Developing countries use SMEs as a strategic tool to develop their export sector. But barriers existing in the export market hamper the maximum contribution of SMEs. Therefore the purpose of this study is to identify the major export barriers as well as sub barriers faced under each major export barrier by Sri Lankan exporters of Small and Medium Enterprises (SMEs). Export barriers were mainly divided into two; internal export barriers and external export barriers in line with the literature. In order to achieve the purpose of this study, the quantitative method was used. Data was collected from 129 SME owners and managers who operate in the manufacturing sector and Western Province in Sri Lanka. Data was analyzed by using the Statistical Package for Social Sciences (SPSS). The parametric test of ANOVA and Robust Test of Equality of Measure was performed to identify the major export barriers. Mean value of each barrier were

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calculated to identify the sub-barriers coming under each major export barrier. This study found that financial barriers, governmental barriers and economic barriers are the major export barriers faced by Sri Lankan exporters. On the other hand, high cost of capital to finance exports, lack of government incentives, lack of new technology, complexity of export documentation procedure, lack of financing sources, high tariff and non-tariff barriers, currency fluctuations, lack of competitive prices to foreign customers, high insurance cost and inadequate institutional support were the top ten sub barriers faced by Sri Lankan SMEs in the export market. The findings of this study may provide insights to make effective decisions to both exporters and non-exporters, SME owners, government policymakers, business educators, researchers as well as other decision makers.

Keywords: Small and medium enterprises (SMEs); export barriers; exports and internationalization.

1. INTRODUCTION

1.1 Background of the Study

Five decades ago policymakers believed that only the large enterprises can contribute to the growth and development of the economy. At present this idea is rejected and SMEs have recognized as the backbone or the heart of any economy in the world [1,2]. A healthy and growing SME sector is paramount important for any country irrespective of their level of development [3]. SMEs play a vital role in the economy through providing employment opportunities, promoting entrepreneurship and innovativeness, alleviating poverty, developing endogenous skills and technology, increasing Balance of Payment surplus and stimulating other economic activities [4,5,6]. At present SMEs are used as a strategic tool for promoting exports. The reason is with the globalization internationalization is very crucial to survival and growth of business and export is the simplest entry mode. This is particularly in the case of SMEs operates in small and saturated market [7]. Therefore the majority of SMEs select exports as a mode to enter into the international market. The reason is export requires less foreign investment and the risk associated with exporting is less compared to another mode of internationalization [8,9]. SMEs in Sri Lanka also play a pivotal role in many areas of the economy. However, according to the current statistics it is evidence that SMEs are still not harnessing its full potential in the export sector in Sri Lanka when compared with the other countries [10].

1.2 Research Problem

The SME sector in Sri Lanka lives in a place of strategic position in the economic sector due to its sizable contribution in terms of output and

employment. SMEs contribute 99.5 percent of industrial establishments, 50 per cent of Gross Domestic Product and 35 percent of employment [10]. In most of the countries, SME contribution to total exports lies in between 30 percent to 50 percent. But in Sri Lankan context, SME contribution to total exports is 5 percent [11]. These statistics reveal that, although SMEs 99.5 percent of industrial establishments, their contribution to the exports is very low when compared with the other countries. As identified by the various scholars, the main reason for the less engagement in the export activities is the various export barriers exist in the export market [12,13,14,15,16,17,18,19]. But an overview of the broad body of literature reveal that there is lack of studies carried out to find the exporting barriers faced by SMEs [12,20] and also from a geographical point of view, the majority of research on export-related topics has been carried out mainly in America and Europe [21,22]. Therefore this research focused to examine the barriers faced by SMEs in the export market of Sri Lanka in order to increase SME the contribution of exports to Sri Lankan economy.

1.3 Research Questions

Based on the reviewed literature, the following research questions are advanced in this study.

1. What are the major export barriers faced by SMEs in the export market?
2. What are the sub barriers faced by Sri Lankan SMEs under each major export barrier?

1.4 Research Objectives

Based on the research questions, the following specific objectives have been derived for the study.

1. To identify the major export barriers faced by Sri Lankan SMEs in the export market.
2. To identify the sub-barriers faced by Sri Lankan SMEs under each major export barrier.

1.5 Small and Medium Enterprises (SMEs)

There is no commonly accepted definition for SMEs. It differs among the countries and even within the country based on different parameters such as number of employees, balance sheet totals of fixed assets, invested capital and business turnover [10]. Similar to the other countries, Sri Lanka also does not have nationally accepted definition for SMEs and various institutions use various definitions to define SMEs [23]. Basically, in Sri Lanka SMEs are defined based on annual turnover and number of employees. If annual turnover less than Rs. 750 million and number of employees are less than 300 and 200 in the manufacturing sector and service sector respectively are considered as SMEs in Sri Lanka [24]. Therefore, to define SMEs in this study uses the definition given by Ministry of Industry and Commerce [24].

1.6 Internationalization

According to [12] there are various ways of internationalization; exporting, trade, cross-border clustering, cross-border collaboration, alliances/subsidiaries, branches, and joint ventures that extend beyond the home country environment. But exporting is the common mode of internationalization specially for SMEs [25]. Exporting provide various benefits to a country; develop infant industries, facilitate to use local resources efficiently, provide opportunities to diversify the business, minimize the risk of the business, create employment opportunities and help to reduce BOP difficulties [12,16,19].

1.7 Export Barriers

As identified by [12] SMEs can be utilized effectively for export activities by identifying and addressing the export barriers they face in the international market. Export barriers are often treated as the restriction that disturbs the firm's activity to start and develop business operations in overseas markets [19]. In the literature various researchers have introduced various barriers in various ways relating to exports.

Aharoni [17] was the first person who investigated the export barriers. He found that lack of knowledge about overseas market is the major barrier to internationalization. Alexandrideds [18] was the next person who investigated the export barriers and according to him lack of knowledge to initiate the export process, market competition and lack of understanding of payment procedure of exports were the major export barriers.

In further researchers on this regard have divided export barriers in various ways; pre – export vs. post – export stage [15,26], initiating barriers vs ongoing barriers [26] and internal barriers vs. external barriers [13,14,15,19,25,27,28,29,30]. In most of the literature export barriers have categorized as internal and external [13,14,15,19,25,28,29,30]. Therefore this study also categorized the export barriers as internal and external. Internal barriers are the barriers associated with organizational resources, capabilities and company approach to exporting while external barriers are the barriers stemming from the home and host environment which the firm operates [13]. Further internal export barriers are divided into subcategories as informational barriers, functional barriers, financial barriers and marketing barriers. On the other hand, external export barriers are subcategorized as procedural barriers, governmental barriers, economic barriers, political and legal barriers, socio and cultural barriers. The 27 sub barriers were identified under each major export barriers. Informational barriers were divided as insufficient information about overseas markets, difficulty in making customer contacts and difficulty in gaining access to data while functional barriers were divided as lack of prior export experience, lack of production capacity for exports and lack of new technology. Identified financial barriers were high cost of capital to finance exports and lack of financial sources to finance exports. Difficulty in meeting export product quality, difficulty in making innovations, lack of competitive prices to customers in foreign markets, the complexity of foreign distribution/advertising channels, high insurance cost, high transportation cost and unavailability of warehousing facilities were sub barriers of the marketing barriers. Procedural barriers were identified as complexity of export documentation requirements, inadequate communication with overseas customers and slow collection of payment from abroad. Lack of government incentives and inadequate institutional support were the governmental barriers. Economic

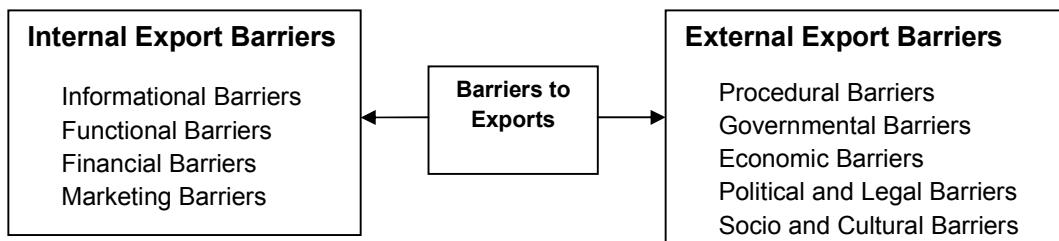


Fig. 1. Common method of division of export barriers

barriers were sub divided as poor and deteriorating economic condition of foreign countries and currency fluctuations while political instability in foreign countries, strict rules and regulations and high tariff and non-tariff barriers were identified as political and legal barriers. Socio-Cultural barriers were divided as language differences in overseas market and cultural differences in the overseas market in line with the literature [12,13,14,15,16,17,18,19,20,25,26,27,28,29,30].

1.8 Conceptualization

According to the literature, the most common method of division of export barriers is internal export barriers and external export barriers [13,14,15,19,25,28,29,30] as given in Fig. 1.

1.9 Hypothesis Development

One of the objectives of this study is to identify the major export barriers faced by SME (manufacturing sector) exporters in Sri Lanka. In order to test this objective, the researcher has built the hypothesis as:

H₀: All mean values of barriers to exports faced by SME exporters are equal

H₁: At least one mean value of barrier to exports faced by SME exporters is differ from another.

2. METHODOLOGY

The main purpose of this paper is to identify the barriers faced by SMEs in Sri Lanka in the export market. For that purpose researcher used the quantitative approach based on the literatures [13,14,15,17,20,30].

2.1 Population and Sample

In Sri Lanka, the reliable data of SMEs are available only in the manufacturing sector. Therefore target population of the study consists

from the SMEs operating in the manufacturing sector and who are engage in export activities directly. The recent statistics [11] reveal that there are 3,027 SMEs registered as exporters in Sri Lanka. Among them the majority of SMEs are represented in Colombo district, Western province [31]. Therefore the sample of this study was selected from the SMEs who are situated in Colombo district and engage in export activities based on the sampling framework provided by Industrial Development Board of Sri Lanka.

2.2 Data Collection

This study was carried out based on primary data. Data was collected by using structured questionnaires. The respondents were SME owners and the managers and 129 were responded. The questionnaire basically uses the likert scale of 1 – 5 which ranges from “Strongly Agree” to “Strongly Disagree”.

3. DATA ANALYSIS AND FINDINGS

Using Statistical Package for Social Sciences (SPSS) data was analyzed descriptively.

3.1 Sample Profile

The SMEs who engage in exports and situated in Colombo district, the Western province has been selected for this study. The 180 questionnaires were distributed and only 129 were responded.

The first part of questionnaires gathered information about SME owners’ background and organization. The characteristics of the owners are described in terms of owners’ age and education level. The characteristics of the organization are described in terms of number of employees, number of years of operations in the export market, the type of the industry, main objective of internationalization and annual export turnover.

The age of SME owners were five (3.9%) under 20 years, forty two (32.6%) from 20-35 years,

forty six (35.7%) from 36-50 years, twenty-one (16.3%) from 51-65 years and fifteen (11.6%) over 65 years.

The highest completed level of education of SME owners' was forty five (34.9%) of G.C.E. Advanced Level while only six (4.7%) of owners had up to 8th standards, nineteen (14.7%) owners had G.C.E. Ordinary Level only, twenty eight (21.7%) owners had graduate degree and thirty one (24%) owners had masters degree and above.

Eleven of SMEs (8.5%) employed less than 5 employees. The number of employees ranged from 6-15 engaged with thirty four (26.5%) SMEs. There are twenty six (20.2%) SMEs which have employees ranged from 16-25 and thirty-seven (44.9%) SMEs have employees in between 26-50.

Relating to the number of years of operations in the export market, sixteen (17.4%) SMEs have experienced more than 15 years in the export market and eleven (12%) SMEs have experienced less than 1 year in the export market. There are thirty four (37%) SMEs which have experience of 2-5 years, twenty-four (26%) SMEs which have experience of 6-10 years and only seven (7.6%) SMEs have experience of 11-15 years.

When considering the type of industry, the study sample consisted of thirty six (27.9%) SMEs in the industry of food, beverage and tobacco, forty (31%) SMEs in the industry of textiles, apparels and leather products, twenty three (17.8%) SMEs in the industry of wood and wood products, only four (3.1%) SMEs in the industry of paper and paper products, eight (6.2%) SMEs in the industry of chemicals, rubber and plastic products and other industrial products were represented by eighteen (14%) of SMEs.

The target sample responded to the question of the main objective of internationalization. As per the responds forty four (47.8%) SMEs' main objective were to increase profits while twenty six (26.5%), seven (7.6%), nine (9.7%), four (4.3%) SMEs main objectives were to expand business, entrepreneur motivation, get benefits from the market opportunities and strengthen the brand respectively. Only two (2.1%) had any other objectives other than above

Considering the annual export turnover of the responded 92 exporters, thirty three (35.8%) of

SMEs earn less than 10 millions as annual export turnover while only nine (9.7%) of SMEs earn more than 100 millions as annual export turnover. Moreover thirty six (39.1%) of SMEs earn in between 11-40 millions, nine (9.7%) of SMEs earn in between 41-70 millions and five (5.4%) of SMEs earn in between 71-100 millions as the annual export turnover.

3.2 Descriptive Statistics

When determining whether the null hypothesis is accepted or rejected in order to achieve the objective of this study, the parametric test of ANOVA or Robust Test of Equality of Measure should be performed. If all variances of barriers to exports faced by SME exporters are equal, the ANOVA is used while at least one barrier to export faced by SME exporters is differ from other, Robust Test of Equality in Means should be used. In order to identify whether to use ANOVA or Robust Test of Equality in Means, the test of Homogeneity of variance should be performed first.

The results of the test of Homogeneity of variance revealed that the p value of levence statistic is 0.000. Since p value is less than 0.005, the null hypothesis is rejected and alternative hypothesis is accepted. Therefore the researcher can conclude that at least one barrier to export is differ from another barriers to export that faced by SME (manufacturing sector) exporters in Sri Lanka at 95 percent confidence level. Therefore to test the hypothesis developed to check the major barriers to export faced by SME (manufacturing sector) exporters in Sri Lanka, the Robust Test of Equality in Means can be selected. Robust Test of Equality in Means provides two statistics of Welch and Brown – Forsythe and the p value of these two statistics are less than 0.005, the null hypothesis is rejected.

The main hypothesis of this study is all mean values of barriers to exports faced by SME exporters are equal. According to the Welch and Brown – Forsythe statistics, p value is 0.000. It is less than 0.005 and hence the researcher can reject the null hypothesis and it can be concluded that at least one mean value of barrier to export faced by SME exporters is differ from another barrier to export at 95 percent of confidence level. Then the researcher has to find out what barrier to export faced by SME (manufacturing sector) exporter is differ from another barrier to export in Sri Lanka. To check it, Post Hoc Test should be performed. The Post Hoc Test is

performed to identify in which mean value variable is differ from another mean value of variable. The statistic of Games Howell is used for this and if p value of Games Howell is less than 0.005, the null hypothesis is accepted and alternative hypothesis is rejected. This study employees nine barriers to exports: financial barriers, functional, barriers, informational barriers, marketing barriers, procedural barriers, governmental barriers, economic barriers, political and legal barriers and socio-cultural barriers. Therefore the researcher has to perform Post Hoc test for each sub set of variables and check whether p value of Games Howell statistic is less than 0.005 or not to determine the acceptance of null hypothesis. Since there are 9 variables, 36 subsets can be built to identify the relationship between each variable. The results

of Post Hoc Test is summarized and presented by Table 1.

By taking these statistics in to the consideration, the major barriers faced by SME (manufacturing sector) exporters in Sri Lanka can be ranked from more important barriers to less important barriers in the Table 2.

Accordingly, the major export barriers faced by Sri Lankan SMEs were financial barriers, governmental barriers, economic barriers, functional barriers, political and legal barriers, marketing barriers and procedural barriers respectively. Informational barriers and socio-cultural barrier were identified as less important barriers.

Table 1. Post hoc test, multiple comparisons, games howell statistics for exporters

Major barrier	Sub set	P value
Informational Barriers	Functional Barriers	0.000
	Financial Barriers	0.000
	Marketing Barriers	0.000
	Procedural Barriers	0.000
	Governmental Barriers	0.000
	Economic Barriers	0.000
	Political and Legal Barriers	0.000
	Social and Cultural Barriers	0.723
	Informational Barriers	0.000
Functional Barriers	Financial Barriers	0.000
	Marketing Barriers	0.965
	Procedural Barriers	0.946
	Governmental Barriers	0.000
	Economic Barriers	0.999
	Political and Legal Barriers	0.998
	Social and Cultural Barriers	0.004
	Informational Barriers	0.000
	Functional Barriers	0.000
Financial Barriers	Marketing Barriers	0.000
	Procedural Barriers	0.000
	Governmental Barriers	1.000
	Economic Barriers	0.000
	Political and Legal Barriers	0.000
	Social and Cultural Barriers	0.000
	Informational Barriers	0.000
	Functional Barriers	0.965
	Financial Barriers	0.000
Marketing Barriers	Procedural Barriers	1.000
	Governmental Barriers	0.000
	Economic Barriers	0.469
	Political and Legal Barriers	1.000
	Social and Cultural Barriers	0.022
	Informational Barriers	0.000
	Functional Barriers	0.946
	Financial Barriers	0.000
	Procedural Barriers	0.000
Procedural Barriers	Informational Barriers	0.000
	Functional Barriers	0.946
	Financial Barriers	0.000

Major barrier	Sub set	P value
Governmental Barriers	Marketing Barriers	1.000
	Governmental Barriers	0.000
	Economic Barriers	0.414
	Political and Legal Barriers	1.000
	Social and Cultural Barriers	0.029
	Informational Barriers	0.000
	Functional Barriers	0.000
	Financial Barriers	1.000
	Marketing Barriers	0.000
	Procedural Barriers	0.000
Economic Barriers	Economic Barriers	0.000
	Political and Legal Barriers	0.000
	Social and Cultural Barriers	0.000
	Informational Barriers	0.000
	Functional Barriers	0.999
	Financial Barriers	0.000
	Marketing Barriers	0.469
	Procedural Barriers	0.414
	Governmental Barriers	0.000
	Political and Legal Barriers	0.814
Political and Legal Barriers	Social and Cultural Barriers	0.000
	Informational Barriers	0.000
	Functional Barriers	0.998
	Financial Barriers	0.000
	Marketing Barriers	1.000
	Procedural Barriers	1.000
	Governmental Barriers	0.000
	Economic Barriers	0.814
	Social and Cultural Barriers	0.012
	Informational Barriers	0.723
Social and Cultural Barriers	Functional Barriers	0.004
	Financial Barriers	0.000
	Marketing Barriers	0.022
	Procedural Barriers	0.029
	Governmental Barriers	0.000
	Economic Barriers	0.000
	Political and Legal Barriers	0.012

*The mean difference significant at the 0.05 level.

Source: Survey data

Table 2. Ranking of export barriers faced by SME (manufacturing sector) exporters in Sri Lanka

Barriers	Subset for alpha = 0.05		
	Less important	Important	More important
Informational Barriers	3.044		
Social and Cultural Barriers	3.291		
Procedural Barriers		3.707	
Marketing Barriers		3.716	
Political and Legal Barriers		3.747	
Functional Barriers		3.813	
Economic Barriers		3.868	
Governmental Barriers			4.269
Financial Barriers			4.313
Sig.	0.239	0.793	1.000

Source: Survey data

Table 3. Ranking of important major export barriers faced by exporters

Barriers	Mean
High cost of capital to finance exports	4.473
Lack of government incentives	4.418
Lack of new technology	4.308
Complexity of export documentation procedure	4.209
Lack of finance sources to finance exports	4.154
High tariff and non-tariff barriers	4.154
Currency fluctuations	4.143
Inadequate institutional support	4.121
Lack of competitive prices to foreign customers	4.11
Difficulty in meeting export product quality	4.033
Difficulty in making innovations	3.933
High insurance cost	3.846
Political instability in foreign countries	3.835
Lack of production capacity for exports	3.824
Slow collection of payment abroad poor or deteriorating economic conditions of countries	3.758
complexity in foreign distribution channels	3.593
Difficulty in meeting export labeling requirements	3.571
High transportation cost	3.429
Language differences in overseas	3.407
Lack of export experience	3.341
Strict foreign rules and regulations	3.308
Cultural differences in overseas	3.253
Difficulty in making customer contacts	3.242
Inadequate communication with overseas customers	3.231
Unavailability of warehouse facilities abroad	3.154
Inadequate government rules and regulations	3.066
Difficulty in offering after sale service	3.066
Difficulty in gaining access to some data	3.044
Insufficient information about overseas markets	3.011
Complex government bureaucracy	2.89
Source: Survey Data	2.813

At the same time, this study aimed to identify the major obstacles faced by SME exporters in Sri Lanka coming under each barrier to export. It

was done by calculating means of each barrier by using the descriptive statistics.

As per the findings of the study, the top ten export barriers faced by SME exporters in the export market were high cost of capital to finance exports, lack of government incentives, lack of new technology, complexity of export documentation procedure, lack of financing sources, high tariff and non-tariff barriers, currency fluctuations, lack of competitive prices to foreign customers, high insurance cost and inadequate institutional support.

4. CONCLUSION

Sri Lanka stands at important crossroads as it makes a decisive transaction into a middle-income economy from low-income country. To sustain economic growth, Sri Lankan economy has to face three challenges: containment of the fiscal deficit; minimization of the trade deficit and reduction of public debt. Sri Lanka is targeted to achieve GDP growth at seven to eight percent over the medium term. In order to achieve this target, strengthening of external sector is used as one of the main strategies of the country. A key feature of external sector is export earnings. As a developing country, Sri Lanka must make more concentrated effort to promote its export sector through increasing export earnings. For that Sri Lanka is focused their policies more on SMEs in the manufacturing sector since they are represented more of industrial establishment, employment contribution and value added in the manufacturing sector of the country. But their contribution to export sector is low when compared to other Asian countries like Taiwan, Japan and Korea. Sri Lanka has to face this critical problem due to many barriers existing in the export market of Sri Lanka. That is Small and Medium Enterprises have to face many barriers to exports in the process of exporting.

Therefore this study basically carried out to identify the major barriers and the sub barriers faced under each major export barrier by SME (manufacturing sector) exporters in Sri Lankan export market. The highly affected barriers to exports for SME exporters (manufacturing sector) in Sri Lanka are financial barriers and governmental barriers. Next economic barriers, functional barriers, political and legal barriers, marketing barriers and procedural barriers have a considerable impact on their export activities. And also socio-cultural barriers and information

barriers are considered as fewer impact barriers faced by SME exporters in Sri Lanka.

The findings of the study revealed that the top ten export barriers faced by SME exporters in the export market were high cost of capital to finance exports, lack of government incentives, lack of new technology, complexity of export documentation procedure, lack of financing sources, high tariff and non-tariff barriers, currency fluctuations, lack of competitive prices to foreign customers, high insurance cost and inadequate institutional support.

The findings of this study may provide insights to make effective decisions to both exporters and non-exporters, SME owners, government policy makers, business educators, researchers as well as other decision makers since this study highlight a number of key barriers that affect to Sri Lankan SMEs (Manufacturing Sector) in the export market. Finally, this study contributes to the Sri Lankan literatures of SMEs and exports in identifying the export barriers faced by SMEs.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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