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## VALUE CREATION IN MICRO AND SMALL AND MEDIUM ENTERPRISES (MSMEs) IN SRI LANKA

Malawige I.R.

University of Moratuwa, Sri Lanka

inokaa15@gmail.com

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### ABSTRACT

Micro and small and medium enterprises (MSMEs) are identified as the most ‘popular’ scale that play a major role with their contribution on innovation, Gross Domestic Product (GDP), and employment in economy. The MSME sector in Sri Lanka making up more than 98% of total establishments, accounts for only 52% of GDP and 75% of total employment. Value creation is producing a product or a service that meets customer demands, which focus on creating value for customers and ultimately stakeholders. These customer value propositions are delivered through internal business processes. Three key categories that create value in businesses have been identified as productivity, activity, and price. The study, with explanatory purpose and survey strategy, was carried out for in 2017 covering 194 MSMEs in three sectors in Sri Lankan economy, namely industry and construction, trade, and service. Data was collected with observation and structured questionnaire referring to seven tactics of value creation. Mix research method was employed for data collection and analysis to ensure achievement of research objectives. The results show that more than 55% of MSMEs demonstrate low value creation (in five-point likert scale) with their productivity and activities, with lack of access to finance, resource, skill acquisition and development, weak technology infrastructure, lack of opportunities and assistance for entrepreneurs, and inadequate institutional capacities. However, MSMEs like any other establishment, try to maintain effective pricing (include both input and output), as it is one of key factor for business continuity. There is vigorous need to promote MSMEs by enhancing productivity (improving operational efficiency by investing on people, technology, and process) and strengthen technology infrastructure; enhancing activities (including utilizing scale economies and improving product mix) to create high value. However, appropriation of created value finally needs to enhance with enhanced value creation, to ensure competitive success for these MSMEs.

**Keywords:** Micro and small and medium enterprises (MSMEs), value creation, operation, productivity, Sri Lanka