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University of Peradeniya  
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**Volume 01**





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**FACULTY WORKING PAPER SERIES**  
**Volume 01, 2021**

**Faculty of Management**  
**University of Peradeniya**  
**Sri Lanka**

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Tel: +94 81 238 5707

Fax: +94 81 238 5707

Cover page designed by:

Mr. Chathura B. Rathnayake

Faculty of Management

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## Message from the Vice Chancellor

With great pleasure, I forward this message on the occasion of launching the “Faculty Working Paper Series, Volume 01, 2021”, Faculty of Management, University of Peradeniya. This is yet another pioneering initiative of the Faculty of Management. This compilation bears witness to the efforts of the academics of the Faculty of Management in developing a research-oriented educational environment.

For a successful outcome to be achieved, research work needs rigorous discussions, reviews, and presentations as the research progresses. The “Working Paper Series” is an excellent forum for discussing the research that has been done but has not yet been published in peer-reviewed journals; such conversation would make it easier to transition pre-publications into peer-reviewed publications.

I believe that researchers and the university would benefit if working papers were introduced to other faculties. While congratulating the “Faculty Working Paper Series, Volume 01, 2021” writers, I express my sincere gratitude to the Dean and the team for this outstanding effort.

This endeavor will significantly impact the PERA research culture.

**Professor M.D. Lamawansa**

Vice-Chancellor



## Message from the Dean Faculty of Management

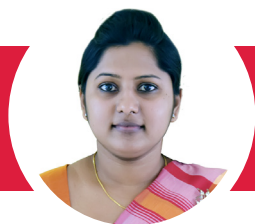
It is my pleasure to write this message for the proceedings of the “Faculty Working Paper Series, Volume 01, 2021” an endeavour that has come to fruition through the Faculty Working Paper Series of the Faculty of Management, University of Peradeniya.

The “Faculty Working Paper Series” was initiated with the aim of providing an intellectual space to present preliminary scientific manuscripts of the academics of the Faculty of Management by soliciting comments from academic staff members within and outside the Faculty to enhance the quality of the manuscript before publishing them in other sources. This initiative not only provides the academics with an opportunity to share their research findings related to various sub-domains of management but also allows them to produce a discourse as the reviewers and other faculty members join in presenting a critical evaluation of the manuscript. This publication contains the manuscripts of the academic members who presented on a monthly basis at the Faculty Working Paper Series in 2021.

I would like to thank all the academic staff members of the Faculty who presented their manuscripts at the “Faculty Working Paper Series” and the reviewers of the manuscripts who tirelessly provided constructive feedback to improve the manuscripts. This year-long endeavour realized as the “Faculty Working Paper Series, Volume 01, 2021” would not be successful without the dedication of the Coordinator of the Faculty Working Paper Series and the Editorial Board to whom I wish to extend my sincere appreciation for all their hard work in making this publication a success. Finally, I wish all the presenters good luck to continue their research efforts successfully.

**Professor E.M.A.S.B. Ekanayake**

Dean, Faculty of Management



## **Message from the Coordinator**

### **Faculty Working Paper Series, Faculty of Management**

I am delighted to forward this message on the occasion of launching the proceedings of the “Faculty Working Paper Series, Volume 01, 2021” as the Faculty Coordinator. The Faculty Working Paper Series of the Faculty of Management, University of Peradeniya aims to provide a foundation for the publication of research findings by facilitating and motivating the research work of academic staff members through a reviewing process.

This publication is a compilation of research papers presented in the “Faculty Working Paper Series” by academic members on a monthly basis for the year 2021. The manuscripts included in this volume have been subject to a swift review process with the objective of improving the quality of the research papers. Therefore, this initiative creates a conducive platform to enhance the value of the research output of the academics of the Faculty to be published in reputed sources.

The task of continuing this endeavour in the long term falls upon not only the faculty coordinator but also many individuals who were relentlessly engaged in making the Faculty Working Paper Series successful. I take this opportunity to thank Professor E.M.A.S.B. Ekanayake, Dean, Faculty of Management, University of Peradeniya for his constant guidance and support. I am thankful to the Editorial Board of the Faculty Working Paper Series for their valuable contribution in successfully releasing this publication. Further, my sincere gratitude is extended to the authors of the manuscripts and the reviewers whose participation is indispensable to making the publication of the First Volume of the Faculty Working Paper Series a success. Further, I thank everyone who contributed in numerous ways to make this initiative a success.

My best wishes to the authors to succeed in their future research endeavors.

**Ms. U.W.G.Y.E. Jayawickrama**

Coordinator, Faculty Working Paper Series

Faculty of Management

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# The Impact of Liquidity on Profitability in the Banking Sector in Sri Lanka

**M.G.P.D. Menike**

*Department of Business Finance, Faculty of Management, University of Peradeniya, Sri Lanka  
menike@mgt.pdn.ac.lk*

## Abstract

Liquidity and profitability are the most important issues in the banking industry. The aim of the study was to find out the impact of liquidity on profitability and the relationship between liquidity and profitability. The most important six banks were taken as the sample from 2007-2016. The study was involved in secondary data collection i.e., the return on equity, return on assets, and net interest margin and liquid ratio to measure liquidity during a specific year. This study used descriptive statistics, correlation, and regression analysis to establish the relationship and impact of those variables.

The study found that there is no significant impact of liquidity on profitability and there is no relationship between liquidity and profitability. The study recommended that banks maintain the availability of liquid assets in order to avoid liquidity risk and when banks increased profitability, it is not necessary to consider liquidity but consider other factors such as capital structure, depositors, inflation, etc. Because liquidity does not determine profitability; banks should pay attention to other factors to achieve high profitability.

**Keywords:** Liquidity, Profitability, Banking Sector

## 1. Introduction

In the corporate world, the relationship between Profitability and Liquidity is an issue that is discussed very frequently. Profit maximization is one of the external goals of any firm. Liquidity is also kept at a sufficient level in order to satisfy the customers. Lack of liquidity assets on hand may result in the firm not meeting its obligations to the supplier's goods and services. Niresh (2012) argued that

liquidity is very important to both internal and external analysts because of its close relationship with day-to-day operations in the firm. Weak liquidity poses threats to the solvency and profitability of a firm. Chong & Sufia (2008) suggested that liquidity rises from the inability of the company to handle decreases in liabilities. Liquidity is considered an important determinant of profitability.

Liquidity and profitability are contradictory and many research projects have been conducted on liquidity and profitability that liquidity increases/decreases a bank's profitability. Researchers have found out that the relationship between liquidity and profitability has positive, negative and no relationship between them. A bank should keep considerable amounts of their liquid assets in order to get higher rates of profit (Rizwan & Muttahar, 2016). Richard & Lauglin (1980) suggest the importance of liquidity status for investors and managers evaluating a company's future estimating risk & return and stock prices on the one hand and the necessity of weaknesses and defects of traditional liquidity indices (current & liquidity ratio) on the other hand are supportive of the final researchers. Eljelly (2004) suggests that profitability and liquidity are effective indicators of corporate health and performance of not only the commercial banks but all profit-orientated ventures.

Banks play a critical role within the Sri Lankan financial system, as they are engaged in the provision of liquidity to the entire economy, while transferring the risk characteristic of assets. Banks are also engaged in providing payment services, thereby facilitating all entities to carry out their financial transactions. Nowadays, banking systems reach the expansion of branches and the growth of credit and deposits. As regards financial institutions, the banking sector's total assets increased by 15.9% in 2015, against the 17.3% growth in 2014, to a record of 8.1 trillion at the end of the year. The banking sector continued to support economic growth and development throughout the year by enhancing its banking services and expanding its network and accessibility throughout the island. Therefore, this study aims to find out the impact of liquidity on profitability in the banking industry, especially with reference to the six important commercial banks in Sri Lanka.

## 1.1 Research Problem

The main purpose of this study is to find out the relationship between liquidity and profitability, and then how liquidity is important to profitability. According to past research, profitability and liquidity is a contradictory relationship (Anzal & Lodi, Lartey & Boadhi). They argued that there is a negative relationship between liquidity and profitability while Bordeleau & Graham (2010) suggested that there

is a point at which holding further liquid assets diminished the bank's profitability. Dong (2010) argues that there is a negative relationship between liquidity and profitability. Rizwan & Muttahar (2016) suggests that liquidity has a positive relationship with profitability and suggested that banks should keep considerable amounts of their liquid assets to get higher rates of profit. Ajanthan (2013) reveals that there is a positive relationship among listed trading companies in Sri Lanka. Jeevarajasingam (2014) argued that there is no relationship between liquidity and profitability. Niresh. J (2012) shows that there is no significant relationship between liquidity and profitability. Accordingly, the relationship is varied by each researcher and each country. Therefore, this study seeks to analyze the impacts of liquidity on profitability in the Sri Lankan banking sector.

## **1.2 Research Question**

What is the impact of bank liquidity on profitability in the banking sector?

## **1.3 Research Objective**

To examine the impact of liquidity on profitability in the banking sector.

## **2. Literature Review - Theories related to Liquidity and Profitability**

There are a number of theories that illustrate the relationship between liquidity and profitability. The basic question that the underlying theories attempt to answer is how liquidity affects profitability in the banking sector. Osborne, Fuertes and Milne (2012) argue that higher liquidity is often costly to banks, and it leads to reduced profitability. However, according to the trade-off theory, higher liquidity may also reduce a bank's risk and hence the premium demanded to compensate investors for the costs of bankruptcy (Osborne et al. 2012). According to conventional corporate finance theories, a bank in equilibrium will desire to hold a privately optimal level of liquidity that just trades off costs and benefits implying a zero relationship at the margin.

### **2.1 Empirical Findings**

A lot of researchers argue about the impact of liquidity on profitability, mostly in developed and developing countries. There are mixed results revealed by the

researchers. For example, Rizwan & Muttahar (2016) concludes that there is a significant positive relationship between liquidity and profitability. They used the dependent variable as profitability (Gross profit Margin, Net profit Margin), and the independent variable as liquidity (Current ratio and Quick Ratio). They suggest that banks should keep a considerable amount of their liquid assets in order to get a higher rate of profit. Furthermore, Lartey, Antwi & Boadi (2013) suggest that liquidity has some amount bearing on the profitability of a bank, it is important for a bank to manage liquidity very well. When banks hold adequate liquid assets, their profitability would improve.

In his study, Ajanthan (2013) focuses on profitability and liquidity relationship in profit-oriented companies in the Sri Lankan context. By using the correlation and regression analyses, they conclude that there is a significant positive relationship among listed trading companies in Sri Lanka.

Saleem & Rehman (2011) in their study focuses on the “Impact of Liquidity Ratio on Profitability in the case of Oil and Gas Companies in Pakistan 2004-2009”. In their study, they used the independent variable as liquidity (CR, AR & LR) and the dependent variable as profitability (ROA, ROE & ROI). They conclude that analysis ROA is significantly affected by only liquidity ratio, but ROE is not affected by current ratio, quick ratio and liquid ratio. However, they recommended that a company needs to maintain adequate liquidity so that liquidity greatly affects profits of which some portion will be divided among shareholders.

Bordeleau & Graham (2010) found that there is a negative relationship between liquidity and profitability with a sample of US and Canadian banks. Further, they suggested that profitability is improved for banks that hold some liquid assets. The estimation results evidence that the relationship between liquid assets and profitability depends on the bank’s business model and risk of funding.

Thuraisingam, (2015) focused on the effects of liquidity management and profitability in listed companies in Sri Lanka. In this study, the independent variable is liquidity (current ratio and quick ratio), the dependent variable is profitability (return on equity and return on assets). Results of this study reveals that liquidity has a low degree of influence on the profitability of selected companies from different sectors in Sri Lanka. The recommendation of this research reveals that the overall state of liquidity should be improved to have a favorable impact on the profitability of the company.

Eljelly (2004) examined the relationship between profitability and liquidity in the Saudi Arabian market by using correlation and regression analysis. The research found that significant negative relation between the firm’s profitability and its liquidity level, as measured by the current ratio. Further, it is found that the cash conversion cycle or the cash gap was a more important measure of liquidity than the current ratio which affects profitability.

Shafana (2013) presents an analysis of the “liquidity and profitability of financial institutions in Sri Lanka”. In this study cash position indicator, capacity ratio and total deposit ratios are used as independent variables and ‘Return on Assets’ is used as a dependent variable. This research reveals that Cash Position Indicator (CPI) and Total Deposit Ratio (TDR), has significant determinants of Return on Assets (ROA) while Capacity Ratio (CR) has no significance on the ROA of Banks and Finance Companies in Sri Lanka.

Bourke (1989) examined the relationship between liquid assets and bank profitability in ninety (90) banks in Europe, North America and Australia from 1972 to 1981. The study emphasized that profitability and solvency are necessary conditions for the healthy existence of the company, and both are conditioned by the strategy adopted in the medium and long term.

Ahkwali (2011) conducted research to find out the relationship between liquidity and profitability of companies listed on the Nirohbi Securities Exchange. This study used the dependent variable as profitability, measured by the return on capital employed ratio. The Independent variable is liquidity and it was measured by current ratio and quick ratio. This study concluded that the cash conversion period is the most significant factor followed by the current ratio and quick ratio respectively.

Loo (2007) conducted a survey on liquidity management approaches and their effect of the profitability of commercial banks in Kenya. This study concludes that there was a positive correlation between liquidity and profit levels in the banks.

Macharia (2013) examines the relationship between liquidity and profitability of Commercial banks in Kenya. Through this study, the author finalized that the liquidity has a positive relationship and it is one of the determinants of profitability of commercial banks. Further, he recommended that profitability and liquidity reinforce each other and therefore finance managers should not consider the two variables as independent.

Kimondo (2014) examines the relationship between liquidity and profitability of non-financial companies listed in the NSE. He reveals that there is a significant weak positive relationship between liquidity and profitability. Further, the study recommended that the trading companies should maintain an optimal liquidity level to maximize the company’s profitability and shareholders’ wealth.

In his research project, Kii (2014) analyzed the relationship between liquidity and profitability of insurance companies in Kenya. The study indicated that the leverage ratio has a negative influence on ROA. The study established a positive relationship between the log of net premiums and ROA. Finally, the study indicated

a negative but significant relationship between loss ratio and profitability.

Furthermore, Nayeem & Jahan (2009) analyzed the impact of liquidity on profitability in the banking sector of Bangladesh. They used the dependent variable as profitability (ROA & ROE), the independent variable as liquidity (Loan Deposit Ratio, Deposit Asset ratio, cash Deposit Ratio). They concluded that there is no significant relationship between the two variables.

Jeevarajasingam (2014) analyzed the liquidity on the profitability of private banks in Sri Lanka, Independent variable was liquidity (liquidity Ratio) dependent variable was profitability (Net Profit Ratio, ROA & ROE) This study indicated that liquidity has a strong positive correlation with return on assets.

On the basis of the literature review, the researcher developed the following hypotheses:

H0: There is no relationship between liquidity and profitability in the banking sector.

H1: There is a relationship between liquidity and profitability in the banking sector.

### **3. Method**

This study is a quantitative explanatory study.

The specification of the model

#### **Dependent Variables**

Return on Assets = Net profit after Tax/ Total Assets

Return on Equity = Net profit after Tax /Shareholders' Equity

Net Interest Margin = Interest Income-Interest expenses/ Total Assets

#### **Independent Variable**

Liquid Ratio= Cash+ investments / Current liabilities.

## Data Collection

The period from 2007-2016 of the six most important commercial banks in the banking sector in Sri Lanka is considered as a sample of the study. The study used secondary data from the year 2007 to 2016 for analysis. The research required certain financial ratios to be calculated & the relevant information to be computed these ratios were taken by using the bank's financial statements.

$$\text{ROA} = \alpha_1 + \beta_1 \text{LR} \quad \text{model 1}$$

$$\text{ROE} = \alpha_1 + \beta_1 \text{LR} \quad \text{model 2}$$

$$\text{NIM} = \alpha_1 + \beta_1 \text{LR} \quad \text{model 3}$$

## Method of Analysis

Descriptive statistics employs tools such as percentage, mean, median, maximum value, minimum value and standard deviation. These help the researcher to describe the data. Correlation analysis is undertaken to find out the relationship between liquidity and profitability. Regression analysis also use to measure the relationship between two variables.

## 4. Data analysis and interpretation

### 4.1 Descriptive Statistics

Descriptive statistics help to describe and understand the features of a specific data set, by giving short summaries about the sample and measuring the data. Descriptive statistics recognized mean, median, mode, minimum, maximum etc. as follows:

**Table 4.1:** Descriptive statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
LR	60	18.4	20.4	38.8	24.413	3.6584
ROE	60	33.2	12.0	45.2	19.427	5.8795
ROA	60	1.4	.6	2.0	1.292	.3228



NIM	60	3.5	2.3	5.8	4.076	.8192
Valid N (list wise)	60					

In the above table, 60 observations are included in the analysis. Here the independent variable ratio and the dependent variables are ROA, ROE & NIM. Through descriptive analysis, it is depicted that the minimum amount of liquidity ratio is 20.4 and the maximum amount 38.8. The mean value of this ratio is 24.41 and the standard deviation of this ratio is 3.65. The minimum value of ROE is 12, the maximum amount is 45.2 and the mean is 19.42. The minimum level of ROA is 0.6, the maximum level is 2 and the mean is 1.29. The standard deviation is 0.322. The minimum level of NIM is 2.3, the maximum level is 5.8 and the standard deviation is 0.8192. The range of these variables LR is 18.4, ROE is 33.2, ROA is 1.4 and NIM is 3.5.

#### 4.2 Regression analysis

Regression analysis is investigating the relationship between dependent and independent variables. Results obtained from the regression analysis are given below. Through the model summary, the researcher can identify how well the regression model did not fit the observed data.

#### 4.3 Liquidity Ratio and Return on Equity

**Table 4.2:** Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.103 <sup>a</sup>	.011	-.006	5.8985

a. Predictors: (Constant), LR

In the above summary, we can see  $R^2$  is 0.11 that indicates the explanatory power of the independent variables on the dependent variable. The table implies that there is a 1.1% profitability of ROE variation in the liquidity ratio. It means that 98.9% of the ROE is attributable to factors other than liquidity levels in the bank. The adjusted  $R^2$  represents when another variable is added to the model, and how far it will explain the dependent variable. Adjusted  $R^2$  – 0.006 when added to a

new variable in this model will explain 0.6% in the ROE. The standard error of the estimate is a measure of the accuracy of the prediction. The standard error of the estimate is 5.895. This explains how far the mean of the selected sample deviates from the actual mean population.

**Table 4.3: ANOVA**

<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	21.608	1	21.608	.621	
Residual	2017.962	58	34.792		
Total	2039.570	59			

Dependent Variable: ROE

Predictors: (Constant), LR

The regression sum of the squares explains the sum of squares obtained from the regression model developed in this study is 21.608. It means how much variability is accounted for by the regression model, which is the fitting of the least squares line. The degree of freedom regression is equal to the number of predictors in the model. According to this study, it is equal to one and the degree of freedom residual is 58 which is the amount obtained from deducting the number of total observations. F value is the measure of the overall significance of the model that is obtained by taking the ratio of the mean square regression to the mean square residual. As such the result of this study is equal to 0.621. When there is a value lower than the 0.05 that is a significant level but here it is an insignificant level because the amount is 0.434.

**Table 4.4:** Coefficient table

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	22.367	3.808	-.103	5.874	.000
LR	-.119	.151		-.788	.434

a. Dependent Variable: ROE

The coefficient of each variable in the model with the beta value and the standard error value is mentioned in the above table. The regression model coefficient contains essential information for interpreting the regression analysis. According to this constant is the value of the independent variable is zero, and the value of expected return on equity is -0.119. It shows that with one unit of increase of independent variable the ROE is reduced by -0.119.

The regression equation estimates the relationship between Liquidity ratio (LR) & return on equity (ROE).

$$ROE = 22.367 - 0.119LR$$

### Liquidity Ratio and Return on Assets

**Table 4.5:** Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.091 <sup>a</sup>	.008	-.009	.3242

a. Predictors: (Constant), LR

Through the regression model, R<sup>2</sup> is 0.008. It means the 0.8% ROA is a variation from the liquidity ratio.

**Table 4.6: Coefficient**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.150	.209	.091	5.492	.000
	LR	-.006	.008		.696	.489

a. Dependent Variable: ROA

The value of the expected return on equity is 0.006. Here the significant value is 0.489 and it is insignificant because it is not less than the 0.05 level. There is a weak positive relationship between the liquidity ratio and the return on assets.

The regression equation estimates the relationship between Liquidity ratio (LR) & return on Assets (ROA).

$$ROA=1.150+0.006LR$$

### Liquidity Ratio and Net Interest Margin

**Table 4.7: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.203 <sup>a</sup>	.041	.025	.8090

a. Predictors: (Constant), LR

Through the regression model, R<sup>2</sup> is 0.041. It means the 4.1% NIM is a variation from the liquidity ratio. And other 95.4% varies other factors than liquidity ratio.

**Table 4.8:** Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Const.)	4.885	.522	-.203	9.355	.000
	LR	-.033	.021		-1.582	.119

Dependent Variable: NIM

The value of the expected net interest margin is -0.006. It is revealed that one unit of increase of the independent variable in the net interest margin is reduced by -0.033. According to the results P-value is .119 and here it is at an insignificant level because it is not less than the 0.05 level. Therefore, it can be concluded that the liquidity ratio has less effect on the net interest margin. There is a negative relationship between liquidity ratio and net interest margin. When the liquidity ratio increases net interest margin decreases.

The regression equation estimates the relationship between Liquidity ratio (LR) & net interest margin (NIM).

$$NIM = 4.885 + 0.006LR$$

### Liquidity and Profitability.

Table 4.9 depicted the model summary of the study below.

**Table 4.9:** Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.111 <sup>a</sup>	.012	-.005	1.9695

a. Predictors: (Constant), LR

The regression model R<sup>2</sup> is 0.012. It means that 1.2% profitability variation from liquidity.

**Table 4.10:** Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	9.718	1.730	-.111	5.618	.000
LR	.059	.070		-.847	.400

a. Dependent Variable

The value of the expected net interest margin is -.059. One unit of increase of the independent variable of the net interest margin is reduced by -0.059. The p-value is 0.400 and here it is at an insignificant level because it is not less than the 0.05 level. Liquidity has no effect on the net interest margin. There is a negative relationship between liquidity and profitability. When liquidity increases profitability decreases.

**Hypotheses Testing**

When we analyze the hypothesis testing,

Ho: There is no impact of liquidity on profitability

H1: There is an impact of liquidity on profitability

**Correlation Analysis**

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to another.

The following table 4.11 shows the correlation coefficient among selected variables which have dependent and independent variables.

**Table 4.11:** correlation

		<b>LR</b>	<b>ROE</b>	<b>ROA</b>	<b>NIM</b>
<b>LR</b>	<b>Pearson Correlation</b>	1	-.086	.096	-.209
	<b>Sig. (2-tailed)</b>		.513	.466	.109
	<b>N</b>	60	60	60	60
<b>ROE</b>	<b>Pearson Correlation</b>	-.086	1	.094	-.107
	<b>Sig. (2-tailed)</b>	.513		.473	.415
	<b>N</b>	60	60	60	60
<b>ROA</b>	<b>Pearson Correlation</b>	.096	.094	1	.312*
	<b>Sig. (2-tailed)</b>	.466	.473		.015
	<b>N</b>	60	60	60	60
<b>NIM</b>	<b>Pearson Correlation</b>	-.209	-.107	.312*	1
	<b>Sig. (2-tailed)</b>	.109	.415	.015	
	<b>N</b>	60	60	60	60

\*. Correlation is significant at the 0.05 level (2-tailed).

According to table 4.11 liquidity ratio and return on equity (ROE) have a weak negative relationship (-0.086), and it is insignificant. The liquidity ratio and the return on assets (ROA) have a weak positive relationship (0.096) and it is insignificant. The liquidity ratio and the net interest margin (NIM) have a negative relationship (-0.209) and it is insignificant.

## Overall estimation

Table 4.12

Model	Dependent Variable	Independent Variable	R <sup>2</sup>	P Value	Relationship
1	ROE	LR	0.11	0.434	Weak negative
2	ROA	LR	0.008	0.489	Weak positive
3	NIM	LR	0.012	0.400	Weak negative

The overall estimation is analyzed in table 4.12. Accordingly,, it can be finalized.

There is a negative relationship and insignificant impact between liquidity ratio and the return on equity. (LR & ROE)

There is a positive relationship and insignificant impact between liquidity ratio and the return on assets. (LR & ROA)

There is a negative relationship and insignificant impact between liquidity ratio and the net interest margin. (LR & NIM)

## 5. Conclusion

This study intended to determine the impact of liquidity (LR) on profitability (return on equity, return on assets & net interest margin) in the banking sector in Sri Lanka. Secondary data was used to find out the relationship and data from 2007-2016 were used. Six banks were taken as a sample. Correlation and regression analysis in SPSS version 20.0 was used for data analysis.

From the findings, the liquidity ratio does not significantly affect the return on equity (ROE). R<sup>2</sup> is 1.1% which reveals that the liquidity ratio affects the return on equity at 1.1% and other factors influence 98.9%.

The liquidity ratio does not significantly affect the return on assets (ROA) and it is a weak positive relationship (0.096). The R<sup>2</sup> is 0.8% means the liquidity ratio has less impact on the return on assets and the other 99.2% determines the return on assets depending on other factors.

The liquidity ratio does not significantly affect the net interest margin (NIM) which is 0.119 and the relationship between those ratios (as-0.209) and R<sup>2</sup> is 4.1%. So the



liquidity ratio affects the net interest margin is 4.1%. and other factors influence 95.9% of net interest margin.

Finally, one can say through the analysis that liquidity does not significantly affect the profitability which is 1.2% and the relationship between liquidity and profitability is weak positive relationship and the  $R^2$  is 0.4% and here one can say liquidity does not affect profitability. However other factors largely influence profitability.

Finally, one can say through the analysis there is no impact of liquidity on profitability and there is no linear relationship between liquidity and profitability in the banking sector in Sri Lanka.

## 6. Recommendations

This study also suggests that the Sri Lankan banking sector needs to maintain more liquidity assets in order to improve its profitability. However, banks need to maintain the availability of liquidity in order to satisfy customer demands; otherwise, it will face liquidity risk.

Through the analysis, it was found that in the banking sector liquidity is very important. So, banks must maintain a sufficient level of liquidity but do not want to maintain a high level of liquidity. Profitability is very important because it determines the bank's long-term sustainability. Thorough these banks can attract customers and retain long term. So, when banks want to increase their profitability, they do not want to consider liquidity assets. Other factors determine the profitability because liquidity does not affect the profitability.

Finally, one can say through this study banks should maintain a sufficient level of liquidity in order to face liquidity risk. When banks increase profitability levels, they need to focus on other factors rather than liquidity. So Sri Lankan banking sectors can increase their profitability with less liquidity assets.

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# “Stress by Corona”: A Review of Human Resource Implications

**H.M.R.D. Kularatne**

*Department of Human Resource Management, Faculty  
of Management, University of Peradeniya, Sri Lanka  
rasanjaliiek555@gmail.com*

## **Abstract**

The purpose of this study is to identify the COVID-19 pandemic-related pandemic stress on human resources and propose appropriate strategies to deal with stress-related issues. This conceptual paper sets three research objectives to identify Stress by Corona (SBC) and appropriate strategies to deal with them. The study adopted secondary data, found through a comprehensive literature review as the methodology of this study. The researcher referred to articles in Emerald, Google Scholar, Web of Science and semantic scholar, and websites of WHO and other relevant world health care institutions. The study found six stressors owing to the COVID-19 pandemic, Financial Loss & Job Insecurity, Risk of Infection, Infobesity and The Unknown, Work-related Pressure, Quarantine and Isolation, and Stigmatization and Social Rejection. The originality of this paper is the conceptualization of the COVID-19 pandemic-related stress: named SBC.

**Keywords:** COVID-19, Fear, Stress, Strain, Risk, Human Resource Management

## **1. Introduction**

Human resources become indispensable and crucial for the organization’s survival. Human Resources have unique characteristics thereby employees make things happen while all other resources make things possible (Opatha, 2009). Due to the uniqueness of human resources in an organization, employees are exclusive in the organization’s decision-making process. Organizational development is upon the ability to explore innovations and novel opportunities in a volatile environment. The scope of human resource management is built around human resources in the organization. Human Resource Management is one of the fields of business

administration or organizational management (Opatha, 2019). In the range of human resource management functions, health and safety are one of the most important concerns. It involves promoting employees’ mental and physical health in which employees can perform job-related tasks, duties, and responsibilities efficiently and effectively (Opatha, 2009)

Within this context, it is required to investigate the risk that workplaces are following the severity of COVID-19 among employees in the organization where more people move here and there. Managing people belongs to the specific field of organizational management: Human Resource Management. COVID-19 is one of the most serious health hazards that organizations have to cope with nowadays in managing people at the workplace. Mental health following coronavirus is vital to be studied since a considerable degree of fear, anxiety, worry, and stress is induced among people including households, patients, doctors, and workers. With unusual livelihoods especially in quarantine, most people got psychologically weak as they felt loneliness, depression, stress, and anxiety (WHO, 2020).

The purpose of this study is to identify the COVID-19 pandemic-related stress on human resources and to propose appropriate strategies to deal with issues associated with stress.

## 1.1 Research Questions and Objectives

This research paper developed the following research questions, and the objective of this paper is to find answers to the below research questions.

1. What is the hazardousness of Coronavirus in terms of employee health?
2. What is Stress by Corona (SBC)?
3. What are the organizational strategies to cope with Stress by Corona (SBC)?

## 2. Method

This research paper attempts to contribute to the existing knowledge in the scope of COVID-19 in terms of Human Resource Management by answering the research questions developed above. The researcher referred to articles in Emerald, Google Scholar, Web of Science and semantic scholar, and websites of WHO and other relevant world health care institutions in order to collect information about the COVID-19 pandemic, the effect of COVID-19 on individuals, COVID-19 and psychological concerns such as stress, depression, mental health. To answer them,

a comprehensive literature review was done by using desk research strategy. The researcher tried to create a bridge between COVID-19 and human resource management in a situation where a lack of research has been conducted on the impact of COVID-19 on employees' mental health.

### **3. Corona Virus and COVID-19 Pandemic**

The coronavirus (COVID-19) outbreak firstly originated in a seafood market in Wuhan in Hubei province where around 58.5 million people live in Central China in December 2019 as of march, 2020, it has spread worldwide becoming a pandemic. World Health Organization has announced the whole world is a high risk due to the COVID-19 pandemic in terms of uncertain human lives as well as stagnated global economy. COVID-19 is known by different name callings: SARS-CoV-2; Wuhan pneumonia; Wuhan Coronavirus; 2019-nCov acute respiratory disease (Ellepola & Rajapakse, 2020; WHO, 2020).

Coronavirus is spread through droplets or tiny particles of saliva and discharge from the nose when an infected person coughs or sneezes. COVID-19 is one of the infectious diseases from the Coronavirus family which is transmitted from animal to human and human to human resulting in respiratory problems basically and people who are older and have chronic diseases such as cancer, diabetes, and chronic respiratory disease are more likely to get serious illnesses and death. Although this is a deadly disease, most infected people with superior medical conditions will develop mild symptoms and get recovered without special treatments.

Symptoms of COVID-19 include fever with cough, tiredness with muscle pain, shortness of breath, sore throat, rarely diarrhea, nausea or vomiting, a runny nose, and new loss of taste or smell (WHO, 2020). World Health Organization (WHO) advises people to be self-isolated and contact medical support when there is difficulty breathing with fever and dry cough (WHO, 2020).

According to the situation report published by WHO in 2020, A special vaccine or medical treatment has not been found yet, and WHO advises being safe by wearing face masks when in a public, keeping good hand hygiene, being isolated from family members if suspected of corona symptoms are appeared and continuous medical experimental measures by medical service providers.

#### 4. Hazardousness of Corona Virus and Employee Health

Coronavirus has swept 213 countries and territories around the world in a short while which resulted in total confirmed cases of 15, 656, 924, total deaths of 636,583, and recovered of 9,545,317 as of July 24, 2020, 06:30 GMT (Worldometer, 2020). It was reported that most countries were shutting down due to the fast spread of coronavirus. The United States of America is facing a critical situation following inadequate medical facilities and even health care workers were resigning to be safe from coronavirus. Another developed country: Italy also is facing a tragic situation with COVID-19 as their death toll was rising uncontrollably (Worldometer, 2020).

According to Opatha (2020), the hazardousness of coronavirus can be explained in terms of organizational context. In organizations, occupational hazards include occupational accidents, occupational stress, occupational diseases, and poor work-life balance. As WHO announced in 2001, potential health hazards include air contaminants ( dust, mists, fumes, aerosols, and fibers) gas and vapor contaminants, chemical hazards, biological hazards (bacteria, viruses, fungi, and other living organisms which make acute and chronic infections), physical hazards (excessive noises, temperatures, vibrations, illuminations, and electromagnetic radiations, ergonomic hazards (lifting, moving, holding and reaching, walking, pushing, pulling, etc) and psychosocial factors (boring, stress, production pressure, repetitive tasks, low pay and low recognition). Among these types of hazards, biological hazard can be taken into consideration in the COVID-19 pandemic situation where a virus is spreading rapidly, and employees get infected. To prevent the spread, organizations have to take necessary actions which resulted in a negative impact on the whole organization. Increasing absenteeism has become one of the negative effects of COVID-19 on workplaces (OSHA, 2020).

When an employee is affected or suspected owing to coronavirus, the whole department/ unit or even the organization needs to be closed and thereby overall organizational productivity hinders following increased cost of medical care, reduced market share, sales, and consumer consumption, and reduced profits. The organization is required to allocate funds to ensure the occupational health of employees.

WHO (2020) has defined Occupational health as “*the protection and promotion of the health of workers by preventing and controlling occupational diseases and accidents and by eliminating occupational factors and conditions hazardous to health and safety at work*”. Every organization has to maintain a continuous occupational hygiene practice over another couple of years due to the risk of getting affected by coronavirus in the future.



Concerning the above factors, it can be stated a severe hazardousness of coronavirus in the organizational context.

## 5. Stress By Corona (SBC)

The employee who is healthy today may be unhealthy due to corona. If an individual gets affected, his/her physical health will be weak as well as being afraid of getting affected will result in weak mental health (Opatha, 2015). With that fact, a range of fears which are in a healthy person can be found which make people mentally unhealthy along with coronavirus. Fear of corona has been defined as “*an unfavourable feeling the employee has when he or she thinks that he or she is in danger owing to the corona*” (Opatha, 2020). Along with the fear of corona, individuals face stress called “Stress by Corona”.

Opatha (2020) has labeled the stress caused by the fears of coronavirus as Stress by Corona (SBC). SBC has been defined by Opatha (2020) as “*what the employee experiences internally in response to Corona he or she finds difficult to deal with*”. He has further noticed that when the normal stress level is combined with SBC, it would be disastrous. Normal stress would occur from different levels including job-related stressors such as lack of empowerment, lack of resources, role ambiguity, unclear job duties and responsibilities, inadequate pay, person-related stressors including family issues (divorce concerns, children’s concerns), financial instability, work-life balance issues, organizational stressors including inadequate feedback, mal communication, organizational politics, internal rules and procedures, poor working conditions and environmental stressors such as economic changes, political changes, natural environmental disasters, technological changes and life pattern changes (Opatha,2010 & Opatha, 2020).

Opatha (2020) has figured out 15 types of employee fear owing to Coronavirus including fear of getting affected, fear of getting quarantined, fear of getting affected by loved ones, fear of getting stigmatized, fear of getting affected by others, fear of being a cause of spreading, fear of attending the work, fear of getting sanction/s, fear of peer pressure, fear of harsh customer, fear of loss of pursuits of pleasure, fear of losing the job, fear of continuity of business, fear of implementing plans and fear of formulating new plans.

According to recent research from MetLife (Mayer, 2020), it was mentioned several stressors that human beings are suffering in response to the COVID-19 such as the daily cost of living (41%), stock market declines (34%), debt belongings, and insecurity of getting a debt (32%), job insecurity and income (30%) and lack of emergency funds (28%). People between 16 to 69 years old were most affected

by stress, anxiety, and boredom after the lockdown of countries. They were unable to make plans and spend the day effectively. Most of those under the 70s worried about the health of their loved ones (BBC, 2020).

Griffiths & Mohammed (2020) have identified five main stressors during the Covid-19 pandemic including 1) “*Perception of safety, Threat and risk of contagion*” which means the fear of their health and the health of loved ones when the number of new cases increases, 2) “*Infobesity and the Unknown*” which is the stress following the overloaded information and misinformation spread through social media reporting, 3) “*Quarantine and confinement*” which is the stressor along with the boredom, loneliness, anger emotional burden due to the separation from family and communities, 4) “*Stigma and social exclusion*” means the stress which occurs when individuals who are suspicious of being affected are isolated and avoided by others blaming new outbreaks on them and the last stressor is 5) “*Financial loss and job insecurity*” following business disruption, loss of income, inadequate insurance and compensation, reduction of working hours during the COVID-19. The above stressors lead employees to have poor mental health owing to the coronavirus and show poor performance in both task and contextual aspects.

Curfew declaration to stop the spread of coronavirus could be an environmental stressor that made employees alone at home. Employees were separated from loved ones and had to wait in long queues to buy household items, especially food, had to face financial difficulties with cut salaries, and experienced inflated prices of goods and services. When employees at outside for essential purposes: reporting to work on a shift basis, going to buy medicine and etc., they were stressed regarding medical concerns and police supervision.

When the stress becomes too much, individuals face a strain where numerous psychological consequences happen including lower job satisfaction, lowered emotional well-being, and anxiety (Robbins et al. 2019). Strain will result from a range of physiological consequences including heart attack, blood pressure, depression, lowered immunity, and several musculoskeletal disorders. Drawing on insights from the behavioural perspective, people who suffered from strain tend to use more dosage of alcohol and tobacco to mitigate the feeling of being stressed. As well as they gain low nutrition while showing poor task and contextual performance, higher absenteeism, higher turnover, and lower productivity in the workplace (Opatha, 2020).

Continuous and prolonged stress would lead individuals to experience burnout and people with burnout are hypertensive and mentally depressed (Aswathappa, 2017). According to Reece et al. (2008), burnout will result in a full shutdown of an individual’s mental and physical health. With COVID-19, employees

were bearing both normal stress and SBC thereby organizational productivity and success will be negatively impacted considerably. Employees feel insecure about their jobs, especially in the private sector and some of them feel unsafe coming to work with the fear of corona. Although they work from home, they wouldn't perform well as they are not observed. When this continuous and intense stress is unable to be managed, people will experience psychological depression and distress (Marchand, 2004, Cummins et al., 2015 & Drapeau et al., 2011). Hamouche (2020) has mentioned that COVID-19 is intense stress on the whole world population. Some may lead to suicide as a result of depression (Cummins et al., 2015). Post-Traumatic Stress Disorder (PTSD) is a mental health condition that occurs due to terrifying events, nightmares, and severe anxiety. Following the COVID-19 pandemic, the rate of having lifetime PTSD is considerably less since it has been reported at only 2.0% in Sri Lanka (Ellepola & Rajapakse, 2020).

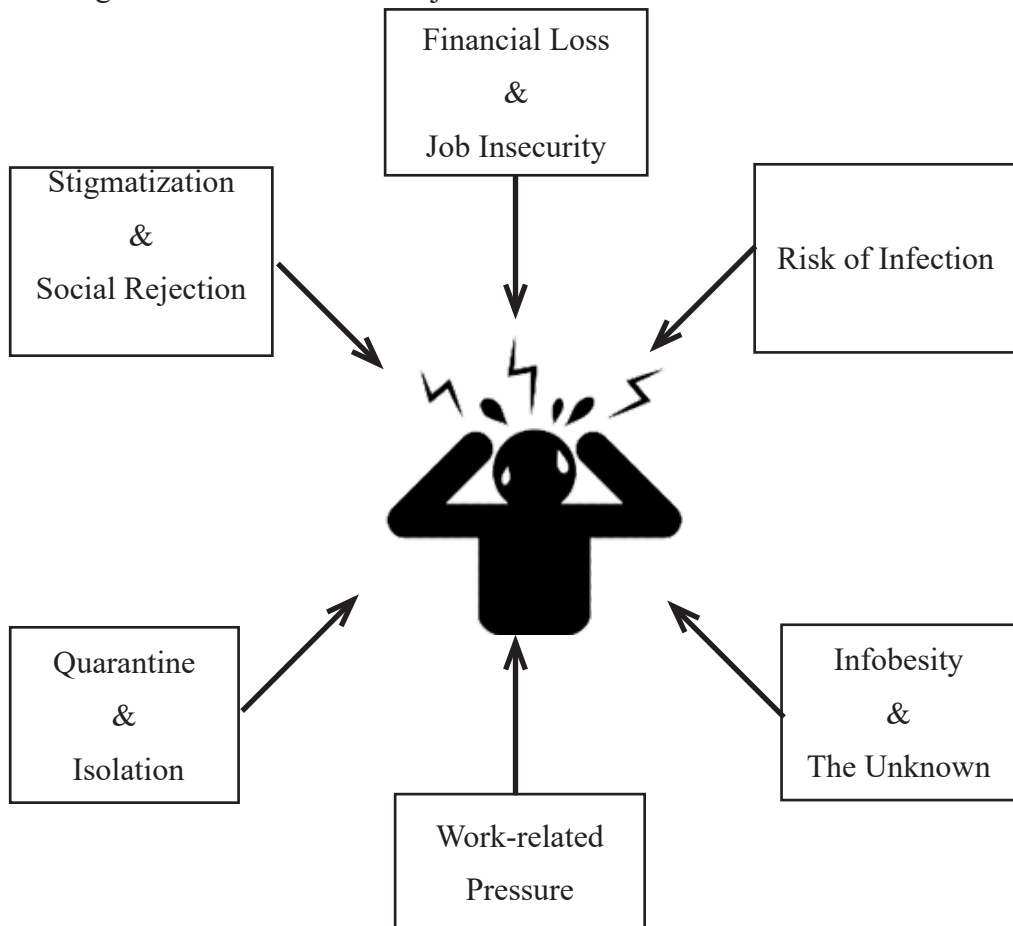
Suicidal behaviour among couples has been discussed in the COVID-19 prevailing situation in the world (Griffiths & Mohammed, 2020). Mental instability results in suicidal thoughts, suicidal attempts, and actual suicides which happened in previous pandemics: SARS which can predict current the COVID-19 pandemic can report a higher suicidal rate. Griffiths & Mohammed (2020) has done a case study presenting couple suicides and attempted couple suicides in India, America, Bangladesh, and Malaysia in 2020. It was concluded that most couple suicides have happened due to fear and tension, anxiety, and stress owing to coronavirus rather than being affected. In the organizational context, the loss of key employees is a risk and a single couple's suicide in the workplace may lead others to imitate it.

Another component of fear of corona is the panic created by social media (Abhay Sachin, 2020). In India, people were collecting face masks, sanitizers, and other requirements as soon as possible once they got to know through media about the risky country's prevailing situation owing to corona. Most of that news was fake and irresponsible. When people get panic, they tend to use N95 surgical masks for daily traveling, and thereby sabotage of N95 masks arose when actually coronavirus was spreading in India. Griffiths & Mohammed (2020) has mentioned that although social media does an important role in communicating updated information to communities, social media is not a trusted source of information at all during the COVID-19 pandemic. When relatives are quarantined and far away, social media is supportive to share information. Since they are isolated, fake, unclear, and unfound information leads people to be confused, be stressful, and anxious (Griffiths & Mohammed, 2020).

Based on the above findings, the researcher identified six types of stressors owing

to Coronavirus and the COVID-19 pandemic as follows.

1. Financial Loss & Job Insecurity
2. Risk of Infection
3. Infobesity and The Unknown
4. Work-related Pressure
5. Quarantine and Isolation
6. Stigmatization and Social Rejection



## 6. The way forward

### 1. Promoting Flexibility

Anxiety is apparent among workers in these extraordinary times. More than ever,

workers need work-life balance. Some employees may find it difficult to keep to an 8.00 am – 5.00 pm work schedule in these unpredictable times. As a result of their concerns about exposing themselves to possibly sick persons or surfaces outside, some workers may prefer a hybrid work pattern where they only attend to the office a few days a week. This, coupled with the fact that many parents will be caring for children at home while schools are closed, necessitates a greater need for workers to be more flexible in their schedules. Allow employees to work from home on jobs that don't necessitate an on-site operation. Workers who are required to be on-site may be offered shorter work schedules or fewer workdays by business owners.

## **2. Offering Stress-Mitigating Resources**

These are exceptional times, and the concern among employees is apparent. Employees require more job flexibility than ever before. In these unpredictable times, some employees may find it difficult to cling to an 8.00 am – 5.00 pm work pattern. Some workers may choose a hybrid work pattern in which they only go to the offices a couple of days a week to avoid being exposed to possibly infected persons or surfaces outdoors, such as in public transit or hallways. Add to that the need to respond to more home-related activities, such as children who are stranded at home because schools are closed, and employees will require more flexibility at work to have more control over their life. Determine which duties do not necessitate on-site operations and allow such personnel to work from home. Business owners may provide shorter work schedules or fewer workdays to workers who must be on-site.

## **3. Maintaining Proper Communication System**

Workers' duties, deadlines, work restructuring, and job security could be exacerbated by inadequate communication in these unpredictable times. Employee productivity will suffer as a result of this uncertainty. Workers should be able to communicate openly with their employers about all aspects of their jobs, including the tools they need and how to travel around the new workplace. Even more so, many employees will be working in isolation because of the changes in office layouts to comply with coronavirus regulations, such as the creation of physical barriers. In certain companies, workers are kept at least 2 meters apart from each other by phasing out communal workspaces. Using instant messaging apps, conducting virtual social events, and encouraging one-on-one connection during breaks are all methods to keep your staff connected in these settings, but only if everyone is wearing face

covers and isolating themselves as much as possible. Employees can discuss how the pandemic is affecting their jobs and what adjustments they think would help them better cope with the new work demands by participating in frequent virtual meetings held by their employers.

#### **4. Facilitate Peer and Team Support**

Leaders and managers have several competing obligations, which have been exacerbated by COVID-19. Encouraging the formation of online and, when possible and medically safe, in-person peer support groups and teams can significantly improve work group cohesion and individual coping skills. Peer support groups and teams can be formed based on shared hobbies (e.g., reading clubs), athletics (e.g., running clubs), shared experiences or traits (e.g., women in leadership), or professional development and skill improvement (e.g., public speaking classes). These networks enable employees to interact and care for one another in ways that can be extremely beneficial. Once formed, such internal staff networks can inform leaders when an individual requires further assistance or attention.

#### **5. Emphasize Self-Care and Wellness**

In times like this, workers need more time to take care of themselves. As noted earlier, workplace stress could cause or complicate chronic disease, in turn, increasing the risk of COVID-19. Employers should, therefore, continue to double down on workers’ need to take care of themselves. To achieve this, employers need to reincorporate workplace wellness initiatives such as offering access to online workout and fitness apps and providing simple workout tools to help employees work out at work or home while gyms remain shut. Employers should also encourage virtual fitness challenges and help their employees set fitness goals to improve their health and well-being.

#### **6. Normalize Employees’ Heightened Anxiety and Stress**

It is critical to emphasize that tension, worry, and dread are typical during this period of uncertainty. These are things we should expect from our employees, coworkers, and ourselves. Although these may influence us and our work environment as the epidemic unfolds, these mental health issues are common and may be properly treated. Mental health is a distinct dimension of health for each of us, in the same way, that cardiac health is. It is critical to recognize that our mental health fluctuates - sometimes we are agitated and fearful, and other times we are joyous

and optimistic. Depression and anxiety are frequent mental health issues. Work, relationships, finances, physical surroundings, caregiving tasks, family, and health all have an impact on how well we feel both physically and emotionally, and this varies over time. It is critical to remember and remind employees that COVID-19 has introduced many new and diverse stressors to each of us, taxing our coping skills and ability to be resilient throughout this period, and some employees will have significant mental health concerns that will necessitate more focused care.

## **7. Discussion and Conclusion**

COVID-19 is an infectious respiratory disease caused by coronavirus originally found in China. It has speedily spread worldwide reporting a considerable number of patients and deaths by indicating the severe hazardousness of this viral infection. Countries were locked down to avoid people gathering which led to the virus's spread. As a result of that, almost every country faces an economic recession with the financial crisis, and thereby global economy was weak. Besides the negative impact on the economy, individuals experienced both poor physical and mental health owing to corona. People who are not affected become psychologically down due to the fear of corona.

Employees bared combined stress of normal stress and stress by corona during this epidemiological catastrophe. There were several stressors during and after the COVID-19 pandemic including various fears owing to corona, the daily cost of living, stock market declines, debt belongings and the insecurity of getting a debt, job insecurity and income, lack of emergency funds, Perception of safety, Threat and risk of contagion, Infobesity and the Unknown, Quarantine and confinement, Stigma and social exclusion, Financial loss and job insecurity, curfew declaration and the panic created by social media with fake and misinformation. Healthcare workers and laboratory personnel are more exposed to COVID-19 as they work directly with infected patients.

Within this context, organizations are required to take appropriate interventions by adhering to health measures given by WHO to protect the workplace from virus spread and mitigate the negative consequences of COVID-19. One infected employee is enough to shut down all operations of the organization therefore it is a must to ensure a healthy and safe working place from coronavirus before employees get infected. Organizations have to formulate strategies to ensure occupational health and hygiene. Occupational stress is inevitable but the combined stress with SBC is challenging to maintain a productive workforce within the organization. Since this research paper limits the scope for a literature review, future researchers

can pay attention to the ways of mitigating the SBC and the role of HRM in the COVID-19 prevailing situation worldwide.

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# Achieving Competitive Advantage through Dynamic Capabilities: A Study of ICT Industry in Sri Lanka

T.S.S. Fernando<sup>1</sup> and G.A.T.R. Perera<sup>2</sup>

*<sup>1</sup>Department of Management Studies, Faculty of Management, University of Peradeniya, Sri Lanka  
sampaths@pdn.ac.lk*

*<sup>2</sup>Department of Management and Organization Studies, Faculty of Management and Finance, University of Colombo, Sri Lanka  
ravinda@mos.cmb.ac.lk*

## Abstract

The current study investigates the impact of dynamic capabilities on competitive advantage of the ICT industry in Sri Lanka considering the three categories of dynamic capabilities, namely, adaptive capabilities, absorptive capabilities, and innovative capabilities. Convenient sampling was used to draw the sample and survey data were collected from 167 ICT firms. Structural Equation Modeling (SEM) was used to analyze the relationship between variables. Finding of the study shows that dynamic capabilities have a significant positive impact on competitive advantage. In addition, the empirical evidence verifies that innovative capabilities are more positively related to competitive advantage than the other two types of dynamic capabilities while adaptive and absorptive capabilities also show the positive impact on competitive advantage.

**Keywords:** Dynamic capability, adaptive capability, absorptive capability, innovative capability, competitive advantage, ICT firms.

## 1. Introduction

The Resource Based View (RBV) explores how organizations can use distinctive capabilities to achieve competitive advantage (Johnson, Whittington, & Scholes, 2008). To achieve competitive advantage within very dynamic and competitive environment is difficult since the resources and competencies that organizations are using are not changing in line with environmental changes. Therefore, over the past decade, the dynamic capability perspective has developed as one of the most important theoretical lenses in the study of strategic management (Schilke, 2014). Dynamic capabilities enable organizations to take advantage of environmental changes and competition while questioning them (Kaur & Metha, 2017).

As a research area, research in dynamic capabilities is still in infancy (Helfat & Peteraf, 2009) and there is no consensus among researchers as to the exact nature of the relationship between dynamic capabilities and competitive advantage of firms (Krzakiewicz, 2013). Some researchers found that dynamic capabilities cannot be a source of competitive advantage (Eisenhardt & Martin, 2000; Ogunkoya, Hassan, & Shobayo, 2014) while some other researchers revealed that dynamic capabilities can be a source for competitive advantage of an organization (Ambrosini & Bowman, 2009; Helfat & Peteraf, 2009; Li & Liu, 2014).

Information Technology sector has the cut-throat competition and in such a high-technology industry demands an extended paradigm to guide firms to gain competitive advantage (Kaur & Metha, 2017). The ICT sector has become a key driver of economic growth in Sri Lanka, and it provides a great deal of benefits to the people of the country. The ICT industry creates job opportunities for young people and women, enhances universal access to information that promotes social inclusion and justice, helps the economy by increasing market efficiency, connects communities to global value chains and increases the productivity of economic activities and stimulates innovation. In addition, it plays a major role in converting Sri Lanka into a knowledge hub (Sri Lankan ICT workforce survey, 2013). Further, according to Rathnayake (2014), “Sri Lankan IT/BPM industry made significant progress over the last five years. Export revenue increased from USD 213 million in 2007 to an estimated USD 720 million in 2013. Total employment increased from 33,700 in 2007 to an estimated 75,100 employees in 2013, and the number of companies in the industry increased from 170 in 2007 to over 220 in 2013”. According to ICTA workforce survey (2019), the sector has become the fifth largest source of foreign earnings in the country over a relatively short period of time. Further. It emphasizes that earnings from the ICT sector have been growing steadily at 7-8% annual rate and the telecommunication, computer and information services represent a key growth component within the service sector

that generated US\$ 995 million revenue in 2018 despite relative slowdown in other sectors of the economy as per the Central Bank of Sri Lanka (2018).

As a booming industry in Sri Lanka, each and every firm in the ICT industry faces huge competition locally and globally. Achieving competitive advantage is difficult without changing their capabilities in line with market requirements. Thus, dynamic capability plays a major role to update the capabilities with the environmental changes and enable ICT firms to achieve competitive advantage.

This study aims to achieve two objectives. The first objective is to investigate the impact of dynamic capabilities on competitive advantage in the ICT industry in Sri Lanka. The second objective aims to study which dynamic capability shows the more impact on competitive advantage in the ICT industry in Sri Lanka. Therefore, this study is significant in many ways as it makes numerous contributions to literature as well as to practice. In particular, the study examines the overall impact and impact of each dimension of dynamic capabilities (adaptive capabilities, absorptive capabilities and innovative capabilities) on competitive advantage which have not been empirically examined in previous studies in the Sri Lankan context.

Further, the ICT industry is constantly changing due to rapid changes happening in the technological environment. In that context, if the strategies formulating is not addressed the changing nature, achieving competitive advantage is unrealistic. Thus, this study gives insights for managers to formulate strategies based on dynamic capabilities in order to achieve competitive advantage in the ICT industry in Sri Lanka.

The rest of the paper is structured as follows: In the following section, the theoretical background and hypotheses are presented. Then, the research method and the results of the statistical analysis are given. Finally, the paper concludes with the discussion, implications of the findings and directions for future research.

## **2. Literature review**

### **Dynamic capability**

The idea of dynamic capability was introduced in the working paper by Teece, Pisano and Shuen (1990) and it was first formally published by Teece and Pisano in 1994. Dynamic capabilities were defined by the authors as the ability of an organization to “integrate, build, and reconfigure internal and external competencies to address rapidly changing environment”. According to Tondolo and Bitencourt (2014), dynamic capabilities highlight two main aspects of the development of new forms

of competitive advantage. They are ‘the dynamics’ and ‘capability.’ Further, they explain the term dynamics as the character of environmental change requiring strategic responses whereas ‘capability’ as the role of strategic management in addressing the changes required through internal organizational adaptation. Thus, dynamic capabilities are those that enable organizations to unexpectedly respond in new and falling situations (Karimi & Walter, 2015). Over the years, different authors have endeavored to define and redefine the concept of dynamic capabilities from different perspectives according to the context. However, they have failed to give a concise and comprehensive definition for dynamic capabilities (Protogerou, Caloghirou, & Lioukas, 2012). This study uses the definition given by Kuar and Metha (2017), which is as the higher order construct comprising of three dynamic capabilities, namely, adaptive capacity, absorptive capacity and innovative capability.

Several authors have made theoretical contributions to dynamic capabilities in their attempts to describe the main elements. According to Teece and Pisano (1994), and Teece et al. (1997), dynamic capabilities contain several classes of factors which are processes, position and paths. They can be considered as the main variables of dynamic capabilities. Li and Liu (2014) have also identified three components of dynamic capabilities such as strategic sense-making capacity, timely decision-making capacity, and change implementation capacity. As mentioned above, this study uses the three components of dynamic capabilities, namely adaptive capability, absorptive capability, and innovative capability. Wang and Ahmed (2007) emphasized that adaptive capability, absorptive capacity and innovative capability are the most important component factors of dynamic capabilities and strengthen a firm’s ability to integrate, reconfigure, renew, and recreate its resources and capabilities in line with external changes. Furthermore, according to Wang and Ahmed (2007), the three factors that they have used are interrelated, but conceptually different. As cited by Wang and Ahmed (2007), Cockburn et al., (2000), Eisenhardt and Martin (2000), Mota and de Castro (2005) have found that the three component factors are indeed common across several industries, although firms may develop their dynamic capabilities from their unique starting points and through their unique paths.

### **Adaptive capability**

Gibson and Birkinshaw (2004) defined adaptive capability as the ability of a firm to quickly coordinate and reconfigure resources in response to sudden environmental changes while sustaining the previous level of performance. They further say that an organization’s ability to identify and take the advantage of the opportunities

emerging in the market. According to Hooley et al. (1992), adaptive capability is defined as ability of a firm to identify and take advantage of emerging market opportunities. Sanchez (1995) highlighted that adaptive capability is manifested through strategic flexibility. It means flexibility of the resources available to the firm and flexibility in use of these resources.

As cited by Wang and Ahmed (2007), Oktemgil and Gordon (1997) say measures for adaptive capability are multidimensional. Measures include a firm's ability to adapt their product–market scope to react to external opportunities; to scan the market, monitor customers and competitors and allocate resources to marketing activities; and to respond to changing market conditions in a quick manner. Moreover, they have cited that adaptability can be measured through assessing whether the firm's management systems encourage people to challenge old traditions, practices, enable the firms to respond quickly to changes in the market and move quickly in response to shifts in its business priorities (Gibson & Brikinshaw, 2004). As cited by Kaur and Metha (2017), Oktemgil and Gordon (1997) say that capability to adapt highlights the importance of flexibility of resources and capabilities of a firm more aligned with environmental changes. Further, they explain that it is the ability to analyze changes in market trends and allocate resources accordingly.

### **Absorptive capability**

According to Kuar and Metha (2017), absorptive capacity means the ability of an organization to gather and understand new knowledge acquired through business collaborations in order to improve the skill set possessed by the company. Cohen and Levinthal (1990) explain absorptive capability as the ability of a firm to recognize the value of new external information, assimilate it, and apply it to commercial ends and the ability to evaluate and utilize outside. Firms with higher absorptive capability demonstrate stronger ability to learn from partners, integrating external information and transforming it into firm-embedded knowledge. As cited by Wang and Ahmed (2007), Woiceshyn and Daellenbach (2005) highlight the differential absorptive capability across firms in several aspects. Such as more efficacious adopters vs. less efficacious ones (i) demonstrate long term commitment of resources in the face of uncertainty (vs. short-term limited commitment and reverse at the first sign of failure); (ii) learn from various partners and own research and experience and develop first-hand knowledge of the new technology (vs. competitive imitation and second-hand knowledge); (iii) thoroughly analyze the new drilling technology and share information within multidisciplinary teams (vs. superficial analysis and functional structure); (iv) develop and use complementary technologies (vs. no complementary technologies used); and (v) possess a high

level of knowledge and skills in areas relevant to applying the new technology.

According to Zahra and George (2002), an absorptive capability is a multidimensional concept and there are four component factors of the absorptive capability, namely, knowledge acquisition, assimilation, transformation, and exploitation. Moreover, they explain knowledge acquisition and assimilation characterize potential absorptive capacity, knowledge transformation, and exploitation create realized absorptive capacity.

### **Innovative capability**

Organizations should develop innovative capabilities in organizations with the help of adaptive and absorptive capacities. Innovative capability means an organization's ability to offer superior products and services to customers that provide unique benefits (Kuar & Metha, 2016a, 2016b). Wang and Ahmed (2007) define innovative capacity as a firm's ability to develop new products and/or markets through aligning strategic innovative orientation with innovative behavior and processes. Manuj, Omar, and Yazdanparast (2013) explain that innovative capacity is an ability of a firm to exhibit innovative behaviors while constantly translating knowledge into new products and processes. As cited by Wang and Ahmed (2007), Schumpeter (1934) proposes different kinds of innovations such as new products or services, new methods of production, new markets, new sources of supply and new organizational forms. Miller and Friesen (1983) suggest four dimensions, namely, new product or service innovation, methods of production or rendering of services, risk taking by key executives and seeking unusual and novel solutions. Further, Capon et al. (1992) identified three dimensions of innovativeness such as market innovativeness, organizational innovativeness, and technological sophistication. Some studies reveal that innovative capacity is more critical to firms in some industries for evolution and survival in light of external competition and change. The more innovative firms have more dynamic capabilities (Lazonick & Prencipe, 2005).

### **Competitive advantage**

As cited by Sigalas and Pekka (2013), Barney (1991), Eisenhardt and Martin (2000), and O'Shannassy (2008) explain that there is a great deal of literature on strategic management and sources and determinants of competitive advantage, amazingly available literature does not provide any clear definition of competitive advantage. Further, Sigalas and Pekka, Economou (2013) also emphasized that there are various meanings of competitive advantage and there is no agreement

among the authors on a single conceptually clear and unambiguous definition. Similarly, Sigals and Pekka (2013) highlight that, apart from a few definitions, most definitions that are available in the literature are fuzzy. All the definition on competitive advantage can be categorized into two streams, namely, definitions based on the terms of performance (Grahovac & Miller, 2009) and definitions based on the sources or determinants of the competitive advantage (Wiggins & Ruefli, 2002).

Peteraf and Barney (2003) explain that a firm can achieve competitive advantage if it is able to create more economic value than the marginal (breakeven) competitor in the market. According to Newbert (2008), competitive advantage is the extent to which a firm has exploited opportunities, neutralized threats and reduced costs. Barney (1991) highlighted that a firm can achieve competitive advantage if a firm implements a value creating strategy which is not being executed by any existing or potential competitors. According to Porter (1985), competitive advantage occurs out of value which a firm is able to create for their customers that exceeds the firm's cost of creating it. Further, he (1985) explains that there are two basic types of competitive advantage, namely, cost leadership and differentiation. Further, he emphasized that these two basic types of competitive advantage generate three different strategies: cost leadership, differentiation and focus. Kuar and Metha (2017) define competitive advantage as the ability to gain and maintain a higher market share by offering superior products and services while earning a greater sales revenue and higher profit growth rate vice versa competitors.

### **Conceptualization**

According to the nature of the objectives, this study comes under the positivist paradigm. as the researcher works with observable social realities and the end result can be generalized to similar settings (Remenyi, 2002). According to Saunders, Lewis and Thornhill (2009) in positivist research researcher use existing theory to develop hypotheses. Then, these hypotheses are tested and established, and these studies lead to the further development of theory which then may be tested by further research. Further, as cited by Saunders, Lewis and Thornhill (2009) Gill and Johnson (2002) positivist researcher uses a highly structured methodology in order to facilitate repetitions, so that quantifiable observations can be analyzed through statistical analysis. Based on this research philosophy, this study uses the dynamic capability view as the theory and developed the hypotheses based on that theory. The research strategy that this study uses is survey. As per Saunders, Lewis and Thornhill (2009) the survey strategy permits researcher to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics.



The following section explains how hypotheses were developed based on the theory and literature which were backed by the positivist philosophy. This study develops four hypotheses. H1 is main hypothesis related to dynamic capabilities and competitive advantage. There are three types of dynamic capabilities and researcher tests the relationship between each type of dynamic capability and competitive advantage. Therefore, those hypotheses were named as H1a, H1b and H1c.

### **Dynamic capabilities and competitive Advantage**

As per Johnson, Whittington, and Scholes (2008), the RBV argues that the competitive advantage and superior performance of an organization is described by the distinctiveness of its capabilities. It says that unique resources and core competencies of an organization provide competitive advantage for an organization. Dynamic capability view emphasizes that those resources and competencies should be integrated, built and reconfigured to address rapidly changing environments.

Schilke (2014) mentions that the impact of dynamic capabilities on competitive advantage is universally applicable and further as cited Li and Liu (2014), dynamic capabilities help firms to be sensitive to opportunities and threats, grab possible chances and to execute necessary changes to enhance environmental adaptability and finally, achieve competitive advantage (Doving & Gooderham, 2008).

As per Supriyadi (2017), their study found that dynamic capability has a positive and significant impact on sustainable competitive advantage. He further says that if a firm wants to increase sustainable competitive advantage, the firm is required to improve the dynamic capabilities. Dynamic capabilities can be improved by updating the skills in line with the environmental changes, conveying the knowledge they possess to other employees, structuring the power of resources in the face of rapid environmental changes (Supriyadi, 2017). Although several researchers believe that dynamic capabilities are not a source of competitive advantage (Eisenhardt & Martin, 2000; Ogunkoya, Hassan, & Shobayo, 2014; Winter, 2003; Zahra, Sapienza, & Davidsson, 2006), a number of scholars argue that dynamic capabilities can be a source of competitive advantage. (Ambrosini & Bowman, 2009; Helfat et al., 2007; Helfat & Peteraf, 2009; Teece, 2007; Teece & Pisano, 1994). Thus, the following hypothesis is proposed.

H1: Dynamic capabilities have an impact on competitive advantage

### **Adaptive capability and competitive advantage**

Wang and Ahmed (2007) highlight that if an organization has adaptive capabilities, it is able to quickly respond to changes in accordance with organizational priorities. The ability to react to external product market opportunities, the investment in marketing activities and the quick response to changing market conditions are the key elements of adaptive capabilities (Chakravarthy, 1982).

As cited by Biedenbach and Muller (2012), Snow and Hrebiniak (1980) mention that adaptability should lead to improved performance of an organization. According to Rouse and Ziestma (2008), value of organizational resources may be lost, access to valuable resources may be lost, and survival of organization may not be ensured if an organization is lack of adaptive capabilities. Hence, as cited by Kuar and Metha (2017), adaptive capability can be a promising source of competitive advantage for a firm (Adeniran, 2011; Dixon, Meyer, & Day, 2013; Kaur & Mehta, 2016a). Therefore, the researcher proposes the following research hypothesis

H1 (a): Adaptive capability has an impact on competitive advantage.

### **Absorptive capability and competitive advantage**

Lane, Koka, & Pathak, (2006) suggest a model where absorptive capabilities create knowledge and commercial output that will lead to firm's overall performance and moreover, he has emphasized that absorptive capabilities enable learning and innovation processes which implies project and portfolio performance as well. In addition, Zhou and Li (2010) remark that multinational corporations require absorptive capability for obtaining competitive advantage and they further say that more a multinational corporation absorbs external knowledge, higher are its chances of gaining competitive advantage.

As cited by Kaur and Metha (2017), Adeniran and Johnston (2012), Cadiz, Sawyer, and Griffith (2009) Zhou and Li (2010) suggest that absorptive capability can be a potential source of competitive advantage, since it enables the transformation of the new or acquired knowledge into usable knowledge. Thus, as a component of dynamic capabilities, with respect to absorptive capability, following hypothesis is proposed.

H1 (b): Absorptive capability has an impact on competitive advantage.

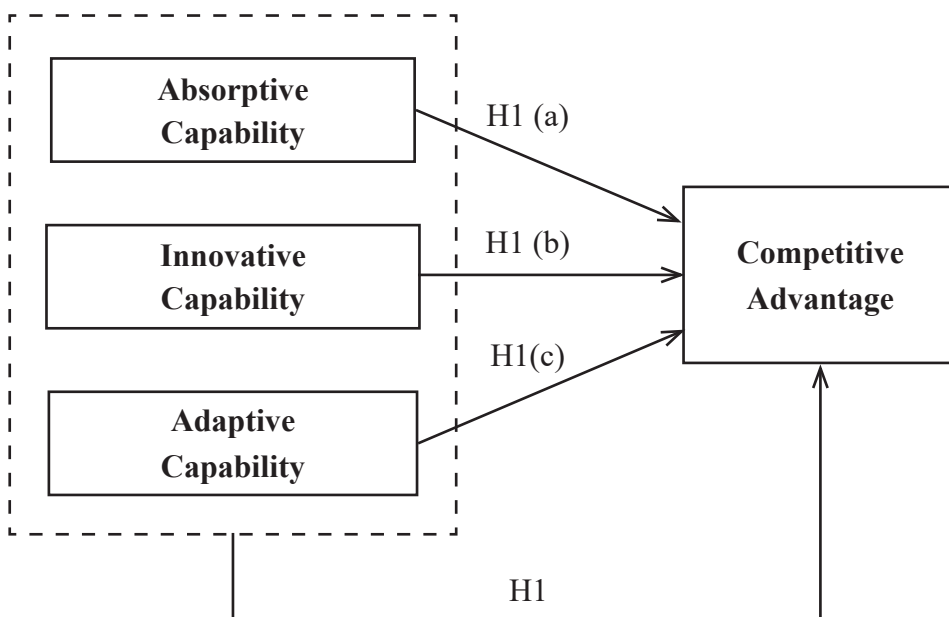
### Innovative capability and competitive advantage

As cited by Biedenbach and Muller (2012), Sher and Yang (2005) have found that there is a positive effect of innovative capabilities on firm performance. In addition, Oltra and Flor (2003) show that innovative capabilities have an influence on innovation output. According to, Zhou and Wu (2010), innovative capability is vital for facing changing environment in order to achieve competitive advantage. It distinguishes one firm from another and enables firms to act as a barrier for entry and exit of competitors (Annavarjula & Mohan, 2009).

As cited by Kaur and Metha (2017), Adeniran (2011), Adeniran and Johnston (2012), Agbim et al. (2014) , Alfirevic and Talaja, (2013), Alrubaiee, Alzubi, Hanandeh, and Ali (2015), Dixon et al. (2013), Fogg (2012), Granados (2015), Wijekoon and Galahitiyawe, (2015) and Wuryaningrat (2013) emphasize that firms which are having innovative capabilities beat competitors in the market, earn higher profitability, ensure higher probability of survival and ultimately it guarantees the competitive advantage. Thus, the following hypothesis has been proposed:

H1(c): Innovative capability has an impact on competitive advantage Accordingly, this study proposes the following conceptual research framework based on the literature review and the Dynamic Capability View (see Figure 1)

**Figure 1:** Conceptual research framework



## **Operationalization and Methodology**

As cited by Saunders, Lewis and Thornhill (2009) Robson (2002) lists five sequential stages of deductive research, such as develop hypotheses, expressing the hypothesis in operational terms, testing this operational hypothesis, examining the specific outcome of the inquiry and if necessary, modifying the theory in the light of the findings. Since this study also uses these steps, this is deductive research. Further, this research is a cross sectional study as data have been gathered during several weeks to answer research questions (Sekaran & Bougie, 2009).

### **3. Participants and procedure**

In this study, the population of the study includes the total number of ICT firms in Sri Lanka. From this study, convenience sampling technique was employed to draw the sample from the population since the exact number of ICT firms in Sri Lanka is unknown. According to National ICT Workforce Survey (2013), the Sri Lankan ICT sector comprises a diverse range of actors that offer a variety of products and services. They are suppliers of ICT products and services (ICT companies), suppliers of IT-enabled services (ITeS; BPO companies) and ICT training organizations. In order to minimize the biases of convenience sampling, the sample was also drawn from these firms and most of firmare members of Sri Lanka Association for Software Services Companies. The unit of analysis was a firm. According to the research questions, impact of dynamic capabilities of ICT firms was tested. Moreover, it studied the different types of dynamic capabilities and competitive advantage of a firm not of an individual or a group.

The questionnaire comprises of 21 questions to measure the 4 constructs (adaptive capability, absorptive capability, innovative capability and competitive advantage). The survey questionnaire is divided into two parts. The part (A) includes questions formulated in order to obtain a general understanding of the participants, such as their levels of management and length of experience. The part (B) includes dynamic capabilities related information such as, adaptive capability (4 items), absorptive capability (4 items) and innovative capability (5 items). Adaptive capability was measured using items such as constantly observing competitors 'actions, keeping a check on changes in the market, encouraging employees to adopt new marketing techniques and keeping a check on technical changes in the industry. The items that have been used to measure the absorptive capabilities are encouraging employees to collect industry information through informal means, visiting other firms in the industry by employees, regularly approaching third parties such as accountants and consultants by employees, encouraging employees to frequent interactions

with other companies to acquire new knowledge. Inspiring employees to provide clients with innovative ideas and solutions, encouraging to acquire new skills/equipment to improve the service process, emphasizing innovative and creative capability while recruiting staff, encouraging employees to contribute to activities like product development and development of new ideas and providing clients with services/products that offer unique benefits superior to those of competitors. Items related to dynamic capabilities have been borrowed from Kuar and Metha (2017). According to Kuar and Metha (2017), they have borrowed items from Akgün et al. (2012), Kaur and Mehta (2016a, 2016b), Kaehler et al. (2014) and Liao et al. (2007). Kuar and Metha (2017) have done their study in IT multinationals in India. Thus, the items used are suitable for the Sri Lankan ICT sector as well.

The following part consists of information related to competitive advantage which consists of 7 items, namely, higher profit growth rate, higher sales revenue growth rate, lower operating cost, better product and service quality, higher market share more profitable old customers and more profitable new customers. Items related to competitive advantage were borrowed from Li and Liu (2014). All three constructs under dynamic capabilities and competitive advantage were measured with five-point Likert scale.

Based on the previous literature, data were collected from upper-level managers and middle managers who have been working in the same firm within the ICT industry for over one year to guarantee the quality of data (Li & Liu, 2014). Both personal and online methods were used in administering the survey. Accordingly, 50 questionnaires personally distributed by the researcher among the sample and 200 online questionnaires were sent to respondents via e-mails. Only 184 responses out of 250 were received. Then, the questionnaires were screened, and incomplete questionnaires rejected. Accordingly, 167 questionnaires were forwarded for data analysis. The data was analyzed using Structural Equation Modeling (SEM) with the aid of AMOS (Analysis of Moment Structures) 23.0.

#### **4. Data analysis and results**

A pre-test was conducted by sending a questionnaire to three senior lecturers who have expertise in strategic management and three senior managers in the ICT industry. A pilot survey also was conducted using 30 respondents to identify and eliminate potential problems in the questionnaire design (Malhotra & Peterson, 2006) and to examine the validity and reliability of the measures used in the questionnaire (Sekaran & Bougie, 2009). The Cronbach's alpha coefficient of the pilot survey was greater than 0.7 for all constructs which is an acceptable value for

a pilot test (Kline, 2011)

After the pilot survey, the data collected for this study were first entered into the IBM Statistical Package for Social Science (SPSS) software version 23.0. Box plot analysis was carried out to identify scores which are unusually high or low compared to all the others in a particular set of data. Based on the box plot analysis, 37 outliers were identified and removed from the data set. 167 cases were forwarded for missing value analysis. In this study, there were no missing values in the 167 questionnaires. After missing value data analysis and outlier detection, the data was tested for multivariate assumptions such as normality, linearity, homoscedasticity and multicollinearity. Normality was tested by skewness and kurtosis where the all-skewness values and kurtosis values were less than one (Garson, 2009) (see appendix 1). To measure linearity and homoscedasticity scatter plots and plotting predicted values and residuals on a scatter plot using SPSS were drawn respectively (Hair et al., 2010) and no deviations were identified.

Finally, multicollinearity was assessed using tolerance value and Variation inflation factor (VIF) value of each construct for the initial measurement model (See appendix 2). Tolerance value of each construct is more than 0.2 and VIF value of each construct is less than 10 (Field, 2005). Therefore, no multicollinearity is in existence. The Kaiser-Meyer-Olkin (KMO) was used to measure the adequacy of the sample of the study. KMO results showed that the sample adequacy of all constructs is greater than 0.5 which specifies that the sample is adequate (Malhotra & Dash, 2011). The unidimensionality of all constructs was ensured using Exploratory Factor Analysis (EFA). Cronbach's alpha was used to measure the reliability of all constructs and its value is greater than 0.7 (see appendix 3), and thus, it can be concluded that the reliability is established for all constructs. Thereafter, descriptive data were analyzed and other data was forwarded for multivariate analysis.

Out of 167 of respondents, 46 (28%) respondents belonged to the upper-level management while 121 (72%) belong to middle level management. In addition, data was collected about the length of experience of respondents of a firm in which they currently work. Out of 167 respondents, no any response received from respondents who have experience less than one year. Most of the respondents in the sample (57%) have 1- 3 years of working experience in the particular firm, while 31% of respondents have experience of 4-6 years and also sample represents 12% of those who have more than 6-year category. The aim was collecting those data was to enhance the quality of data (Kuar & Metha, 2017; Li & Liu, 2014). If respondents belong to middle or upper level, they are aware of the constructs that the researcher measured, namely, dynamic capability and competitive advantage.

They are very subjective and sensitive areas of a firm. Further, respondents should have at least 1-year experience to familiarize themselves with the constructs in a particular firm. Thus, the researcher has collected the data about level of management and length of experience of respondents.

### The Measurement Model

The measurement model “specifies the indicators for each construct and enables an assessment of construct validity” (Hair et al., 2010). Based on the conceptual model, there are 4 latent variables, namely, adaptive capability (ADC), absorptive capability (ABC), innovative capability (IC), and competitive advantage (CA). As the initial measurement model portrayed a poor fit, the model was improving using modification indices. Thus, covariances were drawn between the error terms of several items for improvement purpose. The goodness of fit indices of final measurement model showed in Table 1.

Absolute					Incremental		Parsimony
CIMIN/DF	GFI	AGFI	RMSEA	IFI	TLI	CFI	PRATIO
2.661	.890	.884	.072	.911	.896	.905	.915

According to Hair et al. (2010), researchers should evaluate goodness of fit indices when assessing a fit of a measurement model. Further, he says that the use of three to four indices provides adequate model fit and besides the  $X^2$  value, one absolute fit index ( $X^2/df/p$  value/GFI/RMSR/RMSEA), one incremental index (NFI/CFI/TLI/RNI) and one parsimony index (PRATIO/PCFI/PNFI) should be reported. According to the above table, final measurement model was found to fit the data reasonably well.

**Table 2:** Convergent and discriminant validity

	<b>AVE</b>	<b>CR</b>	<b>ADC</b>	<b>ABC</b>	<b>IC</b>	<b>CA</b>
ADC	.705	.895	<b>.705</b>			
ABC	.771	.964	.352	<b>.771</b>		
IC	.742	.933	.458	.233	<b>.742</b>	
CA	.827	.931	.309	.298	.550	<b>.827</b>

*Note:* Diagonal entries (in bold) are the square root of AVE for all constructs; sub-diagonal entries are the correlation coefficients estimates between for each construct

The Confirmatory Factor Analysis (CFA) was used to further test convergent and discriminant validity of the constructs. As explained by Malhotra & Dash (2011), 0.5 or higher factor loading and 0.5 or greater Average Variance Extracted (AVE) assures satisfactory convergent validity. In addition, Composite Reliability (CR) must be 0.7 or higher. Generally, discriminant validity can be ensured if The AVE of all constructs should be higher than the square of the correlation estimates between that construct and all other constructs (Malhotra, 2008). Moreover, the correlation coefficients among the study constructs do not exceed 0.85 (Kline, 2011). Thus, all the constructs in the study represent different concepts. As all of above requirements are fulfilled, the convergent and discriminant validities are satisfactory, as shown in Table 2.

### **The Structural Model**

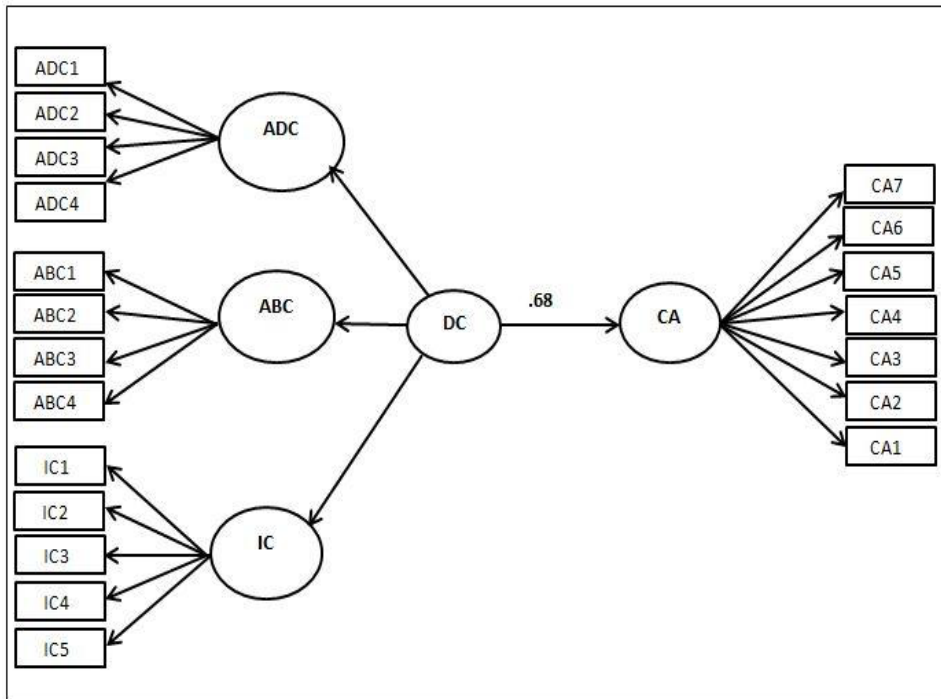
Structural model 1 was developed to test the direct relationship between dynamic capabilities (DC) and competitive advantage (CA). The output path diagram of the structural model 1 is shown in Figure 3. Structural model 2 was developed to test the direct relationship between three types of dynamic capabilities (adaptive capability (ADC), absorptive capability (ABC) and, innovative capability (IC)) and competitive advantage (CA). Figure 2 shows the output path diagram of the structural model 2. All hypotheses were tested at the significant 0.05 level.



**Table 3:** Model-fit statistics of structural model 1

Absolute					Incremental		Parsimony
CIMIN/ DF	GFI	AGFI	RMSEA	IFI	TLI	CFI	PRATIO
2.570	.815	.782	.068	.908	.892	.898	.914

Model fit statistics for the structural model 1 are summarized in Table 3. Accordingly, model fit statistics values of structural model 1 shows a good model fit. Hypothesis testing (H1) result of direct path is depicted in Figure 3.



**Figure 2:** Structural Model 1

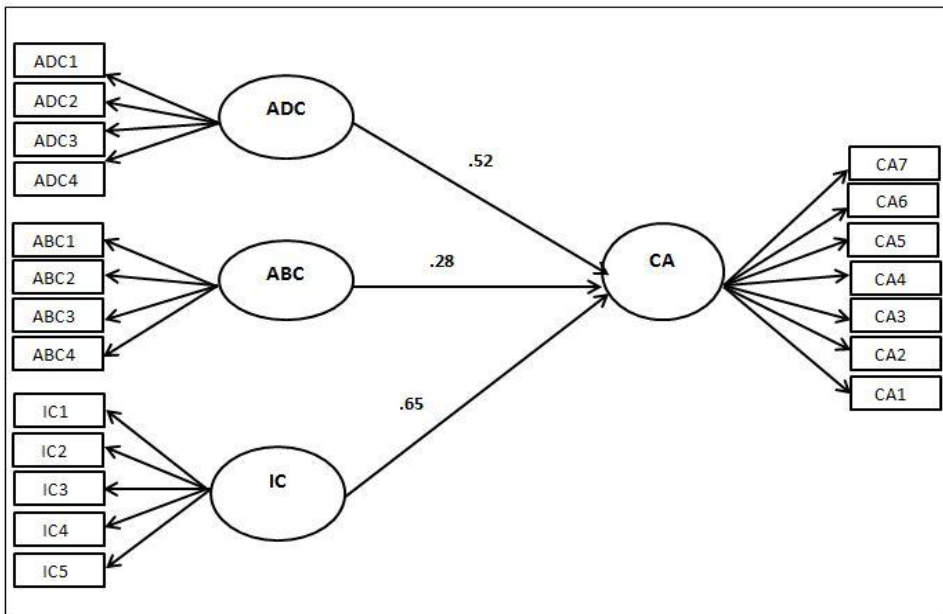
Note: \*Significant at 0.05 level

As shown in Figure 3, it was hypothesized that dynamic capabilities (DC) have an impact on Competitive advantage (CA). The result of hypothesis 1 shows that DC have a significant positive impact on CA. ( $\beta = 0.68$ ,  $p = 0.000$ ) at the 0.05 significant level.

**Table 4:** Model-fit statistics of structural model 2

Absolute					Incremental		Parsimony
CIMIN/DF	GFI	AGFI	RMSEA	IFI	TLI	CFI	PRATIO
2.449	.886	.872	.069	.922	.878	.916	.929

Model fit statistics for the structural model 2 are summarized in Table 4. The structural model of H1a, H1b, and H1c was found fit the data reasonably. Hypothesis testing H1a, H1b, and H1c results of direct paths are depicted in Figure 3.



**Figure 3:** The structural model 2

Note: \*Significant at 0.05 level

As depicted in Figure 3, hypothesis 2a investigates the relationship between adaptive capabilities (ADC) and competitive advantage (CA). It was hypothesized that there would be a relationship between ADC and CA. The result demonstrates positive and significant paths from ADC and CA ( $\beta = 0.52, p = 0.000$ ). Thus, hypotheses 2a is supported. Hypothesis 2b tested the relationship between absorptive capabilities (ABC) and competitive advantage (CA). It was hypothesized that there would be a

relationship between ABC and CA. The result suggests that the relationship between ABC and CA is positive and statistically insignificant ( $\beta = 0.28, p = 0.001$ ). Thus, hypothesis 2b is supported. Hypothesis 2c investigated the relationship between innovative capability (IC) and competitive advantage (CA). It was hypothesized that there would be a relationship between IC and CA. The results revealed that the relationship between IC and CA is positive and statistically significant ( $\beta = 0.65, p = 0.000$ ). Hence, a hypothesis 2c is supported.

## 5. Discussion

The first research objective investigates impact of dynamic capabilities on competitive advantage in the ICT industry in Sri Lanka. The empirical evidence indicates that dynamic capabilities have a significant positive impact on competitive advantage. This finding is consistent with the previous studies (Ambrosini & Bowman, 2009; Helfat et al., 2007; Helfat & Peteraf, 2009; Teece, 2007; Teece & Pisano, 1994). Further, Schilke (2014) mentions that the impact of dynamic capabilities on competitive advantage is universally applicable and as cited by Li and Liu (2014), dynamic capabilities enable to achieve competitive advantage, as they allow firms to identify opportunities and threats, grab probable chances and implement required changes to enhance environmental adaptability. (Doving & Gooderham, 2008).

However, as cited by Kaur and Metha (2017), some researchers claim that dynamic capabilities cannot be a source of competitive advantage, since the competitive advantage does not have characteristics of heterogeneity (Easterby-Smith & Prieto, 2008; Eisenhardt & Martin, 2000; Ogunkoya et al., 2014; Winter, 2003; Zahra, Sapienza, & Davidsson, 2006) and that the role of dynamic capabilities is inadequate when achieving competitive advantage (Zott, 2003) and the relationship can be indirect (Cepeda & Vera, 2007; Nieves & Haller, 2014; Wang & Ahmed, 2007). However, according to the findings of this study, in the Sri Lankan ICT sector dynamic capabilities play a major role in achieving competitive advantage.

The second research objective explores which dynamic capability has more impact on competitive advantage. The three types of dynamic capabilities are adaptive capability, absorptive capability and innovative capability. The findings of the current study reveal that three types of dynamic capabilities have significant positive impact on competitive advantage. More importantly, innovative capability shows the more impact on competitive advantage than the other two. Innovative capability is of crucial importance adapting to fast-changing turbulent environment and to achieve competitive advantage (Zhou & Wu, 2010). Kuar & Metha (2017) also

reveal that innovative capability has the maximum impact, followed by adaptive capability and absorptive capability respectively on competitive advantage in ICT multinational companies in India. As mentioned at the outset, the Sri Lankan ICT sector is growing rapidly, and it focuses more exports. In order to cater to the export market and compete in the world market, the ICT sector should take into consideration more innovations. That demands more innovative capabilities in the Sri Lankan ICT sector too.

When compared to adaptive capability and innovative capability, absorptive capability shows the less positive impact on competitive advantage. Reasons may be that the employees who are working in Sri Lankan companies are less -likely to visit other firms in the industry, less likely to collect industry information through informal means. Therefore, it can be generalized that Sri Lankan ICT firms consider more about innovative capability, then adaptive capability and place less emphasis on absorptive capability.

## **6. Implications, limitations, and future directions**

### **Theoretical implications**

This study makes important contributions to the literature in terms of providing a better? or more nuanced? understanding of dynamic capabilities and competitive advantage. The conceptual model developed in this study can be used to examine the relationship among the above mentioned variables in different industries and countries. Since dynamic capabilities research is still in its infancy as a field of research domain, and there is no consensus among researchers on the true nature of the relationship between dynamic capabilities and competitive advantage of firms, an investigation of this relationship in the current study provides a deeper understanding of the relationships between dynamic capabilities and competitive advantage. There was a dearth of research which had been conducted on dynamic capabilities in the Sri Lankan context. Therefore, this provides insights for scholars in Sri Lanka who are interested in doing research on dynamic capabilities and scholars who undertake research on dynamic capabilities in developing countries.

### **Practical Implications**

The results of the current study have several important implications for managers in the ICT sector. As mentioned in the outset, the ICT sector in Sri Lanka is very competitive locally and globally in the current context and will become more competitive in the future with the new vision which is “to reach to USD 5 billion

in revenue, create 200,000 direct jobs and 1,000 startups by 2022” according to the Sri Lankan IT/BPM industry review 2014. Therefore, the ICT sector is very important for the Sri Lankan economy in terms of revenue, employment, foreign earnings, etc. Further, review reveals that Sri Lanka’s “competitive advantage in IT/BPM is built around agility, cost, a niche talent base, ethics, cultural adoptability and superior quality of life as a destination for doing business”, since the ICT sector is one of the major exporting sectors in Sri Lanka.

Managers in the ICT industry in Sri Lanka can develop and execute strategies to develop dynamic capabilities. It means that they are required to choose strategies to develop and implement adaptive capability, absorptive capability and especially innovative capability to achieve competitive advantage. Managers should analyze the business environment including competitors’ actions in the local market and global market from time to time since the ICT industry is rapidly changing and employees should be encouraged to keep an eye on market and technical changes that are happening in the industry. Further, they should be trained to facilitate to adaptability. According to the National ICT workforce survey in Sri Lanka, 63% of workforce has degree or above qualification. It is a good sign, and it should be increased by the managers by encouraging employees to enhance their qualifications with the current requirements. Acquiring new knowledge is a must for the workforces who are working in the ICT industry to achieve competitive advantage. Therefore, employees should be encouraged to approach to professional (such as consultants, accountants and etc.) and have more interactions with other organizations. In addition, managers can make the learning environment within the organization to share the knowledge that each and every employee has.

The findings of the current study reveal that innovative capabilities are more important than the other two capabilities in dynamic capabilities. Managers are able to implement several strategies to enhance the innovative capabilities within the firms. Managers can inspire and reward employees who provide client with innovative ideas and solutions. In addition, organizations are able to emphasize innovative and creative capabilities when recruiting new employees to the organization and organizations should offer unique benefits superior to those of competitors by giving quality products and services. More importantly, managers in the ICT industry or any other industry in Sri Lanka or in another context are able to adapt the insights mentioned above to achieve competitive advantage.

## **Limitations**

Despite the contributions and implications, this study has several limitations too. One limitation is that the proposed study has inherent limitations in measuring

constructs such as dynamic capability, organizational culture and competitive advantage which are essentially subjective constructs. This study is a cross sectional study and is not a longitudinal one. The variables that the researcher used can be studied deeply, if the researcher would have used longitudinal study since variables are changing overtime especially dynamic capabilities with the environmental changes. Specifically, this study is likely to have common method bias because the same respondents answered the dependent variable and the independent variable, in a cross-sectional manner. Although the researcher used procedural and statistical remedies for minimizing the common method bias, it is worth collecting data from different sources. Even though the researcher drew the sample which has the characteristics of population, convenient sampling has inherent biases.

### **Future directions**

Some interesting directions could be presented/suggested/proposed for future research based on the limitations discussed above and the careful considerations of the research potentials. The use of single respondent to represent what intra/inter-organization wide variables are supposed to be may generate some inaccuracy, more than the usual amount of random error. Therefore, future research should consider utilizing multiple respondents from each participating organization in order to enhance the reliability of research findings. As mentioned above, this study can be done as a longitudinal study since the concepts of dynamic capabilities vary over time. There may be special dynamic capabilities related to different industries and they can also be analyzed in future research.

## **7. Conclusion**

One of the objectives of the study was to investigate the impact that dynamic capabilities have on competitive advantage. Empirical evidence support the idea that dynamic capabilities are related to competitive advantage and dynamic capabilities have a significant positive impact on competitive advantage in the ICT industry in Sri Lanka. In addition, three dimensions of dynamic capabilities, namely, adaptive capability, absorptive capability and innovative capability were tested separately with competitive advantage to achieve the second objective of the study i.e., to investigate which dynamic capability has more impact on competitive advantage in the ICT industry in Sri Lanka. Empirical results show that each dimension has a significant positive impact on competitive advantage and innovative capability, adaptive capability and absorptive capability influence

on competitive advantage respectively in the ICT industry in Sri Lanka.

## 8. Declaration of conflicting interests

The authors declared no potential conflicts of interest with respect to the research, authorship, and publication of this article.

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## Appendices

### Appendix 1

#### Normality Test

Variable	Skewness	Kurtosis
Adaptive Capability	-0.977	-0.838
Absorptive Capability	-0.321	-0.898
Innovative Capability	-0.956	0.771
Competitive Advantage	-0.265	-0.982

### Appendix 2

#### Multicollinearity Coefficients

Coefficients		
Variables	Collinearity Statistics	
	Tolerance	VIF
Adaptive Capability	.476	2.100
Absorptive Capability	.657	1.521

Innovative Capability	.547	1.828
Dependent Variable: CA		

Source: Survey Data, 2019

### Appendix 3

#### Reliability of Measurement Items

Constructs	Cronbach's Alpha	No of items
Adaptive Capability	.864	4
Absorptive Capability	.809	4
Innovative Capability	.822	5
Competitive Advantage	.864	7

Source: Survey Data, 2019

# **Ethical Marketing for Internationalizing a Local Entrepreneurial Organization: A Case Study**

**E.M.T.D. Ekanayake<sup>1</sup> and B.A.N. Eranda<sup>2</sup>**

*<sup>1</sup>Department of Marketing Management, Faculty of  
Management, University of Peradeniya, Sri Lanka  
thamaradilhani77@gmail.com*

*<sup>2</sup>Department of Marketing Management, Faculty of  
Management, University of Peradeniya, Sri Lanka  
nuresheranda@pdn.ac.lk*

## **Abstract**

This paper explores the adoption of ethical marketing in internationalizing a local entrepreneurial organization in Sri Lanka which is in the industry of traditional handloom manufacturing. This organization is practicing ethical marketing from its inception and markets its ethical products globally. The paper is based on theoretical triangulation where the trait theory and new institutional sociology perspective are considered in explaining the reasons for internationalizing this organization through an ethical marketing approach. By using the qualitative methodology, a case study design is adopted and primary data has been gathered using in-depth semi-structured interviews with twelve respondents of the organization. This suggests that both the entrepreneurial traits including entrepreneurial background traits, entrepreneurial personal traits, and institutional reasons such as government incentives, buyer pressure, influence from ethical organizations, imitate successful ethical personalities and rural suppliers' support led this organization to enter into the international market through ethical marketing practices. This has reflected the theoretical merits of the study by depicting how the convergence of trait theory and new institutional perspective provides a better understanding of entrepreneurial internationalization through ethical marketing. Further, ethical marketing has adopted in this organization as a sustainable business approach by creating value for rural suppliers. Ethical marketing has also contributed this organization to

develop a sustainable networking approach with multiple stakeholders. Moreover, the organization caters to new customers using advocacy through ethical marketing. Therefore, these findings raise interesting themes about entrepreneurial internationalization through ethical marketing for future scholarly work.

**Keywords:** ethical marketing, internationalization, entrepreneurship, traits, new institutional sociology

## 1. Introduction

Entrepreneurial organizations play a dominant role in the marketplace by capitalizing the opportunities and also they became powerful trendsetters for the whole world. These organizations are using innovative marketing strategies to enhance their performance while creating greater value for the customers and other stakeholders. As a result, these kinds of business initiatives have captured the attention of researchers and policymakers. In the meantime, researchers have introduced many approaches and theories for internationalization of local firms such as Uppsala model (Johanson&Wiedersheim-Paul, 1975), transaction cost analysis model (Coase,1937), network model (Johanson&Mattsson, 1988) and born global approach (McKinsey, 1993; Rennie 1993). Particularly, the entrepreneurial organizations are experiencing numerous impediments in internationalization of their operations including intense global competition, capital inadequacy, lack of knowledge and expertise and also local institutional voids such as operational inefficiency and ineffectiveness, lack of knowledge and innovativeness. However, with the globalization open up the platform to local entrepreneurs to go international market (Knight & Cavusgil, 2015).

According to Jack Ma (2019), it would be better to focus on entrepreneurial path for development and business organizations need to adopt a niche strategy rather than a standardized approach focusing on mass scale production. Particularly, this idea is much more relevant for developing countries where the corporate sector is not being developed to a greater extent and at the same time small scale business organizations are mushroomed within the local economy. These small scale firms which are entrepreneurial in nature perform various activities in both formal and informal sectors and are significant for economic growth and national development (AL-Mamun&Zainol, 2016). However, their operations are mostly restricted to the local market and only few entrepreneurs are entering the international market. Therefore, these local entrepreneurs are required to explore innovative approaches which are different form the conventional marketing in order to enhance their competitiveness in international market. One such unique approach can be



identified as the ethical marketing.

According to Rawat et al., (2015) ethical marketing has started to gain the importance because producers have realized the significance of practicing what they preach. It involves the application of ethics into the process of marketing. Further, he has mentioned that there has been a gradual shift towards societal and ethical marketing - one that embraces the welfare of all the stakeholders. Ethical marketing has been subjected to scholarly investigation across various industries and contexts (Hur, 2014; Kumar & Mokhtar, 2016; Malhotra & Miller, 1998) and even in small businesses sector (Mohammed, 2018). In addition, existing literature have also emphasized that ethical marketing can be used effectively in internationalization of business organizations. Accordingly, Lovrić (2016) pointed out the significance of adding ethical value in positioning organizations in the new economy in international trade. Further, Welford *et al.*, (2003) contended that more equitable and ethical trading relationships are important in a global economy to achieve the sustainable development. Within this backdrop, in the extant body of literature, although important, there is a scarcity of ethical marketing studies within the context of internationalizing local entrepreneurial organizations. One cannot assume that ethical marketing which is practiced among larger corporates are similar to entrepreneurial organizations as the circumstances of entrepreneurial organizations are likely to be different due to many reasons. Thus, this area needs further academic inquiry. Accordingly, this paper addresses the above omission in extant literature by exploring into an ethical marketing experience in an entrepreneurial organization selected from the Sri Lankan context.

In addressing the above research gap, this study explores: 1) what are the reasons for internationalizing the case organization through ethical marketing? 2) how does the ethical marketing can be adapted in internationalizing the case organization? Therefore, this study aims at filling a gap in the current literature and contributes to enhance the body of knowledge by depicting an ethical marketing story. In this case, researchers are using a Sri Lankan traditional handloom manufacturing company where ethical marketing has been adopted from its inception in 1991. More importantly, this paper uncovers how marketing practices gets implicated in an ethical marketing environment. So that, the findings of this research will contribute to enhance the extant literature on ethical marketing from an entrepreneurial mind-set. There are two theoretical perspectives underlying this study: trait theory and new institutional sociology. Accordingly, these theories offer a better understanding of internally and externally driven reasons for internationalizing a local entrepreneurial organization using ethical marketing. This theoretical contribution will enhance the conceptual advancement of ethical marketing with multiple perspectives. Moreover, it implies some important

practical implications for other entrepreneurs who have the willingness to expand their organizations into the international market.

This paper consists of the following sections. Section one explains the theoretical perspectives of the study and section two provides the literature review with respect to internationalization and ethical marketing. Section three examines the methodology of the research with justifications. Findings of the study are presented under section four, and it will be followed by the discussion and conclusion in the fifth section.

## 2. Theoretical perspective

From a theoretical perspective this study is based on trait theory and new institutional sociology. The trait theory of entrepreneurship aims at explaining that the specific individual traits that prompt people to become entrepreneurs, and also their personal motivations and preferences can keep them in the proper path. Furthermore, the personalities of entrepreneurs make them more unique (Åstebroet *al.*, 2014; Knight, 1921). More importantly, these traits have a positive influence on organization's success and growth (Baum & Locke, 2004; Ciavarellaet *al.*, 2004; Rauch &Frese, 2007; Utsch& Rauch, 2000; Zhao *et al.*, 2010). Based on such a perspective, ethical marketing requires an entrepreneur with different set of traits and background. However, from a practical perspective ethical marketing is not being motivated only through the traits of the entrepreneur. In other words, ethical marketing is driven by some other external factors such as concern on local benefits, a favorable entrepreneurial ecosystem and government incentives for entrepreneurship here is a requirement to go beyond entrepreneurial traits to capture the dynamics in social norms and structures, as examined by the new institutional sociology.

Institutional theory provides a complex explanation about the organization. Accordingly, organizations are influenced by coercive and normative pressures and most of the pressures are arriving from external forces (Zucker, 1987). As a result, organizations are inclined to adopt certain structures and procedures in its operations. For example, rules and regulations from government institutions can provide a coercive pressure. On the other hand, standards set by certain professional bodies can have a normative pressure. Therefore, according to new institutional sociology coercive and normative pressures influence organization's activities. Based on this theoretical perspective, strategies and tools implemented by the organization needs to satisfy the external constituencies (Hoque&Alam, 1999; Sharma &Hoque, 2002). So, it does not have an exception when introducing

ethical marketing as well. More importantly, the external stakeholders behind the ethical marketing should be considered by the entrepreneurial organizations to be compatible with institutional theory.

The use of factors from different theoretical perspectives simultaneously to examine the same dimension of a research problem is termed as theoretical triangulation (Hopper & Hoque, 2006; Hoque & Hopper, 1997). In the meantime, Lukka and Mouritsen (2002) pointed out that usage of single theory can lead to waste of some important findings. Therefore, it is important to use more than one theory to capture important findings and particularly this can make a significant theoretical contribution through the study. Accordingly, entrepreneurial organizations are guided and led through effective entrepreneurial traits (internally) and also these organizations are influenced by outside forces (externally) simultaneously. Hence, the use of trait theory of entrepreneurship and the new institutional sociology at the same time is more appropriate in explaining the internal and external reasons for internationalizing the case study organization through ethical marketing.

### **3. Literature review**

Internationalization process of the entrepreneurial organizations has been subjected to academic inquiry to a certain extent. Accordingly, internationalization of entrepreneurship is defined as a process of creatively discovering and exploiting opportunities that lie outside a company's domestic market in pursuit of competitive advantage (Zahra & George, 2002). Therefore, internationalization of local entrepreneurial organization is a kind of competitive strategy that can use to align with the dynamic business environment. As per the Ansoff (1988) this can be identified as a market development or a diversification strategy, which can enhance the growth of the entrepreneur. Further, Oviatt and McDougall (2005) have emphasized that the internationalization as the discovery, enactment, evaluation, and exploitation of opportunities across national borders to create future goods and services. Therefore, this can facilitate the entrepreneur to pick up the opportunities for innovations being undertaken in the organization and this is significant if the local market is not adequately matured to accept some of the innovative products. In this journey of internationalization, entrepreneurs' social capital, knowledge, dynamic capabilities and the value innovation capability play key roles (Peiris *et al.*, 2014). So that, the success of entering into an international market does not depend only on the superiority of the product offering but also other intangible resources endowed by the entrepreneur is critical in this strategic growth effort.

Entrepreneurial internationalization is motivated through three main factors including entrepreneurship and business orientation of managers or founders, organizational factors and contextual factors related to the business environment (Escandón Barbosa *et al.*, 2013; Felício *et al.*, 2014). In addition, three motives, there are some other encouraging forces for entrepreneurs to enter into international markets. Accordingly, Cavusgil and Knight (2015) highlighted that the technological developments of the organization will enhance the ability of newer firms to internationalize and perform optimally in the global business environment. Furthermore, there are some other motives like foreign country demand for company products, possibility of customer's portfolio enlargement, lack of demand and higher competitive pressure in the domestic market for entrepreneurial internationalization (Kubičková *et al.*, 2014). Particularly, emerging companies gain advantages from their industry because they have access to information, knowledge and networks, which increases their chances of becoming internationalized (Zucchella *et al.*, 2007). Another segment of studies on internationalization have revealed the importance of organization's characteristics (Ruzzier *et al.*, 2006) especially the strategic behavior (Efrat & Shoham, 2013) and technological capabilities of a firm (Brach & Naudé, 2012). Dunning (2000) shows that closer relations with customers and long-term relationships with suppliers were important motives for internationalization. In looking at these motives, it is clear that most of these motives are intangible in nature.

The other important aspect of this study is ethics which is the branch of philosophy that deals with values relating to human behavior. Specifically, the human behavior that deals with the rightness and wrongness of certain actions and the goodness and badness of the motives and outcomes of such actions are referred to as ethics (Velasquez *et al.*, 2010). The important aspect for this study which is organizational, or business ethics refers to the rightness of the decisions and behaviors of individuals and the organizations of which they are a part. Accordingly, this idea is highlighted by Buchholz and Rosenthal (1998) in their definition. So that, 'Business ethics is the study of moral standards and how they apply to the systems and organizations through which modern societies produce and distribute goods and services, and to the people who work in these organizations'. Thus ethics is more related to the company's relationships and involvements with its numerous stakeholders for whom the organization has a responsibility to satisfy their requirements through the organization's activities. So that, ethics is closely associated with the idea of stakeholder theory (Freeman, 1984; 1994). Therefore, from a broader sense, ethics is embedded in the discussion of business and society integration (Prahalad & Hammond, 2002; Prahalad, 2006; Porter & Kramer, 2011).

Ethics seen from a marketing perspective provides with some guidelines to be

considered and adopted in experiencing an ethical problem by the marketers (Dunfee *et al.*, 1999). Accordingly, Gaski (1999) defined ethical marketing as “a code of morals and conduct used in marketing practices”. In addition, Abela and Murphy (2008) defined this idea as “the systematic study of how moral standards are applied to marketing decisions”. Therefore, ethical marketing reflects the social responsibility of marketing activities towards the society. Further, ethical aspect of marketing should be embedded within both strategic and tactical aspects of marketing in order to be more sustainable. If not, ethical marketing can be merely a source of enhancing reputation of the organization. The most notable phenomenon is customers in the modern society are motivated to purchase ethically marketed products even at a higher price (Trudel & Cotte, 2009). Further, Schlegelmilch and Oberseder (2010) mentioned that ethical marketing practices are looking forward to promote the ethical values of organizations so that consumers are attracted to buy products from such organizations. In this context, customers are in favor of responding to these socially responsible organizations’ ethical marketing and fair-trade initiatives (Park, 2018). Fair trade is one of the mechanism to practice ethical marketing since it facilitates to develop moral standards throughout the whole value chain of product since its product inception to consumption. Therefore, ethical business operations need to be considered and defined by considering all the value chain activities underlined in a product or service (Porter & Kramer, 2006; 2011). Therefore, entrepreneurial organizations are required to understand this broader scope of ethical business operations in order to be successful in internationalization.

#### **4. Methodology**

From an ontological stance this study has used the subjective view regarding ethical marketing. In this case, the researchers believe that the data to be collected and the interpretations provided by the respondents are depending on the respondents’ age, knowledge, experience, understanding and assumptions. Simply the respondents’ background directly effects on the data. Accordingly, from an epistemological stance, researchers had to develop a closer connection with the respondents to gather these subjective data. Otherwise, these data which are in the form of experience and views as well as subjective in nature cannot be collected in the absence of such a close relationship (Creswell, 2013).

The qualitative nature of this study led to adopt the case study as the research design. According to Yin (2009) case study is defined as “an empirical inquiry that investigates a contemporary phenomenon in depth and within its real life context, especially when the boundaries between phenomenon and context are not clearly

evident'. As per the above definition, this study is uncovering the contemporary phenomenon of 'ethical marketing' which is being increasingly adopted by the corporate sector and the entrepreneurs. Moreover, the qualitative epistemological stance taken by the researchers facilitates to pursue with an in-depth approach. In addition, ethical marketing is studied within and outside the organization when it is actually occurring to reflect the real life context of the study. Further, researchers found it difficult to demarcate ethical marketing from the selected organization since it has been grounded well within that organization since its inception. Therefore, this study has fulfilled the requirements set out by Yin(2009) to adopt the case study as the research design. Furthermore, since the study is trying to collect data from multiple sources of evidence, case study is a more suitable research approach for this study. More specifically, the single case study method is chosen in this research (Yin, 2009), since the organization selected for the research is the one and only fair trade guaranteed traditional handloom manufacturing company in Sri Lanka.

The case study selected for this study is named as Beta Company Private Limited for confidentiality reasons and it was established in 1991 by a lady who is a lawyer by profession. Beta was started in her home garage with 15 women in a rural village in Kurunegala. Currently, it has nearly 1000 members within their supplier network who are living in rural areas. The company aims at enhancing their traditional weaving industry through empowerment of rural women and currently it supplies to fair trade and commercial customers all over the world in the handloom industry. Beta has entered the international market from its beginning and it was a successful global journey due to their better prices, decent working conditions, local sustainability concerns, and fair terms of trade for rural suppliers and employees. An interesting phenomena is Beta could not recognize that they are practicing ethical marketing until they were rewarded with fair-trade certification in 2000. A significant demand for their products was created from international market after rewarding this certification and particularly, they were able to attract considerable number of buyers from European market. Beta mainly targets tourism sector and the high end market where the customers are willing to pay the premium price for ethical trade and practices. Currently, they maintain several main product categories including garments, fashion items, kids' items, homeware, and gift items. The notable feature of these products is they are manufactured in workshops located in rural areas in Sri Lanka and the artisans are making these products by staying at their homes. More importantly, the company always try to make sure that their products are suited with the modern tastes and trends of their customers by following a marketing oriented perspective. Apart from that, as an ethical company they follow environmental friendly approach as

well by establishing waste water treatment plant. As a company, Beta is always considering ethical practices by creating value for all the stakeholders involved in their value chain activities including rural artisans, small scale suppliers and other service providers.

Data was collected for this study by referring to the secondary data sources including company web site and relevant company documentary evidence. In addition to that, primary data was collected using in-depth semi-structured interviews and observations for this research study. In order to have a comprehensive interview with the respondents, researchers used interview instruments including the questions to cover the research questions of the study. Furthermore, researchers spent a significant amount of time within and outside the organization in the fieldwork to ensure the quality of the data gathered to facilitate the thick description. Moreover, all the interviews were tape recorded and detailed notes were taken. This note taking includes even the memoing of respondents' feelings, expressions and reactions together with the researchers' reflections on the context. The respondents were selected based on judgmental sampling for the study. Neuman (2006) also pointed out that judgmental sampling is often used when working with very small samples in case study research and to select cases that are particularly informative. The details of the respondents are provided in table 1.

**Table 1:** Details of the respondents

<b>Respondent(s)</b>	<b>Number of respondents</b>	<b>Profile and responsibilities</b>
Founder CEO	1	Lawyer by profession, management and coordination of all the functional activities, attend all management and committee meetings, personally involve with outside stakeholders and engage in strategic planning
Managing Director	1	Completed higher education and experience in business sector for 30 years, attend all management and committee meetings and involve in strategic decision making

Head of Business Development	1	Degree holder International Relations, Attorney-at-law, experience in diplomacy and business, handling international marketing and involve in strategic decision making
Head of the production	1	Degree in engineering, experience in production for 10 years, in-charge of production, planning and scheduling
Team members of Merchandizing	2	Degree and Diploma in Management, experience in marketing and general management for 5 years, handling overseas clients, coordinating with production department, scheduling, planning and sample development
Rural suppliers	6	5-10 years working experience, medium to low educational background, skills in handloom manufacturing, pursuing the production as per the designs provided by the company

Accordingly, this study has used multiple sources of data (data triangulation) in order to develop a comprehensive understanding of the ‘entrepreneurial internationalization’ while enhancing the quality of the research (Denzin & Lincoln, 2000). In analyzing the qualitative data of the study, the generic strategy is followed. Therefore, by following the data reduction approach firstly the interview transcripts were coded. In this case, researchers used the attribute and descriptive coding methods (Saldana, 2013). Secondly, in the sorting stage of the analysis, codes were grouped into categories. Thirdly, themes were generated from the categories to address the research questions and to reflect the meaning of the data.



## 5. Findings

The findings of this study are presented based on two research questions addressing in the study including the reasons for entrepreneurial internationalization and the adoption of ethical marketing in internationalization. As respondents revealed, ethical approach for marketing is the cornerstone of Beta Company since its inception and hence it has a legacy in ethical marketing for nearly three decades. Further, the family-based Beta Company endowed with a network of rural artisans was practicing ethical marketing even without knowing that they are an ethical marketer. One of the unsolicited buyers at a trade exhibition from a Western country who has observed Beta's products and the business model recognized the ethical nature of this organization and facilitated them to obtain the fair-trade certification. Unfortunately, even after receiving this certification, the family-oriented Beta Company did not embed it to the marketing practices due to the lack of interest and the inability to visualize the opportunities behind ethical marketing. This unfortunate situation was existed until the current Head of Business Development who is the daughter of Founder CEO joined Beta in 2009. She, who completed her studies in Western countries and having some experience in marketing recognized the potential of mother's home-grown business's story. Accordingly, she started to build up the brand of this rural endowed traditional handloom manufacturing company based on ethical marketing grounds and thereafter it has been recognized for its ethical efforts by the global buyers and the other stakeholders. Seeing in this manner, while the ethical marketing existed in Beta from the inception, the findings are presented below.

### **Reasons for Entrepreneurial Internationalization through Ethical Marketing**

Beta entered the international market from its beginning. The analysis of the interview evidence through the process of coding, sorting and synthesizing reveals that the reasons for this entrepreneurial organization to enter into the international market are two folds as presented in table 2.

**Table 2:** Reasons for entering into international market through ethical marketing

<b>Entrepreneurial traits</b>	<b>Institutional reasons</b>
<p><b>Traits of the entrepreneur</b>                      Inborn characteristics of entrepreneur, ability to capitalize business opportunities, extraordinary mindset of founder, goal driven behavior of founder, opportunity seeking behavior of founder, passion for own business, personal interest with business, positive thinking of founder, thinking in brave, willingness to face challenges</p> <p><b>Entrepreneur’s background</b>                      Life experience of founder, fair mindset of founder, financial problems of founder, professional job experience of founder, family attachment for business</p>	<p>Government incentives</p> <p>Buyer pressures</p> <p>Influence from ethical organizations</p> <p>Imitate successful ethical personalities</p> <p>Support from rural suppliers</p>

As other Sri Lankan entrepreneurial organizations Beta is also highly attached with the founder, even it has grown to a greater extent. Due to this close attachment, the entrepreneur’s thinking and behavioral patterns are directly influencing on the nature of business culture from the beginning. Therefore, the traits of the founder CEO as well as the family members who are holding the top positions at Beta directly influenced it to enter into the international market with an ethical approach.

Even the founder CEO’s personality has directly influenced Beta to inculcate the ethical practices of business in its international operations. Particularly, those experience had been a greater stimulus to engage with fair trade initiatives. Further, these bitter life experience of the founder enabled the organization to understand the feelings and attitudes of other people and the problems people are encountering due to poverty. Accordingly, founder has elaborated:

I always need to do something different, and I think it came from my character. So, when we are growing our character it leads to develop our life experience. I had many bitter experiences in my childhood. I always believe that my birth and

the character is for doing something more than a usual woman. These are coming from my genes I can't live as normal woman. I am not that way. That's why I needed to do a business which has buyers in other countries while helping the rural community.

Furthermore, the entrepreneur's personal background and the life experience can also determine the business model that they adopt. Particularly, some of the unforgettable incidents of a life can change that person's destiny and also what they need to offer to the society. Thus, the founder CEO's following story reflects this clearly.

I think my family background matters a lot for me. My mother lived in Kurunegala after married and then my mother gets used to live in a rural area. She started giving donations as much as she can and even, she guided us to do the same. I always need to follow her approach and so I also need to give something for others all the time. By the way, I also have a weakness becoming quickly sensitive to others. But today I think we need to give something for others in the right way, not like the government is providing subsidies.

This explains the founder's personal background has made a foundation to do this business in fair manner. Again, it has highlighted the positive thinking ability of founder as well as her life experience to start this business as an ethical business process. As a result of these unique traits and background of the founder and the family members led this organization to enter into the international market.

From an institutional perspective, government incentives were critical for entering into the international market. The government support was extended in terms of capacity building, loans, finding market access and knowledge transfer. As a result, Beta has empowered to enter into the international market. Therefore, it seems that the government played the role of catalyst in facilitating entrepreneurial internationalization with an ethical approach. Accordingly, the Managing Director commented:

Former President of the country Mr. Premadasa contributed a lot to the birth of this business because he wanted to uplift the village economy during 90s. So, the Export Development Board supported the industries which contributed to uplift the village economy. Further, they helped us to attend the trade fairs and all the costs were covered by the government. We were also benefitted from the Netherland garment agency called CBI and they did a project to develop the Sri Lankan handloom industry at that time with the government support.

Similarly, Head of Business Development noted:

My mother participated for a Netherland exposure tour for handloom fabrics.

After that, she thought of going for international markets, rather than just making handloom. Then, we firstly started to export toys in 1991.

Moreover, the buyers are also pressurizing Beta to produce more ethical products since they experienced an increasing demand for ethical products. The main customers of the company are based in European countries where the ethical products are increasingly becoming popular. Head of Business Development explained:

There are thousands of handloom suppliers. However, customers are attracted for us because of our ethical practices. We created the niche within the niche. Customers are becoming very loyal to us and they very interested in our business model. Customers are telling that they need to help our rural artisans through their purchase, and they recommend our products to customers in other countries as well.

Furthermore, interviews with the respondents revealed that there was an influence from other ethical organizations to adopt ethical marketing in different countries. Since as a concept ethical marketing is novel to Sri Lanka, Beta considers these like-minded organizations can play a major role to create the awareness in order to initiate more ethical business initiatives. These kinds of organizations influenced internationalization of ethical marketing efforts at Beta. The merchandizing team member described:

There are ten principles of fair-trade. These are considering about welfare of others. Some people don't care of these things. But now most of the foreigners are highly considering about how the products are made, how we treat the people, and what the working conditions of fabrics manufacturing are. Now the other organizations adopting these kinds of ethical practices are recommending us for new buyers in other countries. So, now we have a very good network among ethical organizations, and it helps us to expand.

The founder CEO has also commented:

In the beginning I participated for many projects initiated by the government. In there, I met so many people with good heart came from different organizations. They helped me a lot in the beginning to make us who we are today.

From an institutional perspective, the organization has inspired by different external factors. In that case, Beta and its management has been inspired by the ethical personalities in the world. So, they tried to incorporate new ideas to improve their ethical business over a long period and it was an effective learning experience for the management as well as for the rural suppliers. The founder CEO explained:

We have to get advice from others since we make many mistakes. I learned from studying good people and I always share my learning with our rural suppliers. Most of the time, I followed Mother Theresa. Sometimes, I am shy about myself because she sacrificed her whole life for others. Anyway, I think we have done something for others' wellbeing through our business and it has given us the motivation to do this good business in many countries.

Beta has a highly committed and loyal rural supplier network which was developed over the years through continuous capacity building. Some of these suppliers have become successful entrepreneurs by having their own suppliers for some items. These suppliers are continuously supplying their products to Beta and also, they provide a strong support to continue with this ethical marketing initiatives. Accordingly, founder CEO added:

I am always motivated by looking at our rural suppliers. I always think of doing good things for them through the business. They bring most of their problems to me and I tried to give them the solutions as much as I can. Even, they share their success stories with me and they tell that their success is mainly by being a supplier to our organization.

As the above empirical evidence suggest both the entrepreneurial traits and institutional reasons led this organization to enter into the international market through its ethical marketing practices.

### **Adoption of Ethical Marketing in Internationalization**

The results of the analysis generated through coding and sorting of the findings contributed to develop the themes presented in figure 1 with related to the adoption of ethical marketing in internationalization of this entrepreneurial organization.

**Figure 1:** Themes related to the ethical marketing in internationalization



Each of these themes are examined below with the relevant interview evidence.

Key emergent theme	Respondents					
	Rural supplier 1 ( <i>Watake</i> creations)	Rural supplier 2 (Hand embroidery)	Rural supplier 3 (Hand embroidery)	Rural supplier 4 (Recycle items)	Rural supplier 5 (Handloom)	Rural supplier 6 (Handloom stitching)
Income enhancement	Income for the housewives with flexible working conditions	Income for pensioners with meaningful hobby	Regular Income for aged populations	Need an income source for housewives to balance the family responsibilities at home	Make stronger income source with fair business practices  Development of living standards by acquiring property	Living standard improvement with regular income source

Talent improvement	<p>Knowledge enhancement for new creations in line with customer trends</p> <p>Motivation for being an entrepreneur</p>	<p>Motivation for starting new business</p> <p>Feeling of improving conceptual ability to produce a proper product</p>	<p>Feeling of enhancing creativity</p> <p>Changing the attitudes of traditional garment industry</p>	<p>Improvement of business knowledge and product creativity for innovations</p> <p>Motivation for development of existing business</p>	<p>Improvement of proper knowledge for industry</p> <p>Motivation for business development</p>	Improving creativity and business mind set
Development of goodwill	Feeling as a fully employed person	Social acceptance as an employer	Feeling as a self-employed person	Enhancement of business goodwill	Feeling of creating goodwill as a job creator for villagers	Enhancement of goodwill as a quality producer

**Table 3:** Key emergent themes pertaining to rural suppliers’ value creation

**Theme 1: Sustainable business approach**

Ethical marketing strategy has adopted in internationalization as a sustainable business approach. Beta uses ethical practices as a business strategy by balancing the profit and the people. Thus, the value creation for the rural supplier community from this ethical business approach is notable as presented in table 3.

Moreover, the company has acquired new knowledge for business process, and they promote the ethical practices as a unique marketing strategy. They have been able to capitalize new marketing trends and the limited customer base of high-end

market while valuing the ethical production and the practices. Further, Beta was able to develop unique customer base and then it has grown to a customer network. Head of the business development elaborated this unique business approach:

Under the ethical marketing practice, we extended our product focused approach. So, we attached a story to every product that we are selling. Sometimes this story sells more than the product. This story is built around a lifestyle valued by the customers. We highlighted the rural artisan behind the product with an attractive ethical story, which is 100% true.

### **Theme 2: Sustainable networking approach**

Ethical marketing has facilitated Beta to build up an international network of ethically minded suppliers, buyers and supporting stakeholders. Therefore, Beta has been able to capture valuable business opportunities and experience to become a competent entrepreneur even they are attached to a traditional and rural based industry. Further, their business development activities are supported by ethical organizations and international trade fairs and those efforts made Beta to be highly competitive in the international market which cannot achieved through an individual effort. Also, these networks have improved Beta's competencies to a greater extent. Accordingly, the Managing Director has clearly elaborated:

There are ethical products producers and buyers in the world. Ethical buyers are seeking for ethical products producers. According to my knowledge, there are 370 members in the fair-trade network only. The connection that we have with them are more important to us to find out new customers, to connect with other global entrepreneurs like us and also to update ourselves with new knowledge.

As part of Beta's networking, they participate in ethical trade fairs on continuous basis in order to gather new knowledge and also to find new business partners from all over the world. Therefore, this networking opportunity is explained by the founder CEO as:

We continuously participate in ethical trade fairs. So, this time our Head of Business Development and the Head of Merchandizing will be participating for a trade fair in next month. So, they will bring new knowledge and contacts. This ethical trade is not possible without networking.

### **Theme 3: Approach for capturing new customers through advocacy**

In looking at the empirical findings of Beta, it is evidenced that they concern on recognizing the most engaged customers and try to build up a closer connection



with them. More importantly, Beta needs these kinds of engaged customers to fully embrace the ethical nature of their products by seeing the story behind the product. As a consequence, these customers tend to advocate and recommend the products to other like-minded customers. Head of Business Development remarked:

Our customers are highly concerned about the ethical nature of the products and if they are satisfied with those products through the story behind them, they tend to comment favorably and recommend it to others in the social media. Therefore, these ethical nature of the products can attract more new customers by enhancing the trust.

One of the merchandizing team members reinforced the above view provided by the Head of Business Development. He said, “If we can explain our ethical story behind the products to more customers, I think we will be able to enhance customer base to a larger extent”. This reflects that, the ethical customers are more concerned about ‘behind the story’ which can drive their motives to advocate the ethical products to others. Even the merchandizing team member indicated that “Customers need to know the history of our company and they are very concerned about it. So that now our madam (Founder CEO) is appearing in the promotional videos by sharing her story”. This statement is also implying the mindset of these customers to know the exact details and legacy behind the ethical marketing initiatives of Beta. So that, the founder CEO explains the reasons for the success as well as the reasons for others to care about their story. In here, she has attributed the success of Beta to the broader network they built over the years.

## **6. Discussion and Conclusion**

This paper has examined the adoption of ethical marketing in internationalizing a Sri Lankan entrepreneurial organization, Beta. The empirical evidence gathered in this study revealed that various reasons influenced on internationalizing Beta through ethical marketing. Accordingly, some of these reasons were internal in nature (entrepreneurial traits) and others are driven by the external influences (institutional reasons). Beta has started its internationalization with ethical marketing by its unique founder CEO who has a passion for doing ethical business. Therefore, her personal traits and the background were influential for moving towards internationalization through ethical marketing. This is comparable with the literature which have shown that the favorable traits of entrepreneurs facilitates to organization’s success and growth (Baum & Locke, 2004; Ciavarella *et al.*, 2004; Rauch & Frese, 2007; Utsch & Rauch, 2000; Zhao *et al.*, 2010). On the other hand, some external forces like the government, buyers, ethical organizations and even

suppliers influenced to sustain the ethical marketing efforts. This is comparable with the idea that the strategies and tools implemented by the organization needs to satisfy the external constituencies (Hoque&Alam, 1999; Sharma &Hoque, 2002). More importantly, this is in line with the notion behind institutional theory so that organizations are influenced by coercive and normative pressures as presented by Zucker (1987). Therefore, the theoretical triangulation is properly evidenced in this study where the same dimension of an issue is examined from different theoretical perspectives (Hopper &Hoque, 2006; Hoque& Hopper, 1997). Thus, the use of trait theory and new institutional sociology perspective enabled to avoid the waste of important findings (Lukka&Mouritsen, 2002) and also making sense of findings is occurred effectively.

Scholars in marketing have contended that marketing should focus not only on customers, but also on other stakeholders as well. Philip Kotler in his own words in 1972 pointed out that “marketing is a relevant subject for all organizations in their relations with all their publics, not only customers” (Kotler, 1972, p. 47). Further, literature related to stakeholder theory (Freeman 1984; 1994) and business and society integration (Pralhad& Hammond, 2002; Prahalad, 2006; Porter & Kramer, 2011) also mentioned that businesses should be managed for the benefit of its stakeholders. Thus, Beta has generated values for its rural supplier community in terms of income enhancement, talent improvement and development of goodwill. Therefore, ethical marketing has strongly reflected the broader aim of marketing which is about creating value for all the stakeholders rather than merely creating customer value (Kotler & Keller, 2016). It seems that the scope of marketing can be improved with clear evidence under ethical marketing. Further, it has broadened the creative thinking of marketing to connect their offerings with the needs of the customer through a creative story rather than just adopting a product focused marketing approach.

Prior studies have shown that building of networks with stakeholders is important for marketing, and this has been mainly discussed in stakeholder marketing (Bhattacharya &Korschun, 2008). More importantly, the focus on co-creation in network relationships is becoming more prominent than just maintaining dyadic relationships (Frow& Payne, 2011; Hult *et al.*, 2011). Further, the long-term survival and success of a firm is determined by its ability to establish and maintain relationships within its entire network of stakeholders” (Post *et al.*, 2002, p. 7). Similarly, Beta has built up its networks with multiple stakeholders including ethically minded suppliers, buyers and other supporting stakeholders. In the meant time, the notion of collective impact focus on stakeholder networks across different sectors to address complex social issues in local communities (Christens &Inzeo, 2015; Kania& Kramer, 2011). Therefore, this can be identified as a future

managerial and policy implication to be addressed through ethical marketing. Findings from Beta also share similar sentiments by showing that their success cannot be realized through an organic growth as an entrepreneurial organization. Therefore, as suggested by Preskillet *al.* (2014) the collective impact in ethical marketing needs to consider five conditions: common agenda, continuous communication, backbone support organization, mutually reinforcing activities, and shared measurement. In strengthening the business model presented through Beta grounded in ethical marketing approach the above five conditions can be considered with further support from the government and its current and future stakeholders. Thus, by looking at Beta, ethical marketing needs to acknowledge that the organization is embedded in a larger network of actors as contended by Alderson (1957) in earlier times of marketing discipline.

The literature suggests that as the power of customers continues to grow due to the modern technology, innovative companies are providing customers with open, honest, and complete information (Urban, 2004). Similarly, Beta is also becoming very open in their communication by sharing their stories as an integral part of ethical marketing. In this case, they have moved from sharing the product story to history and the founder's story. As a result of this, customers have advocated Beta's products to other customers in the marketplace which enhanced the trust towards Beta. Literature has also contended that the customer advocacy can lead to build the trust towards a brand (Roy, 2013). Furthermore, the marketing communication being practiced towards the customers on ethical grounds should be more meaningful to capture the essence of ethicalness behind the brand. In allowing Beta to more resonate with customers the real stories of rural suppliers, employees and even the founder should be further emphasized as heroes of Beta.

This study sheds light on the implications for future research as well. Since, this research is based on a single case study, the future researchers can focus on multiple case studies in order to develop some comparative insights regarding the internationalization through ethical marketing in entrepreneurial organizations. In this case, it would be important to select entrepreneurial organizations successful in international markets from different industries to uncover the differences in ethical marketing practices based on different contexts.

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# The Impact of the Organizational Mission Drift on its Employee's Effort

D.I.J. Samaranyake<sup>1</sup> and S. Banuri<sup>2</sup>

*<sup>1</sup>Department of Management Studies, Faculty of Management, University of Peradeniya, Sri Lanka  
dijs@mgt.pdn.ac.lk*

*<sup>2</sup>School of Economics, University of East Anglia, The United Kingdom  
S.Banuri@uea.ac.uk*

## Abstract

This study evaluates the impact of organizational mission drifts on its employee's efforts. We introduced three parameters; mission preference of the organization [ $\alpha$ ], mission preference of an employee [ $\beta$ ], and the magnitude of the mission drift [ $\eta$ ] in determining the impact of organizational mission drift on employee's utility and effort. Therefore, the new model predicts that the employee's mission utility [ $\theta M(e, \gamma)$ ] decreases when the degree of mission match [ $\theta$ ] decreases as a result of the variations in the magnitude of mission drift [ $\{\theta = 1 - [\eta(\alpha - \beta)]\} M(e, \gamma)$ ]. Then the experimental data provided evidence to support the theoretical predictions as respondents who experienced a mission drift tend to exert effort in between the effort levels of mission matched and mismatched individuals. Further, the study found that the respondents with a similar degree of pro-sociality demonstrate a clear improvement in the effort made on duties in both mission match and drift compared to a mission mismatch.

**Keywords:** Employee's Effort; Mission Match; Mission Drift; Motivation; Pro-sociality

## 1. Introduction

The mission statement of an organization is a specific characteristic that defines the important functions and highlights its uniqueness and difference from the other organizations in society. It appears as a way to clarify the role of an organization

and also as a method to attract employees (Chu & Luke, 2012). Although, one of the inherent challenges of operating as an organization in modern business is the maintenance of its original mission over the dynamicity of business and social environment. Rapid changes in the external environment encourage organizations to drift from their original mission to a broader scope of activities. For instance, the educational bodies and social enterprises such as microfinance institutions experienced such mission drifts (Jaquette, 2013; Armendariz & Szafarz, 2009). Also, the literature encourages us to observe whether such organizational mission drifts cause less engagement and less effort by its key stakeholders such as employees. This can occur due to mismatches in the pro-social concerns, meaningfulness, and the expectations of the mission they are engaged in (Carpenter & Gong, 2016; Smith, 2016; Banuri & Keefer, 2016). Therefore, this study is designed to observe the impact of the mission drift of an organization on its employee's real efforts. For that, the study introduces a model to observe such impact through an online experiment consisting of three treatments using the modified version of "dictator game" and "real effort tasks".

## 2. Objective

The literature highlights that a proper match between the organization and its employees' mission yields higher motivation and effort in achieving the goals and objectives (Caroline & Marina, 2016; Carpenter & Gong, 2016). Also, it verifies the close connection between the effort yield out of the mission matching and underlines the prosocial behaviour of employees in an organization (Baruch et al., 2004; Smith, 2016). Further, it is worth considering the effect of mission drift of an organization on its employee's pro-social motivation and real effort as the literature highlighted the recent tendencies in mission drifts in modern organizations (Catherine et al., 2015; Mader & Sabro, 2019). In fact, there is adequate research done in the microfinance sector and revealed that such organizations experience mission drifts from diverting their pure mission of offering microenterprise credit to a broader agenda of financial inclusion (Ghosh & Tassel, 2008; Armendariz & Szafarz, 2009; Chu & Luke, 2012; Catherine et al., 2015).

Also, few studies highlighted the relationship between an organizational mission drift and its impact on stakeholder's behaviour (Ramus & Vaccaro, 2014; Raisiene & Urmanaviciene, 2017; Jeter, 2017). Such drifts can cause less engagement and less effort by its key stakeholders. However, the dearth of research available in investigating an employee's response and effort linked to her pro-social motivation as a result of organizational mission drift. Therefore, this study aims to introduce an extension to the model developed by Carpenter & Gong (2016) in order to

accommodate the effect of mission drifts and to perform an online experiment to test the following hypotheses.

**H1:** Mission matched subjects exert more effort than mission mismatched subjects.

**H2:** Mission drifted subjects exert less effort than mission matched subjects.

**H3:** Mission drifted subjects exert more effort than mission mismatched subjects.

The initial hypothesis (H1) distinguishes the behaviour and performance of the mission matched and mismatched subjects. Then the following hypotheses (H2 & H3) consider the impact of mission drift on employee's effort compared to the effort made by mission matched and mismatched subjects.

### 3. Methodology

This study follows the theoretical model developed by Carpenter & Gong (2016) to examine the effect of mission matching and incentives on employee productivity. They used the standard principal-agent model, where the employer offers a wage contract, and the employee decides the degree of effort to exercise. Accordingly, this study expects to introduce an extension to the following utility model to examine the impact of mission drift on the employee's effort.

$$U(e) = [w+pe] + \theta M(e, \gamma) - C(e)$$

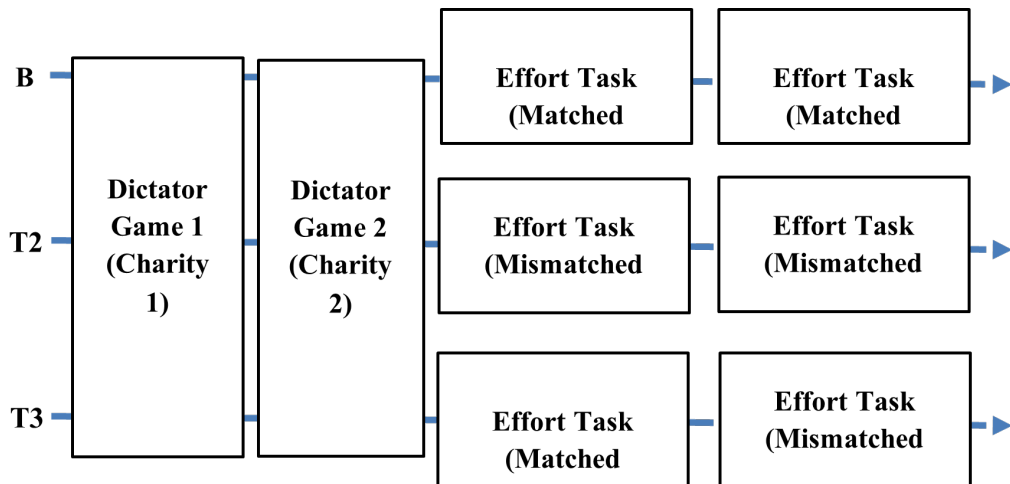
The utility model is considered an employee who receives a fixed wage [w] and a performance incentive [pe]. When an employee's standard linear contract entitles both wage and performance incentives, he can assert gains by effort [e], which is [w+pe]. Then his cost of effort [C(e)] is useful in identifying net returns [w+pe - C(e)] to the employee. Further, Carpenter & Gong (2016) used  $\theta \in \{-1, 1\}$  to differentiate the mission matched and mismatched condition as  $\theta = 1$  when the employee's mission matched with the employer and  $\theta = -1$  when it mismatched. Then,  $\theta M(e, \gamma)$  call as the employee's mission utility and represents different magnitudes in mission matched and mismatched conditions. It can either increase or decrees the cost of effort made by an employee and a typical employee can choose an effort level [e\*] that maximizes the utility function [U(e)].

Then the study introduces the experiment using a pool of undergraduates coordinated by the Laboratory for Economics and Decision Research (LEDR) lab of the University of East Anglia in Norwich, UK. It consists of three experimental sessions and each session will be accompanied by 23 participants as subjects as the sample size is 69. Most of the tasks in this experiment will be timed and the total time proposed for all tasks is 20-30 minutes. Each participant will be given

£2 for participation and performance on the tasks in the dictator game and real effort rounds provide the potential to earn more. Also, the computer application design and run in an online platform developed on the “Node.js” web developing platform linked with the “MongoDB” online data server.

The experiment focuses on three sessions, a baseline and two treatments including a modified version of “dictator game” and “real effort rounds”.

**Figure 3.1:** Structure of the Experimental Sessions



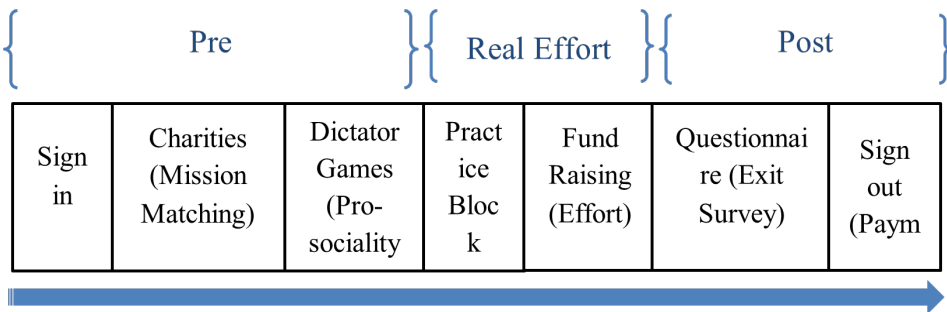
Source: Author Preparation

**Baseline:** This includes 02 modified dictator games and 02 rounds of real effort tasks. The two rounds of real effort tasks split each for a mission matched condition.

**Treatment 1:** This treatment includes 02 modified dictator games and 02 rounds of real effort tasks. The real effort task split each for a mission mismatched condition.

**Treatment 2:** This treatment includes 02 modified dictator games and 02 rounds of real effort tasks. The two rounds of real effort tasks split each for a mission matched condition and a mission mismatched condition.

**Figure 3.2:** Flowchart of an Experimental Session.



Source: Author's preparation adopting Smith (2016)

Figure 3.2 demonstrates the flowchart of an experimental session. According to that, all three sessions include an exit survey to collect key demographic information and feedback from the subjects in addition to the experimental sessions. The regressions are arranged to test three hypotheses following the treatments of the experiment. They consisted of the key observations from each session such as the measures on the pro-social motivation ( $MOTIV_i$ ) of the subjects, real effort ( $EFF_i$ ), and the controls such as demographic characteristics, i.e. gender, age ( $CONT_i$ ) as they are related to the real effort of subjects (Banuri & Keefer, 2016). Therefore, the following regressions are developed separately for the three treatments.

*Baseline*

$$TFG_{B_i} = \alpha + \beta MOTIV_{1_i} + \delta MOTIV_{2_i} + \rho EFF_{B\_1_i} + \theta EFF_{B\_2_i} + \gamma CONT_i + \varepsilon_i \tag{1}$$

The dependent component of the OLS regression represents the Total Funds Generated ( $TFG$ ) by the respondent at the experimental session by adding both donations to the charity organizations, amount of Experimental Currency Units (ECU) raised at the effort task for measuring the ability of the respondents, and effort made at both effort tasks for fundraising. Then  $\beta MOTIV_{1_i}, \delta MOTIV_{2_i}$  are for the measures from the dictator games from the charity 1 and charity 2 for the baseline.  $\rho EFF_{B\_1_i}$  represents the records from the initial effort task for fundraising and  $\theta EFF_{B\_2_i}$  for the data obtained from the second session of the effort task with the mission match condition. The demographic characteristics ( $CONT_i$ ) will be collected through the debriefing questionnaire provided to the subjects at the end of the experiment. Similarly, the regressions for treatment 1 and treatment 2 also can be developed as follows for mission mismatched and drifted conditions.

Treatments 2 and 3

$$TFG\_T2_i = \alpha + \beta MOTIV\_1_i + \delta MOTIV\_2_i + \rho EFF\_T2\_1_i + \theta EFF\_T2\_2_i + \gamma CONT_i + \varepsilon_i \quad (2)$$

$$TFG\_T3_i = \alpha + \beta MOTIV\_1_i + \delta MOTIV\_2_i + \rho EFF\_T3\_1_i + \theta EFF\_T3\_2_i + \gamma CONT_i + \varepsilon_i \quad (3)$$

## 4. Results and Discussions

### Theoretical Extension

This study introduced an extension to the model developed by Carpenter & Gong (2016) based on the effect of mission drifts considered that the mission motivation  $[\theta]$  is a dynamic parameter and depends on the magnitudes of the employee's personal mission and the mission of the organization. The extension introduced three new parameters in order to derive the impact of mission drift. " $\alpha$ " represent the mission preference of the organization and the " $\beta$ " for the mission preference of the employee. The magnitude of the mission drift is represented by " $\eta$ " and generates an impact on the static parameter  $[(\theta = 1)/\gamma > 0]$ . Therefore, dissimilarity in the magnitudes of  $\alpha$  and  $\beta$  tend to decrease the value of " $\theta$ " as  $[(\theta < 1)/\gamma > 0]$  and it appears to be a dynamic parameter  $\{\theta = 1 - [\eta(\alpha - \beta)]\}$ . Therefore, the standard utility function described in Carpenter & Gong (2016) requires an extension as  $U(e) = [w + pe] + \{\theta = 1 - [\eta(\alpha - \beta)]\} M(e, \gamma) - C(e)$  with the consideration on the impact of mission drift on effort. Therefore, the new model predicts that the employee's mission utility  $[\theta M(e, \gamma)]$  decreases when the degree of mission match  $[\theta]$  decreases as a result of the variations in the magnitude of mission drift  $[\{\theta = 1 - [\eta(\alpha - \beta)]\} M(e, \gamma)]$ . It tends to decline the employee's effort and lays in-between the effort exerted in mission matched and mismatched situations  $[e_{[\theta=1]}^* > e_{\{\theta=1-[\eta(\alpha-\beta)]\}}^* > e_{[\theta=-1]}^*]$ . Also, such decline generates a negative impact on the employer's utility  $[U(e^*)]$  and lays in between the utility gained in mission matched and mismatched situations  $[U(e_{[\theta=1]}^*) > U(e_{\{\theta=1-[\eta(\alpha-\beta)]\}}^*) > U(e_{[\theta=-1]}^*)]$ .

### Empirical Outcomes: Descriptive Analysis

The initial fraction of the experiment consisted of two modified dictator games and provides an opportunity for respondents to make donations to the charity organizations. There was a considerable number of respondents who were indifferent in terms of the number of donations to both charities. Further, the

majority of respondents who donated less supported the Knightsbridge School Fund (KSF), and the majority who donated high amounts supported the Macmillan Cancer Support (MCS). Also, the respondents from treatment 3 appeared as the highest pro-social group with a high range of donations to both charities.

The analysis of the three effort tasks shows that the efforts made at the baseline are slightly higher than the other two treatments. The group of respondents at the baseline are the less prosocial group but exerted higher effort due to the matched mission. Further, the ability and efforts on fundraising are very similar in the mission matched condition compared to the other two treatments. It is visible that the magnitude of effort at treatment 2 is slightly below treatment 3 with a drifted mission. Also, a comparison of total efforts in each fundraising task demonstrates a significant difference between the effort levels across three treatments. The baseline demonstrated an increasing trend in the total effort made. On the other hand, treatment 2 with the mission mismatch demonstrated a significant decline in the total effort made at the effort tasks when compared to the baseline. The treatment 3 represented a significant improvement of the total effort made at the beginning of the task but declined later due to the mission drift.

### **Experimental Outcomes: Regression Analysis**

The study introduced three simple OLS regressions to analyse the experimental data. The regressions are arranged to test three hypotheses following baseline and two treatments of the experiment. According to the summary statistics (annexure 4), the impact of the degree of mission match and mismatch conditions demonstrated a clear impact on the magnitude of the effort. Also, treatment 3 showcases the impact of mission drift on effort as the average effort made at the initial fundraising task decreased in the second round due to mission drift.

Then the comparison of the statistical outputs from the OLS models (annexures 5 & 6) indicates that all three models are statistically significant and strong enough to describe the impact of causal variables on Total Generated Funds (TFG). The estimated coefficients of both the donations to charity organizations and effort tasks demonstrated significant impacts on the funds accumulated for the charity organizations. The models on the baseline and treatment 2 predict that the donations to both charities made a positive significant impact on the TFG. A mission drift demonstrated only a positive significant impact from the donations made to KSF on the TFG. Also, the positive and significant coefficients of the effort tasks related to the fundraising demonstrate a high impact in accumulating funds for the charity organizations. The respondents appeared to be less efficient in terms of the effort once the mission mismatched compared to the mission matched respondents of



the sample. The regression outcomes of the mission drift condition demonstrate an outcome with a significant impact on the respondent's effort. The impact from the mission drift declines the effort made in the second round of the fundraising task.

## 5. Conclusion

This study introduced an attempt to extend the model developed by Carpenter & Gong (2016) considering the impact of organizational mission drift on effort. The outcomes of the model extension support to recommend the inclusion of the parameters which describe the magnitude of the mission drift when observing the impact of the organization's mission on its employee's effort. Then a comparison of data obtained from three treatments of the online experiment provided evidence to support the predictions made at the theoretical extension. The respondents who experienced a mission drift tend to exert effort in between the effort levels of mission matched and mismatched individuals. Further, the study found that the respondents with a similar degree of pro-sociality demonstrate clear improvement in the effort made on duties in both mission match and drift compared to a mission mismatch. This supports Smith (2016) as mission matched individuals show more effort and were mediated by the meaningfulness of work. However, a respondent with a high degree of pro-sociality demonstrates a high explicit impact on the effort on their duties even in a drifted mission compared to a less prosocial individual in a matched mission.

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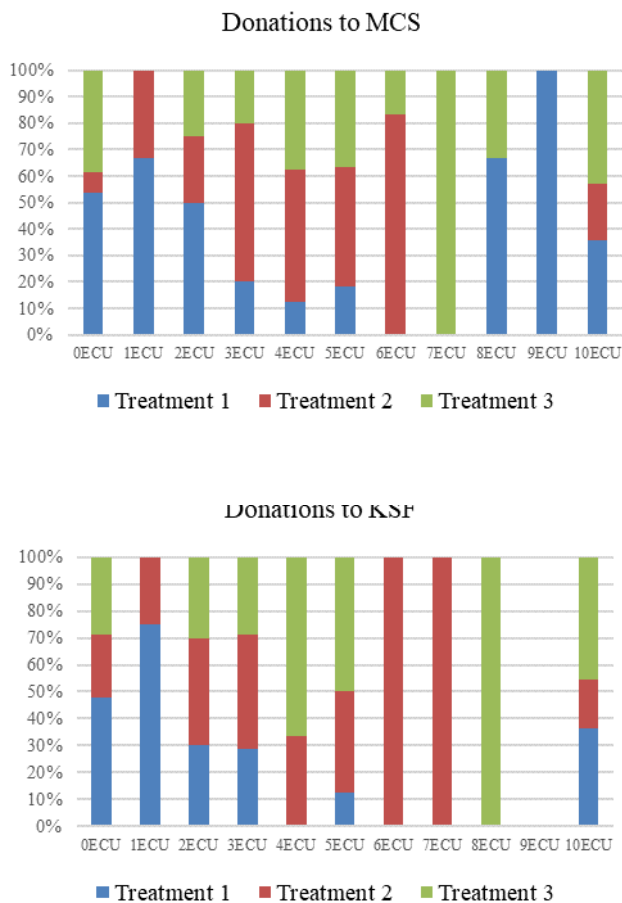
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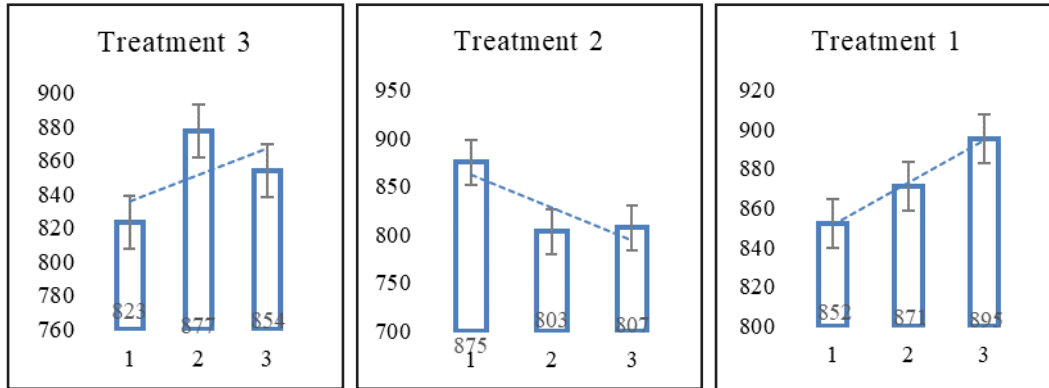
## Annexures

### Annexure 1: Comparison of Donations to the MCS and KSF across Treatments



Source: Author preparation from the MS Excel

**Annexure 2:** Comparison of Total Efforts Across the Treatments



Source: Author preparation from the MS Excel

**Treatment 1 – 23**

**Observations**

Variable	Mean	Std. Dev.	Min	Max
Total Funds Generated (TFG)	63.17	18.80	20.50	102.5
Donations to the MCS	04.09	03.65	00.00	10.00
Donations to the KSF	02.17	03.08	00.00	10.00
Effort Task 1 (ability)	37.04	12.84	03.00	64.00
Effort Task 2 (fund raising)	37.87	10.81	11.00	63.00
Effort Task 3 (fund raising)	38.91	10.51	21.00	66.00
Age	22.82	07.21	19.00	50.00
Gender (male=1)	00.43	00.51	00.00	01.00

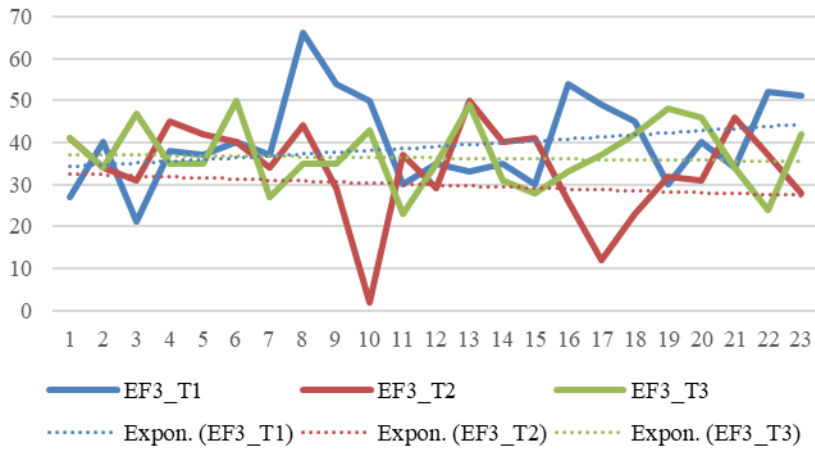
**Treatment 2–23 Observations**

Total Funds Generated (TFG)	63.11	16.82	31.50	97.50
Donations to the MCS	05.09	03.18	00.00	10.00
Donations to the KSF	04.00	03.46	00.00	10.00
Effort Task 1 (ability)	38.04	06.97	27.00	50.00
Effort Task 2 (fund raising)	34.91	11.27	09.00	56.00
Effort Task 3 (fund raising)	35.09	11.89	02.00	52.00
Age	21.17	02.17	19.00	27.00
Gender (male=1)	00.39	00.50	00.00	01.00

**Treatment 3 – 23 Observations**

Total Funds Generated (TFG)	64.91	14.45	35.00	89.50
Donations to the MCS	05.13	03.72	00.00	10.00
Donations to the KSF	04.26	03.74	00.00	10.00
Effort Task 1 (ability)	35.78	11.55	13.00	72.00
Effort Task 2 (fund raising)	38.13	08.46	21.00	49.00
Effort Task 3 (fund raising)	37.13	07.84	23.00	50.00
Age	23.13	06.89	19.00	50.00
Gender (male=1)	00.48	00.51	00.00	01.00

**Annexure 3:** Comparison of Real Efforts Across the Treatments: Effort Task



Source: Author preparation from the MS Excel

**Annexure 4:** Summary Statistics

**Treatment 1 – 23 Observations**

Variable	Mean	Std. Dev.	Min	Max
Total Funds Generated (TFG)	63.17	18.80	20.50	102.5
Donations to the MCS	04.09	03.65	00.00	10.00
Donations to the KSF	02.17	03.08	00.00	10.00
Effort Task 1 (ability)	37.04	12.84	03.00	64.00
Effort Task 2 (fund raising)	37.87	10.81	11.00	63.00
Effort Task 3 (fund raising)	38.91	10.51	21.00	66.00
Age	22.82	07.21	19.00	50.00
Gender (male=1)	00.43	00.51	00.00	01.00

**Treatment 2 – 23 Observations**

Total Funds Generated (TFG)	63.11	16.82	31.50	97.50
Donations to the MCS	05.09	03.18	00.00	10.00
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Effort Task 1 (ability)	38.04	06.97	27.00	50.00
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Age	21.17	02.17	19.00	27.00
Gender (male=1)	00.39	00.50	00.00	01.00

**Treatment 3 – 23 Observations**

Total Funds Generated (TFG)	64.91	14.45	35.00	89.50
Donations to the MCS	05.13	03.72	00.00	10.00
Donations to the KSF	04.26	03.74	00.00	10.00
Effort Task 1 (ability)	35.78	11.55	13.00	72.00
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Effort Task 3 (fund raising)	37.13	07.84	23.00	50.00
Age	23.13	06.89	19.00	50.00
Gender (male=1)	00.48	00.51	00.00	01.00

Source: Author preparation by the analysis from STATA statistical software

**Annexure 5: Model Fitness Statistics**

Test for the Model Fitness	Fitness Index (Treatment 1)	Fitness Index (Treatment 2)	Fitness Index (Treatment 3)
F-Statistic	341.84***	96.14***	36.68***
R-Squared	0.9923	0.9730	0.9322
Adjusted R-Squared	0.9894	0.9629	0.9068

Note: \*\*\* Means significance of coefficients under 99% of confidence level. \*\* for 95% and \* for 90 % respectively

Source: Author preparation by the analysis from STATA statistical software

**Annexure 6: Regression Output**

**Dependent Variable:** Total funds generated at the experiment

Subject	Treatment 1	Treatment 2	Treatment 3
Donations to the MCS	0.9087*** (0.1632)	1.4767*** (0.3267)	0.5879 (0.3439)
Donations to the KSF	0.7382*** (0.1718)	1.0675*** (0.2815)	0.8140** (0.3575)
Effort Task 2 (fundraising)	1.0440*** (0.1011)	0.6577*** (0.1286)	0.7765*** (0.2029)
Effort Task 3 (fundraising)	0.5540*** (0.1045)	0.3722*** (0.1140)	0.7535*** (0.2281)
Age	0.0116 (0.0718)	-0.2663 (0.3723)	-0.0270 (0.1505)
Gender (male=1)	-0.9352 (0.9377)	1.0047 (0.4779)	0.8790 (1.9210)
Constant	-3.0972 (0.9377)	20.5148** (8.6660)	1.0480 (6.9748)

Note: Standard errors in parentheses, and \*\*\* means significance of coefficients under 99% of confidence level. \*\* for 95% and \* for 90 % respectively

Source: Author preparation by the analysis from STATA statistical software



# Empowering Green Innovations through Green Transformational Leadership

**B.T.D.N. Senarath and R.A. Bartholomeusz**

*Department of Operations Management, Faculty of Management, University of Peradeniya, Sri Lanka  
dinukshi@mgt.pdn.ac.lk*

*Department of Human Resource Management, Faculty of Management, University of Peradeniya, Sri Lanka  
rochelle@mgt.pdn.ac.lk*

## 1. Introduction

In the past few decades, ecological practices in the hotel sector have been increasingly attractive as a business strategy. Hoteliers eagerly introduced innovative products and services to the economy to create a better green future, but, with the COVID-19 outbreak, such green concepts and practices disappeared as hotels were notably impacted by the pandemic and were inactive for a long time. In the Sri Lankan context, hotels are one of the first sectors affected by COVID-19 and mostly the last sector to recover. With this prevailing situation, hoteliers realized that they should not invest further in infrastructure or research and development as they cannot guarantee favorable revenue (Andrews, 2021). However, the hotel sector is still under pressure as they have been continuously forced to stay ahead with the emerging environmental trends and issues. Most of the hotels that contribute to the Sri Lankan economy have already degraded and the country's ecological resources depleted to a greater extent. However, Moramudali and Manawadu (2018) highlighted that greening is no longer a novel notion for hoteliers due to the overwhelming demand from key stakeholders, including government and non-government entities, to align its operations with sustainable practices. Since the hotel sector of Sri Lanka has been acknowledged as a prominent revenue-generating source to the nation, the discussion on managing the ecological aspects within the industry plays a crucial role in this regard.

Unlike before, the perception of modern customers is changing drastically where

local and international travelers become more environmentally conscious (Nuskiya et al., 2020). Based on the newest trends, an increasing number of travelers are opting for an environmentally friendly trip. With this scenario, travelers have been inspired to give more priority to eco-friendly hotels. On the other hand, even the hoteliers have recognized the favorable outcomes of going green such as conserving water, energy, and soil. Though green initiatives are being implemented in hotels worldwide, they are still not popular in the Sri Lankan context (Nuskiya et al., 2020). According to Choi et al. (2016), green innovations can be defined as a type of innovation that helps to minimize the environmental impact while protecting biodiversity. In other words, green innovations can be defined as the “innovations that consist of new or modified processes, practices, systems and products which benefit the environment and contribute to environmental sustainability (Oltra & Jean, 2009, p. 567). However, going green is challenging and cannot be done overnight. Hence, it is required to determine suitable strategies to inspire and nurture green innovations within and among hotels (Janszen & Janszen, 2000).

Along with this notion, Zheng et al. (2019) found that leadership is indispensable in facilitating and motivating organizations to be innovative. However, particularly Choi et al. (2016) found that transformational leaders are more effective and prominent in driving organizations towards green innovations because it needs to happen only through inspiration and not by force. Such transformational leaders are willing to persuade their followers to meet and exceed environmental goals and objectives (Chen & Chang, 2013). Probably green transformational leaders can motivate employees through environmental vision, environmental plans, green ideas, and green practices. Thus, there are promising avenues for green transformational leaders to become effective in green innovations. According to Chen & Chang (2013, p. 113), “the leaders who motivate followers to achieve environmental goals and inspire followers to perform beyond expected levels of environmental performance” is known as green transformational leadership. Though, Robertson (2018) has stated that the four dimensions of transformational leadership such as idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration could be used successfully to measure green transformational leadership it has not been properly measured and validated yet.

Even Khalili (2016) declared that green transformational leadership is ideal in fostering behaviors that would uplift green innovations in the corporate world compared to other leadership styles. Though there are plenty of studies on leadership and green innovations worldwide, there is a scant number of evidence exploring the effect of green transformational leadership on green innovations and in relation to the hotel sector. Thus, the study will immensely contribute to bridge

this research gap.

The Resource Based View explains that a firm's internal environment on the basis of resources and capabilities is more critical to the determination of strategic action than its external environment (Barney J, 1990). Green concepts within an organization will lead to enhance the competitive advantage (Russell and Johl, 2019). On the hand, Innovation activities and performance are arising in terms of resources and capabilities. (Dosi,1988). Thus, the present study adopts the Resource Based View as the grounded theory to investigate the impact of Green transformational leadership on green innovations.

### **Objectives**

To investigate the significant impact of green transformational leadership on green innovations

To investigate the significant impact of green transformational leadership on green product innovations

To investigate the significant impact of green transformational leadership on green process innovations

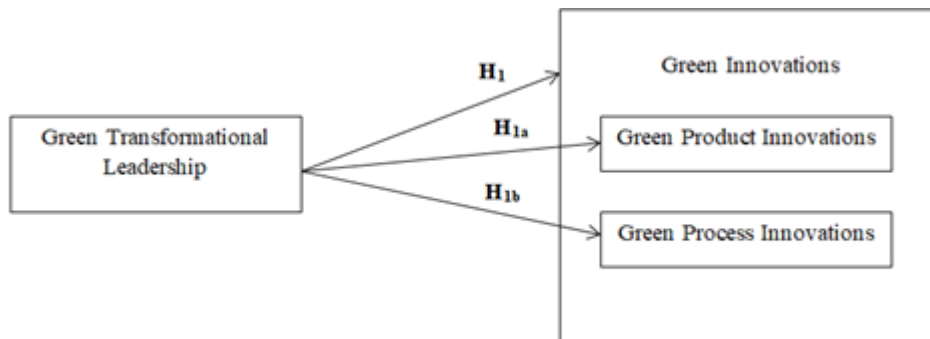
### **Hypotheses**

**H1:**Green transformational leadership significantly impacts green innovations

**H1<sub>a</sub>:** Green transformational leadership significantly impacts green product innovations

**H1<sub>b</sub>:** Green transformational leadership significantly impacts green process innovations

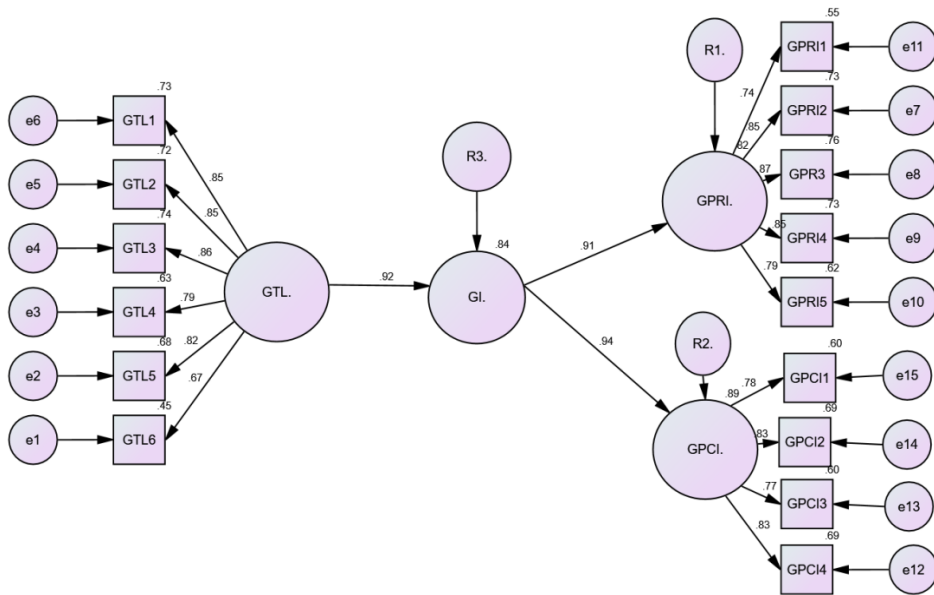
## 2. Methods



The methodology of the study was based on the research onion model developed by Saunders et al. (2007). The philosophy, research approach, research strategy, choice, and time horizon of the study were positivism, deductive, survey, mono method, and cross-sectional. Researchers utilized the convenience sampling technique and obtained responses from 172 non-managerial level employees in the Sri Lankan hotel sector. In order to execute the survey strategy, researchers prepared a standard questionnaire with five point Likert scale using 6 items of green transformational leadership developed by Chen and Chan (2014) and 9 items of green innovations with 2 dimensions, namely, green product innovations and green process innovations developed by Chiou et al., (2011). The current study used structural modeling equation (SEM) as the analysis technique because it utilizes a confirmatory rather than an exploratory data analysis, which helps it to fit with hypothesis testing. It can provide explicit estimates of error variance parameters. It can handle measurement error problems much better than traditional multivariate procedures. Moreover, it can analyze both observed and unobserved measurements while the traditional method can only analyze observed measurements.

## 3. Data Analysis and Results

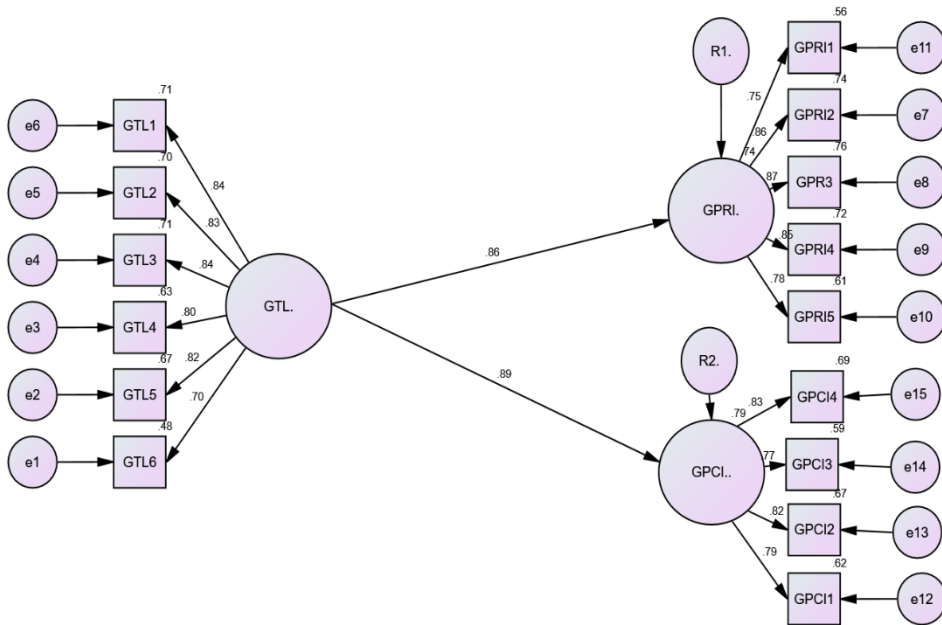
The following structural model (figure 6) examines the direct relationship between green transformational leadership (GTL) and green innovation (GI)



Minimum was achieved  
 Chi-square = 426.046  
 Degrees of freedom = 87  
 Probability level = .000

**Figure 2:** The path diagram of the relationship between GTL and GI

The direct relationship between green transformational leadership (GTL) and green product innovation (GPRI) and green process innovation (GPCI) is shown



in Figure 3.

Minimum was achieved  
 Chi-square = 441.624  
 Degrees of freedom = 88  
 Probability level = .000



**Figure 3:** The path diagram of the relationship between GTL and GPRI, GPCI  
 →

**Table 1:** Summary of the Findings

Path →	Hypothesis	Standardized Coefficient	p-value	Result
GTL GI	H1: Green transformation leadership significantly impacts green innovations	0.920	0.000**	Accept
GTL GPRI	H1 <sub>a</sub> : Green transformation leadership significantly impacts green product innovations	0.860	0.000**	Accept
GTL GPCI	H1 <sub>b</sub> : Green transformation leadership significantly impacts green process innovations	0.890	0.000**	Accept

#### 4. Discussion

The study aimed to investigate the significant impact of green transformational leadership on green innovations. Researchers discovered that green transformational leadership impacts 92% on green innovations (p= 0.000). Indeed, higher adoption of green transformational leadership would encourage green innovations in the hotel sector. Moreover, the results suggested that green transformational leadership has 86% impact on the green product innovations (p= 0.000) and 88% impact on the green process innovations (p=0.000). However, it was evident that the impact of green transformational leadership on the green process innovations was higher

than green product innovations in the hotel sector of Sri Lanka. One of the main reasons for this finding would be hotels are belonging to the service sector category and might be focusing more on the development of processes than the products within the industry. Since all the study hypotheses were accepted, it proved that the Sri Lankan hotel sector can enhance the level of green innovations in terms of green product innovations and green process innovations by strengthening the green transformational leadership at the workplace.

The findings of the present study are consistent with most of the previous studies. For instance, Mital and Dhar (2016) found a positive relationship between the green transformational leadership and green innovations in the tourism sector in India. Similarly, Che and Chan (2013) identified that green transformational leadership can effectively support the organization and its subordinates to uplift green job behaviors, green passion and, green innovations in the electronic industry. Andriopolous and Lewis (2010) and Ahmed et al. (2020) also proved that green transformational leadership can promote green innovations in product designing and pharmaceutical industries respectively. Further, innovations would enhance the environmental performance of Small and Medium Enterprises.

## 5. Conclusion

The study focused on two significant concepts: green transformational leadership and green innovations. Here researchers found that, green transformation leadership significantly impacts green innovations in the Sri Lankan hotel sector and as a percentage, it was 92%. Green transformation leadership significantly impacts green product innovations in the Sri Lankan hotel sector and as a percentage, it was 86%. Green transformation leadership significantly impacts green process innovations in the Sri Lankan hotel sector and as a percentage, it was 88%. However, the impact of green transformational leadership in green process innovation was higher than green product innovations in the Sri Lankan hotel sector. Hence, all three hypotheses of the study were accepted.

## 6. Implications

The findings of the present study has forwarded several implications for practice. Green transformational leaders have a great deal of potential to influence employees and in nurturing the desired behaviors. Initially, green transformational leaders need to walk the green talk. Though going green is no more a new concept, there can be green transformational leaders like mushrooms all over the organization.



However, most of those leaders failed to walk the green talk. Initially, the leader needs to cultivate a positive mindset and a true purpose for his or her green attitude and behavior. At the same time, need to be aware of greenwashing, which means leaders should not try to build false impressions or misleading information that their organization probably the products, processes or services are environmentally friendly. Leaders need to be role models. Hence, it is vital to initiate a green competence across the top leadership to inspire green behaviors among the employees. Moreover, it is necessary to create programs to reward and recognize outstanding efforts of leaders in fulfilling innovative strategies to improve the hotel's environmental sustainability. Further, transformational leaders need to be educated on green-collar jobs and green careers at the workplace.

## 7. Limitations

Although this research has significant contributions from both theoretical and practical points of view, it also has some limitations. Some reluctance was experienced from certain respondents in disclosing information related to green transformational leadership arising from the fear of being reprimanded by the managers in the respective hotel. Since it was a quantitative study, respondents received only limited options, and those options were based on the selections made by the researcher. It would be much beneficial if researchers could obtain qualitative data as well. On the other hand, data for this study were gathered only at one particular time. Hence, researchers could not examine the progress of developing green innovations before and after nurturing green transformational leaders. Further, Researchers did not use any moderating or mediating variable when analyzing the impact of green transformational leadership on green innovations.

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# **Escalate Student's Satisfaction through E-Learning Readiness: A Study in State Universities in Sri Lanka**

**Y.Y. Senevirathne<sup>1</sup>, K.A.D.T.D. Kuruppu<sup>2</sup> and H.M.R.D. Kularathne<sup>3</sup>**

*<sup>1</sup>Department of Management Studies, Faculty of Management,  
University of Peradeniya, Sri Lanka  
yashodhas@mgt.pdn.ac.lk*

*<sup>2</sup>Department of Management Studies, Faculty of Management,  
University of Peradeniya, Sri Lanka  
tharukak@mgt.pdn.ac.lk*

*<sup>3</sup>Department of Human Resource Management, Faculty of Management,  
University of Peradeniya, Sri Lanka  
rasanjaliiek555@gmail.com*

## **Abstract**

COVID-19 is an invisible enemy for any sector and it is the same for the higher education sector as well. Due to the inability of physical participation, e-learning or online learning has become a powerful technique to achieve the strategic objectives of colleges and universities. The mode of teaching or delivering lectures and the students satisfaction is having a close relationship. Most scholars have found the link between e-learning readiness and undergraduates' satisfaction in various contexts. Most of them have identified the E-learning readiness in five main categories;

Self-competence, Self-directed learning, Motivation toward e- learning, Financial ability, and Perceived usefulness. Research on the relationship between e- learning readiness and undergraduate's satisfaction to learn is scant with mixed findings in different contexts. To fill up the empirical gap in the current literature in the Sri Lankan context, this study is aimed to examine the impact of e-learning

readiness on student satisfaction in state universities in Sri Lanka. Therefore, a quantitative study has been conducted for a sample of 317 undergraduates who learn management degree programs in Sri Lankan State Universities. They were selected randomly and a structured questionnaire was distributed among them. Data analysis was done by using descriptive statistics, correlation analysis, and regression analysis through SPSS 20. According to the findings of the study, three main e-learning readiness dimensions namely; self-competence, motivation for E-Learning, and financial ability have a significant impact on student satisfaction in State Universities. These findings are consistent with previous studies and emphasize the need of creating a collaborative learning environment for students to learn and flourish in the setting of E-Learning.

**Keywords:** E-learning readiness, Student's satisfaction, State universities, Sri Lanka

## 1. Introduction

With the radical shift of education due to the COVID-19 pandemic, e-learning or online learning has become a powerful technique to achieve the strategic objectives of colleges and universities. Education is empowered by technology thereby the way of learning has been changed over the years. Most of the students are likely to use mobile phones, tabs, laptops, notebooks, and many other tools to acquire knowledge.

Gradually, the traditional way of learning has been reduced and students are becoming more interested in learning quickly and easily by using technology. With the Covid-19 pandemic situation, it has been increasing fast. More students and Higher Education Institutions are moving towards online learning and teaching and making virtual classrooms due to the inability of physical participation. Education is no exception; thus educators are utilizing various online tools as a contingency against these obstacles. The need for innovative methods of teaching, learning, and assessment is critical. It has created many opportunities for e-learning.

The Sri Lankan higher education sector is also paying far more importance to this emerging e-learning platform and almost all the National Universities are adhering to this 'online' method due to the unavailability of another option. On the other hand, increasing the students' satisfaction is one of the biggest challenges in higher education today with this e-learning platform. When it comes to the Sri Lankan higher educational sector, there can be a heavy discussion on online education and student satisfaction due to the pandemic situation. Researches on the relationship between e-learning readiness and student's satisfaction to learn

are lacking with limited scholar investigations. To fill up the empirical gap in the current literature in the Sri Lankan context, the study is focused to find the extent to which e-learning readiness increases student's satisfaction to learn in state universities in Sri Lanka.

## 2. Objectives

**Main Objective:** To examine the impact of e-learning readiness on state university students' satisfaction in Sri Lanka.

### Sub objectives:

1. To examine the impact of self-competence on student's satisfaction.
2. To examine the impact of self-directed learning on student's satisfaction.
3. To examine the impact of motivation toward e-learning on student's satisfaction
4. To examine the impact of financial ability on student's satisfaction.
5. To examine the impact of perceived usefulness on e-learning readiness on student's satisfaction.

### Research Questions

**Main Research Question:** Is there any impact of e-learning readiness on state university students' satisfaction in Sri Lanka?

### Sub Research Questions:

1. What is the impact of self-competence on student's satisfaction?
2. What is the impact of self-directed learning on student's satisfaction?
3. What is the impact of motivation toward e-learning on student's satisfaction?
4. What is the impact of financial ability on student's satisfaction?
5. What is the impact of perceived usefulness on e-learning readiness on student' satisfaction?

### 3. Literature Review

#### E-learning Readiness

E-learning can be expressed as a learning mechanism through electronic tools or technology, instead of using traditional teaching materials (Ali et al., 2018). The term “readiness” has been defined as the level of development at which an individual is prepared to learn on a particular piece of hardware (Brown, 2002). Universities and undergraduates have to be ready to adopt e learning and benefit from its advantages with this pandemic situation. Such e-learning readiness can be defined as “how ready the learner is on several aspects to accept e-learning” (Schreurs et al., 2008). It includes self-competence, self-directed learning, motivation, financial, and usefulness (Alem et al., 2016).

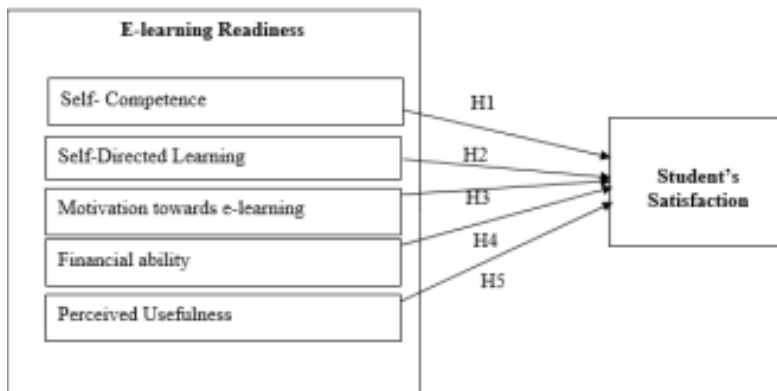
*Self-competence* is defined as the evaluation of one's capacity to apply skills in the usage of any computer tool, rather than only their acquisition. Before enrolling in online courses, some authors have emphasized the necessity of having a specific level of technical computer abilities. *Self-directed learning* is viewed as an educational approach in which learners rely heavily on planning. According to some academics, learning needs a significant amount of autonomy and self-direction, and online students have a significant duty to control and evaluate their academic progress. *Motivation* has been highlighted as a key element influencing learning in the realm of education. It is said to have psychological benefits that motivate students to learn. Maintaining learners' pleasure in an online learning environment depends heavily on motivation. The students' *financial* struggles have grown to be a significant influence in their ability to complete their online courses. Additionally, it emphasizes that a major deterrent for many students from enrolling in distance education programs is cost. The degree to which a person thinks employing a specific system would improve his performance at work is known as *perceived usefulness*. In this study, perceived usefulness refers to the advantages of utilizing e-learning, such as time and money savings. However, e-learning requires successful participation in e-learning not only for learners but also for instructors and Universities (Schreurs et al., 2008). Looking at the literature, it can be seen that e-learning preparation consists of factors such as self-efficacy, Internet self-efficacy, online communication self-efficacy, self-learning, learner control, and motivation for e-learning.

#### Students' satisfaction

Generally, student satisfaction can be defined as the satisfaction and happiness of students in all aspects of the services they receive (Yilmaz 2017; Filgona et al.,

2020). Sweeney and Ingram (2001) defined satisfaction in research on student satisfaction in a traditional learning environment that includes online elements as a perception of enjoyment and achievement in a learning environment. Wu et al. (2010) define satisfaction as “a synthesis of student behavioral beliefs and attitudes that is displayed as a result of students summing up all the benefits they receive using a mixed system.” Kuo et al., (2014) have studied online e-learning through learners’ Internet self-efficacy, self-adjusting learning, learner learning interactions, learner instructor interactions, and learning content. Liaw and Huang (2013) found that satisfaction was associated with a learning environment of self-efficacy, anxiety, and interaction.

### Conceptual Framework



Source: Authors Developed

## 4. Methodology

The main objective of this study was to examine the impact of e-learning readiness on student's satisfaction in state universities in Sri Lanka. Hence, this study is quantitative. The population of the study consists of 19000 undergraduates who learn management degree programs in Sri Lankan state universities and the sample size was 317. The stratified random sampling technique was selected as the sampling technique. This research uses the positivism research philosophy where it asserts that an objective understanding of the social world is possible. This research study employs the deductive research methodology, in which the researcher analyses existing theories of the topic being studied, studies what others have done, and then evaluates hypotheses that result from those ideas. The methodological approach used in this study, is monomethod quantitative., which



mostly discusses quantitative data. When conducting a cross-sectional study, the researcher gathers information from a wide range of people all at once.

A structured questionnaire was used to gather data having two sections. The first section is to gather demographic variables including age, gender, university, province, income, whether the student possesses a computer and whether the student has experience with web-based education. The second section is designed to measure the study variables: E-learning readiness and student's satisfaction to learn. The questionnaire was distributed among the sample of 317 however 198 questionnaires were received completely and 85 were not received by the researcher while 34 were not fully responded. The response rate was 62%. E-learning was measured through the scale developed by Alem et al., (2016), which has 17 items under five dimensions namely self-competence (Items 1, 2 and 3), self-directed learning (Items 7, 8, 9, 10, and 11), motivation toward e-learning (Items 12, 13 and 14), Financial ability (Items 15, 16 and 17) perceived usefulness (Items 4, 5 and 6). Student's Satisfaction was measured through the scale developed by Eryilmaz (2012), which has 42 items in one factor. Reliability of the measuring scales was recorded as 0.891, 0.841, 0.781, 0.904, 0.821 and 0.815 for self-competence, self-directed learning, motivation toward e-learning, financial ability, and perceived usefulness respectively (Table 03).

## 5. Presentation of results

**Table 01:** Demographic Analysis

Demographics	Categories	N	%
Age	18-20	20	10.10
	21-23	104	52.52
	24-26	50	25.25
	Above 26	24	12.12
	<b>Total</b>	<b>198</b>	<b>100.0</b>
Gender	Male	66	33.33
	Female	132	66.66
	<b>Total</b>	<b>198</b>	<b>100.0</b>

University	University of Colombo	18	9.09
	University of Kelaniya	10	5.05
	University of Moratuwa	18	9.09
	Open University of Sri Lanka	6	3.03
	University of Peradeniya	36	18.18
	Rajarata University of Sri Lanka	42	21.21
	University of Ruhuna	14	7.07
	University of Sri Jayewardenepura	17	8.58
	University of Wayamba	17	8.58
	Uva Wellassa University	20	10.10
	<b>Total</b>	<b>198</b>	<b>100.0</b>
Province	Central	22	11.11
	Eastern	18	9.09
	North Central	11	5.55
	North Western	16	8.08
	Northern	20	10.10
	Sabaragamuwa	11	5.55
	Southern	17	8.58
	Uva	25	12.62
	Western	58	29.29
	<b>Total</b>	<b>198</b>	<b>100.0</b>
Income	Less than Rs10,000	27	13.63
	Rs 11,000 to Rs 25,000	48	24.24
	Rs 26,000 to Rs 35,000	29	12.12
	Rs 36,000 to Rs 50,000	44	22.22
	More than Rs 50,000	38	19.19
	Missing	12	6.06

	<b>Total</b>	<b>198</b>	<b>100.0</b>
Whether student possess a computer	Yes	119	60.10
	No	79	39.89
	<b>Total</b>	<b>198</b>	<b>100.0</b>
Whether student has experience on web based education	Yes	112	56.56
	No	86	43.43
	<b>Total</b>	<b>198</b>	<b>100.0</b>

Demographic profile of the sample is shown in table 01 and it shows that the majority of the sample is in the 21-23 age category. In terms of the gender, the sample consisted of 66% females representing the majority and 33 males representing the minority. As the majority, 21%, 18% and 10% responses were received from the Rajarata University of Sri Lanka, University of Peradeniya and Uwa Wellassa University respectively. In terms of province, the majority of respondents were from Western provinces as 58% while the minority from Eastern and Sabaragamuwa provinces as 11%. Income levels of all respondents were in between Less than Rs 10,000 to more than Rs. 50,000. Around 60% of students possess a computer to learn digitally while around 40% do not. Further, 57% of students had experiences in web-based education while 86% were not experienced.

**Table 02:** Test of Normality

Item	Kolmogorov-Smirnov	Sig	Result
Self-Competence (SC)	.897	0.785	Follows a normal distribution  *p>.05
Perceived usefulness (PU)	.697	0.851	
Self-directed learning (SDL)	1.6978	0.698	
Motivation towards e-learning (MO)	1.879	0.097	
Financial (FN)	1.697	0.501	
Satisfaction (ST)	1.968	0.987	

The normal distribution of the data of the study was tested by using the Kolmogorov-Smirnov test. Table 02 shows that all the significant values were greater than 0.05 thereby it can be concluded that the data of the study was normally distributed.

**Table 03:** Test of Reliability

Variables	Cronbach's Alpha
E-learning Readiness (Independent Variable)	
Self-competence	0.891
Self-directed learning	0.841
Motivation toward e-learning	0.781
Financial ability	0.904
Perceived usefulness	0.821
Student's Satisfaction (Dependent Variable)	0.815

The Cronbach's Alpha values of self-competence, self-directed learning, motivation toward e learning, financial ability, perceived usefulness and student's satisfaction were 0.891, 0.841, 0.781, 0.904, 0.821, and 0.815 respectively (greater than 0.7) thereby it can be stated that all the measuring instruments of this study is reliable.

**Table 04:** Descriptive Statistics: E-Learning Readiness and Undergraduate Motivation

	Mean	Std. Deviation	Skewness	Kurtosis
E-learning Readiness (Independent Variable)				
Self-competence	3.01	1.220	.079	-1.055
Self-directed learning	3.47	1.304	.449	-.702
Motivation toward e-learning	3.21	1.214	.069	-.931
Financial ability	2.88	1.232	.454	-1.06
Perceived usefulness	3.02	1.213	-.089	-1.032

Student's Satisfaction (Dependent Variable)	2.81	1.220	-.449	.935
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As per the Table 04, mean values of self-competence, self-directed learning, motivation toward e-learning, financial ability, perceived usefulness and student's satisfaction were 3.01, 3.47, 3.21, 2.88, 3.02 and 2.81 respectively while standard deviation values were 1.220, 1.304, 1.214, 1.232, 1.213 and 1.220 respectively. The skewness of all variables were closer to zero (0) thereby it can be predicted that this study followed a normal data distribution.

**Table 05:** Multiple Regression Analysis – Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
01	(Constant)	6.783	1.937		3.501	.001		
	Self-competence	.214	.182	.079	1.175	.000	.567	1.764
	Self-directed learning	.795	.128	.414	6.202	.242	.572	1.749
	Motivation toward e-learning	.535	.097	.353	5.526	.000	.624	1.602
	Financial ability	.277	.160	.117	1.731	.044	.558	1.793
	Perceived usefulness	.365	.150	.113	1.742	.086	.653	1.742
Dependent Variable: Student's Satisfaction								

Table 05 presented the beta coefficient values of the multiple regression analysis. Beta coefficient values of competence, self-directed learning, motivation toward e-learning, financial ability, perceived usefulness were .214, .795, .535, .277, and .365 with significant values of .000, .242, .000, .044, and .086 respectively. The significant values of competence, motivation toward e-learning, and financial ability were less than 0.05 thereby they make an impact on student’s satisfaction. Since the significant values of self-directed learning and perceived usefulness were greater than 0.05, it can be stated that self-directed learning and perceived usefulness have no impact on student’s satisfaction.

**Table 06:** Model Summary

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.797 <sup>a</sup>	.636	.626	4.52921
Predictors: (Constant), Self-Competence, Self-directed Learning, Motivation toward a. e-learning, Financial ability, Perceived Usefulness				

Table 06 explains the overall model summary of the study. The R square value of the study is 0.636, it can be stated that 63% of a student’s satisfaction can be explained by self-competence, self-directed learning, motivation toward e-learning, financial ability, perceived usefulness. The rest of the student’s satisfaction which means 37% cannot be explained by this model.

**Table 07:** Hypothesis Testing Summary

Hypothesis	Multiple Regression Analysis		
H1: There is an impact of self-competence on student's satisfaction.	.214	.000	Fail to reject
H2: There is an impact of self-directed learning on student's satisfaction	.795	.242	Reject
H3: There is an impact of motivation towards e-learning on student's satisfaction	.535	.000	Fail to reject
H4: There is an impact of financial difficulties on student's satisfaction	.277	.044	Fail to reject
H5: There is an impact of perceived usefulness on e-learning readiness on student's satisfaction	.365	.086	Reject

Hypotheses testing results were presented in Table 07 and it showed that three hypotheses (H1, H3 and H4) were accepted while two hypotheses (H2 and H5) were rejected.

## 6. Discussion

As per table 02, data were approximately normally distributed, and considering the mean values, all the independent study variables were in moderate mean values in the five-point Likert scale and dependent study variables were in moderate mean values in the Seven-point Likert scale. With the  $R^2$  value of 0.636, it can be said that 63% of the student's satisfaction can be explained by e-learning readiness (Table 07). As per the coefficients table, student satisfaction can be enhanced by

self-competence, motivation toward e-learning, and financial ability and thereby H1, H3 and H4 accepted. There was no impact of Self-motivated learning and perceived usefulness on student satisfaction since the p-value was greater than 5% confidence level and thereby H2 and H5 were failed to accept.

This section underlines the consistency or inconsistency of the study findings with the existent literature on this subject. Does this study deliberate whether e-learning readiness determines student satisfaction? According to the findings, if undergraduates are well-equipped with effective financial support they will be better able to inculcate a productive e-learning culture. Aside from financial support, student's self-competence and motivation to E-learning should be established to aid their e-learning readiness. This finding is also in line with Schaer et al's (2006) findings, which emphasized the need of providing a strong platform for learners to adopt e-learning practices. Following the outbreak of the COVID-19 pandemic, every university began to expand its usage of e-learning activities. Because e-learning is a fresh experience for students, they will want assistance and guidance from that point onwards to enhance their learning culture within this new platform. This generation is known as e-learning 2.0, according to Ehlers (2009), since it incorporates many of the aspects of Web 2.0 and requires a collaborative platform to learn and grow. Further research revealed that their satisfaction with web-based education increased their readiness to engage with e-learning initiatives effectively. Students with high satisfaction to learn how things should be done through online work platforms are more productive in class than students with no satisfaction in that context (Yilmaz, 2017).

## **7. Implications and future research directions**

Hence self-competence, motivation toward e-learning, and the financial ability of the student make an impact on the motivation of the student, several Implications for state universities in Sri Lanka can be drawn based on study findings. The first implication is to enhance the undergraduates' satisfaction through self-competence, motivation toward e-learning, and the financial ability of the student to make ready the student for e-learning. Secondly, several student training programs can be designed to enhance the technical and computer literacy of students concerning e-learning requirements thereby their motivation to study can be improved. Further, since the financial ability of the student influences the level of the satisfaction of the student, universities can offer loan facilities for students who have no smartphone or a laptop to access online learning. Implications for undergraduates of state universities in Sri Lanka can bring insights from this study.



Future researchers are encouraged to conduct a factor analysis of e-learning readiness since five factors were related to student's satisfaction; however, two were not influencing student's satisfaction in this study. Besides, this study's responses did not include responses from some state universities thereby the findings of this study can be confusing at the generalization stage. Therefore, more empirical studies in e-learning readiness and student's satisfaction are encouraged to undertake. At the same time, the research is only focusing on the quantitative aspect of the results which can be seen as another limitation. So, future researchers are encouraged to use the qualitative methodology as well.

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