

DETERMINANTS IN INVESTMENT BEHAVIOUR OF SMALL AND MEDIUM MANUFACTURING FIRMS OF BADULLA DISTRICT DURING ECONOMIC AND POLITICAL CRISIS OF SRI LANKA

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1. Introduction

Small and Medium Enterprises (SMEs) significantly impact economic growth, particularly in developing countries like Sri Lanka. Despite the numerous businesses initiated annually, SMEs in Sri Lanka experience high failure rates, minimal growth, and low survival. This study examines the determinants of investor behaviour of SMEs of Badulla District during economic and political crises prevailing from 2019 to the present.

2. Research Methodology

Using a quantitative approach, 350 manufacturing SMEs in Badulla District, Sri Lanka, were surveyed via structured questionnaires. The dependent variable was investment behavior, while independent variables included fear of political instability, risk perception, risk propensity, and herding. Convenience sampling and regression analysis were used to determine influential factors.

3. Findings and Discussion

The research showed a decline in SME investment decisions, largely driven by fear of political and economic instability. Risk perception and propensity influenced entrepreneurial willingness to invest, while businesses adopting risk-averse strategies experienced further decline. Herding, where firms mimic others' conservative approaches, also contributed to reduced investment activities.

4. Conclusion and Implications

The ongoing crisis has negatively impacted SME investment and growth in Sri Lanka. To survive, SMEs need improved investment confidence, risk management, and resilience. Policy interventions must address political and economic instabilities to support SME development.

Keywords: Economic crisis, Herding, Investment behavior, Political instability, Risk perception, Risk propensity, SMEs, Sri Lanka