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The Impact of Business Uncertainty on the Performance of Small Enterprises During the Economic Crises in Sri Lanka

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Abstract

Small enterprises often regarded as the backbone of economies, are currently confronted with unprecedented challenges due to the uncertain conditions arising from the COVID-19 pandemic and subsequent economic crisis in Sri Lanka. Therefore, the study attempts to assess the impact of uncertainty in the business environment on the business performance of small enterprises in Sri Lanka during the economic crisis. The study is a deductive and explanatory approach in quantitative design. The primary data was collected for a structured questionnaire from 185 owners of small enterprises in Kalutare district, Sri Lanka. The data was analyzed by using Partial Least Square Structural Equation Modelling. The results revealed that demand uncertainty, supply uncertainty, price uncertainty, policy uncertainty, and behavioral uncertainty have negatively affected business performance while technological uncertainty does not have a significant impact on business performance. Thus, the study empirically exposed that the business performance of small enterprises is severely blocked by business uncertainty during the economic crisis. Therefore, small enterprises should plan business activities to make rational business decisions based on reliable information to achieve better business performance by avoiding uncertainty during the economic crisis.

Keywords: *Behavioral Uncertainty, Business Performance, Demand Uncertainty, Environmental Uncertainty, Small Enterprises.*

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Introduction

Small Enterprises (SEs) are pivotal in driving economic growth, as highlighted by various studies. They contribute significantly by creating employment opportunities, reducing inflation and income inequality, fostering innovation and productivity, and enhancing living standards through the upsurge in GDP (Belitski, et al., 2022; Ranatunga et al., 2021b). SEs also stimulate effective competition and help in addressing balance of payment issues by boosting exports and reducing imports (Heyman et al., 2018; Jayathilake & Priyanath, 2021). Furthermore, many SEs are key suppliers of raw materials, services, and facilities to larger enterprises. This multifaceted contribution underscores why SEs are often regarded as the economy's backbone (Heyman et al., 2018). Their role is crucial in sustaining the economic ecosystem and promoting overall national prosperity (Dasaraju & Tambunan, 2023; Ranatunga et al., 2020). SEs cover a large part of the economy of Sri Lanka at about 80 percent of the business in Sri Lanka and they create employment opportunities for every skilled, semi-skilled, and unskilled labor especially focusing on agro-business, which are fruits, vegetables, and manufacturing sector (Priyanath & Premaratne, 2014; Ranatunga et al., 2021a). SEs contribute to creating employment opportunities and adding value to the products, 72.7 percent from employment shares, and value-added shares are reported as 53.9 percent in Sri Lanka (Central Bank of Sri Lanka, 2022).

The outbreak of COVID-19 has affected global economies in different ways and among them, SEs are facing different issues because of the pandemic such as a reduction of production, an increase in the price of raw materials, an impact on the market, and a reduction of customers' communication (Susanty et al., 2022). Mohammed et al. (2022) explained that COVID-19 has a significant impact on tourism, construction, and consumer industries. Tiezhu-Sun (2022) highlighted that COVID-19 highly affects the operational procedures and profitability of SEs in China. Makni (2023) revealed that the COVID-19 pandemic significantly damaged enterprises' performance by reducing both their total investment and their overall income. The COVID-19 has severely impacted businesses globally. Engidaw (2022) explained that SEs alike are grappling with reduced revenues, job losses, and a decelerated life pace. This challenging environment, marked by weak marketing performance, makes it difficult for businesses to maintain stability and keep their operations afloat (Engidaw, 2022). Robinson and Kengatharan (2020) explained that COVID-19 has impacted SEs in Sri Lanka as well.

The economic crisis in Sri Lanka has led to severe economic and societal impacts. The unsustainability of public debt and persistent balance of payment deficits significantly weakened the country's economic foundation. By early 2022, Sri Lanka faced a complete collapse of economic activities, severely affecting economic growth, investment, government revenue, savings, employment, food security, and living standards (Rashid, 2022). The depletion of foreign reserves to near-zero levels hindered the ability to access external financing due to downgrades by credit rating agencies, leading to stringent import restrictions (Perera, 2022). These restrictions

severely impacted trade and commercial activities, causing acute shortages of essential food items, fuel, cooking gas, and medicines in the local market (Gunawardena, 2022). The crisis also disrupted key sectors such as health services, education, agriculture, and manufacturing particularly the SEs sector further deepening the country's economic paralysis.

Today SEs in Sri Lanka are facing different challenges mainly due to the economic crisis. The onset of the COVID-19 pandemic inflicted a severe economic slowdown, resulting in a decline of economic growth -0.2% in 2019 and a more substantial -4.6% contraction in 2020 (CBSL, 2022). The first quarter of 2023 witnessed a staggering -11.5% contraction, followed by a 7.9% contraction in the first half of 2023 (UNICEF, 2023). Projections from the ADB suggest that the Sri Lankan economy is expected to contract by 1.7% in 2024 (World Bank, 2023a). The economic crisis severely affects in many ways in Sri Lanka generating unemployment, and inflation, decreasing economic growth, foreign exchange, and balance of payment (Akmal, 2022). The Sri Lankan economy has been struck by the crisis decreasing foreign exchange earnings including foreign remittance, tourism income, and apparel and exports (Sriyani, 2022). The World Bank's Sri Lanka Development Update 2023 reports (World Bank, 2023b) an 11.5% contraction in industrial output during the first quarter, followed by a further 11.5% decline in the second quarter. SEs are particularly vulnerable during prolonged economic crises. Their limited scope for downsizing and business diversification, coupled with poor financial structures, constrained market, and technology access, and heavy reliance on external financing, worsen their suffering in such challenging times (Sriyani, 2022).

SEs relatively new and small in the business field, often lack adequate knowledge and experience (Carmel & Nicholson, 2005). This inexperience restricts their ability to gather and analyze information essential for predicting the complexities of the business environment, especially during crises. Consequently, their decision-making is greatly limited leading to high business uncertainty (Priyanath & Premaratne, 2017). This business uncertainty due to the prevailing economic crisis significantly impacts its performance, hindering its ability to effectively respond to market changes and sustain its operations. Despite the significant impact of economic crises on business performance, scholars have insufficiently studied the effects of business uncertainty on small enterprises (SEs) in Sri Lanka. This gap in the literature is critical as SEs are vital for economic growth, job creation, and innovation (Rashid, 2022). The unique challenges faced by SEs during economic downturns, such as reduced production, increased raw material costs, and market disruptions, necessitate focused research to develop targeted support strategies (Perera, 2022). Addressing this research gap can provide valuable insights for policymakers and stakeholders to enhance the resilience of SEs in future economic crises. Therefore, the study attempts to fill this gap by studying the impact of business uncertainty during the economic crisis on the business performance of SEs in Sri Lanka. Thus, the study supports the growth of SEs by offering alternative strategies to navigate uncertainty and enriching knowledge with empirical evidence from Sri Lanka. The paper begins with

a review of relevant literature, followed by a detailed methodology section. Subsequently, it presents results and discussions, thoroughly examining the data and its implications. The paper culminates with a conclusion, summarizing key findings and their potential impact on the strategic development of SEs in uncertain environments.

Theoretical Background

Business Uncertainty: Business uncertainty is defined as the inability to predict future circumstances such as climate changes, disease outbreaks, financial instability, natural disasters, security issues, and the socio-economic and political environment (Scoones, 2019). Several changes are creating more and more due to complexity and uncertainty in the business environment (Taouab & Issor, 2019b). Uncertainty has different natures, objects, and severities and there are three types of uncertainty, which are ethical uncertainty, option uncertainty, and state space uncertainty (Bradley & Drechsler, 2014). Uncertainty is a main contextual factor of decision-making and its effect on the decision-making of business organizations (Sniazhko, 2019). Forecasting is important to all economic and business decisions. However, it is difficult to do in the economic and business world and incorrect predictions cause serious damage to decisions and policymakers (Makridakis, Hogarth & Gaba, 2009). Practically, humans cannot predict future events exactly but they have to make economic decisions about spending, investments, and different judgments about the future (Haddow et al., 2013). Business firms have to face different types of uncertainties due to the limitations of forecasting (Makridakis, Hogarth & Gaba, 2009). Ranatunga et al. (2020a) explained that there are two types of business uncertainty i.e. behavioral uncertainty and environmental uncertainty. In addition, environmental uncertainty has been categorized as economic uncertainty, political uncertainty, government uncertainty, cultural uncertainty, and demand and supply uncertainty (Sniazhko, 2019).

Identification of environmental uncertainty is very important to attain competitive advantages and business performance (Harish, 2015). Environmental uncertainty in business refers to the degree of unpredictability and lack of clarity in a company's external environment (Priyanath, 2017). Some environmental dimensions such as unpredictable behavior of political situation, technology, culture, and socio-economic variables create environmental uncertainty (Karimi, Somers, & Gupta, 2004). There are many dimensions of environmental uncertainty including; demand uncertainty, price uncertainty, technological uncertainty, and policy uncertainty (Badri, Davis, & Davis, 2000; Didonet et al., 2012). Demand uncertainty in business refers to the unpredictability or lack of clarity regarding the future demand for a company's products or services (Suarez & Lanzolla, 2007). Supply uncertainty simply refers to the inability the predict the future state of input prices, supply, and volume, technological changes, etc. (Priyanath, 2017). Price uncertainty in business refers to the unpredictability or variability in the prices of goods and services, either sold by the business or procured for its operations (Ranatunga et al., 2020a). Policy uncertainty is the uncertainty around potential government policy. Technological uncertainty pertains to the unpredictable nature of upcoming

technological advancements (Priyanath & Premaratne, 2017). The unpredictability of the behavior of transaction parties implies behavioral uncertainty. Behavioral economics studies the effects of psychological, social, cognitive, and emotional factors on the economic decisions of an individual and organizations. Behavioral uncertainty relates to human activities. The study has explained that the unexplained variance in human behavior is called behavioral uncertainty (Lovreglio, Ronchi, & Borri, 2014).

Business Performance: According to Robbins and Coulter (2013), performance is the total result of all the work processes and activities carried out by the organization. As a result, how does the company efficiently convert its input into its output and compare its actual or final product to its intended product? Liptons (2003) said that a firm's performance will determine its potential to succeed, while Richard et al. (2009) defined organizational performance as encompassing three distinct aspects of firm outcomes: financial performance, product market performance, and shareholder return. Measures of business performance assess and estimate the constraints that plans, investments, and accomplishments should fall inside to produce the desired outcomes (Richard et al., 2009). Business performance measurement is a contentious and frustrating topic. As a result, opinions regarding the appropriate way to gauge corporate performance are divided. A few scholars advocated for the application of financial indicators. On the other hand, some have primarily highlighted the significance of non-financial components of corporate performances, particularly in recent research (Simpson et al., 2004; Walker & Brown, 2004). To the performance of business enterprises, the former highlighted financial metrics including profitability, sales turnover, sales growth, and return on investment. The idea behind these metrics is to raise revenue and profit, positioning the company as having the best performance. In place of traditional operational performance, Santos and Brito (2012) established two forms of performance: financial performance and strategic performance. They claim that metrics for measuring success, such as growth, profitability, market value, employee and customer happiness, environmental performance, and social performance.

Hypotheses Development

Demand Uncertainty and Business Performance: Demand uncertainty significantly affects the business planned and realized investment and price uncertainty is insignificant (Fuss & Vermeulen, 2004). There is a positive relationship between the internal and process dimensions of integration and operational performance of the business and the moderating role of demand uncertainty (Hendijani & Saei, 2020). According to the previous study, higher demand uncertainty is associated with lower cost elasticity (Banker et al., 2014). Demand uncertainty, or the unpredictability of client demand, dances in a complicated and frequently dangerous dance with company performance. Jaworski and Kohli's (1993) research emphasizes the complex effects of demand turbulence. Increased uncertainty can make operations less efficient (Boon-itt, 2016), as companies find it difficult to allocate resources and inventories effectively in the absence of a clear picture of demand. Demand fluctuations might negatively impact

finances by either overproduction or missed sales opportunities (Chen et al., 2023). Thus, researchers confirmed that demand uncertainty negatively relates to business performance.

H1: Demand uncertainty negatively affects the business performance of SEs in Sri Lanka.

Supply uncertainty and Business Performance: According to research by Agyemang et al. (2023), unstable supply has a major negative influence on SMEs' performance in two ways: first, higher costs brought on by shortages erode profit margins and make SMEs more susceptible to cash flow disruptions; second, production halts and delays brought on by unreliable suppliers can harm SMEs' relationships with customers and result in lost revenue. A study by Alshahrani and Salam (2022) found that the performance of SMEs is positively impacted by supply resilience. According to the study, the production and marketing/sales performance of SMEs was significantly positively correlated with supply agility and adaptability. The production performance of SMEs showed a strong positive correlation with supply strength, but not with marketing or sales performance. Overall, the performance of SMEs and supply resilience showed a strong positive correlation. Zhang et al. (2021a) discovered that supply integration can assist SMEs in lessening the detrimental effects of supply unpredictability on their performance. The results of the study showed that supplier integration improved the operational, financial, and innovative performance of SMEs. Thus, scholars revealed that supply uncertainty has a negative impact on business performance. So, the study predicts that;

H2: Supply uncertainty has a negative impact on the business performance of SEs in Sri Lanka

Price Uncertainty and Business Performance: For SMEs, price unpredictability poses a serious problem that can have a detrimental effect on their ability to conduct business. A study by Sharfaei et al. (2023) found that price unpredictability has a major impact on how well multinational SMEs perform. According to the survey, for SMEs to meet their performance targets, they must manage price unpredictability. According to the report, for foreign SMEs to perform well, they should be aware of the consequences of uncertainty. This is especially crucial in emerging markets since they are more likely to be unclear. Abbas et al. (2019) discovered in another study that price uncertainty may negatively impact a firm's performance. The study concludes that businesses should create plans to lessen the detrimental effects of price unpredictability on their operations. Ghosal & Loungani (1996) state that, there is a negative relationship between investment and price uncertainty. Thus, price uncertainty has a negative impact on the business performance of SMEs.

H3: Price uncertainty has a negative impact on the business performance of SEs in Sri Lanka

Policy Uncertainty and Business Performance: Uncertainty around policy may be detrimental to SMEs' ability to conduct business. According to a study by Cotei et al. (2022), legislative uncertainty can lessen the

chance of startup mergers and acquisitions. According to the study, policy uncertainty raises the risk premium for target firms and increases the cost of expanding the acquirer firm's absorptive capacity, which both have a negative effect on the likelihood of mergers and acquisitions activity. Zhang et al. (2021b) discovered in another study that policy uncertainty can cause investment and research and development levels to decline. The study comes to the conclusion that businesses should create plans to lessen the detrimental effects of policy uncertainty on their operations. Thus, policy uncertainty can have a negative impact on the business performance of SMEs. Therefore, the study assumes that;

H4: Policy uncertainty negatively relates to the business performance of SEs in Sri Lanka.

Technological Uncertainty and Business Performance: Uncertainty in technology affects the SMEs' financial performance. Uncertainty regarding technology's future may cause investment to decline, which may cause a company to lose market share and competitiveness (Nawaz et al., 2021). SMEs, who sometimes have fewer resources and might not be able to adopt new technologies as quickly as larger businesses, may suffer the most from this. According to a study by Nawaz et al. (2021), technology uncertainty significantly hurts Pakistani SMEs' ability to operate. The study also discovered that SMEs can benefit from outside assistance in overcoming the adverse consequences of technology uncertainty, such as government legislation and training initiatives. Thus, technology uncertainty has a negative impact on the business performance of SMEs. The study predicts that;

H5: Technology uncertainty has a negative effect on the business performance of SEs in Sri Lanka.

Behavioral Uncertainty and Business Performance: Researchers confirmed that behavioral uncertainty may negatively affect the performance of SMEs (Gamage & Priyanath, 2020). The term "behavioral uncertainty" describes the ambiguity around suppliers', rivals', and customers' conduct. This unpredictability may cause investment to decline, which could result in a loss of market share and competitiveness (Ranatunga et al., 2020b). SMEs, who sometimes have fewer resources than larger enterprises and might not be able to react to market changes as rapidly, may suffer the most from this. According to research by Nawaz et al. (2021), behavioral ambiguity significantly harmed Pakistani SMEs' performance. The study also discovered that SMEs can benefit from outside assistance in overcoming the detrimental impacts of behavioral uncertainty, such as government regulations and training initiatives. For this reason, it's critical that SMEs keep up with the actions of their suppliers, competitors, and consumers. They should also look for outside assistance to help them deal with the difficulties posed by behavioral uncertainty. Therefore, the study assumes that;

H6: Behavioral uncertainty has a negative effect on the business performance of SEs in Sri Lanka.

This paper presents a conceptual framework for analyzing how business uncertainty affects SEs' performance

(See Figure 1). This framework's fundamental idea is to use business uncertainty as the independent variable, which is then broken down into six important dimensions: supply, demand, policy, technology, and behavioral. The various aspects of business uncertainty are encompassed by these dimensions, which include variations in market demand, unpredictable governmental policies and rapid technical advancements, as well as human behavior both inside and outside the corporation. The success of SEs, as determined by profitability, growth, market share, and operational efficiency, is the dependent variable in this research. The purpose of this framework is to give a thorough knowledge of how different components of business uncertainty affect the performance of SEs particularly in Sri Lanka during the economic crises.

Methods

The research paradigm of this study is positivism because well-developed theoretical concepts have been used to study empirically. The study attempts to test the efficacy of theoretical concepts practically in SEs in Sri Lanka; therefore, the research approach is deductive. Therefore, this study is a cause-and-effect study. Based on all these, the study employs a quantitative approach to test hypothetical relationships. The unit of analysis of this study is SEs in Sri Lanka. The definition of an SE according to the Department of Census and Statistics (DCS) in Sri Lanka (2014) is "an establishment with 5 - 24 persons engaged," and this definition was applied while choosing SEs for the survey. The study used multistage sampling to select the sample for the survey. First, the study selected the Kalutara district among 25 districts in Sri Lanka using a simple random sampling technique. According to the economic census – 2014 (DCS, 2016), there were 3,560 SEs in Kaluthara District. Out of this, 185 SEs were selected employing the sample size determination formula highlighted by Krejcie & Morgan (1970). The researcher used a probability sampling technique to select the sample.

Data were collected for a structural questionnaire from the owner or manager of each SE having face-to-face interviews. Each question was created using a seven-point Likert scale including; 1. Strongly disagree; 2. Disagree; 3. Somewhat disagree; 4. Neither agree nor disagree; 5. Somewhat agree; 6. Agree; 7. Strongly agree. Before distributing the initial questionnaire, a pilot survey was carried out to determine whether the data collected was suitable for accomplishing research goals and whether it was easy for respondents to provide their answers. This is the recommended procedure for enhancing the validity and reliability of the data collected.

As depicted in Table 1, business uncertainty was measured using six dimensions including demand, supply, price, policy, technology, and behavioral uncertainty. Three items were used to measure each demand, supply, price, policy, and technology uncertainty adopted by Chen and Chen (2003); John and Weitz (1988); Noorderhaven (1996. Behavioral uncertainty was measured using four items adopted by Chen and Chen (2003); Rindfleisch and Heide (1997); and Shin (2003). Business performance was measured using seven dimensions including profitability, production, market, growth, employees, customers, and social performance adopted by Asta

and Rimantas (2014); Santos and Brito (2012).

The Partial Least Squire Structural Equation Modelling (PLS-SEM) was employed to examine the hypothetical correlations. PLS-SEM is a statistical analytical tool that can assess many constructs simultaneously and analyze the link between numerous independent and dependent variables. The validity and reliability of each variable were evaluated first and then the structural model was evaluated using multi-collinearity problems, path coefficient and their significance, R-squire, effect size (f2), and predictive relevance.

Results

Multivariate analysis was employed to analyze the data. Each item's validity and reliability have been evaluated based on criteria suggested by Hair et al. (2012). First, the study assessed seven first-order endogenous latent variables based on the PLS-SEM measurement. The standardized factor loadings are above the minimum threshold requirement of 0.7, indicating that the factor loading is also statistically significant at the 0.05 level and that the indicator reliability of first-order reflective constructs is confirmed as depicted in Table 1. Moreover, table 1 further illustrates the internal consistency reliability of the first-order constructs and demonstrates that Cronbach's α was greater than the necessary value of 0.7 and the composite reliability was higher than the suggested 0.7 value. The convergent validity of each first-order construct is achieved since the AVE value is higher than 0.5 (See Table 1).

Fornell and Larcker (1981) state that discriminant validity can be established by calculating the square root of AVE for each latent variable. Among the latent variables, these values ought to be greater than other correlation values. All of the inter-construct correlation values, as indicated in Table 02, meet the first-order construct discriminant validity requirement by being less than the square root of the AVE.

Second-order constructs, including demand, supply, price, policy, technological, behavioral uncertainty, and business performance were developed based on the latent variable scores. Table 03 shows that all of the factor loadings have t-statistics that are significant at the 0.05 level and are more than 0.7. The constructs' internal consistency reliability was also determined based on Cronbach's α, and the composite reliability ratings were also above the suggested threshold of 0.7. For convergent validity, these second-order conceptions are allowed by AVE values larger than 0.5.

The second-order constructs' discriminant validity is displayed in Table 04, where all AVE values' square roots are greater than the values of the inter-construct correlation. It meets the second-order constructions' discriminant validity criteria.

Collinearity concerns with the structural model have been evaluated in accordance with the guidelines provided by Hair et al. (2013). After collinearity problems have been investigated, values for the Variance Inflation Factor (VIF) should be less than 5. Since the obtained VIF values ranged from 1.880 to 3.844, there are no collinearity problems shown in the analysis. Therefore, the structural model is unable to show problems with multicollinearity between the independent and dependent constructs.

The PLS bootstrap method yielded route coefficients β value and t-statistics, which were used to establish six hypotheses regarding the correlations between variables related to business uncertainty and business performance of SEs tests. The findings of the investigation of six hypotheses are displayed in Table 05.

According to the PLS-SEM results, all the beta values show a negative relationship between independent and dependent variables and it means that there is a negative relationship between business uncertainty and business performance. The empirical results confirmed that H1, H2, H3, H4, and H6 hypotheses are significant except for H5 which is not significant.

Discussion

Results revealed that demand uncertainty has a negative relationship with business performance by indicating a negative beta value (-0.284) at a significant level (P value = 0.003). Thus, hypothesis one (H1) has been statistically accepted. This negative association is confirmed by comparable research by Zhang et al. (2017) and Erdogan (2014), which emphasize how demand uncertainty lowers investment, innovation, and eventually profitability. This study verified that the unpredictable nature of demand during economic downturns has a negative impact on the business performance of SE in Sri Lanka. The results further exposed that supply uncertainty has a strong negative relationship with the business performance of SEs in Sri Lanka by indicating a negative beta value of -0.133 at a significant level of 0.047. Therefore, hypothesis two (H2) is accepted. Supply uncertainty causes operational inefficiencies, greater costs, and eventually a reduction in the competitive advantage of business organizations, as suggested by Sreedevi & Saranga (2017). Similar results were reported in the current study, indicating that supply uncertainty impairs the business performance of SE in Sri Lanka due to the economic crises.

The price uncertainty has displayed a strong negative relationship with the business performance of SEs in Sri Lanka by indicating a negative beta value of -0.204 at a significant level of 0.028. Therefore, hypothesis four (H3) is accepted. The results further suggest that policy uncertainty has a strong negative relationship with business performance by indicating a negative beta value of -0.375 at a significant level of 0.001. Thus, hypothesis three (H4) is accepted. Policy uncertainty succeeds in an environment where government policies are unpredictable. Such uncertainty hinders long-term planning and inhibits investment, as demonstrated by Makosa et al. (2021). This has an effect on the growth and financial performance of SEs. The Sri Lankan government is drastically altering its trade, tax, exchange, and monetary policies in the midst of the present economic crisis. The empirical data of this study verified that unpredictability in policy changes has a negative impact on Sri Lankan SE performance. The technology uncertainty has displayed a negative relationship with business performance by indicating a negative beta value of -0.141 but the relationship is not significant (P value = 0.117). Thus, hypothesis six (H5) is not accepted. Technology uncertainty is brought about by quick changes and hazy future directions. This has been shown by Aghion et al. (2009) and Bloom et al. (2020) to cause adoption delays, lost opportunities, and eventually reduced

productivity development. The behavioral uncertainty has displayed a negative relationship with business performance by indicating a negative beta value of -0.127 at a significant level of 0.040. It means that there is sufficient statistical evidence to reject the null hypothesis and therefore, the alternative hypothesis (H6) is accepted. According to Nobuyuki Hanaki et al. (2018), behavioral uncertainty makes forecasting and decision-making difficult and has an effect on internal cooperation, marketing effectiveness, and overall business efficiency.

According to a study by Junça-Silva and Caetano (2024), there was a significant relationship between innovation and the business performance of SMEs. Similar results have been given by previous researchers as well. Inman and Green (2022) found that there was a meaningful effect of environmental uncertainty on the innovativeness of firms. Aprisma and Sudaryati (2020) confirmed that environmental uncertainty has a negative relationship with the performance of SMEs. The complicated nature of business uncertainty and its effects on performance which can take many different forms and seriously impede a firm's capacity to succeed have been thoroughly examined by academics. The various forms of business uncertainty impede performance to a considerable degree. Researchers concur those behavioral uncertainties, and policy, technological, supply, and demand uncertainties all severely impair the operation of SEs, especially in times of economic crisis.

Conclusion

This study attempts to empirically investigate the effects of business uncertainty on the performance of SEs in Sri Lanka, particularly during the economic crisis. The research focuses on several key aspects of business uncertainty: demand uncertainty, supply uncertainty, price uncertainty, policy uncertainty, and behavioral uncertainty. The results reveal that these factors have a significant negative impact on the business performance of SEs in Sri Lanka during the economic crisis. Demand uncertainty, where businesses struggle to predict consumer behavior and market needs, along with supply uncertainty, which involves unpredictability in acquiring necessary inputs for production, were found to be particularly detrimental. Price uncertainty, reflecting fluctuations in costs and selling prices, and policy uncertainty, which encompasses the instability in government regulations and political climate, also contributed to the challenging business environment. Behavioral uncertainty, which relates to the unpredictability of human actions and decisions, further aggravated the situation. The study noted that technological uncertainty did not show a significant impact on business performance. This could be attributed to the nature of SEs in Sri Lanka, which may have less reliance on rapidly changing technology compared to larger corporations. Overall, the study conclusively demonstrates that the business performance of SEs in Sri Lanka is significantly hindered by various dimensions of business uncertainty during an economic crisis.

By giving empirical data on how uncertainty impacts the performance of SEs in Sri Lanka, especially during an economic crisis, this study considerably adds to the body of knowledge of the existing literature. Moreover, the study plays a crucial role in creating a conceptual framework that combines the ideas of business performance and

uncertainty. This framework's validity and usefulness have been strengthened by testing using quantitative methodologies, making it more than just a theoretical concept. The methodological strategy used in the study and its conclusions significantly advance the field's theoretical underpinnings. It offers a sophisticated comprehension of how business uncertainty behaves in a corporate setting and the ensuing impacts on performance, particularly under trying economic circumstances. In doing so, it provides insightful information for scholars and decision-makers. By doing this, it highlights the necessity for efficient management techniques to handle uncertainties in the business environment, especially for SEs in emerging countries like Sri Lanka, and provides insightful information for scholars, policymakers, and practitioners.

The study strongly recommends policymakers to concentrate on establishing a stable industrial environment through long-term planning to minimize business uncertainty. This stability is essential to creating an environment that allows SEs to succeed, especially during economic downturns. Improving information flow is a key element of this advice, as it is necessary to empower SEs to make logical and rational business decisions. These businesses can more effectively handle the unpredictable business environment if they have access to fast and reliable information. The study also suggests that SEs owners can make their decisions on this trustworthy information. This strategy is essential for attaining better success, particularly in recessionary times. SEs can successfully reduce the risks associated with uncertainty by making well-informed judgments. Making strategic decisions of this kind is essential for SEs success on an individual basis as well as for the sector's overall growth and resilience in the face of economic difficulties.

Figures and Table

Figure 1: Conceptual Framework

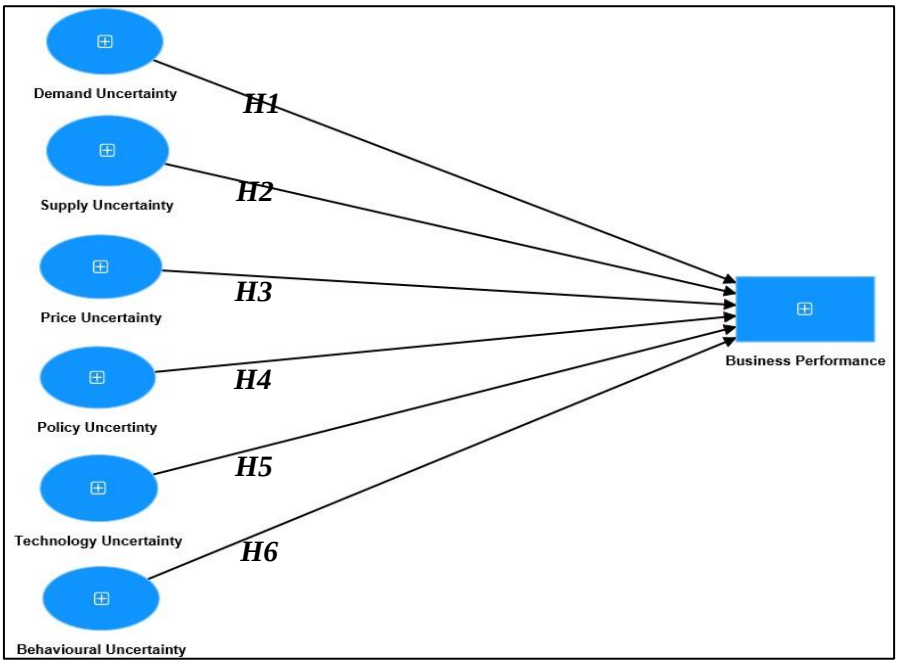

Table 1: Analysis of the First-Order Constructs

t		Loading	t-statistics	CR	Cron. α	AVE
1	**Customer Satisfaction**			**0.959**	**0.959**	**0.925**
	Higher quality of service	0.965	123.820			
	Speed access of customers	0.956	118.390			
	Customer's positive feedback	0.964	152.730			
2	**Employment performance**			**0.947**	**0.948**	**0.904**
	Human development activities	0.950	74.400			
	Higher staff morale	0.944	80.610			
	Productive employee	0.959	103.470			
3	**Growth performance**			**0.951**	**0.951**	**0.911**
	Investment	0.947	90.350			

	Fixed Assets	0.954	84.480			
	Variable Assets	0.962	89.380			
4	**Market value performance**			**0.950**	**0.951**	**0.909**
	High market share	0.947	65.600			
	The large size of the market	0.948	101.850			
	Easily access to market	0.966	122.990			
5	**Production performance**			**0.951**	**0.951**	**0.910**
	Productive production process	0.953	86.240			
	Innovative new products	0.951	112.020			
	Effective production process	0.959	135.860			
6	**Profitability performance**			**0.950**	**0.950**	**0.909**
	High growth of income	0.961	96.650			
	Cost minimization	0.939	80.200			
	Sales growth	0.959	82.120			
7	**Social performance**			**0.962**	**0.963**	**0.930**
	Flexibility of business activities	0.969	116.800			
	Powerful business ethics	0.956	104.460			
	Fairness business activities	0.968	117.250			

Source: Survey data, 2023.

Table 2: Discriminant Validity of the First-Order Constructs

Construct		**1**	**2**	**3**	**4**	**5**	**6**	**7**
1.	Customer Satisfaction	**0.961**						
2.	Employment performance	0.614	**0.951**					
3.	Growth performance	0.536	0.674	**0.954**				
4.	Market value performance	0.602	0.702	0.672	**0.953**			
5.	Production performance	0.434	0.428	0.407	0.438	**0.954**		
6.	Profitability performance	0.478	0.423	0.405	0.449	0.658	**0.953**	
7.	Social performance	0.543	0.564	0.534	0.556	0.441	0.510	**0.964**

Source: Survey data, 2023.

Table 3: Analysis of the Second-Order Constructs

Construct		Loading	t-statistics	CR	Cron. α	AVE
1	**Business Performance**			**0.992**	**0.992**	**0.954**
	Customer Satisfaction	0.978	74.400			
	Employment performance	0.970	80.610			
	Growth performance	0.980	103.470			
	Market value performance	0.986	71.630			
	Production performance	0.976	96.650			
	Profitability performance	0.963	80.200			
	Social performance	0.981	82.120			
2	**Demand Uncertainty**			**0.956**	**0.956**	**0.919**
	Quantity of customers	0.950	107.790			
	Future customers preference	0.956	51.630			
	Competition	0.970	138.970			
3	**Policy Uncertainty**			**0.957**	**0.957**	**0.920**
	Changes in Labor regulation	0.962	118.370			
	Changes in tax policy	0.953	87.780			
	Changes in environmental policy	0.963	144.180			
4	**Price Uncertainty**			**0.929**	**0.929**	**0.934**
	Future behavior of utility of customers	0.967	202.870			
	Future purchasing power ability	0.966	189.820			
5	**Supply Uncertainty**			**0.946**	**0.947**	**0.949**
	Price of inputs for future	0.973	140.510			
	Sustainability of input supply	0.975	176.640			
6	**Technology Uncertainty**			**0.946**	**0.946**	**0.949**

	Knowledge improvement in the future	0.974	213.720			
	Changes of technological feasibility	0.974	200.610			
8.	**Behavioral Uncertainty**			**0.956**	**0.955**	**0.918**
	Suppliers' behavior	0.959	106.800			
	Buyers' behavior	0.950	114.460			
	Officers' behavior	0.966	97.250			

Source: Survey data, 2023.

Table 4: Discriminant Validity of the Second-Order Constructs

Constructs		**1**	**2**	**3**	**4**	**5**	**6**	**7**
1.	**Business Performance**	**0.976**						
2.	**Demand Uncertainty**	0.510	**0.964**					
3.	**Policy Uncertainty**	0.539	0.534	**0.958**				
4.	**Price Uncertainty**	0.561	0.544	0.729	**0.959**			
5.	**Supply Uncertainty**	0.531	0.567	0.797	0.687	**0.966**		
6.	**Technology Uncertainty**	0.363	0.558	0.471	0.464	0.489	**0.974**	
7.	**Behavioural Uncertainty**	0.321	0.426	0.433	0.398	0.437	0.692	**0.974**

Source: Survey data, 2023.

Table 05: Path Coefficients and Significance of Structural Model

Hypotheses		**Coefficient**	**t Statistics**	**P Values**	**Decision**
H1	Demand Uncertainty and Business Performance	-0.284	3.017	0.003	Accepted
H2	Supply Uncertainty and Business Performance	-0.133	1.996	0.047	Accepted
H3	Price Uncertainty and Business Performance	-0.204	2.210	0.028	Accepted
H4	Policy Uncertainty and Business Performance	-0.375	3.401	0.001	Accepted

H5	Technology Uncertainty and Business Performance	-0.114	1.573	0.117	**Not accepted**
H6	Behavioral Uncertainty and Business Performance	-0.141	2.062	0.040	Accepted

R- squire = 0.76, Source: Survey data, 2023.

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