



The Readiness of Local Institutions in Addressing Sustainability Challenges Confronting the SMEs: A Case Study of Sri Lanka

¹P.S.K. Rajapakshe, ²J.M.H.M. Upulwehera, ³K.B.T.U.K Bandara, ⁴S.K.N. Gamage, ⁵E.M.S. Ekanayake, ⁶J.M.S.B. Jayasundara and ⁷^{1*}R.P.I.R. Prasanna

^{1,2,3,4,5,6,7}*Faculty of Social Sciences and Humanities,
Rajarata University of Sri Lanka*

Abstract

Article Information

Article history:

Received: 10 February 2021

Reviewed: 23 September 2021

Accepted: 05 October 2021

JEL Classification:

J120, J130, J240

J280, M540

Sri Lanka Journal of Business

Studies and Finance

Volume I Issue I, 2021

PP 16-37

ISSN 2756-9381

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and Finance,

Wayamaba University of Sri
Lanka

Due to the SMEs' less capability to face the three competitive challenges, i.e., sustainability, global and technological challenges, and survival and succeeding in the competition are recognized as the biggest challenges in this globalized era. Existing literature in the field emphasized sustainability challenges as one of the main growth retarding factors of SMEs, which further reduced the potential contribution of SMEs to the Sri Lankan economy. As the name suggests, this study, "Readiness of Local Institutions in Sri Lanka in Addressing Sustainability Challenges Confronting the SMEs in the Economic Competition: A Case Study of Sri Lanka," is geared to address the apparent lack of scholarly work on the relative perception of field level officers on institutional support towards facing sustainability challenges, with a special reference to agro-based Sri Lankan Small and Medium Enterprises (SMEs). For this study, a qualitative, case study-based methodology was used, and a series of key informant interviews were arranged with 13 field-level officers from several institutions, using purposive sampling. Moreover, in-depth thematic area analysis was adapted to analyze the data collected from the interviews and identified five sustainability challenges faced by SMEs in terms of business capability to adopt economic, social & environmental challenges, application of ethical business practices, respect to limited natural resources & environment values in the business process, quality standards, certifications & consideration of stakeholder needs in the business process. Finally, this study provides recommendations to enhance existing institutional support regarding the agribusiness sector development in Sri Lanka.

Keywords: *Small and medium enterprises (SMEs); Sustainability challenges; Ethical business practices; Stakeholder management.*

^{7*} Corresponding Author: prasannarjt@gmail.com

1. INTRODUCTION

The Small and Medium Enterprise (SME) sector is considered as the backbone of the economies because it empowers employment, poverty alleviation, output, export, economic empowerment, and economic development in developed and developing countries. It is more important to developing countries where poverty and unemployment are acute problems (Pretheeba, 2014). SMEs continuously make significant contributions to national economies worldwide and have acquired special attention due to their relative size and distribution within the global economy. Given their wide geographical spread within a country and their comprehensive sectoral coverage, SMEs are inevitably a foremost source of inclusive economic growth (Wijesinha and Perera, 2015). According to Gamage (2000), a healthy and growing SME sector is of utmost importance for any country irrespective of its economic development stage.

Like other economies, the SME sector in Sri Lanka has been identified as the driver of change for inclusive economic growth, regional development, employment generation, and poverty reduction. It contributes to 52% of the Gross Domestic Production (GDP), accounts for more than 75% of the total number of enterprises, and provides 45% of the employment (National policy framework for small & medium enterprises, 2017). Sri Lanka has a vast portion of the population living in rural areas, estimated to be 78% of the country's total population. The SMEs in the rural areas are the primary source of employment and food production, and therefore, the Sri Lankan villagers' livelihood (Gamage, 2003).

At present, the Sri Lankan government facilitates its assistance through many public institutions directly involved in SMEs' development. They provide various services, including the provision of credits, technology, training, marketing, and management (Vijayakumar, 2013; Wickremasinghe, 2011). However, studies have cited that many SMEs fail within the first five years (Gamage et al., 2020; Hammer, 2012). Scholars have studied the reasons for the delicate performance of SMEs in Sri Lanka from different viewpoints, and The White Paper (2002) has identified the significant drawbacks critical for SME development.

Many scholars show that SMEs in the globalized era are confronting a series of challenges. The biggest challenge of SMEs is the survival and success in the competition, compared to larger organizations. This is mainly due to SMEs' less ability to confront the three competitive challenges: Sustainability challenges, Technological challenges, and Global challenges (World Trade Report, 2016; Auwal et al., 2020). Therefore, it becomes inevitable to research the challenges and constraints required to assist the SMEs in addressing these challenges to participate in economic growth and development (Bilal & Al Mqbali, 2015).

Priyanath (2006) revealed that though government and non-government assist in developing the SMEs in Sri Lanka, they contribute a very small portion to the Gross Domestic Production (GDP) and manufacturing output. Therefore, this study aims to assess the level of readiness of the country's institutional and organizational arrangement promoting SMEs concerning their sustainability challenges.

Having understood the SME sector's positive impact on the country's economy, this study contributes to the existing literature by providing empirical evidence on SME's readiness towards facing sustainability challenges. Afterward, the study highlighted the relative perception of field-level officers on institutional support towards facing those challenges, with special reference to the agro-based SME sector in Sri Lanka. Since we use a developing country like Sri Lanka as a case study investigating the SME's readiness and relative perception of institutional support towards facing sustainability challenges, this study can enrich existing knowledge in the field, especially for the agro-based SME sector, particularly in developing countries. Hence the following research questions are raised in the study: what are the sustainability challenges and constraints faced by SMEs? And what is the relative perception of field-level officers on institutional support towards facing sustainability challenges? Correspondingly, the paper was structured as follows: section 2 gives a brief review of the aforesaid research area, section 3 explains the methodology adopted by the study, section 4 narrates the empirical findings, section 5 provides the discussion on key

points highlighted in the result part, and finally, section 6 presents concluding remarks and policy considerations.

2. REVIEW OF LITERATURE

2.1 Definitions of SMEs

The definition of SMEs varies from region to region, country to country, and sometimes within one nation. SMEs can be defined in terms of many parameters such as the number of persons employed, amount of gross revenue, amount of capital invested, or a collection of two or more. It is a fact that there is no universal or unique definition concerning SMEs (Vijayakumar, 2013). SMEs are commonly defined as registered businesses with less than 250 employees, but this definition still varies between countries. The number of employees and sale volumes are probably the most accurate parameters to define SME, but these data are not readily available (Ardic et al., 2011).

In the Sri Lankan context, the total number of employees and the annual turnover are the commonly used yardsticks to determine SMEs (National Policy Framework for Small Medium Enterprises, 2017). The World Bank (2017) defines SMEs and large-scale enterprises based on the number of employees in terms of 5 - 19, 20 - 99, and more than 100 as small entrepreneurs, medium entrepreneurs, and large-scale entrepreneurs, respectively. In this context, micro-enterprises are also read with SMEs for any policy-related measures (National policy framework for small-medium enterprises, 2017).

2.2 Sustainability Challenges confronted by SMEs

De Clercq and Voronov (2011) conclude that, there is an on-going struggle of the SME firms to balance their profit and sustainability. According to Jayasundara et al. (2019), the sustainability challenges include the ability to adapt to social and economic changes, efficient use of natural resources and safeguarding the environment, engage in ethical and responsible business practices, supply high-quality products and services, and develop metrics to determine if the firm is meeting stakeholder requirements. In fact, sustainability is the firm's ability to succeed and survive in a dynamic competitive environment. It depends on how well a company meets the requirements of those who are ambitious in seeing the company survives and succeeds (Jayasundara et al., 2019). Therefore, maintaining the sustainability of firms will involve the enhancement of the internal environment, social measures, and the external business environment to sustainability in the society and economy (Johnson and Schaltegger, 2016).

The newness of the field, sustainability, provides excellent opportunities to SMEs to discover new bases and relationships, as well as many challenges (Rajasekaran, 2013). According to Noe et al. (2017), the business model of a firm should be sustainable; otherwise, the firm may be unsustainable even though the firm's aspiration may be environmentally sustainable. Furthermore, Noe et al. (2017) report five sustainability challenges in economic change. They are (1) the capability of adjusting to economic and social change, (2) application of ethical business practices, (3) thrifty usage of the limited natural resources and giving values to the environment in the business process, (4) mindfulness of product and services quality, and (5) consideration of stakeholder requirements in the business process. World Commission on Environment and Development (WCED, 1987) report narrated that sustainable development requires enterprises to develop long-term social, economic, and environmental principles concurrently. Therefore, to represent sustainable development, firms should incorporate the said three principles, societal wellbeing, economic prosperity, and environmental protection, in their products, policies, and practices accordingly (Masocha, 2018).

2.3 Institutional support

Supports from government, institutes, and other sections of society are needed to sustain the SMEs' growth and thereby to enhance their contribution to the national economy of developing countries like Sri Lanka (Sinnathurai & Sedláček, 2012). Athambawa et al. (2017) suggested that institutional support in terms of business support services and related sectors such as financial capital, loans, tax allowances, information technology, and productivity enhancement assistance would lead to improving firm performance in advance. Policy methods can support SMEs in terms of coming up with financial aid, providing information, facilitating specialists' guidance, and helping with training and development (Benenett, 2008). Haresankar (2018) emphasized the importance of getting support from universities and the government institutes in order to build a strong platform for SMEs in Sri Lanka. Moreover, he stated that it could result in a refined environment and the SME firms could be enhanced by implementing better sustainable solutions based on their challenges, constraints and mistake areas. In a similar manner, many studies have revealed the importance of institutional support in terms of government support and cooperation as an aspect of overwhelming the constraints and challenges faced by the sector (Songling et al., 2018). Correspondingly, successive governments in Sri Lanka have taken several measures to form a conducive environment for small and medium entrepreneurs by initiating several supportive services, policy reforms, laws and providing greater inducements over the last decades (Vijayakumar, 2013).

However, Sinnathurai and Sedláček (2012) stated that, even though several positive measures have been made so far to enhance the development and growth of SMEs in Sri Lanka, its growth and contribution are insufficient to the national economy. This is because there is no productive public-private participation or coordination, despite many governmental departments and institutes for SMEs' development. According to Dillard et al. (2019), it is significant to accept that SMEs have been largely ignored when it comes to SMEs' performance in addressing sustainability. Condon (2004) and Bradford and Fraser (2008) have stated that SMEs were more limited in adapting sustainability strategies challenges, mainly due to recourse and financial limitations. Therefore, it is essential to pay more attention to SMEs' sustainability, which calls for the government and other supportive institutions to divert their support in developing the SME sector (Forkuoh et al., 2016).

3. RESEARCH METHODOLOGY

This section provides details about the research methodology, including data collection methods and data analysis that we adapted in the study.

3.1 Research Methods

According to Denzin and Lincoln (2011), in qualitative research, researchers generally assume that social reality is a human creation. They interpret and contextualize meanings from people's beliefs and practices. Likewise, case studies provide an opportunity for researchers to gain an in-depth holistic view of the research problem and may procure understanding, describing, and explaining a research problem or an incident (Baxter & Jack, 2008; Tellis, 1997). Moreover, Mohajan (2018) emphasized that, qualitative research method is a tool used to reduce a vast research field into one easily investigable topic, which facilitates an in-depth understanding of a particular incident or a problem. Therefore, a qualitative, case study-based methodology was used for this study. Based on feckless development problems and SMEs' high failure rate in Sri Lanka, it is momentous to conduct an in-depth study to assess the local institutions' readiness, relative perception, and support towards addressing sustainability challenges confronting the SMEs in the economic competition. Thus, the study adopted a case study-based analytical approach.

Interviews could be recognized as a type of guided conversation that is generally one of the most prime sources of case study evidence (Yin, 2009). Correspondingly, researchers have decided to conduct a series

of key informant interviews to collect data from the selected sample respondents. The study used a well-developed and a pre-tested interview guide, as presented in Appendix 1, to achieve this target. In such a qualitative study, data saturation point could be recognized when the interviewer realizes that the amount of information required to understand the issue under investigation is adequate through experiences in in-depth interviews. Consequently, the study reached 13 government institutional officers in the agri-business sector in Sri Lanka, recognizing it as the data saturation point of the problem we investigate. These officers were selected as the unit of analysis since they are the ones who mainly affiliate SMEs in terms of facing challenges, and their views are highly significant in this concern.

According to Patton (2002), purposive sampling technique is typically used in qualitative studies to recognize and choose the information-rich cases to use available resources properly. Therefore, the purposive sampling technique was used in selecting the sample respondents, ensuring that they have more than one experience in the field, presuming that they have sufficient knowledge about SMEs' sustainability challenges and degree of institutional support. The interviews lasted for 45-60 minutes on average and were mainly consisted of open-ended questions and face-to-face meetings using the interview guide provided in Appendix 1. The first part of this interview guide brings about the personal/demographic information of the sample respondents, and the second part comprised of questions related to the institution's readiness and relative perception of institutional support towards facing sustainability challenges.

The researchers also conducted an in-depth thematic area analysis and divided the sustainability challenges faced by SMEs as follows: the business capability to adopt economic, social & environmental challenges (1), application of ethical business practices (2), respect to limited natural resources & environment values in the business process (3), quality standards, certifications (4), and consideration of stakeholder needs in the business process (5). All interviews were recorded with the permission of sample respondents.

3.2 Research context and data analysis

To outmatch the goal of our study, we have collected data from the officers of government institutions who have direct contacts with SME operators related to the agriculture sector in Sri Lanka, since the industrial sector and agricultural sector contributes 26.4% and 7% for the country's GDP, respectively (Central Bank of Sri Lanka, 2019). Although these sectors contribute substantially to the Sri Lankan economy, the agriculture activities recorded only a marginal growth of 0.6 percent in the year 2019 in value-added terms, compared to the growth of 6.5% in the year 2018. The value-added industry activities grew by 2.7 % in 2019 compared to the growth of 1.2 % recorded in 2018. Given these facts, due to the considerable decline in key agricultural activities, including plantation crops, fishing, and forestry, and the slowdown in value-added of agriculture-related activities reflected in the sub-indices related to the agriculture segment of the Business outlook survey (BOS) conducted by Central Bank of Sri Lanka in 2019. In the meantime, manufacturing activities related to industries recorded slower growth in 2019.

We took several appropriate measures to ensure our findings' reliability by using purposive sampling to ensure that institutional officers who have direct contacts with SME operators in the agro-based SME sector were represented. Subsequently, we carefully analyzed the gathered data to identify the sustainability challenges faced by SMEs in institutional officers' view and the relative perception of institutional support towards facing those challenges. Accordingly, most respondents converged their perceptions on key sustainability challenges and relative institutional support towards facing those challenges. Table 1 shows the profiles of sample respondents adapted for this study.

Table 1: Profile of sample respondents

Respondents	Highest education level	Work experience in the current position
R1	Higher diploma	10
R2	Diploma holder	15
R3	Diploma holder	10
R4	Degree holder	12
R5	Degree holder	25
R6	Degree holder	15
R7	Degree holder	23
R8	Degree holder	2
R9	Master's degree	1.5
R10	Advanced level	4
R11	Advanced level	5
R12	Mater of Philosophy	18
R13	Degree holder	27

4. FINDINGS AND DISCUSSIONS

This section presents the primary findings of the study. The findings are presented in five sub-sections: the business capability to adopt economic, social, & environmental challenges (1), application of ethical business practices (2), respect to limited natural resources & environmental values in the business process (3), quality standards, certifications (4), and consideration of stakeholder needs in the business process (5). Several sub thematic areas were identified under each challenge after transcribing and coding the data gathered from interviews with respondents.

Table 2: Major challenges in SMEs' sustainability and sub thematic areas

Major challenges in SMEs' sustainability	Description	Sub thematic areas in major challenges
1. Business capability to adopt economic, social, and environmental challenges	In the country, regulations, legislation, and policies related to the social, economic, and environmental issues have been regularly initiated in the context of sustainability of SMEs (Zhu & Sarkis, 2004). But due to the limited resources and experiences, SMEs confront challenges in maintaining the steadiness between social (people), economic (profit), and environmental (planet) factors (Rezei et al., 2013).	Adapting to socio-cultural changes
		Adapting to economic changes
		Adapting to environmental changes
2. Application of ethical business practices	Customers have become increasingly sensible and control over markets. Therefore, apart from continuing business operations in the most efficient, economical, and effective manner, an increasing insistence prevails on business organizations to perform more ethical and responsible behavior to survive and succeed in the	Adapting to green techniques
		Improving working conditions

	complicated & competitive business world (Turyakira, 2018; Khomba & Vermaak, 2012).	Salaries & wages
		Fairtrade
3. Concerning limited natural resources & environmental values in the business process	It is an awakening concern in maintaining the appropriate balance between the business sector expansions and sustainable natural resources utilization. Hence, essential concepts like eco-efficiency and sustainable development and have been evolved and initiated to practice in both developing and developed countries (Vásquez et al., 2018). Consequently, firms must be adopted to the changing environment, and they must take appropriate measures to alleviate the change.	Reducing environmental pollution & resource degradation
		Effective utilization of resources
4. Quality standards, certifications	The requirement to guarantee the best quality services or products is a critical production planning issue (Bilal & Al Mqbali, 2015). Therefore, government's vision to link SMEs with transnational corporations, organize national quality awards, and item upgrading would ultimately assist them in enhancing the product quality (Hoffman et al., 1998).	Quality standards, certifications, & awards
5. Consideration of stakeholder needs in the business process	According to modern management and understanding, stakeholders are the set of interest groups with connections with the firms and whose interests are tied to the firms, such as customers, employees, suppliers, shareholders, and the community (Noe et al., 2017).	Stakeholder management
		Driven towards strategic proactivity
		Developing shared vision, strategy, & leadership

4.1 Business capability to adopt economic, social, and environmental challenges

The adaptability and flexibility of the SMEs to face various changes in the business environment will put them at the forefront of economic competition (Jayasundara et al., 2019). Under the concept of the business capability to adopt economic, social, and environmental challenges, we recognized three sub-thematic areas from literature: adapting to socio-cultural changes, adapting to economic changes, and adapting to environmental changes.

Adapting to socio-cultural changes

Analysis of the capability to adopt socio-cultural changes indicates that particularly the SME-related issues and barely the customer-related issues are drastically dimidiating the SMEs growth. As R6 mentioned, poverty, short-term investments to fulfill their day-to-day expenses, and unsatisfactory attitudes towards their businesses result in the stagnation of many enterprises. *“Most of the time, those SMEs in rural areas are suffering from poverty, and most often they operate small businesses just for the survival of their livelihood, not for profits, and they do not even have targets to operate their businesses. So, if they feel*

unsatisfactory with one business, they tend to move on to another business without any hesitation” (R6). He further stated that the customer’s affinity to imported products in the local market conducive to daunt the entrepreneurs to continue their businesses. “Also, most of the time, customers move towards imported products in the market due to lack of awareness, and that will lead to discouraging and discontinuation of most of the local SMEs” (R6). However, R2 implies that their prior task is to assist them in solving these issues. “What we are basically doing is helping them to solve those problems” (R2).

As R6 and R7 mentioned, due to the lack of status given to self-employment in Sri Lankan society, most of the younger generation abstains from engaging in it. *“Today most of the youth generation is reluctant to engage in self-employment/small businesses due to lack of status/value given by the society” (R6). Similarly, R7 stated, “They tend to abstain and underrate the industry, and therefore it becomes difficult to recruit new amateurs to vocational training. Even we have raised their monthly allowance... but now the consequent is, females are increasingly involved with the training to get the monthly allowance” (R7). The quote indicates the grim situation faced by the SME sector and the problematic situation faced by the institutional side, despite the provable actions the institutions have taken for addressing these issues.*

One of the respondents, R8, stated that getting into marriage causes some female entrepreneurs to cease their businesses due to the paternalism-based society in Sri Lanka. As per R8, *“There are many talented female unmarried entrepreneurs. When they get into marriage, they have to cease their businesses due to the reluctance from husband's side” (R8).*

R13 pointed out an extraordinary issue occurred in the registration process of SMEs due to the English-based application form. With their low English literacy, entrepreneurs face problems while filling the application forms. *“To register SMEs, they have to fill an application form issued by the Ministry of Industries. But the issue is the language of the form, and it is in English. Most of the SMEs coming to us are from very rural areas; very few of them cannot even write a letter in Sinhala” (R13). This implies that some policy-level decisions taken regarding SMEs are not empirical, and some institutional structures are not favorable for SMEs. The government should seriously consider addressing these problems and setting up effective institutional structures to help those oppressed SMEs.*

Adapting to economic changes

During the discussions held with SMEs, most respondents revealed that the delicate financial management skills are hampering the adaptation of SMEs as economic challenges. As R6 & R8 mentioned, misuse of profits, specifically the lack of financial management skills, result in many detrimental impacts on businesses. R6 stated, *“While continuing the businesses, most SMEs have to face liquidity problems; thus, most of the time, profits are used for their private consumption, not for reinvesting in the business” (R6). R8 revealed how the SMEs are confined to ‘microfinance debt traps.’ “Most of them tend to borrow loans from microfinance system for very high-interest rates... Ultimately the borrower cannot repay the loan due to mismanagement and the high-interest rate of the loan. So, they tend to borrow loans again to repay previous loans and ultimately fall into a debt trap” (R8). This indicates the weakness in business planning, capital acquisition, and specifically, lack of knowledge in the financial management of businesses. Such information implies the necessity of awareness programs to enlighten the SMEs on money management, choosing appropriate institutions to obtain a loan, and how to identify the accurate interest rates on loan. Furthermore, analysis of case R13 revealed that government banks are not supportive of these entrepreneurs when they are applying for financial assistance. “Most entrepreneurs are directed to us by private banks. Entrepreneurs do not go to many government banks because the systems of those banks are not favorable for them” (R13).*

Analyzing most of the cases implies that many institutions have already taken some effective actions in terms of solving most of the aforesaid issues. As R7 put it, *“Department provides tool kits to amateurs and pay 50% of the cost when they buy new machines. We organize exhibitions with free stalls to introduce*

entrepreneurs to new markets and to appreciate their products...We conduct training sessions and marketing sessions...Sometimes we arrange field visits to exchange experiences with entrepreneurs from other provinces” (R7).

Similarly, R11 explains the actions taken by their institution in terms of giving SMEs a monetary alleviation. *“We issue 1 lakh loan for entrepreneurs. When we are issuing loans, we do not concern about their CRIB reports. We only look for the ability of an entrepreneur to repay, and two government servants as guarantees” (R11).* The facts described above indicate that even though institutions have taken many provable actions concerning answering common issues among SMEs, there are still numerous adverse problems to be answered among rural businesses, afflicting their growth.

Adapting to environmental changes

According to most respondents, excess rain and high drought conditions are very unfavorable for many businesses. R8 stated that *“Sometimes they face problems such as unfavorable rain conditions, wild elephant attacks, and floods” (R8).* Similarly, *“Whenever there is no rain, irrigation is also a problem, even though there are two-three lakes, reconstructions are not happening for years” (R4).* Hence, most of the time, production gets diminished, and ultimately it restrains input supply for industries. *“Some flour-based entrepreneurs (millets, corn, and green gram) have issues when they are getting inputs, due to unfavorable weather conditions” (R9).* When exploring the relative perception of institutions in addressing environmental changes, these interviews revealed that almost all the institutions are lacking institutional readiness to address the issues. As R11 put it, *“We don't interfere with environmental changes related issues” (R11).* R8 expressed a similar idea. *“Since those are environmental issues, we can do nothing” (R8).* These statements revealed that authorities are not ready to take risks in addressing related environmental issues. It also signifies that, officers assigned for addressing SME-related issues neither have the confidence nor capabilities in providing solutions.

4.2 Application of ethical business practices

From literature, four sub-thematic areas identified under the concept of applying ethical business practices: adapting to green techniques, improving working conditions, salaries & wages, and fair trade.

Adapting to green techniques

The stimulation of green techniques among SMEs could also be identified in a challenging environment in accessing the local market. Aguliar et al. (2018) emphasized that, sustainability in a firm can be achieved only through the careful and responsible use of natural resources. According to R6, even though SMEs are desirous of adapting to green techniques, a market failure occurs for such products with the high production cost and lack of market demand. *“...there are a number of problems associated with green products due to high prices and lack of market development...So, it's necessary to develop a market for such products prior introduction” (R6).* This statement reveals that in a developing country like Sri Lanka, it is very challenging to find good market opportunities while adapting green techniques. It implies the importance of taking policy-level decisions and government institutions' involvement to promote these products among local consumers. However, R7 revealed that the lack of officers in their department hinders officers' participation in promoting these products. *“...there are only two or three officers here in the Department to cover the whole province, so it's difficult to promote such things” (R7).* It indicates the barriers beyond their capacity and shows the areas that need institutional interventions in terms of enforcing the human resource of such institutions.

The interview with R8 revealed that even in the Covid-19 pandemic situation, their institution is actively adapting to the ‘new normal.’ Thus, the firm is attempting to organize some special sessions in terms of

promoting green techniques. *“Since we can’t organize training sessions this year due to Covid-19, we have organized some special sessions for entrepreneurs to aware them about using water hyacinth as a raw material for bags and other products”* (R8).

Improving working conditions

During the discussions held with officers, almost all respondents mentioned that they are constantly engaged in improving working conditions. R8 said that they are enforcing SMEs with relevant technology and keep monitoring them. *“Yes. We give them the technology. Then we monitor them whether they are adapting or not”* (R8). R6 stated that they take measures to improve working and hygiene facilities. *“We are visiting the workplaces and giving necessary advice to upgrade the working and hygiene facilities”* (R6).

R8 explained the necessity of improving working conditions in food manufacturing and practical measures to enhance working conditions. *“...now consumers are aware of things like free of chemicals, quality, free of toxic materials, free of artificial flavors, and sanitation of the product. Without these things, an entrepreneur can’t move forward. Once a year, we organize a 12-day program to discuss these things, practically from A-Z”* (R8).

Some respondents mentioned that some SMEs are reluctant to adapt to those, which is the main barrier when reaching towards improving working conditions. *“Most of the SMEs that I have come across are reluctant to practice those. For example, though we guide workers in those food businesses to wear aprons while engaging in food processing, they are reluctant to adapt to those. Actually, I don’t know the reason”* (R6). According to the statement of R1, even though SMEs are getting subsidiaries from institutes, they are extemporary to use the resources they get effectively. *“Mostly they are expecting us to give subsidiaries. And even if we give those, they are not using it properly”* (R1).

R4 revealed that some government programs implemented for improving working conditions have many practical issues. *“We have a program called Good Agricultural Practices (GAP). But still, there are lots of problems... There is a sanitization sector. They need to build toilets. There need to be first aid boxes. But practically, it is hard to do those when it comes to farmers. Also, there are no contracts to buy those goods under that program”* (R4). This emphasizes, even though policy-level decisions are taken to improve the working conditions, attention must be procured when they are practically implementing at the ground level.

Salaries & Wages

Easter attacks and the Covid-19 pandemic situation perniciously hindered the income of SMEs. Many respondents revealed SMEs are facing many difficulties when paying salaries to their employees in recent years. *“In recent two years, most entrepreneurs had to remove their employees (working experience less than 06 months) due to difficulties in paying salaries due to low income”* (R10). R7 further stated that under the government rules & regulations, institutes’ capability to intervene in such incidents is enormously limited. *“We have identified so many difficulties for them to pay salaries to their employees. But as an institute under government rules and regulations, we don’t have a possibility to help them with such issues”* (R7).

However, R8 emphasized the importance of enforcing SMEs with financial discipline and human resource management skills. He stated that they give solutions in terms of facing such problems. *“Basically, if an entrepreneur can’t pay salaries to employees, there is something wrong with him. We have to identify that, and first of all, we have to teach them Human Resource Management. Then the financial discipline. Yes... we give solutions to them. Mostly there are very talented entrepreneurs with good management skills, and they don’t have such problems”* (R8). Similarly, R13 revealed that their institution is inspecting and

advising SMEs to care for employees working in firms. “Yes, we inspect about salaries and facilities provided for employees, and we advise them” (R13).

Fairtrade

The discussions held with most respondents revealed that their institutes are not directly involved with the regulation of quality & price. According to R13, in this case, SMEs are on their own. “They are setting prices to products by their own based on their quality and market conditions” (R13). R1 implies that even their institutions are guiding SMEs in the right direction, they are dissimulating to seek instant profits. “What most of the farmers are doing now to increase the quantity is adding water to milk; we are giving all necessary advice to increase the quality of milk. When it comes to chicken, the way of producing eggs and providing food for them and getting the greatest number of eggs from the least amount of age, we are giving that kind of advice” (R1). This statement revealed that government institutions must take more actions to develop SMEs' attitudes in terms of developing their mindset.

The interviews with R8 and R9 disclosed that their institutions had taken several measures to promote fair trade among SMEs. “Yes, our technology unit screen out the quality, and the financial unit does the costing...When they come to us with problems, we give recommendations for them, and in our training sessions, we make aware them” (R8). Similarly, R9 stated that they had initiated the traffic light code system to ensure food items' quality. “In the food sector, they have to get the Traffic Light Code (sugar, fat, salt), nutrition content, and expiration date to their product. We get samples, we analyze them in our laboratory in our Head Office, and we give them results within a week” (R9). These statements imply that there are specifically established or recognized setups in the institutional setting to support SMEs, which aimed to enhance the quality of the production process and to regulate prices.

4.3 The respect to limited natural resources and environmental values in the business process

The study recognized two sub-thematic areas under the concept of respect to limited natural resources and environmental values in the business process: (1) reducing environmental pollution & resource degradation, (2) effective utilization of resources [drawn back from literature].

Reducing environmental pollution & resource degradation

During the discussions, most respondents demonstrated the measures taken by their institutions for reducing environmental pollution and resource degradation. Most institutions are conducting advisory services, training programs, and keep inspecting businesses. According to R6, they are advising and giving alternatives to SMEs regarding waste management. “We are giving them the advice to make a biogas unit. But it is costly, so we asked them to take the dump separately and take other waste separately” (R1). This statement shows the flexibility of institutions by alternatives with regard to waste management, and the ultimate result would be enhanced comity between institutions and SMEs. R6 reported a similar experience. “Yes, of course, we always focus on environment-related issues... depending on the industry, we guide them to control actions” (R6).

R3 emphasized the protective measures taken on agrochemicals. “We do soil protection programs in selected areas. Other than that, we are working on agrochemicals and their use” (R3). But, as revealed by R8, most of the SMEs are unaware of government rules and regulations. “Most of them don't even know about the Environmental Protection License (EPL). We conduct training sessions for those entrepreneurs with the participation of the Central Environmental Authority to aware them about those environment-related matters” (R8). It indicates the endeavor of these institutions in terms of helping SMEs by building partnerships with relevant authorities like the Central Environmental Authority. Analyzing these cases

implies that these institutions are attempting to introduce applicable waste management techniques to cater to the diverse demand for resources in the near future.

Effective utilization of resources

As revealed by many respondents, these institutions do not conduct any specific program except training sessions. According to R7, *“Sometimes we conduct training sessions regarding recycling and reuse of products”* (R7). A similar experience was reported by R10. *“Yes, we guide them towards recycling & reuse. We only guide them, continuing of those practices are up to them”* (R10). These two statements emphasize the inadequacy of institutions' contribution to the effective utilization of resources in SMEs' business process. This implies that institutional intervention is highly essential in promoting sustainability concepts among the SMEs if the country expects to shift firms in the SMEs setting to the next scale and make them stable and survivable in the competition. Moreover, R9 implies that the effective utilization of resources is the key to increase firms' production efficiency. *“Yes, of course, without those things, we can't increase their efficiency. So, we conduct training sessions to aware them of the utilization of resources”* (R9).

However, R1 and R3 mentioned some successive attempts achieved by SMEs concerning effective utilization of resources. *“We found a lady recently who put Aloe Vera to her products. Aloe Vera and milk, she has got a good market. We are also helping her, and she is in a good position”* (R1). R3 reported a similar experience. *“Under our institute, there is a program called “Sithamu Kantha Sangamaya.” They are doing their own little businesses such as making jam using excess fruit harvest. When it comes to the season of jackfruit, they dry them. In such periods, the women entrepreneurs buy extra products and do such productions.”* (R3). The analysis of R3's statement on effective utilization of resources reveals the trends of demand for their value-added products. Similarly, institutions have updated the entrepreneur about existing opportunities for their products in the market and advised on appropriate product decisions. Thus, these firms are attempting to introduce new value-added products by utilizing readily available resources to cater to the consumers' diverse demands in the globalized market.

4.4 Quality standards, certifications

Quality standards, certifications, and awards

One of the major production planning constraints of SMEs facing is the requirement to permit the best quality services and products for consumers (Ortega, et al. 2016). According to the interviewed entrepreneurs' perceptions, related institutions are not well-prepared to support SMEs to gain the specific advantages of quality standards and certifications. In-depth discussions with respondents indicate many practical issues from the SMEs' aspect. *“There are a number of practical problems associated when applying for quality standards. One major problem is that applicants have to incur high costs for the application procedures. Sometimes this cost is even higher than the monthly profits of most SMEs.”* (R6). This statement of R6 implies the importance of re-structuring institutional mechanisms to enhance the simplicity of applying procedures and reduce costs to acquire quality standards & certificates. As R8 stated, the egoism of some entrepreneurs hampers their possibilities to acquire quality standards and certifications. *“When they apply for a certificate, sometimes, relevant authorities give suggestions for them regarding their product or procedure. But this kind of entrepreneurs shows disfavor for these suggestions; hence their applications get rejected”* (R8).

However, R9 stated that institutions are financially assisting SMEs with the help of government grants. *“Some of them have financial problems when acquiring quality standards. At that time, we financially grant them. Even for GNP and ISO certificates, entrepreneurs receive 50% of the cost as a grant from the Government”* (R9). R12 stated their measures to improve SMEs' awareness of quality control, technology decisions, and assistance to get test reports. *“We always aware of them about quality control and technology decisions. Also, we conduct training programs. Sometimes we check their samples and give them test*

reports” (R12). These statements reveal even though institutions and officers are supportive, institutional mechanisms are not favorable for SMEs for acquiring utmost benefits from quality standards and certificates. It indicates the necessity of policy-level intervention to restructure the system.

During the discussions, a few respondents declared that their institutions organize exhibitions to award SMEs to strengthen them. As per R7, “*We organize exhibitions to appreciate their products, and we select best products. We award those products and selected entrepreneurs are guided to Presidential Awards*” (R7). R11 reported a similar experience. “*We conduct exhibitions and arrange mobile stalls for them*” (R11).

Most respondents reported that they organize partnership programs or knowledge sharing sessions with the collaboration of large-scale companies/MNCs, with a particular focus on quality assurance. As per R6, “*Yes, of course...Once, we took SMEs, who operate in floriculture, to visit large-scale farms, and there, they could get hands-on experience on how the large farms apply most farming practices. After all, some of them built up links with those farms even.*” (R6). A similar experience was reported by R8: “*We organized programs with Uni Lever, Singer, and many other companies.*” R7 indicated the ultimate advantage of their exhibitions in making a good platform for SMEs to make contacts with large-scale companies/MNCs. “*Yes, in our exhibitions, entrepreneurs have the opportunity to make contacts with them*” (R7).

4.5 Consideration of stakeholder needs in the business process

Under the concept of consideration of stakeholder needs in the business process, we recognized three sub-thematic areas: (1) stakeholder management, (2) driven towards strategic proactivity, (3) developing a shared vision, strategy, and leadership [from literature].

Stakeholder management

During the discussions held with respondents, the majority mentioned that they intervene to build linkages between SMEs and stakeholders. According to R7, they always engage in finding suppliers and buyers for SMEs. “*We facilitate linkages between producers and suppliers. We help them to find companies to sell their products...In some cases, large-scale companies contact us to find entrepreneurs as suppliers for them... but the problem is the scarcity of entrepreneurs/suppliers to fulfill their requirements*” (R7). Analyzing this statement of R7 reveals that production is scarce. Hence, it implies the urgency of involvement of institutions concerning production enhancement. Similarly, R11 explained the measures they take to improve those linkages. “*We support them to link with stakeholders, where necessary. Sometimes we get orders from a government-based institution, at that time we link them and guide entrepreneurs to supply their products*” (R11). R8 reveals they have assigned specific officers to SMEs aware of stakeholder availability. “*We select entrepreneurs, and we are aware of them. Without a proper supply chain, they face many problems like the low quality of raw materials, insufficiency of suppliers, etc.*” (R8). According to the perceptions of the interviewed officers, overall institutional support to address issues in stakeholder management seems considerable, but the scarcity of production indicates the necessity of institutional intervention to enhance the production of firms.

Driven towards strategic proactivity

Anticipating market competition changes and making appropriate shifts in response is an important move for surviving in the competition, particularly to the SME sector, enabling them to sustain global competitiveness and enter international markets. Therefore, the study set out to investigate the readiness of SMEs towards strategic proactivity. As revealed by R12, their institutions have recognized the importance of adaptation to market changes, specifically by giving consumers new innovative products. “*Yes, we aware them of doing appropriate shifts at the right time. In our laboratories, we conduct research and innovate*

new food products. We made entrepreneurs aware of adapting to those new products” (R12). According to R12, they transmit their innovative research findings, and technology to SMEs.

Similarly, R9 explained the importance of the value addition process in making appropriate shifts, and the ultimate result would be enhanced survivability in the global competition. *“We always give a hand to go for value addition to their basic product, and we conduct training programs to aware them.” (R9).* However, R7 reveals that in many cases, some SMEs are participating in business activities only to fulfill their daily expenses; hence it becomes difficult to direct them towards strategic proactivity. *“Yes, we organize training sessions for entrepreneurs to energize them with latest technology and techniques to compete with market conditions...But the problem is most of SME level producers are involved in the industry to acquire only their daily expenses” (R7).*

Developing shared vision, strategy, and leadership

According to the discussions, many officers revealed a high institutional readiness towards organizing programs to develop shared vision, strategies, and leadership. R8 stated that their institution organized a program named ‘Achievement Motivational Training’ to develop SMEs' attitudinal skills. *“In our 12-day training program, we assigned five days for Achievement Motivation Training. Under that, we aware of leadership, decision making, risk-bearing, etc. Even we conduct practical sessions” (R8).* A similar experience was reported by R11. *“Yes, in our management training sessions, we facilitate them leadership and other attitudinal training” (R11).*

R6 revealed the excessive number of programs that many institutions have organized. *“There are more than enough personal development programs (conducted by Institutes like Central bank etc.), and we generally direct SMEs in our area to those programs (R6).* However, according to R4, very few SMEs contribute to these programs. *“There are around 5% who are into those. Others are in the conventional stage. There are people who are asking for help, we have no funds for those. We provide support when we could” (R4).* This statement emphasizes that still, most SMEs are in the conventional stage. It further reveals that even though many institutions have sufficient resources to conduct programs, yet some institutions lack funds and resources. This indicates the requirement of implementing new policies to prevent discrepancies of grants from the government for enhancing the efficiency of the institutional network.

4.6 The overall perception of institutional support towards facing sustainability challenges

When exploring the relative perception of field-level officers on institutional support towards facing SMEs' sustainability challenges, many officers bring out issues regarding lack of government support for their institutions and SMEs, lack of human resources, conventional attitudes of SMEs, and constantly changing government policies. According to the statement of R11, they did not receive any grant from the government since 2017. *“Even our authority did not receive money allocations from the provincial treasury since 2017. So, we are facing problems when providing services to entrepreneurs. It affects them very badly” (R11).* This statement emphasizes how this issue ultimately affects SMEs negatively. The negative impression of government support was indicated by many officers.

As per R9, *“Most of the time, government support for them is not enough. Some monetary policies confine entrepreneurs in many aspects” (R9).* A similar experience was stated by R12, explaining the importance of empowering the country's research sector. *“From the government's side, grants for county's research sector are not adequate.” (R12).* Statement of R7 reveals that lack of human resources in government departments and other institutions hamper officers' possibilities to intervene in sustainability challenges of SMEs. *“It's necessary to promote those products, but with less human resources, for example, including me, there are only two or three officers here in the Department to cover the whole province, so it's difficult to promote such things” (R7).*

Many of them repeated their dissatisfaction throughout the interview, especially regarding conventional attitudes of SMEs. As revealed by R1, some SMEs are not ready to accept advice from related institutions, and many lack financial management skills. *“We are giving advices...they are not accepting. That is a problem. Also, we are giving subsidiaries. But they are not using that money in their business...”* (R1). This statement revealed the lack of SME readiness to obtain benefits from specifically designed SME development support programs.

R8 emphasized that constantly changing government policies cause considerable damage to the production efficiency of firms. *“The problem is, government to government, they change policies. Those changing policies cause jamming of production of entrepreneurs”* (R8). In a similar vein, R9 revealed that unfavorable monetary policies and rash import bans hamper the growth of SMEs. *“Some monetary policies confine entrepreneurs in many aspects. Banning imports such as turmeric affect negatively to most of the spice producers”* (R9).

5. CONCLUDING REMARKS

This study explores the impact of the sustainability challenge for SMEs emerging from both the expeditious change in the business surrounding and expeditious environmental change, which drastically affect to attain success in the competitive local and global markets. The research set out to answer two research questions; what are the sustainability challenges and constraints faced by SMEs? And what is the relative perception of field-level officers on institutional support towards facing sustainability challenges?

The study has concluded five strategic approaches for confronting the challenge successfully, and each of these approaches focused on sub thematic areas at various levels.

First, SMEs should have the potential to recognize and adapt to economic, environmental, and social changes. In this connection, the study recognized the importance of firstly, policy level, and secondly, institutional level ongoing discussions over potential changes in the society, economy, and environment, and thereby legislature intercession to ensure the financial security, egalitarianism, social status, social security, and environmental security to achieve a regionally balanced SME growth across Sri Lanka.

The research also reveals the importance of strengthening the entrepreneurship values, attitudes, and thinking in domestic educational institutions' curriculum, including vocational and technical programs to generate job creators rather than employment seekers. It is evident that the existing regulatory environments and policies concerning SMEs admitted sustainability in a broader context and furnish a framework for business firms to adjust to the changes sustainably to some extent.

With the ethical business practices, the findings demonstrated that the economy-wide policy reforms initiated by many successive governments indicate their commitment towards an ethically competitive economy and combining sustainability. However, an in-depth analysis of the study reveals the lack of awareness of SMEs on green growth opportunities and promoting environmental-friendly cleaner production technologies and practices. Moreover, it indicates the importance of establishing a solid network, link, and platform between SMEs and government institutions and giving more authority to relevant field-level officers.

The SME sector has to be dynamic, innovative, robust, and technologically-driven. In this issue, government support is a suggested strategy to the areas where, as per the study, are influencing by policy, technology, subsidies, education training, human resource management, financial discipline, and quality & price control.

With respect to limited natural resources and environmental values in the business process, the study points out the importance of improving recycling systems and aware firms on material flow analysis and incorporation and prolonged producer responsibility arrangements into the laws and regulations. The government institutions must play an active role here to develop acquirable and straightforward solutions, which enable the businesses to achieve their targets in a more environmentally-friendly approach by creating demand for environmentally-friendly and sustainably produced products from firms. The study emphasizes the importance of implementing government green procurement policies at all levels and nurture media campaigns to generate public awareness of the importance of the environment.

In-depth discussions with respondents indicated that the sustainability challenge of producing quality products could be easily achievable through simplification of applying procedures to quality standards and certifications, providing SMEs access to growth, offering financial support, making technology decisions, initiating national awards for quality products and services, and linking firms with large-scale companies and MNCs. The availability of skilled officers and condescending workforce are economical when guiding SMEs towards quality standards & certifications and sharing knowledge with large firms & MNCs create opportunities to adopt quality-assuring practices among SMEs.

Under the consideration of stakeholder needs in the business process, the study reveals that institutions' overall performance is relatively successful. Thus, establishing a strong platform, network, and link between firms and stakeholders, such as exhibitions, would ultimately lead the SME sector to success.

Therefore, sustainable strategy formulation based on the relationship between firms' performance and mission statements should be clearly initiated to ensure a common platform, provide specific guidance and motivation, and share the standard message with main and relevant stakeholders. Moreover, this study emphasizes that establishing closer linkages between firms and research institutions and promoting industry-relevant applied research and adoption of research would ease-off SMEs to anticipate market competition changes and make appropriate shifts in response. Also, government authorities' involvement in establishing special funds to give institutions financial strength when developing a shared vision, strategy, and leadership is necessary.

The essence of this research has highlighted the importance of having a single coordinating institutional body responsible for handling and coordinating SME-related matters. The government should focus on continuous investing in the industry and providing incentives for the SME sector. Legislative policies must be implemented to support and strengthen the decision-making capabilities of industry-related chambers, institutions, associations, and bodies that support and promote SMEs.

The government should give priority to restructure and develop mechanisms through its SME development programs to facilitate SMEs' low cost and reliable information at the national level and provide a hand to select better governance model to ensure sustainability in the competitive environment. The services given by the government to the firms should be improved with SMEs' readiness to get support, and it should avouch effective solutions to their issues. This could be ensured by implementing mechanisms that continuously observe, assess, and improve business support services' quality. This research revealed that most institutional officers and support providers are not ready to take risks, and they lack self-developed procedures to continuously ensure an adequate standard of quality of the services that they provide. For enhancing their services, it is mandatory to develop an appropriate structure that comprises several obvious measures that powerfully communicate the services. The results of the study suggest that those issues identified are primarily unique to SMEs. Hence, future researchers should make in-depth investigations on these identified issues, which could measure the sustainable development of SMEs and institutional support services. This evidence is helpful to the government and policymakers to find ways to identify these SMEs' needs. Customized support programs and implementing new policies should follow.

FUNDING

This research was supported by the Accelerating Higher Education Expansion and Development (AHEAD) Operation of the Ministry of Higher Education funded by the World Bank.

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Appendix 1: Interview Guide

Main Competitive Challenge	Components of each challenge	Main Questions	Remarks
Sustainability Challenge	S.1. Business capability to adopt economic, social & environmental changes	<p>S.1.1- Have you identified any socio-cultural changes/ related challenges that SMEs have encountered so far? If yes, briefly explain</p> <p>S.1.2- Have you identified any economic changes/ related challenges that SMEs have encountered so far? If yes, briefly explain</p> <p>S.1.3- Have you identified any environmental changes/related challenges that SMEs have encountered so far? If yes, briefly explain</p> <p>S.1.4-Extent to which your institute has focused on providing support for SMEs in adapting to such changes/challenges</p>	Any advisory services/training / awareness programmes/ consultancies etc.
	S.2. Application of ethical business practices	<p>S.2.1-Adopting to green techniques: How far your institute has focused on promoting green techniques in production process of SMEs</p> <p>S.2.2- Improving working conditions: How far your institute has focused on quality of the working conditions within workplace of SMEs & giving insights into areas where they should focus more on...</p> <p>S.2.3- Salaries & wages : Have you identified any barriers that SMEs face when paying salaries & wages to employees. If yes, briefly explain</p> <p>Extent to which your institute has focused on wages & welfare facilities of workers in SMEs (Do you have any mechanism to screen-out or make SMEs aware on minimum wage laws/ other labor laws?)</p> <p>S.2.4 -Fair Trade: Do you have any procedure to screen-out the quality & prices of products</p> <p>Extent to which your institute has focused on quality & price related matters? (Any advisory services/ awareness programs etc)</p>	Whether any advisory services/ awareness /training programmes implemented so far
	S.3.Respect to the limited natural resources & environment	<p>S.3.1- Reducing environment pollution & resource degradation</p> <p>Extent to which the institute has focused on environment related issues of SMEs (Any advisory services provided for SMEs in getting licenses/permits & controlling</p>	

	values in the business process	environment pollution/establishing waste management systems.) S.3.2- Effective utilization of natural resources Extent to which the institute has contributed towards effective utilization of natural resources in business process (Any advisory services/awareness programmes provided for SMEs wrt reduce, reuse, recycle, byproducts & moving towards renewable energy sources)	
	S.4. Quality assurance	S.4.1: Quality standards, certifications and awards Have you identified any barriers encountered by SMEs when acquiring quality standards/ certificates? Extent to which your institute has directed SMEs towards quality assurance (Any advisory services/awareness programs to get the quality standards/certifications) Extent to which the institute has focused on conducting training programs wrt quality control / technology decisions of production process? Whether any network/partnership programs or knowledge sharing sessions (with the collaboration of MNCs/large scale companies) conducted with a special focus on quality assurance?	
	S.5. Consideration of stakeholder needs in the business process	S.5.1: Stakeholder management Extent to which the institute has focused on stakeholder management of SMEs (Whether any advisory services provide on how to manage various types of stakeholders attached to business)? S.5.2: Driven towards strategic proactivity Extent to which the institute has contributed SMEs in anticipating market and competition changes and making appropriate shifts in response (Whether any advisory programs/workshops conducted at divisional level) S.5.3: Develop shared vision, strategy & leadership Extent to which the institute has focused on supporting SMEs to develop shared vision, strategies & leadership for a long-term survival (Any leadership trainings, advisory services provided at divisional level)	