

A SCOPING REVIEW OF CONSTRUCTION SMES: GLOBAL VS LOCAL

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ABSTRACT

The small and medium-sized enterprises (SME) sector is a significant driver of economic growth, significantly contributing to employment and gross domestic product (GDP) worldwide. However, Sri Lankan construction SMEs are lagging behind compared to those in other countries, where innovative legal frameworks and good practices have supported SME development and competitiveness. Learning from these global practices presents an opportunity to strengthen the local SME sector. Therefore, this study aims to investigate SMEs in local and global contexts comparatively. It explores SME definitions, legal provisions, and their role in economic development, while examining international best practices to enhance SME performance and resilience in Sri Lanka. A scoping review, supplemented by manual data analysis, reveals the absence of a universal SME definition and dedicated legislation, particularly in the construction sector. A comparative analysis of SME definitions across India, Japan, Europe, and Sri Lanka highlights varying approaches, often based on multiple criteria. Sri Lanka lacks dedicated SME act, relying instead on a policy framework and general legislation, with no specific provisions for construction SMEs. The study emphasises the vital role of SMEs in economic development as incubators for larger firms, drivers of employment and innovation, and contributors to social mobility and international trade. Their significance in economic recovery is examined, along with a review of legal frameworks, comparing dedicated SME acts with broader policies, including the current strategy of Sri Lanka. To support SME growth, the study proposes targeted legal provisions, digital transformation, e-commerce promotion, innovation support, and improved access to global markets.

Keywords: Definitions; Global; Legal Provisions; SME Contractors; Sri Lanka.

1. INTRODUCTION

The construction industry is crucial for driving the economic growth of a country and serves as an indicator of development (Ahmed, 2017; Peter et al., 2019). In most countries, this sector consists of a small number of large firms alongside a substantial proportion of small and medium-sized enterprises (SMEs) (Tezel et al., 2018). Despite the importance of SMEs, which is evident globally, there is no official definition which

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is universally followed. The most common indication is by the number of employees, and there are certain other parameters that are used to define SMEs as well (Economic and Social Commission for Asia and the Pacific [ESCAP], n.d.). According to Acar et al. (2005), the term SME is interpreted differently across regions and countries, with the number of employees being the primary criterion for determining the size of construction firms. Despite this challenge, SMEs play a significant role as economic drivers, acting as employment providers and job creators with the flexibility to foster new developments. In fact, they contribute a greater proportion of output in many countries around the world. SMEs account for nearly two-thirds of global employment and more than 50% of GDP in numerous nations (Madhavika et al., 2024).

SMEs are important to the economic development in both global and local contexts in several ways. SMEs are where large companies originate, making them the breeding grounds for larger organizations (Central Bank of Sri Lanka, 2021). Moreover, they are important as employment providers, which assist in improving the social status of people by reducing poverty. It is stated that SMEs cover 70% of employment worldwide (“The Power of small”, 2019). According to World Bank estimates, by 2030, there will be a need for 600 million jobs for the growing population. Considering the high population growth in developing countries, SMEs will become considerably important as an employment provider (Central Bank of Sri Lanka, 2021). The flexible nature of SMEs makes them an essential sector during different downward economic situations, such as economic crises and pandemics, as well (Rizkiya, 2024). They can absorb new technology and knowledge more easily, which makes start-ups and SMEs be used as incubators for innovations which in future could be developed into major organizations (Xinhua, 2021). In Sri Lanka, SMEs are crucial in exports as well. Even though not seen, SMEs play a crucial role in Sri Lankan exports and can contribute more if the necessary frameworks to support SMEs are developed (Sri Lanka Export Development Board, 2022).

While recognizing the importance of SMEs, it is essential to adopt good practices that can enhance their capacity and capabilities. Legal provisions for SMEs vary significantly across countries. A key aspect is the establishment of proper legislation governing SME operations, including company registration, which has proven successful in countries like Japan (Nakagawa, 2012). Japan, which recognizes SMEs as a major economic driver, has dedicated legislation supporting them (Nakagawa, 2012). In contrast, countries such as the Philippines and Singapore lack specific laws targeting SMEs (Association of Southeast Asian Nations [ASEAN], 2025). Additionally, Sri Lanka does not have a dedicated SME act, relying instead on a National Policy Framework. However, several acts, such as The Inland Revenue Act No. 24 of 2017 and The Intellectual Property Act No. 36 of 2003, address certain aspects of SMEs' operations (Diriya Sri Lanka, 2024).

Construction industry SMEs play a similar role in driving economic growth; however, the sector requires unique approaches due to its specific characteristics. Most SME legislations are generic and not tailored to the construction industry. Therefore, it is important to develop a construction-specific legal framework (Mengistu et al., 2024). In addition to legal provisions, fostering innovation within SMEs is essential (Central Bank of Sri Lanka, 2021). Creating opportunities for SMEs to network with other industry organizations will help enhance their knowledge base and compete globally with confidence (Chen & Mitra, 2022). Digital transformation plays a crucial role in the development of SMEs, with legal and financial support facilitating progress, as evidenced

by successful examples in Brazil (Patterson-Waites, 2023). Furthermore, adherence to e-commerce is vital, particularly for Sri Lanka (Gunawardene, 2017).

Given these challenges, there is a pressing need to examine the role of SMEs in both local and global contexts and explore the best practices, legal frameworks, and innovations that can be adopted to strengthen the SME sector, particularly in Sri Lanka. Therefore, it is crucial to identify how Sri Lanka can adapt successful global practices to its unique context and enhance the capacity of its SME sector, particularly in construction, to contribute more effectively to economic growth and development. Therefore, this study aims to investigate SMEs in local and global context comparatively focusing on four main areas; (1) definitions of SMEs in global and local contexts, (2) importance of SMEs in the economic development in global and local contexts, (3) legal provisions related to SME contractors in global and local contexts and (4) good practices that can be derived from global context to enhance the local SMEs. The structure of the paper is as follows: The introduction is followed by the methodology section. The findings, based on a scoping review, are then presented. The paper concludes with a summary and suggestions for future research.

2. METHODOLOGY

This study employed a scoping review to collect data, and the findings were interpreted through content analysis.

Scoping Review

A Scoping Review Methodology was utilised to systematically examine existing literature and assess the significance of best practices in SMEs, comparing global and local contexts. This approach aimed to provide a factual and relatable understanding of SME development, particularly in the context of a developing country.

Scoping reviews serve as an evidence synthesis tool, mapping the breadth of available research on a specific topic, concept, or issue within defined contexts (Pollock et al., 2024). Authors have followed nine key steps (Peters et al., 2021) and JBI (Joanna Briggs Institute) guidelines when conducting the scoping review, as illustrated in Figure 1.

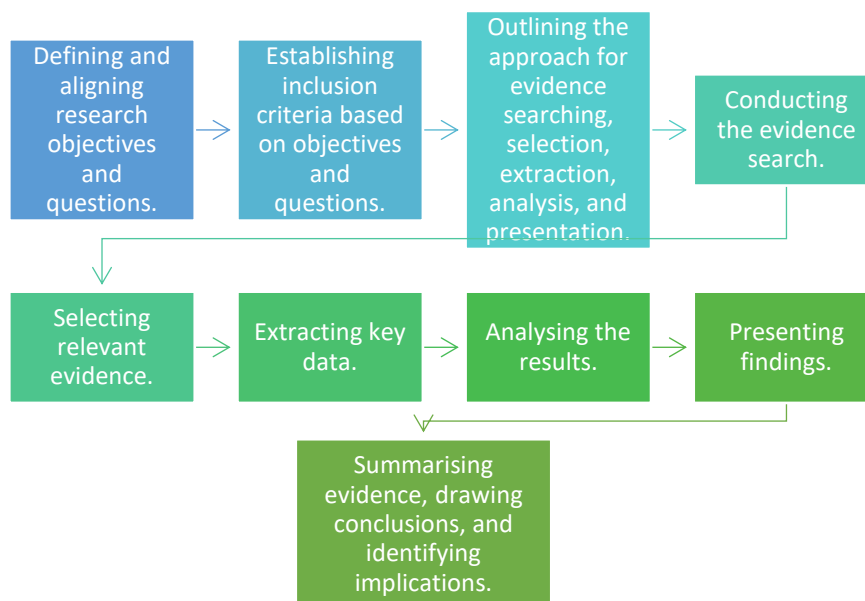


Figure 1: Steps followed when conducting the scoping review

Content Analysis

Qualitative data collected from scoping review was analysed using content analysis, a systematic method for identifying patterns, themes, and insights within textual data (Ullah & Ameen, 2018). This approach involves categorizing and coding information to uncover relationships and trends relevant to SME contractors in the construction sector. The insights generated through content analysis assisted in identifying the viability of good practices that can be adopted and effective steps to be taken.

3. FINDINGS AND ANALYSIS

3.1 DEFINITIONS OF SMES IN GLOBAL AND LOCAL CONTEXTS

Definitions of SME distinctly vary from country to country. Hence, there is no universally recognized definition (Acar et al., 2005). Acar et al. (2005) further added that the term SME has varying definitions are a result of the different phases of economic development, size and prevailing social conditions of the country. However, most of these definitions are based on criteria that refer to employment, annual turnover, size of balance sheet, assets, invested capital, sales volume and production capacity, while the most conventional reference is the number of employees (ESCAP, n.d.)

Table 1: Definitions of SMEs

Country	Sector	Currency	Criteria	Micro		Small		Medium	
				No. of Employees	Value	No. of Employees	Value	No. of Employees	Value
Malaysia	Manufacturing [1]	RM	Sales turnover	1-4	< 0.3 Mn	5-74	0.3 – 15 Mn	75-200	15-50 Mn
	Services and other [1]	RM	Sales turnover	1-4	< 0.3 Mn	5-29	0.3 – 15 Mn	30-75	3-20 Mn
Philippines	[1]	PHP	Total assets exclusive of land		≤ 3 Mn		3- 15 Mn		15- 100 Mn
Singapore	[1]	SGD	Sales turnover	≤ 200	≤ 100 Mn	≤ 200	≤ 100 Mn	≤ 200	≤ 100 Mn
Vietnam	Agriculture, forestry and fishing Industry and construction [1]	VND	Total revenue	1 - 10	< 3 billion & < 3 billion	11 - 100	3-50 billion & 3-20 billion	101 - 200	50-300 billion & 20-100 billion

Country	Sector	Currency	Criteria	Micro		Small		Medium	
				No. of Employees	Value	No. of Employees	Value	No. of Employees	Value
European countries	[2]	Euro	Turnover	< 10	≤ 2 Mn	< 50	≤ 10 Mn	< 250	≤ 50 Mn or
		Euro	Balance sheet		total ≤ € 2 Mn		total ≤ 10 Mn		≤ 43 Mn
India	Manufacturing and Service Sector Enterprises [3]	Indian Rupees	Investment in Plant and Machinery or Equipment		up to 10 Mn		up to 100 Mn		500 Mn and
		Indian Rupees	Annual Turnover		< 50 Mn		< 500 Mn		< 2500 Mn
Japan	Manufacturing and Others (including construction sector) [4]	Yen	Capital			20 or less		300 or less	300 Mn or less
	Wholesale [4]	Yen	Capital					100 or less	100 Mn or less
	Retail [4]	Yen	Capital					50 or less	50 Mn or less
	Service [4]	Yen	Capital			5 or less		100 or less	Capital 50 Mn or less
Sri Lanka	Manufacturing Sector [5]	Rupees	Annual turnover	Less than 10	less than 15 Mn	11 - 50	16 – 250 Mn	51 - 300	251 – 750 Mn
	Services Sector [5]	Rupees	Annual turnover	Less than 10	less than 15 Mn	11 - 50	16 – 250 Mn	51 - 200	251 – 750 Mn

Country	Sector	Currency	Criteria	Micro	Small	Medium
				No. of Employees	Value	Value
	Construction Sector [6]	Rupees	Annual turnover			
					Rs. 16 - 250 Mn, CIDA grade C9 – C4	250 - 750 Mn, CIDA grade C3 – C2
[1]: (ASEAN, 2024), [2]: (European Commission, n.d.), [3]: (SME Chamber of India, n.d.), [4]: (Organization for SME and Regional Innovation, n.d.), [5]: (Ministry of Industry and Commerce, 2016), [6]: (Ranadewa, et al., 2018)						

Table 1 shows a comparison of several countries' definitions of SMEs. In Southeast Asia, the definitions vary depending on the country's income level. For instance, Malaysia, an upper middle-income country with a population similar to Sri Lanka's, defines SMEs differently from the Philippines, which is a lower middle-income country. On the other hand, Singapore, a high-income and developed country, does not differentiate between micro, small, and medium enterprises (Metreau et al., 2024; Wickramatilake, 2018). Furthermore, it can be observed that most ASEAN countries do not specifically have classified construction SMEs. However, Vietnam stands out as it provides a definition for construction SMEs alongside other industrial SMEs.

In Europe, where most countries are high-income nations (Metreau et al., 2024), the definition of SMEs is typically based on three key criteria (European Commission, n.d.). In India, a fast-developing country, SMEs are defined according to a composite criterion that includes investment in plant and machinery/equipment and annual turnover (SME Chamber of India, n.d.). The definition for construction industry SMEs in India aligns with this general SME definition, as stipulated in the MSMED Act 2006 and the Industries Development and Regulations Act 1951. Similarly, Japan, another high-income country (Metreau et al., 2024), defines SMEs in accordance with the criteria depicted in Table 1 (Organization for SME and Regional Innovation, n.d.).

In Sri Lanka, SMEs are generally defined by the number of employees and annual turnover, as outlined in the National Policy Framework for SME Development by the Ministry of Industry and Commerce (Ministry of Industry and Commerce, 2016). For construction SMEs, the definition is proposed to be based on annual turnover and CIDA grading, as provided by the Ceylon Institute of Construction Development (Ranadewa et al., 2018). However, it is important to note that there is no universally recognized classification system for construction industry SMEs.

3.2 IMPORTANCE OF SMEs IN ECONOMIC DEVELOPMENT IN GLOBAL AND LOCAL CONTEXTS

In developing economies, construction SMEs play a crucial role in job creation and poverty reduction (Usman & Alaezi, 2016). Consequently, acknowledging the economic significance of SMEs within the construction sector is essential (Ranadewa et al., 2015). The following section provides a summary of the contribution of SMEs to economic development in both global and local contexts.

3.2.1 A Breeding Ground for large Organisations

Most of the present business giants have once been initiated as small businesses. Large businesses are more productive, have better access to finance, the capacity to invest in bigger projects and the ability to facilitate research and development, while MSMEs play the role as the breeding ground for the large businesses. A successful economy should have a healthy mix of both large and small businesses. MSMEs contribute to influencing the general public's entrepreneurship, which helps the growth of the economy by enhancing human capital (Central Bank of Sri Lanka, 2021).

3.2.2 Employment and Job Creation

SMEs contribute to approximately 70% of global employment, serving as key drivers of job creation, particularly in developing economies ("The Power of Small", 2019). In the construction sector, SMEs play an essential role in employing both skilled and unskilled labourers, directly impacting income levels and poverty reduction (Anaman & Osei-Amponsah, 2007). The Employment-Intensive Investment Program (EIIP) highlights that 220 million people worldwide are employed due to the construction industry ("The Power of small", 2019). However, challenges such as job continuity and workforce retention persist, especially in developing countries where SMEs operate under uncertain and volatile market conditions (Ranadewa et al., 2018).

3.2.3 Innovation

SMEs are recognised as hubs for innovation, contributing to economic development by introducing new products, services, and technological advancements (Amoah et al., 2022). Their flexible structure enables them to adapt quickly to market demands and invest in creative solutions. Countries such as China have actively supported SME-led innovation through initiatives like the incubation of "little giants" in high-tech industries (Xinhua, 2021). Similarly, European SMEs have played a significant role in patent development, particularly in fields like biotechnology (Bayraktar & Algan, 2019). Sri Lankan SMEs also contribute to innovation, offering unique solutions that enhance competition and drive industry advancements (Rizkiya, 2024).

3.2.4 Fulfilment of Corporate Social Responsibilities

Amoah et al. (2022) discussed the importance of SMEs, including employment, job creation, and innovation, which have ultimately contributed to Africa's economic growth. Additionally, Sri Lanka is a country with a similar developing economy to Ghana in Africa, in which SMEs have given their contribution to the fulfilment of social responsibilities and economic growth as mentioned in the table above (Central Bank of Sri Lanka, 2021).

3.2.5 Exports

According to what is mentioned in the table above SMEs represent a hopeful market for goods and services exports in Sri Lanka (Sri Lanka Export Development Board, 2022). It is said that export of construction services, which could be categorized as construction work, consultancy in construction work and project development work, could become the panacea for the laid-up construction industry of the country as well as the Sri Lankan Economy (Wijeratne, 2023).

3.3 LEGAL PROVISIONS RELATED TO SME CONTRACTORS IN GLOBAL AND LOCAL CONTEXTS

SMEs, or small enterprises, play a crucial role in engaging with communities and fostering innovation in the development of products and services for consumers within a market economy. As economies undergo digital transformation, SMEs act as catalysts for change, driving the shift towards a new market structure. Governments must ensure that laws, regulations, and policies support the establishment and growth of SMEs. Consequently, many countries have implemented legislation and strategies designed to promote the development of SMEs.

In Sri Lanka, there is no exclusive legal provision for SMEs, but there is the National Policy Framework for SME development, which outlines the vision, mission and strategies for promoting and supporting the MSME sector (Diriya Sri Lanka, 2024). Additionally, there are certain other acts which address different aspects of SMEs as mentioned above. Figure 2 presents an overview of the various legislative frameworks and legal provisions that have been adopted by countries globally to govern and support SMEs.

3.4 GOOD PRACTICES THAT CAN BE DERIVED FROM GLOBAL CONTEXTS TO ENHANCE THE LOCAL SMEs

Enhancing the capabilities and competitiveness of Sri Lankan SMEs necessitates a comprehensive approach that incorporates successful strategies and best practices from a variety of global contexts (Gamba, 2019). Given the substantial role of SMEs in fostering economic development, particularly in developing nations, it is essential to address the challenges they encounter and bolster their ability to compete in the global market. (Issau et al., 2022). In order to overcome these obstacles and fully realise the potential of Sri Lankan SMEs, policymakers and business leaders can benefit from the insights gained from international experiences, adapting proven models to meet the specific needs and context of the Sri Lankan economy (Gamba, 2019; Ranadewa et al., 2018).

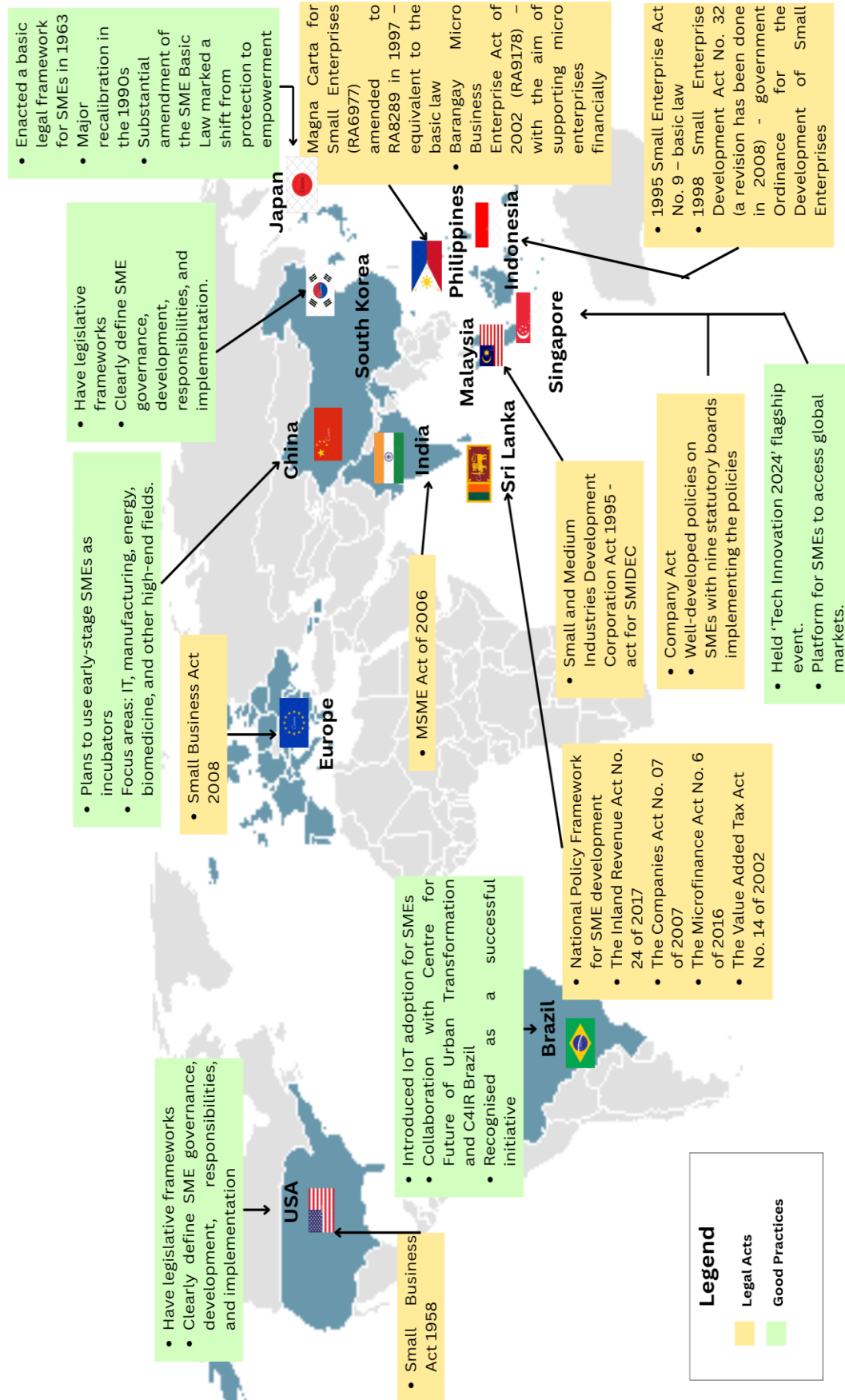


Figure 2: Legal provisions related to SME contractors in global contexts & good practices that can be derived from global contexts to enhance the local SMEs

Figure 2 provides a summary of the best practices that can be adopted from other countries to strengthen Sri Lankan SMEs.

3.4.1 Establishment of Targeted Legal Provisions

Japan and South Korea provide strong examples of SME-focused legislative frameworks, ensuring clarity in governance, development, and policy implementation (Nakagawa, 2012; Knowledge and Research, 2020). The recalibration of Japan's SME Basic Law in the 1990s transformed SMEs into drivers of economic growth rather than passive recipients of protection. Similarly, Sri Lanka requires a dedicated legal framework for SMEs, particularly in the construction sector, to address challenges such as payment paralysis and contract enforcement issues (Rajapakshe et al., 2021; Kaggiah, 2022). Implementing clear legal provisions would create a more supportive business environment and facilitate sustainable SME growth.

3.4.2 Digital Transformation and E-Commerce

The adoption of digital technologies is crucial for enhancing SME productivity and market reach (Patterson-Waites, 2023). Brazil's successful integration of IoT solutions for SMEs demonstrates how digitalisation can significantly improve operational efficiency and return on investment (Aguilar & Salihudin, 2024). However, Sri Lankan SMEs face challenges such as high transaction fees for online payment systems and limited access to digital resources (Gunawardene, 2017). Encouraging affordable digital payment solutions and providing digital literacy training can enhance the participation of SMEs in e-commerce and global trade.

3.4.3 Empowering SMEs to Initiate and Develop Innovations

China has strategically positioned SMEs as incubators for emerging technologies in manufacturing, energy, and biotechnology, integrating them into broader industrial and supply chains (Xinhua, 2021). In Sri Lanka, fostering SME-driven innovation is critical for economic progress. For the construction industry, innovation can be influenced by client demand, procurement arrangements, and collaborative project environments (Hardie & Newell, 2011). Establishing research partnerships and providing financial support for innovation-driven SMEs will strengthen their role in sustainable development.

3.4.4 Improving Linkages to Compete Internationally

Singapore's 'TechInnovation 2024' event facilitates strategic matchmaking among potential business partners where innovators, technology providers, and industry leaders are present. The main goal of IPI, which is the organizer of this event, is to improve the linkage of Singaporean companies with international partners (Asia Research News, 2024). Industry networks heavily impact the innovative capacity of construction industry SMEs as well. Knowledge sharing and joint problem solving through collaboration could enhance each other's capacity. However, there should be opportunities, such as forums by professional associations and research associations in order to provide a proper industry network (Hardie & Newell, 2011).

A thorough and context-sensitive approach is necessary to improve the performance, resilience, and long-term viability of Sri Lankan SMEs, especially in the construction industry, by taking inspiration from these global best practices. First, the creation of a strong and well-defined legal framework based on successful programs in the US, South Korea, and Japan would enhance contract enforcement, create a stable policy

environment, and address systemic problems like poor dispute resolution and late payments. Having such a legal basis is essential for boosting investor trust and promoting SME involvement in official procurement processes, especially for public infrastructure projects. Additionally, SMEs can greatly improve their operational efficiency and market access by adopting digital transformation through the creation of inclusive payment systems, e-commerce platforms, and low-cost digital infrastructure. Smoother transitions to digital operations can be facilitated by strategic relationships with local financial institutions, digital innovation clusters, and international technology providers. Additionally, incorporating digital literacy into national SME development plans will guarantee fair access and lessen the digital divide between urban and rural areas.

In addition, it is critical to cultivate an innovative culture. SME participation in high-value industries can be accelerated via government-led innovation subsidies, tax breaks, and assistance for incubators and accelerators. SMEs in the construction sector might be urged to create digital project management tools, modular construction techniques, and sustainable technology. Enhancing businesses' ability to absorb innovation through upskilling initiatives and promoting knowledge transfer from academic and research institutions are also necessary for integrating innovation into the SME ecosystem. Increasing international connections will help Sri Lankan SMEs better integrate into global value chains and gain knowledge of sustainability standards and global market demands. Targeted networking gatherings, innovation expos, bilateral trade missions, and involvement in regional SME forums like ASEAN SME initiatives can all help achieve this. Additionally, creating cross-border research partnerships and exchange initiatives will support SMEs in maintaining their agility in a rapidly changing and competitive global marketplace. Lastly, it is crucial that these approaches be applied as part of a coordinated, multi-stakeholder approach that involves academic institutions, industrial associations, the private sector, the government, and international development partners. In addition to increasing the productivity and competitiveness of Sri Lankan SMEs, adjusting these techniques to the local environment while maintaining alignment with international standards will also make a substantial contribution to employment creation, national economic growth, and sustainable development. One of the main pillars of Sri Lanka's shift to a more innovative and inclusive economy will be a robust and cohesive SME sector.

4. CONCLUSIONS AND RECOMMENDATIONS

This study aimed to investigate SMEs in both local and global contexts, highlighting their critical role in driving economic growth, innovation, and employment. Although SMEs are widely recognised across nations, a standardised definition remains absent. Countries vary in classification criteria Singapore maintains a broad definition, while Japan and Malaysia apply sector-specific distinctions. Notably, construction SMEs often receive insufficient attention despite their unique operational challenges. In the Sri Lankan context, the lack of a dedicated legal framework for construction SMEs has contributed to persistent issues such as payment delays, limited access to finance, and weak institutional support. Insights drawn from international best practices underline the importance of establishing clear legal and policy structures tailored to the sector's needs. Global examples also illustrate how digitalisation, e-commerce, innovation support, and international linkages can significantly enhance SME resilience and competitiveness.

To strengthen SME development in Sri Lanka, the introduction of a formal classification system for construction SMEs and the implementation of a targeted legal framework are essential. Complementary measures, including financial incentives, technology adoption, and innovation partnerships, will help bridge gaps between SMEs and larger enterprises. Encouraging global collaboration and knowledge exchange can further position Sri Lankan SMEs to compete in international markets. Theoretically, this study contributes by comparing SME structures across contexts and identifying key lessons for policy development. However, it is limited in its exploration of practical mitigation strategies tailored to construction SMEs. Future research should focus on contextualising international practices and developing actionable implementation plans to address specific local challenges and foster long-term SME growth.

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