



Unraveling the Effects of the Financial Crisis on the Going Concern of Sri Lankan Tourism-Related SMEs: A Qualitative Inquiry

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Abstract.

This research focuses on assessing the repercussions of the financial crisis on the sustainability of Sri Lankan tourism-related SMEs. Employing purposive sampling, twelve SME owners, each with a minimum of five years of operational history within the years 2018 to 2022, were selected to represent this vital sector. Through in-depth interviews, we investigate how the financial crisis affected the continued operation of these tourism-related SMEs. The findings demonstrate the diverse and profound impacts of the crisis. Many SMEs grappled with rising costs, inadequate working capital, and the looming threat of bankruptcy. Notably, the financial crisis marked a turning point for Sri Lanka's SMEs, triggering a shift in the domestic production landscape due to currency fluctuations and import constraints. The study also delves into the dynamic relationship between financial resources and organizational strategies, revealing configurations that ranged from notably productive to less so. We explore how increased financial resources, amidst macroeconomic restrictions, could influence these dynamics. In summary, this study provides critical insights into the unique challenges faced by tourism-related SMEs in Sri Lanka during the financial crisis. By implementing the recommended strategies, these enterprises can not only navigate the crisis's hurdles but also harness new growth opportunities.

Kata Kunci:

Krisis keuangan,
Kelangsungan hidup,
Pariwisata,
UKM,
Srilanka.

Abstrak.

Penelitian ini berfokus pada penilaian dampak krisis keuangan terhadap keberlanjutan UKM terkait pariwisata Sri Lanka. Dengan menggunakan pengambilan sampel secara purposif, dua belas pemilik UKM, yang masing-masing memiliki riwayat operasional minimal lima tahun antara tahun 2018 hingga 2022, dipilih untuk mewakili sektor penting ini. Melalui wawancara mendalam, kami menyelidiki bagaimana krisis keuangan berdampak pada kelangsungan operasional UKM yang terkait dengan pariwisata. Temuan-temuan ini menunjukkan dampak krisis yang beragam dan mendalam. Banyak UKM yang bergulat dengan kenaikan biaya, modal kerja yang tidak memadai, dan ancaman kebangkrutan. Khususnya, krisis keuangan menandai titik balik bagi UKM di Sri Lanka, yang memicu pergeseran lanskap produksi dalam negeri karena fluktuasi mata uang dan kendala impor. Studi ini juga menggali hubungan dinamis antara sumber daya keuangan dan strategi organisasi, mengungkapkan konfigurasi yang berkisar dari produktif hingga kurang produktif. Kami mengeksplorasi bagaimana peningkatan sumber daya keuangan, di tengah pembatasan makroekonomi, dapat mempengaruhi dinamika ini. Singkatnya, penelitian ini memberikan wawasan penting mengenai tantangan unik yang dihadapi oleh UKM terkait pariwisata di Sri Lanka selama krisis keuangan. Dengan menerapkan strategi yang direkomendasikan, perusahaan-perusahaan ini tidak hanya dapat mengatasi rintangan krisis namun juga memanfaatkan peluang pertumbuhan baru.

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1. Introduction

Historically, tourism has held a significant role as the third-highest source of foreign exchange revenue for Sri Lanka (International Trade Administration, 2022). It is known that the tourism industry, globally, regionally, and locally, wields substantial influence over trade, investment, infrastructure, incomes, and environmental factors, including climate change (Sri Lanka Tourism Development Authority, 2023; Nagendrakumar et al., 2021, 2023; Sathiamoorthy et al., 2020). It is a potent catalyst for poverty reduction, wealth creation, and employment generation, particularly in developing countries, offering extensive opportunities for women and young individuals. Moreover, it fosters collaborative, multi-stakeholder initiatives for conservation and climate change response. In addition to these merits, it plays a pivotal role in enhancing social well-being across its extensive value chain.

Furthermore, the presence of the tourism industry acts as a catalyst for business activities, with potential implications for innovation and the enhancement of capabilities for Small and Medium-Scale Enterprises (SMEs) (Asthana, 2023; Gutierrez et al., 2020). SMEs, recognized for their smaller size in terms of employees, assets, and revenues compared to large-scale enterprises, represent a vital sector in addressing unemployment and poverty, particularly in developing countries (Sri Lanka Export Development Board, 2021). The intertwined relationship between the tourism industry and tourism-related SMEs has been well-documented, showcasing how they mutually support each other. For instance, SMEs drive economic activity by providing unique goods and services, while the growth of the tourism industry creates demand for these offerings. Their agility and innovation enrich the tourism product, diversifying destination appeal and enhancing visitor experiences. SMEs also play a vital role in supply chain integration, destination development, and collaborative efforts that strengthen the overall tourism ecosystem. This interdependence fosters economic growth, innovation, and sustainability within the tourism sector. However, the sector suffered a substantial blow commencing in 2020 due to the onslaught of the COVID-19 pandemic and the subsequent financial crisis. Consequently, the repercussions of the financial crisis on the tourism industry reverberate through the SMEs in the tourism sector.

Amidst the ongoing financial crisis in Sri Lanka, a crisis that reached its zenith in 2022, SMEs operating in the country face notable challenges. However, there is a dearth of comprehensive studies investigating the unique and unprecedented crisis scenario in the Sri Lankan context, particularly with respect to its impact on SMEs. This study seeks to address this gap in the existing literature by furnishing valuable insights into the consequences of the recent financial crisis on SMEs in Sri Lanka. The study ensures its reliability by directly sourcing information from pertinent and reliable sources. This research aims to shed light on the challenges confronted by SMEs and the strategies they employ to navigate the financial crisis, contributing to a deeper comprehension of the dynamics within the SME sector. Ultimately, the findings from this study not only enrich academic understanding but also offer essential guidance for policymakers, industry practitioners, and SME owners in Sri Lanka.

2. Literature Review

In Sri Lanka, the classification of SMEs is determined by criteria related to the number of employees and annual turnover, as specified in Table 1 of the 2020 national policy framework for SME development published by the Ministry of Industry and Commerce.

SMEs in Sri Lanka have long played a pivotal role in the country's economic landscape, accounting for over 75% of businesses, and contributing significantly to exports, employment, and the GDP (Chen & Sabyasachi, 2022; International Finance Corporation, 2020; Yeshana et al., 2022; Kuruppu et al., 2022). However, the Sri Lankan economy is currently grappling with an unexpected financial

crisis characterized by high inflation, soaring commodity prices, power shortages, and fuel scarcity. Additionally, agricultural production has suffered due to failed initiatives, leading to a significant loss of income for households and adverse effects on businesses (OCHA, 2022).

Table 1. Defining SMEs in Sri Lanka

Sector \ Size	Criteria	Medium	Small	Micro
Manufacturing Sector	Annual Turnover	Rs. Mn. 251 – 750	Rs. Mn. 16 – 250	Less than Rs. Mn. 15
	No. of Employees	51 – 300	11 – 50	Less than 10
Service Sector	Annual Turnover	Rs. Mn. 251 – 750	Rs. Mn. 16 – 250	Less than Rs. Mn. 15
	No. of Employees	51 – 200	11 – 50	Less than 10

Source: Based on Ministry of Industry and Commerce (2020)

The concept of the "going concern" in accounting suggests that businesses are expected to continue operations indefinitely, operating in the foreseeable future (Kaya & Uzay, 2017). However, the risks to the going concern of SMEs are substantial and must be effectively managed. The Going Concern Assumption (GCA) is a fundamental prerequisite for economic growth and stability, becoming especially critical during economic and financial crises when resources become scarce or uncertain (Zéman et al., 2018).

Despite the acknowledged significance of SMEs, substantial progress in their development has been limited. While government incentives and bank support have aided SMEs in sustaining their operations, recent financial crises, including the COVID-19 pandemic, have eroded the survival conditions for these enterprises in Sri Lanka (Sriyani, 2022). High failure rates and slow growth compared to other countries have been observed. The financial crisis has exacerbated these challenges, with lending conditions and banks' reluctance to provide credit hindering access to capital. High loan interest rates, inflation, and sluggish economic development pose further obstacles (Santos, 2021). SMEs face liquidity problems due to revenue losses, increased inflation impacting wage payments, decreased demand for goods and services, order cancellations, and reduced customer visits, all leading to reduced financial performance and capacity utilization (Sriyani, 2022).

This situation has put a significant number of jobs at risk, particularly due to import restrictions (Kulatunga, 2022). Industries like tourism and construction have been severely affected, with delays in construction projects and losses in the hospitality sector (Shukla, 2022). Despite the economic importance of SMEs, various external factors, including high inflation rates, impact their survival during financial crises (Dawood, 2022). To cope, SMEs are increasingly looking outward for opportunities in their environment (Kottika et al., 2020). Survival becomes paramount in the face of sudden inflation rate fluctuations, making it challenging to cover daily business expenses.

SMEs also struggle to obtain loans and meet their capital requirements, as the financial system often prioritizes larger, more qualified clients. The Government of Sri Lanka has issued interventions, including grants, special loans, refinancing schemes, and credit guarantee schemes, have been proposed to address this issue (Central Bank of Sri Lanka, 2020). Furthermore, the "Twin Pillar Approach to Access to Finance" aims to ensure funds are available to SMEs and improve banks' perception and support for SMEs (Wijesinha & Perera, 2015). In Pakistan, SME performance is affected by various barriers, such as infrastructure and funding limitations, economic constraints, corruption, and managerial concerns, all of which correlate with entrepreneurial SME failure (Khan, 2022). In conclusion, SMEs face numerous challenges during financial crises, and their ability to

innovate and navigate these challenges is crucial for their survival. Government support, access to finance, and strategic resilience are key factors that influence SME success during economic downturns.

Insights from Recent Studies on the Impact of Crises on Tourism-Related SMEs

A study conducted in the Southern province of Sri Lanka found that SMEs in the tourism industry generate higher profits compared to SMEs outside the tourism industry, with quantitative methods such as Econometric and Regression analysis used for these findings (Deyshappriya & Nawarathna, 2020). These findings align with previous research (Mustafa & Mohamad, 2011), emphasizing the advantages of tourism-related SMEs. However, the Easter Sunday attacks in 2019, followed by the COVID-19 pandemic and the 2022 financial crisis, have created challenging conditions for both tourism and non-tourism SMEs.

A qualitative study conducted in Iran regarding strategies employed by SMEs in the tourism sector during the COVID-19 crisis revealed that tourism SMEs suffered disproportionately (Rastegar et al., 2023). Despite previous experiences, these SMEs struggled to build resilience. However, lessons from past crises can aid in mitigating future risks, with recommendations including shifting toward the domestic tourism market, embracing nature-based activities, and merging with other tourism-related SMEs. Moreover, research findings showed a positive relationship between entrepreneurial characteristics and SME growth (Ratnayake et al., 2013), influencing strategic decisions.

A study focusing on the economic impact of COVID-19 on hotels in London and Stockholm underlined the necessity for crisis management techniques. It found that although economic crises had a comparable effect on destinations in terms of lost passengers and revenue, a more focused study revealed that different locations required different crisis management approaches (Waller & Abbasian, 2022).

Sri Lanka's tourist sector significantly contributes to its economy, and efforts to re-establish its status as a top global travel destination are ongoing. A study presented a two-phase approach, with Phase 1 concentrating on immediate solutions, including health and safety certifications for hotels, sanitation at airports, and quarantine hotels (Sivesan, 2021). Phase 2 focuses on long-term plans for rejuvenating the tourism sector.

A study utilizing Monte Carlo simulations assessed the economic impact of COVID-19 on the tourism industry in the Balearic Islands, revealing an 89% drop in 2020 (Arbulú et al., 2021). The sensitivity of tourism to crises puts many jobs at risk, especially among women. Risk management becomes pivotal due to supply and demand shocks.

An examination of the economic effects of COVID-19 on small businesses in Malaysia's tourism and hospitality sectors found that SMEs, including hotels, local food providers, and transportation services, were hit hard (Abhari et al., 2022). They had to adapt to survive, focusing on online methods and financial and psychological support. Incorporating sustainability concepts is crucial for the competitiveness of tourism-related SMEs, especially in light of crises. A study highlights the need to evaluate competitiveness, considering internal and external factors to enhance the resilience of tourism SMEs (Gârdan et al., 2020). The COVID-19 crisis has significantly impacted Colombia's tourism industry, specifically in hotels, travel agencies, and restaurants. Internal measures focusing on financial strategies and innovation in marketing and services have proven more effective for businesses than government initiatives (Perilla et al., 2022).

In conclusion, the findings from the diverse range of studies discussed underscore the urgent need for focused attention on the challenges and resilience of tourism-related SMEs in the face of various

crises. The accumulated evidence reveals that these SMEs play a pivotal role in economies, yet they face disproportionate impacts during times of crisis, whether stemming from pandemics, financial turmoil, or other unforeseen events. As the global landscape continues to evolve, the importance of understanding how tourism-related SMEs adapt and innovate to navigate these challenges cannot be overstated. This timely requirement for comprehensive research and strategies is not just an academic pursuit; it's a practical imperative. Policymakers, industry practitioners, and business owners need these insights to shape effective measures, bolstering the resilience of tourism SMEs and, by extension, contributing to the revival and sustainability of local and global economies. It is evident that SMEs in the tourism sector are at a critical juncture, and the knowledge gleaned from these studies will be instrumental in shaping their future and fostering economic recovery.

3. Methodology and Data

This study serves as an exploratory investigation into the effects of the 2022 financial crisis on SMEs in Sri Lanka. It was conducted during a period when the financial crisis remained relatively underexplored, positioning it as one of the initial studies in this specific context. The data collection process in this study was instrumental in gaining insights directly from SME owners. This approach facilitated the use of a multiple-case study methodology. To ensure the representativeness of the sample, purposive sampling was employed, selecting twelve SME cases that encapsulated the population affected by the 2022 financial crisis in Sri Lanka. Notably, the study exclusively concentrated on SMEs that possessed a minimum operational history of five years, covering the time frame from 2018 to 2022. The primary method for data collection involved conducting in-depth interviews with the SME owners.

3.1. Data Analysis

The study applied thematic analysis as its chosen qualitative method (Braun & Clarke, 2006; Kiger & Lara, 2020) to scrutinize the data gathered during the research process. This approach allowed for the identification of recurring themes and patterns, enhancing the depth of understanding regarding the impact of the financial crisis on the SMEs. Word Cloud analysis (using Power BI as a tool) was also employed to visualize patterns and trends in textual data, enhancing the understanding of complex information and facilitating insightful interpretations, this is compatible with the analysis technique adopted by Lokeshwara et al. (2023).

3.2. Ensuring Quality

In its quest for trustworthiness and quality, the research took into consideration the eight Big-Tent criteria proposed by Tracy (2010). This comprehensive approach ensured that the research was conducted with the highest standards of rigor. Ethical considerations were paramount throughout the research process. Confidentiality was maintained, and explicit consent was obtained from the SME owners for the utilization of their data. To safeguard respondent anonymity, each participant was assigned a unique identifier. Detailed information about each respondent, including their profile, business scale, and geographical location, has been thoughtfully organized in Table 2 for reference. The interviews conducted with SME owners were entirely voluntary, and participants willingly shared their insights. Prior to recording these interviews, explicit consent was obtained. Furthermore, the strictest confidentiality was upheld throughout the data collection process, in full compliance with institutional ethical guidelines.

Table 2. Respondent profile

Respondent No.	Category of the Respondent	Industry	Number of Employees	Location
SME Owner 01	Partner	Cottage textile industry	15	Kurunegala
SME Owner 02	Owner	Plastic manufacturing industry	Contract	Colombo
SME Owner 03	Owner	Automotive industry	15	Kurunegala
SME Owner 04	Owner	Herbal industry	32	Galle
SME Owner 05	Owner	Cushion manufacturing industry	50	Biyagama
SME Owner 06	Owner	Spice industry	Contract	Kandy
SME Owner 07	Owner	Automotive industry	08	Colombo
SME Owner 08	Owner	Furniture industry	15	Colombo
SME Owner 09	Owner	Pharmaceutical industry	17	Colombo
SME Owner 10	Owner	Bakery industry	10	Gampaha
SME Owner 11	Owner	Water Supply and vehicle rental service industry	10	Galle
SME Owner 12	Owner	Building Contract industry	15	Colombo

Source: Author Developed based on Respondent Profiles (2023)

As the primary aim of this research was to provide fresh insights and knowledge directly from tourism-related SME owners. By doing so, the study aspired to make a significant contribution to the understanding of how the financial crisis impacted these enterprises. In summary, this exploratory study serves as a valuable resource for gaining insights into the impact of the 2022 financial crisis on tourism-related SMEs in Sri Lanka. The study's rigorous methodology and ethical considerations helped produce meaningful and coherent results, contributing to the ongoing dialogue surrounding the challenges faced by SMEs during financial crises in Sri Lanka. In the subsequent section, the researchers explore the findings and engage in a thorough discussion. The analysis has unveiled three prominent themes, providing valuable insights into the far-reaching effects of the financial crisis in Sri Lankan tourism-related SMEs.

4. Results and Discussions

Prior conducting the thematic analysis, a preliminary word cloud analysis was conducted to gain insight into the impacts of the financial crisis. To facilitate this analysis, the 12 respondents were invited to succinctly express, in five words, how the financial crisis had influenced their business operations during the 2022 financial crisis. This initial technique provided a foundational understanding of the code generation process for the subsequent thematic analysis. The results are presented in Figure 1.

The word cloud analysis, generated from responses provided by SME owners, vividly reflects the multifaceted impacts of the 2022 financial crisis on their businesses. The keywords utilized by the respondents succinctly capture the essence of the challenges they faced, emphasizing key concerns. The terms "Not-Profitable," "High-expenses," and "Customer-loss" underscore the adverse financial consequences, indicating that many businesses suffered significant losses, higher operational costs, and dwindling customer bases.

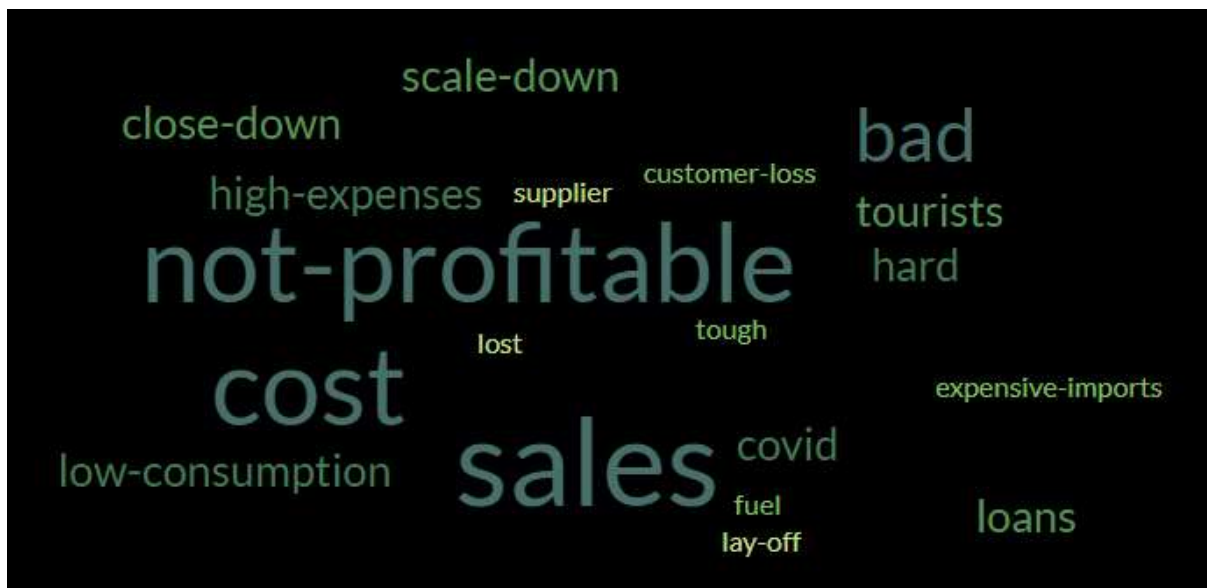


Figure 1. Word Cloud Analysis

Source: Developed by the Authors based on Collected Responses (2023)

In addition, terms like "Hard," "Bad," and "Expensive-Imports" provide a glimpse into the difficulties faced, emphasizing the severity of the situation. It also highlights the drastic decline in business activity, which can be attributed to both the financial crisis and external factors like the COVID-19 pandemic. Furthermore, "Tourists", indicating "Low number of Tourists" is a recurring concern, indicating the profound impact on tourism-related SMEs due to the reduced influx of tourists. This is further underscored by "Low-Consumption," highlighting the decreased spending by tourists and locals alike. The term "Cost" appears repeatedly, signifying concerns related to managing and containing costs, which is crucial for business survival. The presence of "Loans" points to the financial challenges faced in seeking external financial support during the crisis. "Close-down" and "Scale-down" are keywords that reflect the potential outcomes and strategic decisions considered by SME owners as they navigated the fiscal challenges.

Overall, this word cloud offers a snapshot of the prominent issues and dilemmas confronted by SMEs during the financial crisis, setting the stage for a comprehensive thematic analysis of their experiences. Three distinct themes have emerged through our analysis concerning the effects of the financial crisis on tourism-related SMEs. These themes and their corresponding codes have been systematically categorized and are presented in detail below.

4.1. *Ensuring Quality*

Tourism related SMEs in Sri Lanka face an array of financial challenges that exert a significant influence on their growth, sustainability, and competitive standing within the market. To address these challenges and prosper, SMEs employ various financial strategies, explore funding options, and emphasize operational efficiency.

When investigating the repercussions of the financial crisis on SMEs' continued operation, it becomes evident that this crisis has markedly diminished the profitability of many of these enterprises. The decline in SME profitability is attributed to multiple factors, including reduced consumer spending and heightened business uncertainties that lead to decreased demand for products and services.

Furthermore, SMEs have grappled with limited access to credit and escalating borrowing costs, which have impeded their capacity for investment and expansion, ultimately eroding profitability.

"Despite not achieving financial profitability, we tried to provide our customers with all the necessary elements to enhance their tourism experience." (SME Owner 02)

"In the our industry, there are occasions when the business operates at a loss, resulting in reduced profitability and decreased customer engagement." (SME Owner 03)

In the words of SME Owner 02, the situation has encouraged them to prioritize customer satisfaction and needs over profit, stressing the value of safeguarding and serving their clientele. On the contrary, SME Owner 03 reveals the challenging nature of operating a business at a loss, underscoring the resultant decline in profits and diminished business activity during the financial crisis.

"Since 2022, I have been unhappy with the situation of the tourism business, mainly because of the financial crisis that this country is currently experiencing. Profitability has been significantly impacted by the drop in sales, which was having a negative overall effect on the business as a whole. As so, I am extremely dissatisfied with the current situation" (SME Owner 09)

SME Owner 09 echoes a sentiment of discontent with the prevailing economic crisis in Sri Lanka, describing the adverse impact it has had on sales and profitability. This dissatisfaction underscores the grave nature of the situation.

The financial crisis has not been selective in its impact. SMEs across various sectors in Sri Lanka have felt the repercussions of the crisis, including reduced consumer spending and investment confidence, resulting in an overall economic slowdown. The vulnerability of SMEs to economic shifts is highlighted by numerous SME owners who articulate the challenges posed by the fuel and dollar crises, which have exacerbated an already precarious situation.

"The dollar crisis significantly impacted our tourism sales in 2021, resulting in a drop. The decline in sales can be linked to people's limited purchasing power due to financial restrictions. Sadly, since January and February of 2022, our business has not operated at all because we have been unable to import the basic supplies and services required by the tourism sector due to a shortage of foreign money." (SME Owner 01)

"Our tourism operations were operating smoothly prior to 2022, but there was an unexpected interruption when the crisis started. Fuel-related problems were the main cause of the failure, which had a big effect on our operations. Our liquidity suffered greatly in 2022 as regular distribution became more difficult. As a result, it was quite challenging to run the hospitality business during that time." (SME Owner 04)

SME Owner 01 emphasizes the visible consequences of the dollar crisis in the form of declining sales due to the financial constraints faced by customers, which eventually led to a complete halt in business activities.

SME Owner 04's perspective provides insights into the business's smooth operation before 2022, which was disrupted significantly during that year due to fuel-related issues. The ensuing challenges encompassed both operational hurdles and a reduction in liquidity due to irregular distribution.

"The COVID-19 crisis led to a significant loss of job opportunities and decreased tender availability in the tourism industry. Despite overcoming challenges, the subsequent dollar crisis made it difficult to obtain necessary supplies due to unstable and unpredictable pricing environments. Import operations stopped, exacerbated the severe problems faced by the sector." (SME Owner 08)

SME Owner 08, on the other hand, narrates the substantial loss of jobs caused by the crisis. Furthermore, they highlight a decline in the availability of tenders and the adverse impact of the dollar

crisis on operations, where fluctuating material prices and uncertainty over future costs have complicated the business landscape.

Despite the myriad challenges posed by the financial crisis, SME owners in Sri Lanka have displayed unwavering determination and resilience. Closing their businesses was not the primary option considered; instead, they were committed to weathering the storm. Despite the myriad challenges posed by the financial crisis, SME owners in Sri Lanka have displayed unwavering determination and resilience. Closing their businesses was not the primary option considered; instead, they were committed to weathering the storm.

"We do not intend to discontinue our tourism operation. We are a partnership with my wife's brother, and since each of us has a stable income, we are resolved to push through these difficult times and carry on with our business." (SME Owner 01)

"No, we did not take closure into account. Fortunately, our prior experiences in the tourism industry had allowed us to save a significant sum of money. We had an emergency fund thanks to these internal savings, which allowed us to continue operating our business without facing major challenges." (SME Owner 04)

"No, closing down was never an option for us. As entrepreneurs in the tourism industry, we understand the importance of possessing strong business skills. It is our responsibility to explore innovative strategies and solutions to effectively manage and sustain our operations, even during challenging times." (SME Owner 05)

"I didn't plan to shut down the travel agency. I had previously worked on more ambitious marketing campaigns. I have never thought about closing the firm, and I am motivated to advance in the tourism sector by drawing on my prior experiences." (SME Owner 07)

"There were times when I thought about giving up on the business. Several of my staff looked for work abroad when our prior business activities declined. The difficulties they encountered as a result of the national circumstances had an impact on their choice." (SME Owner 03)

"After the financial crisis, the decline in foreign currency availability hindered our ability to import necessary tourism supplies. Additionally, local factory closures further impacted the industry." (SME Owner 02)

SME Owner 01 emphasizes that the familial partnership and separate financial strengths within the business solidify their resolve to continue operations. SME Owner 04's preparedness, with savings set aside and the benefit of substantial savings from previous business endeavors, allows them to continue their operations without significant concerns.

SME Owner 05 underscores the essential entrepreneurial spirit of finding innovative solutions to navigate challenges and maintain business operations. SME Owner 07, drawing from extensive marketing experience, remains steadfast in advancing their business, dismissing any notion of closure. The decisions made by SME owners, whether to persist or contemplate closure, have been influenced by diverse factors, including the business's growth potential, customer retention, and strategic adaptability in times of adversity. This demonstrates their faith in problem-solving and adaptability, underscoring their entrepreneurial spirit. While the majority of SME owners have chosen to endure the crisis, a minority have contemplated shutting down due to factors such as reduced earnings, resource constraints, and the challenging economic environment.

SME Owner 03 considered closing their business due to the departure of employees who chose to leave the country, driven by their concerns about the prevailing conditions. SME Owner 02 reported a complete loss of dollar reserves after the financial crisis, rendering them unable to import goods without dollars and resulting in the closure of several local factories.

Their decisions to persist or contemplate closure are influenced by factors such as growth potential, customer retention, and adaptability. This reflects their resilience and ability to navigate economic challenges. Notably, a minority of SME owners have considered closure due to reduced earnings and resource constraints. These decisions underscore the harsh realities faced by some SMEs during economic downturns.

4.2. Resource Resilience: Strategies for managing SME Assets

Effective resource management is fundamental for any business to achieve its goals efficiently and successfully. During a crisis, the methods employed for resource management can significantly influence a company's performance. The 2022 financial crisis posed resource management challenges for SMEs, and interviews conducted with SME owners shed light on the diverse issues they encountered.

One common challenge highlighted by SME owners across various sectors was the escalation in raw material prices. This increase in raw material costs had a far-reaching impact, affecting both operational and financial aspects of their businesses. It was a shared concern among many SMEs, further underscoring the complexities they faced during this crisis.

"With the crisis, the cost of raw materials increased dramatically reaching three times their original prices, impacting the tourism industry." (SME Owner 01)

The tourism industry was primarily affected by rising transportation and raw material costs, which led to a notable increase in small and medium-sized businesses' overall expenses. The cost of necessary raw materials increased by an extraordinary high over that time." (SME Owner 04)

During interviews with SME Owner 01 and SME Owner 04, it became evident that raw material prices had soared significantly, tripling in some cases. SME Owner 04 additionally pointed out that transportation costs had surged in tandem with the raw material price hikes. This was exacerbated by the fuel crisis that unfolded during the same period of the financial crisis. The interplay of these factors created a challenging environment for SMEs, straining their resource management and operational efficiency.

"In our case, the tourism business experienced a significant decline, primarily due to our inability to import necessary components. This decrease in imports directly impacted our sales." (SME Owner 03)

"After a stop in imports, the tourism industry faced challenges during the economic crisis, leading to a significant rise in the prices of raw materials." (SME Owner 07)

SME Owner 03 and SME Owner 07 underscored the challenges they encountered in importing essential parts for their businesses, attributing these difficulties to the dollar crisis. They elaborated that the shortage of available dollars had a direct impact on part prices, driving them down. This paradoxical situation where a dollar crisis led to falling part prices further complicated resource management for these SMEs.

"We saw a decrease in consumer purchasing power in the tourism sector, which led to lower consumption. Furthermore, the cost of operations increased significantly as a result of growing power, fuel, and energy prices. In addition, the industry's input costs increased as a result of the local currency's depreciation against the US dollar." (SME Owner 06)

SME Owner 06, representing the spice industry, shed light on the rising operational costs attributable to increased raw material prices. This escalation in costs became a predominant concern and contributed to the overall resource management challenges faced by SMEs during the 2022 financial crisis.

"The dollar issue worsened, making it harder and harder to get supplies for the travel and tourism industry. The industry's access to vital resources was further restricted by the stop of imports, and price fluctuations became a daily concern." (SME Owner 08)

As stated by SME Owner 08 in the furniture manufacturing industry, the dollar crisis has significantly increased the cost of procuring materials. It's evident that numerous SME owners have pointed out the adverse effects of the dollar crisis on raw material procurement, leading to heightened operational expenses.

Labor plays a pivotal role in business organizations, influencing both organizational performance and overall effectiveness. To ensure the survival of their organizations, SME owners have taken various measures concerning their employees.

"In our tourism business, a similar situation unfolded. We had around 25 employees involved in various weaving activities. With approximately 100 lakhs worth of finished goods, our initial response was to reduce the workforce by about fifty percent, followed by a reduction in production." (SME Owner 01)

SME Owner 01 was forthright in admitting that a reduction in sales forced them to downsize their workforce. Additionally, they emphasized their genuine concern for employee well-being and job satisfaction, stating,

"We make sure that our staff members were taken care of after our operations stopped by giving them food supplies and dry meals. We also sometimes made arrangements for vehicles to go to their houses and treat them during that time." (SME Owner 01)

Despite the necessity of reducing the workforce due to the crisis, SME Owner 01 made it a point to ensure the well-being and support of their employees.

"Yes, we actually increased their salaries... we gave them the same employee benefits without cutting down on any because we had old staff." (SME Owner 03)

SME Owner 03 emphasized that, despite the crisis, they refrained from reducing employee salaries or cutting any of the benefits previously provided, especially for long-serving employees.

"In tourism, one of our divisions was operated for a small period, around ten to twenty days per month. We continued paying our staff their basic salary, offering incentives and bonuses, including promotional ones. It was crucial for us to retain our employees during this challenging period, as we acknowledged the difficulties faced by everyone in the tourism industry." (SME Owner 05)

SME Owner 05 made it a priority to maintain job security for their employees during this challenging period, demonstrating their commitment to their workforce's well-being, even when the business climate was tough.

In contrast, SME Owner 02, who did not have permanent staff, did not place a significant emphasis on employee benefits, noting that there was no obligation to provide a monthly salary to staff due to their non-permanent status.

"The advantage we have in the tourism industry is that we do not maintain a permanent staff. We hire engineers and electricians as needed, which allowed us to navigate the situation without major disruptions for our employees." (SME Owner 02)

"During a downturn in the economy, I had to boost staff morale in the tourism sector. High living expenses and possible emigration were concerns. Because of the economic climate, I was unable to raise compensation, so I encouraged them to work toward building more locations and growing their businesses in order to generate more jobs." (SME Owner 07)

SME Owner 07 attempted to boost employee motivation by encouraging them to put in extra effort with the goal of opening another store and expanding the business. When asked if he had reduced employee salaries, his response was:

"No, I haven't cut anyone's salary yet. First, when the economy fell, it was difficult to live. After increasing the salary by Rs.2000, I could not afford that either. But no one's salary was reduced. I usually raise the Salaries of employees once a year. But the salary has not been increased yet; I keep paying the same amount. The salary has been paid on time. On the business side, I am carrying out losses and balancing myself with additional income." (SME Owner 07)

SME Owner 09, who made adjustments to employee benefits and facilities without reducing their salaries, explained that:

"Well, we have not gone into pay cuts so whatever, as most other companies suggest, but we have cut down on certain facilities, like air conditioning. We have taken decisions to cut down on all air conditioners like that. There were some other costs we have cut down. But with those we were managing, there are salaries and other things." (SME Owner 09)

SME Owner 06 follows a distinctive business model as they do not maintain a permanent staff, stated that:

"It's always a temporary arrangement. It's work on a requirement basis. So, what I've done is, whenever I do production, I try to roster. They are not working full-time. So, I give them the opportunity to work on a roster basis as much as possible." (SME Owner 06)

Surviving in the resource management industry as an SME demands a sharp focus on efficiency, adaptability, and innovation. Given the often limited resources SMEs have at their disposal, effective allocation and optimization become pivotal for achieving success.

SME Owner 05 highlighted the common challenges that every business encounters in the pursuit of discovering new experiences.

"I'm trying to develop a business in India to run the full capacity of the business. I started in June and now after nine months, I'm into those projects, so that's how I'm trying to overcome that." (SME Owner 05)

SME Owner 04 attributed her survival during the crisis to her ability to operate both in local and international markets.

"Now we have a range of products for all problems, most of them health problems, and also for beauty, and so currently we are doing business in the local market as well as in the overseas market." (SME Owner 04)

Based on above responses, it could be observed that the survival hinges on a trio of key factors: efficiency, adaptability, and innovation. Confronted with often limited resources, these businesses must excel in resource allocation and optimization to prosper. SME Owner 05 emphasized that every business confronts challenges as they seek new experiences, underscoring the universal nature of this journey. Meanwhile, SME Owner 04 revealed her secret to survival during challenging times: maintaining a dual presence in both local and international markets. This diversification strategy helped safeguard her business when confronted with crises, illustrating the importance of strategic market reach for SME resilience.

4.3. *The Influence of External Forces: Affecting SME Dynamics*

SME owners voiced their views on securing bank loans for business needs amid the crisis. A prevalent concern among these owners was the challenge of repaying loans, primarily due to the burdensome high-interest rates.

“There was a loan. 4% interest rate. We have difficulty paying back the loans. So, they gave a grant. Extending the period of the loan. However, it became a major trouble. But when we were going to pay the loans, there was huge interest for the period that we did not pay the loan. I am talking about the COVID days. Then we got a grant. However, for the interest alone, I had to pay 10 Lakhs. So now I pay around 30000s monthly for the interest, and they again introduced a new scheme for the interest payment, saying it was interest-free. However, I think for that scheme too, there was an interest rate. So, what they did was, even though they extended the loan period, there was another interest rate charged by us. So then what they did was let them pay the interest amount over four years. So we were able to do some work with that money.” (SME Owner 08)

SME Owner 08, drawing from prior experiences, expressed the impracticality of securing bank loans during the COVID-19 period. While some banks offered a grace period for loan repayment with no apparent interest rate, there were hidden charges that created additional financial burdens. In contrast, some SME owners opted not to obtain loans during the crisis period, perhaps in response to concerns over hidden costs and high interest rates.

“We did not take any bank loans to continue the production.” (SME Owner 01)

“Loans were not taken. We used to pay salaries from the business itself.” (SME Owner 03)

SME Owner 05's perspective is that obtaining loans is not challenging when a business possesses a robust financial capacity to repay them. According to their view, banks are generally willing to extend loans under such circumstances.

“Actually, I was running the business for around 15 years, so by my standards, it's not difficult to obtain the loan from the banks. Yes. So, they would pull up to get bank loans during this time? Actually, I can still get bank loans even if I have some facilities. That depends on your financial control and the financial disciplines. If banks see that your discipline is high and concerned about finance, then they are monitoring our expenses and our earning patterns.” (SME Owner 05)

The significance of customer retention cannot be overstated, as it forms the lifeblood of any business. It not only leads to profit maximization but also ensures the continuity of the business. Moreover, retaining customers instills confidence in potential new customers, contributing to business growth. SME Owner 01 underscored the point that the cost of living for consumers has risen, which could potentially impact their buying decisions and, in turn, the need for effective customer retention strategies.

"Our main customers are now tourists." It is crucial to remember, however, that if the cost of living in our region doubles, the affordability and attractiveness of our tourism products could drop. As a result, it's critical to keeping our services inexpensive and appealing to tourists." (SME Owner 01)

The cost of living for both consumers and workers has seen a significant surge during the crisis period, surpassing previous levels. This increase has had a notable impact on the operations of SMEs in various ways. SME Owner 04 pointed out that the rise in living costs has directly affected their employees, leading to demands for salary increments as a result. This underscores the challenge that rising living costs pose to both the workforce and business owners.

"How I see this is mainly impacting the raw material expenses and transport expenses, and overall, the many expenses have increased for small and medium-scale businesses. So, the increase in living costs especially because people are demanding salary increments, is a rough time for small and medium scale businesses and prices." (SME Owner 04)

SME Owner 07 highlighted that the crisis led to a reduction in the number of jobs available for consumers, resulting in a decrease in their purchasing power. This reduction in consumer spending power has had a negative impact on SMEs, underscoring the interconnectedness of economic factors during challenging times.

"Tourist arrivals are declining due to problems experienced by potential tourists in their home countries, particularly the ongoing COVID-19 pandemic. Travel restrictions, such as lockdowns, quarantine procedures, and border closures, have made difficult for tourists." (SME Owner 07)

SME Owner 05 responded to the decline in purchasing power by tailoring their new product development to match their customers' income levels. This strategy allowed them to reduce losses during the period of reduced consumer spending capacity, illustrating the importance of adaptability in challenging economic circumstances.

"For my business, I'm doing some new product developments. Do you know that the entire country's purchasing power has decreased?" (SME Owner 05)

SME Owner 02 noted that Sri Lanka's inability to export goods, due to a shortage of dollars, resulted in a significant loss of customers and forced some businesses to shut down during the crisis. According to them,

"The dollars were completely lost. After that, we could not import anything without dollars. I couldn't bring anything. Then many establishments here had to close. Customers were lost." (SME Owner 02)

SME Owner 09 revealed that the rising cost of products led some customers to seek more affordable alternatives.

"I now have to pay almost double for what I used to import a year ago. So, I have to factor that into the cost of the product. As a result, some customers can't afford to buy and are looking for cheaper options." (SME Owner 09)

In Sri Lanka's tourism sector, suppliers play a pivotal role in maintaining a consistent supply of goods and services, influencing the operational efficiency and competitiveness of SMEs. However, SME Owner 05 pointed out that due to a lack of funds to pay suppliers, some suppliers were lost during the crisis. They explained,

"When the crisis began, many people moved all their stock to urban accounts, making it impossible for us to pay our suppliers. But the suppliers were impatient and demanded payment, leading to substantial financial strain." (SME Owner 05)

Many SME owners expressed their hopes for government support during the crisis, but their expectations were often unmet. SME Owner 03 and SME Owner 04 both mentioned that they did not receive any government assistance.

"We didn't get anything from the government," said SME Owner 03. "During the crisis, the government didn't provide any help at all," added SME Owner 04. These SMEs were initially anticipating government support for business survival during the crisis.

However, some SME owners were aware of government schemes and offers but were not interested in them. SME Owner 09 explained,

"During the pandemic and crisis, the government offered delayed payment plans for loans to SMEs. But I hadn't taken any loans, so it didn't apply to my company." SME Owner 06 shared a similar sentiment, saying, "I knew about the various offerings, but since I hadn't taken out a loan, I wasn't interested."

For some SMEs, their financial stability, capital reserves, and savings rendered them self-reliant, obviating the need for government assistance. SME Owner 05 expressed this viewpoint, stating,

"How can the government provide assistance without funds?"

SME Owner 05 also offered a different perspective, acknowledging the country's dire financial situation during the crisis and the limitations it placed on government support. He suggested that specific schemes should be established to aid SMEs in such circumstances.

The import restrictions and the dollar crisis severely impacted SMEs that relied on importing raw materials, machinery, and other products. SME Owner 02 stated,

"Our business hit zero from January to February 2022. When we don't have dollars, we can't import anything. Banks aren't providing dollars."

This indicated that their business saw no sales in the first two months of 2022 due to the start of the financial crisis. SME Owner 03 shared a similar experience, saying,

"Our business declined significantly. We couldn't import items, which greatly affected our business. The dollar issue prevented us from importing essential items." (SME Owner 03)

Importing parts was crucial for their sales, and this situation had a profound impact on their business. SME Owner 09 echoed this sentiment, saying,

"With this financial crisis, all our budgets and expenses increased because our estimated costs were low, and we couldn't import those items." (SME Owner 09)

SME Owner 08 also mentioned the challenges posed by the dollar crisis and import restrictions.

"With the dollar crisis, we couldn't purchase materials. Today's price is not tomorrow's price. Imports came to a halt, making it difficult to buy materials." (SME Owner 08)

This uncertainty in material prices further underscored how the financial crisis, the dollar shortage, and trade restrictions had collectively influenced the survival of these businesses.

5. Conclusion

In conclusion, tourism-related SMEs play a pivotal role in Sri Lanka's economy, contributing significantly to its growth, employment opportunities, and societal stability. As the ongoing financial crisis continues to escalate, its adverse repercussions are increasingly evident across the nation. Among the sectors significantly affected, tourism-related SMEs have emerged as one of the most vulnerable, grappling with substantial challenges due to the crisis. Notably, there has been limited research specifically focused on the 2022 financial crisis, with the majority of studies concentrating on previous global financial crises and the impact of the COVID-19 pandemic on the tourism sector.

To address this research gap, we undertook a qualitative approach in this study, engaging in interviews with twelve tourism-related SMEs in Sri Lanka. The findings unveiled the significant impact on their business operations, including rising raw material costs, shrinking customer bases, and the necessity to downsize their workforces. Furthermore, SMEs encountered difficulties in repaying loans, which led to financial constraints and even contemplation of business closure.

The central aim of this study was to investigate how the financial crisis affects the going concern of tourism-related SMEs. Our comprehensive literature review highlighted key findings from existing research, indicating reduced capacity utilization rates, heightened operational costs, and challenges in accessing finance during economic crises. Previous studies also revealed that a lack of infrastructure, financial constraints, and managerial issues significantly influenced SME performance. This, in turn, positively correlated with the failure of entrepreneurial SMEs (Khan, 2022).

The three themes, highlighted by the study provide valuable insights to stakeholders, theme one, navigating the fiscal grounds emphasize that the financial crisis in Sri Lanka has significantly impacted tourism-related SMEs, leading to decreased profitability and operational challenges. Despite facing difficulties such as reduced consumer spending and limited access to credit, SME owners display resilience and determination to weather the storm. Their commitment to customer satisfaction, innovation, and adaptation reflects their unwavering spirit amid adversity.

Theme two, resource resilience highlighted that, effective resource management is critical for SMEs, especially during crises. Rising raw material costs, labour challenges, and the need for innovation present formidable obstacles. However, strategic approaches, such as diversification, employee support, and efficiency improvements, underscore SMEs' resilience and adaptability in managing resources for survival and growth.

Furthermore, the third theme, the influence of external forces, including the financial crisis, import restrictions, and high living costs, has profoundly affected SME dynamics in Sri Lanka. Challenges such as securing bank loans, customer retention, and government support highlight the interconnectedness of economic factors. Despite these obstacles, SMEs demonstrate resourcefulness and determination to overcome challenges and sustain their operations amidst uncertainty. Based on these, the subsequent section suggests recommendations to stakeholders.

SME owners in the tourism sector can address the challenges posed by the financial crisis by incorporating lower-cost raw materials into their products, and aligning them with customer preferences. Exploring international markets offers a strategic avenue for Sri Lankan tourism-related SMEs, providing access to new consumer segments, expanding revenue streams, and reducing reliance on a single market. This approach can help them maintain a presence in the market and cater to the evolving needs of their target audience. Sri Lankan tourism-related SMEs are actively focusing on enhancing their organizational performance, particularly during times of financial crisis, by implementing innovative and adaptable strategies. These strategies are designed to fortify their

businesses against adverse impacts, ensuring sustained growth despite economic uncertainties. The adaptability and proactive measures reflect the determination of SMEs to maintain resilience and thrive in the dynamic economic landscape.

To streamline operations and adapt to changing market conditions, SMEs often implement cost-cutting strategies, such as minimizing unnecessary expenses, adjusting work schedules, and optimizing their labour resources. Additionally, they may concentrate on developing new products, utilizing digital marketing strategies, and exploring alternative energy sources. In the midst of the financial crisis, tourism-related SMEs in Sri Lanka can navigate the challenges by adapting their production processes, exploring new markets, implementing cost-cutting measures, developing innovative products, optimizing resource utilization, and exploring avenues for government support. These strategies will aid in sustaining their operations and positioning SMEs for future growth in the tourism industry.

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