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Does work and family support moderate the relationship between work family interference and job satisfaction?

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Abstract

Of late, economic and business globalization incubates work family issues increasingly important not only in developed but also developing country. This study investigated the moderating effect of supervisor and family support between work family conflict (work to family conflict and family to work conflict) and job satisfaction. Using a simple random sampling, 127 employees working in a banking organization were selected and the relevant data were garnered with the aid of self-administrated questionnaire. Results indicated that work to family conflict and family to work conflict was significantly, negatively related to job satisfaction. Result further revealed that the family support moderated the family to work conflict and job satisfaction. Contrary to expectation, supervisor support did not moderate the relationship between work family conflict and job satisfaction. Implications for research and practice, and the limitations of the present study are discussed.

Keywords: *Family support, family to work conflict, job satisfaction, supervisor support, work to family conflict.*

1. Introduction

The issue of work family conflict has received a great attention of late. Both work and family domains are overriding aspects in the life of the people. Albeit human beings are well-nigh stuck to family structure, they hinge on work as it is the source for generating income that would necessary for the family functioning. In the contemporary world, employees are performing a multi-role in their day to day life (Livingston & Burley, 1991). As the difficult move to a more equal distribution between work and family roles execution, conflict between these two roles has become a striking concern for the organizations and individuals. The multi-roles performed by individuals in society today can become overwhelming and result in work family conflict. The issue of work family conflict has been considered as a particular concern for today's businesses (Grandey, Cordeiro, & Crouter, 2005).

The work family conflict research typically focuses on the difficulties employees have in balancing their work and family responsibilities (Adams, King, & King, 1996). The subject of how work/family balance can be achieved and enhanced has received significant consideration from academics, employers, workers, politicians and the media (Hudson, 2005). The possible outcomes of work family conflict can be classified into physical outcomes (e.g. poor appetite, headache, stomach upset, fatigue), psychological outcomes (e.g. depression, marital satisfaction and life satisfaction), behavioral outcomes (e.g. heavy drinking, cigarette use, anger), and work related outcomes (e.g. job satisfaction, absenteeism, tardiness and poor work-related role performance) (Greenhaus & Beutell, 1985; Frone et al., 1997, Kossek & Ozeki, 1998). For example, individuals who report higher levels of work family conflict also report lower levels of general well-being (Aryee, 1992; Frone et al., 1992; Thomas & Ganster, 1995), lower levels of job satisfaction (Adams et al., 1996; Jayaweera, 2005; Grandey et al., 2005; Jayaweera, 2007); higher levels of burnout (Burke, 1988), and more alcohol use and poorer health (Frone et al., 1997) compared to individuals who report lower levels of work family conflict. Researchers have also shown that individuals who report more work family conflict are more likely to have lower performance and leave the organization (e.g., Kossek & Ozeki, 1998) compared to their peers reporting less conflict. Therefore, it is obvious that work family conflict plays as a deleterious factor against the success and survival of the organizations. Thus, this study has become most crucial study to take necessary steps to measure and balance the existing level of work family conflict, and to understand role of family support and supervisor support.

Work family conflict and job satisfaction becomes an increasing important concern for organizations when focusing on the issue of developing managers in the changing global and regional scenario in Sri Lanka (Jayaweera, 2005). This study extends the previous research by examining the unique effects of work to family conflict and family to work conflict on job satisfaction by moderating effect of supervisor support and family support. In the present study, supervisor support and family support were examined as a potential moderator of the relationship between work family conflict (work to family conflict and family to work conflict) and job satisfaction. Empirical evidence suggests that supervisor support and family support moderate the relationships between interrole conflict stressors and strain symptoms such that the stress-strain relationship is lower under conditions of high versus low supervisor support (Aryee, Luk, Leung, & Lo, 1999). Consequently, the objective of the study was designed to examine moderators of perceived supervisor support and family support on the relationship between work family conflict and job satisfaction

2. Conceptual background

Greenhaus and Beutell (1985) defined work family conflict (WFC) as “a form of interrole conflict in which the role pressures from the work and family domains are mutually incompatible in some respects” (p.77). Lobel (1991) defined work family conflict as “a condition that arises when participation in either role (work and non-work) is incompatible with participation in the other role” (p.509). In another way, it has been defined as “simultaneous occurrence of two (or more) sets of pressures such that compliance with one would make more difficult compliance with the other” (Kahn et al., 1964, p.19). Role theory proposes that organizations (e.g., work or family) may be

viewed as a rolesystem where the relationships between people are maintained by expectations that have been developed by roles. According to role theory, work role may interfere with family role or family role may interfere with work role. In the context of the interference between work and family, the two competing demands are generated from the work and family domains. These demands are called work and family demands. On the basis of these demands, work family conflict forms three types of conflict (Greenhaus, & Beutell, 1985; Haines et al., 2013; Allen et al., 2013).

Greenhaus and Beutell (1985) distinguished three forms of work family conflict: time-based conflict, strain-based conflict, and behavior-based conflict. All three forms are formulated based on the role theory, which conceptualizes conflicts as reflecting incompatible demands on the person, either within a single role or between multiple roles occupied by the individual (Carlson et al., 2000).

Time-based conflict occurs because “time spent on activities within one role generally cannot be devoted to activities within another role” (Greenhaus & Beutell, 1985). Work family conflict based on time occurs when responsibilities in one domain are difficult to fulfill, because of the time spent in the other domain. A second form of work family conflict is *strain-based conflict*. Strain-based conflict occurs when strain from one role makes it difficult to perform in another role. For example, anxiety and fatigue caused by strain from one role will likely make it difficult to perform in another role. Strain-based work family conflict is when “roles are incompatible in the sense that the strain created by one makes it difficult to comply with the demands of another” (Greenhaus & Beutell, 1985). The third type of work family conflict defined by Greenhaus and Beutell (1985) is *behavior-based conflict*, in which “specific patterns of in role behaviors may be incompatible with expectations regarding behavior in another role”. This is likely to occur when one works in an environment where there are strict policies and procedures concerning how employees should behave like a very rigid office environment where communication and behavior are dictated by policies and procedures. Behavior-based conflict occurs when the employee continues to display the same unyielding communication patterns in the home with his/her children and family members.

Generally, these forms of conflict lead to two directions of work family conflict. They are confined to work to family conflict and family to work conflict. Work to family conflict is used to describe conflict that is perceived to originate in the work domain and family to work conflict is used to describe conflict that is perceived to originate in the family domain. Many researchers assert that both directions of work family conflict need to be examined to fully understand the work family interface (e.g., Anafarta, 2010; Gutek et al., 1991; Frone et al., 1992; Carlson et al., 2000). Therefore, the present study conceptualized work to family conflict (WFC) and family to work conflict (FWC) as two different constructs.

A crucial model for the study of work family conflict (work to family conflict and family to work conflict) has been derived by Carlson et al. (2000) and it represents entire theoretical constructs (Liu, Kwan, Lee, & Hui, 2013; Cowlshaw, Birch, McLennan, & Hayes, 2014). This is the six-dimensional model of conflict between work and family. In reviewing the work family conflict literature, Carlson and his colleagues found that less than half of the 25 studies conducted prior to 2000 distinguished between the two

directions of work family conflict. Three forms of conflict with two directions of conflict resulted in a six-dimensional model of work family conflict.

Table 1
Direction of Work family Conflict

| | <i>Work interference with family</i> | <i>Family interference with work</i> |
|-------------------------------|--------------------------------------|--|
| Forms of work family conflict | <i>Time</i> | Time-based work interfering with family |
| | <i>Strain</i> | Strain-based work interfering with family |
| | <i>Behaviour</i> | Behaviour-based work interfering with family |

Source: Six dimensional model of work family conflict adapted from Carlson et al. (2000).

Family support and work support: Family support occurs when family members help other family members. For example, support might be talking about work related problems and /or family related matters. Therefore, the quality of one’s relationship with a spouse has been found to be related to work family conflict. Burke (1988) found that spousal support was negatively associated with family to work conflict. Similarly, Grzywacz and Marks (2000) found that a low level of spousal disagreement was associated with less work to family conflict. Adams et al. (1996) found that the effects of family support were dependent on the direction of the conflict. Specifically, low levels of family support were related to high levels of work to family conflict and high levels of family support were related to lower levels of family to work conflict. Carlson and Perrewe (1999) found that family support was negatively associated with work family conflict. But in the recent researches, many researchers tried to find the moderator effect of family support on work family conflict and job satisfaction (e.g., Youngcourt, 2005). Some researchers did not found perceived family support moderate the relationships between work to family conflict and job satisfaction, or between family to work conflict and job satisfaction.

Supervisor support from work has been found to be negatively associated with work to family conflict (Carlson & Perrewe, 1999). These researchers argue that supervisor support be viewed as an antecedent to perceived stressors and suggest that individuals who acquire supervisor support systems at work perceive less work family conflict. According to these results, employees who experience high levels of perceived social support at the workplace from colleagues and supervisors will experience lower levels of interference between work and family domains. Frone et al. (1997) in their study of American employees found that work related support (i.e. supervisor support and co-worker support) was a strain-based predictor of work family conflict. Their findings were consistent with Adams et al. (1996). In other words, they found that employees with high levels of support at work will experience less work to family conflict and vice versa. Similar results were reported by Moen and Yu (2000).

The literature review has provided sufficient ideas to formulate the following hypotheses.

H₁: Work to family conflict is negatively related to job satisfaction.

H₂: Family to work conflict is negatively related to job satisfaction.

H₃: Supervisor support will moderate the relationship between work family conflict (work to family conflict and family to work conflict) and job satisfaction.

H₄: Family support will moderate the relationship between work family conflict (work to family conflict and family to work conflict) and job satisfaction.

3. Methods

3.1 Participants and procedure:

Participants were selected from banking sector in Jaffna district. A sampling frame, all employees, in the selected banks was created. Using a random sampling, self-administrated questionnaire to 150 employees was given. The number of potential participants (sample) for the research was decided based on the total number of employees available in each bank. The sample was consisted of 88 male (69.3%) and 39 female (30.7%) employees. Ages range from 20 to 58 with an average age of 35.45 years ($SD = 11.39$).

3.2 Instruments

Measuring work family conflict: Work family conflict questionnaire was developed by several researchers time to time (Burke, Weir, & DuWors, 1979; Pleck, Staines, & Lang, 1980; Bohan & Viveros-Long, 1981; Kopelman, Greenhaus, & Connolly, 1983; Wiley, 1987; Stephens & Sommer, 1996; Netemeyer, Boles, & McMurrian, 1996; Carlson et al., 2000). To date, only one measure (Carlson et al., 2000) has addressed thorough test of multidirectional/ dimensional nature of work/family conflict. Therefore, in this study, work family conflict was measured using Carlson et al.'s (2000) 18 items scale questionnaire. The scale consists of six subscales (3 items each), measuring time, strain, and behaviour based conflict for both work to family conflict and family to work conflict. Using a 5-point Likert scale, participants were asked to indicate the extent to which they agree or disagree with each item. The responses range from 1 (strongly disagree) to 5 strongly agree. An example of an item from the time based work to family conflict scale was, "The time I must devote to my job keeps me from participating equally in household responsibilities and activities" An example item from the time based family to work conflict scale was, "The time I spend on family responsibilities often interferes with my work responsibilities" In the current study, the Cronbach alpha for work to family conflict was 0.75 while alpha for the family to work conflict was .80.

Measuring job satisfaction: Job satisfaction was measured using five items originally developed by Brayfield and Rothe (1951) called as Job Satisfaction Inventory (JSI). Despite the age of this measure, it has still been used widely in recent literature, postgraduate dissertations (e.g., Wu & Short, 1996, Aryee et al., 1999). Further in 2006, Lambert and his colleagues also used Job Satisfaction Inventory questionnaire to measure job satisfaction in their survey of work family conflict on correctional staff. There are five questions were used to measure job satisfaction, one of them was reverse scored. Items were scored on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). An example is: "My job is like a hobby to me". In the current study, the Cronbach alpha for job satisfaction was 0.75.

Measuring supervisor support: Supervisor support was assessed using five items, originally developed by Eisenberger et al. (2001). It examines how much an employee’s supervisor values the contribution of and cares about the well being of his or her employees. Respondents reported on a 5-point scale, ranging from (1) strongly disagree to (5) strongly agree. An example is: “My supervisor really cares about the effects that work demands have on my personal and family life.” In the current study, the Cronbach alpha for supervisor support was 0.75.

Measuring Family support: Family support was measured with a scale designed by Baruch-Feldman et al. (2002) with four items. The Family Support Scale examines how much an individual perceives support from his or her family. Respondents reported on a 5-point scale, ranging from (1) strongly disagree to (5) strongly agree. Sample items include: “When something goes wrong at work, I can talk it over with my family”. In the current study, the Cronbach alpha for family support was 0.75.

4. Results and discussion

Participants were asked to describe level of work to family conflict. The reported mean score of 2.92 (*SD* =0.63), indicating that moderate level of work to family conflict. In the case of family to work conflict, mean response was 2.36 (*SD* =0.64), indicating low level of family to work conflict. Participants were also asked a series of questions about level of job satisfaction. The mean response was 3.99 (*SD*=0.67), indicating high level of satisfaction Results indicated that state bank employees were satisfied more than private bank employees (*M*=4.07>*M*=3.88). Mean value of perceived supervisor support was 3.63 (*SD*=0.67), showing high level of supervisor support. Participants were also reported high level of family support, yielding mean value of 3.97 (*SD*=0.71).

Relationship between work to family conflict and job satisfaction was found, negatively correlated which is significant at .01 significance level (*r* =-.33 *p*<0.01). It indicated that higher level of work to family conflict leads to lower level of job satisfaction. Result indicated that family to work conflict was also significantly, negatively related (*r* =-.42 *p*<0.01) to job satisfaction. It implies that higher level of family to work conflict result in low level of job satisfaction.

Table 2
Regression result: Work family conflict with job satisfaction

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|----------|-----------------------------|------------|---------------------------|---------|------|
| | B | Std. Error | Beta | | |
| Constant | 27.54 | 1.41 | | 19.61** | .00 |
| WTFC | -.12 | .05 | -.21 | -2.49** | .01 |
| FTWC | -.20 | .05 | -.35 | -4.14** | .00 |

*Predictors: (Constant), WTFC, FTWC, *p < .05; ** p < .01, R Square .22 F = 16.97** df = 2, 124, Dependent Variable: Job satisfaction*

The regression for job satisfaction is presented in Table 2. Work to family conflict and family to work conflict produced negative significant result with beta weights of -0.12 and -0.20 respectively. Significant negative relationship of work to family conflict and family to work conflict and job satisfaction was found (*p* < 0.01). Therefore, hypotheses one and two were supported. The association between dependent and independent can be

explained by coefficient of determination (R^2). Value of coefficient of determination (R^2) is .22 which implies that 22 percent of observed variability in job satisfaction can be explained by work family conflict. The remaining 78 percent of variability is not explained in this model.

Family support and supervisor support were tested as moderators of the relationship between work family conflict and job satisfaction by using hierarchical regression analysis. In this analysis, work family conflict (work to family conflict and family to work conflict) were entered as a block at the first step, and the family support and supervisor support were entered in the second step. In the next step, the centering procedure was used, suggested by Aiken, West and Reno (1991) for regression analysis using interaction terms (Martins et al., 2002). The work to family conflict x family support, work to family conflict x supervisor support, family to work conflict x family support and family to work conflict x supervisor support interaction terms were entered at the third step. Results are shown in Table 3.

Table 3
Results of hierarchical regression

| Step | | ΔF | df | R | ΔR^2 | Beta |
|--------|-------------------------|------------|-------|------|--------------|---------|
| Step 1 | WTFC | | | | | -.21** |
| | FTWC | | | | | -.35*** |
| | | 16.97*** | 2,124 | 0.46 | 0.22 | |
| Step 2 | Family support (FS) | | | | | -0.06 |
| | Supervisor support (SS) | | | | | 0.37*** |
| | | 10.17*** | 2,122 | 0.57 | 0.11 | |
| Step 3 | WTFC x FS | | | | | -1.02 |
| | FTWC x FS | | | | | 1.01** |
| | WTFC x SS | | | | | 0.61 |
| | FTWC x SS | | | | | -0.34 |
| | | 1.492 | 4,118 | 0.60 | 0.03 | |

*** $p < .01$ ** $p < .05$

As shown in the table, results indicated that there was a significant R^2 change value (.22; F change = 16.97, $p = .00$) at step 1. In the second step, again there was a significant R^2 change value (.11; F change = 10.17, $p = .00$). However, in the third steps, R^2 change value was not statistically significant when the interaction term was entered (.03; F change = 1.49, $p = .21$). The result suggest that the interaction between work to family conflict and family support, work to family conflict to supervisor support and family to work conflict to supervisor support were not significant ($p > .05$). However, family to work conflict x family support interaction was statistically significant ($p = .05$). Therefore, family support does only play as moderator between family to work conflict and job satisfaction.

Follow up procedures recommended by Tabachnick and Fidell (2007) were employed to establish the form of the interaction and its correspondence to the pattern predicted by the present hypothesis. To aid in interpreting the results, a graph was created with the predicted mean outcomes for four conditions. These conditions included low family support / low family to work conflict, low family support / high family to work conflict, high family support / low family to work conflict, and high family support / high family to work conflict. Based on a regression equation (Tabachnick & Fidell, 2007) using the low or high conditions for family to work conflict and family support, it was possible to derive a predicted score of job satisfaction for the four conditions. The predicted job satisfaction scores for the four conditions are presented in the graph in Figure 1.

Figure 1 Moderating effects of family support

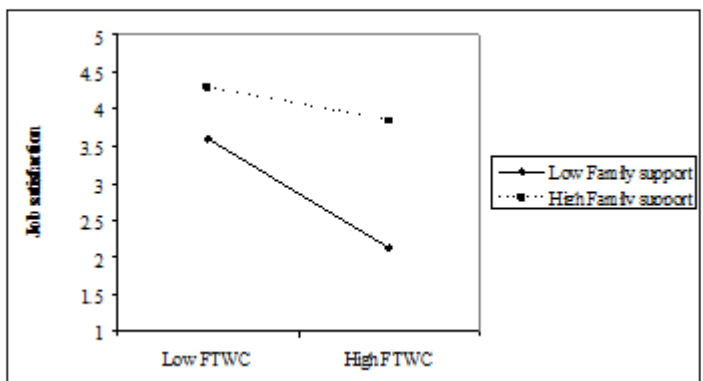


Figure 1 shows the results for the interaction of moderator between family to work conflict and job satisfaction. As shown in the figure job satisfaction is low when the family support is low but the amount of family to work conflict is high. However, when the family support is high and the amount of family to work conflict is provided is also high, the job satisfaction is slightly negative than low level family to work conflict at high level of family support. Finally, when the family support is low, employees actually have lower levels of satisfaction.

Therefore, family support appears to moderate the relationship such that higher levels of family support are predictive of a positive relationship between family to work conflict and job satisfaction, whereas relatively lower levels of family support are predictive of a negative relationship between family to work conflict and job satisfaction. In sum, Supervisor support does not appear to moderate the relationship between work family conflict and job satisfaction.

5. Conclusion

Hypothesis postulated that work family conflict would be negatively related to job satisfaction. In support of this hypothesis the result indicated that work family conflict was significantly, negatively related to job satisfaction. It implied that high level of work family conflict will reduce employees’ job satisfaction. Further, results suggested that family support did moderate the relationship between family to work conflict and job satisfaction. In the current study, it was also hypothesized that supervisor support would

moderate relationship between work family conflict and job satisfaction. Supervisor support did not moderate the relationship between work family conflict and job satisfaction.

The finding from the present study may have useful practical implication. Managers can use relevant data to manage work family conflict and to avoid negative impact that work family conflict can have on their family, work and society. The results indicate that the nature of work to family and family to work conflict are different in terms of the dimensions that are most important. Indicating that to minimize these types of conflict, different types of mechanisms may be needed. Also stress is not experienced equally by all. Conflict due to family roles may be negotiated at the workplace. This has important implications for the structuring of workplace policies. Current study will bring better new awareness of work family conflict, and gets involved more on family matter. Therefore, this research would be seminal and guide for any decision and research. Overall, this study would be need of the time.

Though the present study provides number of insights into work family conflict and job satisfaction, there were some limitations that have to be pointed out. As the research design of this study was cross sectional one, it is impossible to infer a causal relationship. Undertaking research at one period in time can only reflect that period in time. A greater focus on longitudinal research designs may give a better indication of work family conflict and job satisfaction. Other important limitation of the study was that the time, strain and behavioural factors were considered as determinants of work family conflict. Now a day, increasing unemployment, living cost, marital distress, and parental stress have the more influence on work family conflict. Future research should more carefully model and test the interrelationships among the various aspects of conflict.

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Product attributes and premium price strategy: A study of tea consumers in middle and high-end market

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Abstract

Product attributes have become significant factors that stimulate the consumers towards the product. It implies what kind of benefits the particular product will derive to customers. This study investigates the extent to which consumer willingness to paying premium price which is influenced by intrinsic cues and extrinsic cues of tea product attributes and how consumers' evaluation criteria differed in terms of the purchase situation. Consumers can make known their favorable product attributes by means of consumer behaviour or the value they are willing to spend for the particular product. A sample of two hundred middle and high income categories of consumers was selected and structured questionnaire was adopted for primary data collection. Descriptive statistics, Correlation and Regression analysis were used. The results reveal the significance of the ingredients and brand name of the Tea products as premium price attributes. Vital managerial implications are suggested for both tea producers and marketers. Tea producers should prioritize on ingredients and taste and marketers should focus more on branding, value proposition and image building. Ceylon Tea has its own brand image as one of the best brands; the premium price strategy could be implemented as collaboration with all stakeholders in the international marketing for a win-win situation.

Keywords: *Consumer behavior, international marketing, premium price, product attributes, tea.*

1. Introduction

Consumer buying behavior is a complex phenomenon which cannot be directly defined at a glance without doing a proper study as it is affected from various factors such consumer perception, product attributes, price, income level and many other factors. Furthermore the consumer buying behavior can be varying according to their income level and lead marketers to use various pricing strategies such as premium pricing, market skimming pricing, market penetration pricing, product line pricing, by product pricing, etc. To make buying decisions various types of stimuli are considered as consumers' willingness to pay a higher price (premium price) mainly depends on several factors such

as product attributes, instrumental and terminal personal values and socio-demographic factors. Further product attributes directly influence to a consumer buying behaviour especially at a premium price (Pelsmacker, Driesen & Rayp, 2005).

Product attributes can be used as a great opportunity to specialized firm's product from their competitors and play a major role in marketing, for marketers as well as for consumers since they use those attributes as the basis for evaluating a product. Therefore product attributes which are given higher value by the consumers in evaluating a product should be the main factors of designing the product.

Product attributes can be defined as features, elements or characteristics which are possessed by an item. Those product attributes can be divided in to two categories as intrinsic cues (Part of the physical product) and extrinsic cues (Not a part of a physical product). The term premium pricing means setting a higher price than the normal market price of the particular product with the expectation of customers who want to have higher value will purchase that product. Premium products can be viewed as different ways and premium prices give different meanings to different consumers. Consumers used to identify products with premium prices as high quality products which have selective distribution through high quality distribution channels. Besides, consumers prefer to pay higher price for higher taste as well as for higher benefits. This paper identifies the most influential factors of tea product attributes that determine consumers' willingness to pay premium price as well as relationship between and consumer buying behavior with special reference to middle and high income level categories of consumers.

Marketers stimulate the customers by introducing attractive product with high performances as the product attributes play a major role to develop customer willingness. In present context, some Sri Lankan tea producing organizations are targeting niche markets with developed product attributes at a premium price to have high benefit with less number of productions. Literature suggests two arguments as the intrinsic cues of product attributes are mostly influential in consumers' purchase decision rather than extrinsic cues and contradictory findings as extrinsic cues are mostly influential in consumers' purchase decision. Therefore there is a need of identifying what product attributes of tea will mostly influence the consumers to purchase the products at a premium price as well as the effects of product attributes on consumer buying behaviour. Hence the objectives of the study are;

- To find out the most influential product attributes that determine middle and high income level consumers' purchase decision at a premium price of tea
- To identify how importance of intrinsic and extrinsic cues of product attributes are varying based on purchase situation
- To find out the relationship between consumers' willingness to pay a premium price and intrinsic and extrinsic product attributes

2. Review of literature

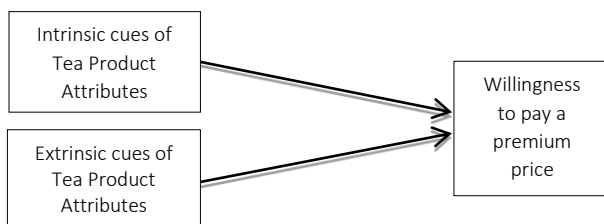
Consumers' willingness to make purchase decisions among different attributes of products has increased as they change purchase decisions based on various factors. Most consumers consider intrinsic and extrinsic cues of product in their purchase decisions (Forney et al., 1999; Liefeld et al., 2000). Arrival and growth of the premium products has been identified as an important factor as well as it assists to fulfill a more complex set of needs in consumers than do lower priced products (Immonen, 2010). Food choice model (Koster, 2009) identified influential factors of food choice consist with experienced intrinsic product characteristics (appearance, taste, and texture), expected extrinsic

product characteristics (health claims, package and information), socio-cultural factors (cultural and economic situations, trust, norms, and attitudes), situational factors (time, physical surroundings, habituation), psychological factors (memory, learning, motivation, cognition, emotion) and biological factors (age, gender, physiology, genetic factors).

Intrinsic cues of product attributes refer as product related attributes: ingredients, flavor and aroma that cannot be manipulated without also altering the physical properties of the product (Richarsson et al., 1994). Further the consumers believe more on intrinsic cues such as actual product ingredients, taste, texture or aroma than extrinsic cues: advertising, labeling or packaging in purchasing food products. Scholars argue the consumers have higher reliance on intrinsic cues rather than extrinsic cues in pre-purchase situations (Zeithaml et al., 1988) and intrinsic cues of products as a major evaluative criterion in purchasing a product (Srinivasan & Jain, 2004). Adding more tasteful ingredients to the product rather than selling core product, improves the perceived value of the consumers. Further adding ingredients to core products has a positive impact on price (Santos & Ribeiro, 2005). Flavor is not considered as a much important factor compare to other intrinsic and extrinsic cues (Pelsmacker et al., 2005) but it has a positive effect on price (Santos & Ribeiro., 2005) because willingness of consumers to pay more for better taste and better nutritional value .

Extrinsic cues of product attributes refer as brand name, package and advertising, which are not parts of the physical product (Richarsson et al., 1994). Higher quality products, fancy packaging, exclusive store locations, higher retail margins, expensive promotions, advertising campaigns and brand names, all these extrinsic cues are contributing to the higher price or premium price of goods and when there is not a possibility to examine, see, touch, smell or taste the actual product, consumers have to rely on extrinsic cues to evaluate the product's attributes (Immonen, 2010). Extrinsic cues can be more easily recognized, integrated and interpreted than intrinsic cues (Immonen, 2010) and if the consumer has very little experience, interest to evaluate intrinsic attributes or if the time is insufficient, in that kind of purchase situation also extrinsic factors play a major role in evaluating a product (Zeithaml, 1988). Extrinsic product cues such as brand name are more effective than intrinsic product cues in consumer buying behavior (Krutulyte, Coasta & Grunert, 2009). Consumers who make most of their purchase decisions of products depending more on the non-physical details are influenced by brand name in their purchase decisions (Varela, Ares, Gimenez & Gambaro, 2010). Brand name has the highest relative importance among other intrinsic and extrinsic attributes in evaluating a product (Pelsmacker et al., 2005). Consumers used to perceive premium brands as products of excellent quality, high price and selective distribution through the highest quality channels and Premium price can be considered as the most useful measure of brand equity (Blackston, 1995). Some consumers used to make purchase decision based on their preference of the package (Silayoi & Speece, 2004) and packaging of a product is able to grab the consumers' attention especially in grocery store environment (Silayoi & Speece, 2004). Advertising is one of the most important extrinsic factors among all other marketing weapons which impact on consumers' buying behaviour.

Figure 1 Conceptual framework



Source: Adopted from Immonen (2010) and Pelsmacker et al (2005)

Intrinsic cues: product related attributes: ingredients, taste and aroma that cannot be manipulated without altering the physical properties of the product (Richarsson et al., 1994) and *Extrinsic cues*: product related attributes: price, brand name and the package, which are not part of the physical product (Richarsson et al., 1994).

Hypotheses

H₁: There is a relationship between intrinsic cues of tea product attributes and consumers’ willingness to pay a premium price.

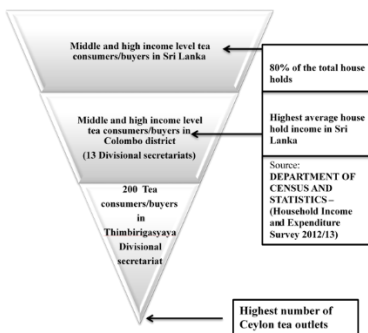
H₂: There is a relationship between extrinsic cues of tea product attributes and consumers’ willingness to pay a premium price.

3. Methods and materials

Population consists of all middle and high income level tea consumers/buyers in Sri Lanka. Colombo District which consists with the highest income level category (Department of Census and Statistics, 2012/13) was selected as the study area. According to the household income and expenditure survey in Sri Lanka (2012/13) middle and high income categories have been identified as follows: monthly household income equal or more than Rs 32,595 and less than Rs 121,368 is considered as Middle Income Level and monthly household income equal or higher than Rs 121,368 is considered as High Income Level.

Sample: Target population consists with individuals who are using both super markets and tea shops to buy tea in Colombo district. Among 13 divisional secretariats in Colombo, Thimbirigasyaya Divisional Secretariat which consists with the highest number of super markets and tea shops is selected for the survey as shown in Figure 2.

Figure 2: Sampling procedure



A structured questionnaire with five point Likert scale questions was used to collect primary data and secondary data were gathered from the reports of Department of Census and Statistic, Economic and Social Statistic of Sri Lanka 2014. Conbrach's alpha reliability test was used to measure internal consistency. Descriptive statistics, correlation and regression analysis were used in data analysis.

4. Results and discussion

Among 200 customers, 43 percent of customers are included in middle income category and 57 percent of customers belong to high income category. Further tea packet buyers used to buy tea as 60 percent once per week and 40 percent once per month and made up tea buyers used to buy tea as 30 percent once per day 28 percent more than day per week, 26 percent once per week and 16 percent once per month. Based on the purchase situation (whether buying made up tea or buying tea packets) priority given to the each attributes is vary. Majority of made up tea buying consumers have given their first priority to ingredients of tea products and accordingly second priority to brand name, third priority to aroma, then consecutively to packaging and advertising. Most of the tea packet buyers have given their first priority to brand name of tea when they evaluate tea product attributes. Then consecutively tea product's ingredients, taste, packaging, aroma and advertising have been given next priorities. Besides customers have given their most favorable tea brand based on the above intrinsic cues of tea product attributes and extrinsic cues of tea product attributes.

Results in Table 1 state the mean values of ingredients, taste and brand name and they are varying between 3.64 and 3.56 and in overall. The majority of respondents have concerned ingredients, taste and brand name to purchase tea at a premium price. Standard deviations depicts that dispersions of brand name, packaging and advertising product cues are higher than ingredients, taste and aroma.

Table 1
The distribution of customers' opinions about effect of product cues

| Item | Mean | Standard Deviation (SD) |
|-----------------|------|-------------------------|
| Ingredients | 3.64 | .866 |
| Taste | 3.56 | .870 |
| Aroma | 3.38 | .905 |
| Brand name | 3.58 | 1.126 |
| Packaging | 3.18 | 1.028 |
| Advertising | 3.00 | 1.195 |
| Total Intrinsic | 3.52 | .814 |
| Total Extrinsic | 3.25 | .968 |

Pearson correlation analysis is used to identify the strength of the relationship between willingness to pay a premium price and intrinsic cues and extrinsic cues of tea product attributes. Each and every interpretation of correlation coefficient exhibits the strength of the relationship between two variables and the hypothesis are stated in order to identify whether the relationship is significant or not. With refer to the correlation of whole intrinsic cues of tea product attributes and whole extrinsic cues of tea product attributes, both are having positive relationship with consumer willingness to pay premium price

(see Table 2). Both intrinsic cues and extrinsic cues of tea product attributes have significant and positive correlation with customer willingness to purchase at a premium price.

Table 2
Results of correlation analysis

| Tea attribute | Willingness to pay premium price | |
|----------------------|----------------------------------|------|
| | r | p |
| Ingredients | .140* | .048 |
| Taste | .206** | .003 |
| Aroma | .126 | .075 |
| Whole Intrinsic cues | .170* | .016 |
| Brand name | .534** | .000 |
| Packaging | .382** | .000 |
| Advertising | .330** | .000 |
| Whole extrinsic cues | .478** | .000 |

* Correlation is significant at 0.05, ** Correlation is significant at 0.01

Multiple regression analysis is used to examine the dependence of consumers' willingness to purchase tea at a premium price on intrinsic cues and extrinsic cues of tea product

Table 3
Results of the regression analysis

| Attributes | Unstandardized Coefficients | | t | Sig |
|-----------------------------------|-----------------------------|----------------------|-------|------|
| | B | SE | | |
| (Constant) | 2.52 | 0.22 | 11.34 | 0.00 |
| Ingredients | 0.14 | 0.05 | 2.62 | 0.01 |
| Taste | 0.16 | 0.09 | 1.88 | 0.06 |
| Aroma | -0.11 | 0.08 | -1.38 | 0.16 |
| Brand name | 0.31 | 0.05 | 5.66 | 0.00 |
| Packaging | 0.53 | 0.05 | 0.94 | 0.34 |
| Advertising | -0.02 | 0.52 | -0.50 | 0.61 |
| <i>Adj. R² = 0.228</i> | <i>F = 14.410</i> | <i>Sig F = 0.000</i> | | |

attributes. The results are shown in Table 3.

The regression result confirm that estimated model of regression to predict the customers' willingness to purchase at a premium price by products intrinsic and extrinsic cues is significant ($Adj. R^2 = 0.28$) and fit to the data ($F = 14.41$, $p < 0.01$). With regard tea product ingredients, the Beta coefficient of 0.14 indicates that product ingredients have a positive effect on customer willingness to purchase at a premium price. Since p-value of 0.01 is less than 0.05 level of significant, tea product ingredients significantly impact on consumer willingness to purchase at a premium price. Further regression coefficient of

0.31 for brand name which was significant at 0.01 indicates that brand name of tea has a positive and significant effect on consumers' willingness to purchase at a premium price. This attribute is the most influential tea product attribute on consumers' willingness to pay a premium price. However, regression results suggest that taste, aroma, packaging and advertising of tea have no significant influence on consumers' willingness to purchase at a premium price.

5. Conclusion

The major objective of this study was to examine the effect of intrinsic and extrinsic cues of tea product attributes on customer willingness to pay a premium price. The result reveals that consumers have highly considered the intrinsic tea product attributes at the made-up tea purchase situation and the extrinsic tea product attributes at the tea packet purchase situation. Nevertheless, consumers have given significant priority to both ingredients and brand name of the tea products. Result further suggests that intrinsic cues of tea product attributes such as taste and aroma as well as extrinsic cues of tea product attributes such as packaging and advertising have not significant influence on consumers' willingness to purchase at a premium price.

The study found that brand name of tea product is the most influential factor to the consumers' willingness to pay a high price and most of the consumers believe that product with good brand name always derives high quality features and implies that consumers highly consider the tea brand before they purchase. Besides, it reveals that tea sellers advertising effort is not effective to stimulate the customers to purchase at a premium price.

This study provides much important implications to both tea producers and tea marketers. Tea producers should concern more about the physical property of the product (intrinsic cues) and tea sellers should concern about the extrinsic cues in using a premium price strategy. More especially, tea producers require to pay high attention to ingredient and taste as consumers (specially made up tea buyers) are highly concern on those factors to pay a premium price. On the other hand, tea seller should verify whether the brand name is well recognized, before setting a premium price as the impact of the brand name is higher than other independent attributes of tea towards consumer willingness to paying high price. Finally since Ceylon Tea has its own brand image as one of the best brands, the premium price strategy could be implemented as collaboration with all stakeholders in the international market.

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Short-term and long-term dynamics between macroeconomic indicators and market fluctuation: A study of Colombo Stock Exchange

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Abstract

As a developing market, the high volatile fluctuations with instability patterns are the common phenomenon in the Colombo Stock Exchange of Sri Lanka. The miscellaneous type of micro and macro-economic conditions directly effect on the market fluctuations. By using Vector Autoregressive Regression and Vector Error Correlation Model to capture the linear inter-dependencies, this study examines the equilibrium relationships between the stock market indices and macro-economic factors in Sri Lankan during the period from January, 2009 to December 2015. The study revealed that macroeconomic variables have direct effect on high volatility in stock market fluctuations in the Colombo Stock Exchange. Furthermore, the results show that Colombo stock exchange is highly sensitive to the macroeconomic variables such as market capitalization, real gross domestic product and broad money supply.

Keywords: *Colombo Stock Exchange, long run and short run relationship, vector autoregressive regression*

1. Introduction

The unexpected economic booms and busts in the global economy resulted un-behavioral fluctuations of financial indices including the stock market indices. In general, investors gain high return for their stocks which market prices are going up in the companies that are performed well. Thus, identification the effect of macroeconomic variables on assets prices is more necessitate for making a profitable investment; especially, government investment policies, local and international portfolio guidelines, stability of macro-economic factors such as interest rates, inflation, money supply and exchange rates as

well as political stability of the country have significant influence over the stock market indices (Anderson et al., 2002; Azeez et al., 2006).

The numerous types of methodologies can be seen in the literature to estimate the market predictions. Among them, the time series analysis is an essential methodology which comprises the tools for analyzing the time series data to identify the meaningful characteristics.

In this study, we review selected number of research studies from this vast literature. Fama et al. (1981) carried out a number of studies under the ameliorating weighted based market portfolio with respect to the stock market indices (Fama, 1981; Fama, 1990) in the multi-period economy. Based on the empirical results he argued that, macro-economic factors directly affected to the future dividends, interest rates as well as stock market fluctuations. Similarly, Masih et al. (1996) empirically conformed that, dynamic causal chain relations among the macroeconomic factors such as interest rate, inflation and the exchange rate caused unstable economies in South Asia during the past three decades (Masih et al., 1996). These findings have received a significant attention of academics and uncovered a new research direction for small developing economics.

Theoretically, the influence of macroeconomic variables on assets has been driven under the two time spans namely long run and short run equilibriums. As a result of these complications with respect to the time, various types of novel methodologies have been developed after the 1970th and successfully applied for financial applications (Russell et al., 2004). Among them, the capital asset pricing model (CAPM) of Sharpe (Chen et al., 1986; Wei et al., 2011) arbitrary pricing theory (APT) of Roll (1984), Intertemporal Capital Asset Pricing Model (Merton, 1973) vector auto regressive model (VAR) and vector error correlation model (VECM) proposed to handle incomplete, noise and uncertain data in the multidisciplinary systems are widely applied in empirical studies.

The CAPM illuminates the relationships between the risk and returns. It is the common phenomenon that, the behaviors of risk always change proportional to the returns. In this scenario, Azeez et al. (2014) analyzed the asset price relationships in Japan based on CAPM during the pre and post bubble economic periods between 1980 and 2014. The estimated results clearly suggested that money supply, inflation, industrial production and exchange rates have significance influence on expected returns. Richard et al. (2010, as cited in Jayathilake & Rathnayaka, 2013) did a similar study and successfully applied the APT to examine the long term relationships between the stock indices and selected economic variables in UK (). The estimated results clearly suggested that an APT technique leads to more reliable than CAPM techniques.

Goswami and Jung (1997) conducted a similar type of study to examine the short term and long term equilibrium relationships between the selected macro-economic variables with respect to the stock indices in Korea using APT, VAR and VECM methodologies (Goswami & Jung, 1997). Their result reveals that Korean Stock Exchange is strongly co-integrated with economic variables; especially, industrial production, inflation and short-term interest rates positively and long term interest rates and oil prices negatively affect to stock prices in Korea respectively. Moreover, the results clearly suggested that forecasting ability of VECM is better than VAR estimates.

The Colombo Stock Exchange is one of the most modernized stock exchanges in the South Asia providing a fully automated trading platform for locals as well as international investors. Currently, 297 trading companies have been representing 20 businesses sectors under the two main price indices namely All Share Price Index (ASPI) and S&P Sri

Lanka 20 Price Index (S&P SL20). The ASPI is the principal stock index, which measures the market capitalizations of all the listed companies (Rathnayaka et al., 2014).

Highly volatile market fluctuations with instable patterns are the common phenomenon in the CSE. Especially, as a developing market, the innumerable micro and macro-economic conditions are highly involved. In a Sri Lankan context, limited studies have seen on our interest. Among them, Samaratunga (2009) and Fernando et al. (2012) examined numerous macro-economic variables such as money supply, treasury bills and inflation rates positively influence for their influence over market fluctuations. In recently, based on univariate and multivariate techniques, Rathnayaka et al. (2014) investigated the trends and cycle patterns in the CSE and pointed out that, economic conditions directly affected on market volatility during 2007 to 2012.

The objective of this study is to examine the dynamic relationships between market fluctuations and macroeconomic variables in Sri Lankan context. In order to investigate the relationships, Johansen's Vector Error Correlation Modeling (1991) was employed. The rest of the paper is organized as follows. Next section develops the hypotheses and explains the methodology used in the study. Third section three briefly presents the results including VECM results and the paper ends up with the conclusion.

2. Methodology

The current study mainly deals with the empirical methodology which consists of Johansen co-integration, Vector Autoregressive Regression and Vector error correlation methodology to explain the long term and short term predictability and profitability of technical trading strategies.

In general, the economic data are often non-seasonal and highly fluctuate over the time. Theoretically, if the series is distributed with non-constant mean over the time, such the series is said to be non-stationary (Kumara et al., 2011). Thus, as an initial step in the financial data analysis, it is necessary to test for the stationary and non-stationary conditions before using them for further analysis. In the literature, several methods can be seen to determine the existence of unit roots. They are Augmented Dickey-Fuller test (ADF) and Phillips-Perron test (PP).

As a next step, co-integration test methods was formed to determine the long – run relationships and VAR and VECM were formed to capture these linear interdependencies among long –run or transitory aspects. The VAR methodology can be generalized as the univariate auto-regression model which use for forecasting systems of interrelated time series to analyze the dynamic impact of random disturbances on the systems of variables. The model explains the evolution of set of p endogenous variables over the time period t where, $t = 1, \dots, T$. The variables are collected in a $p \times 1$ vector y_t , which has the i^{th} element, $y_{i,t}$, the time t observation of the i^{th} variable. For example, if the i^{th} variable is ASPI, then $y_{i,t}$ is the value of ASPI at time t (Granger et al., 1986, Johansen et al., 1990).

$$y_t = c + A_1 y_{t-1} + A_2 y_{t-2} + \dots + A_p y_{t-p} + \epsilon_t \quad (1)$$

Where y_t is a non-stationary vector ($p \times 1$) with the l (1) lag of y . Intercept c is a $k \times 1$ vector of constant to be estimated and A_i is a time-invariant $p \times p$ matrix and ϵ_t is a $p \times 1$ vector of error term that may be contemporaneously correlated but are uncorrelated with their own lagged values. Engle and Granger (1987) point out that, if a non-stationary linear combination exists, the time series said to be co-integrated (Engle & Granger,

1987). On the other hand, if the series have stationary linear combination, it interpreted a long-run and short-run equilibrium relationship among the variables (Granger, 1986).

In generally, the error correction models can be used for determining the long- run as well as short-run relationship with respect to the time. In this study, Johansen co-integration with VECM is adapted to examine the links between long-run and short-run dynamic equilibrium relationships between stock market index and different type of economic growth conditions related to Sri Lanka.

$$\Delta y_t = \delta + \lambda t + \beta y_{t-1} + \sum_{i=1}^{p-1} \alpha_i \Delta y_{t-i} + \varepsilon_t \tag{2}$$

Where y_t is distributed under the $I(1)$ against the alternative $I(0)$ and p , λ and t represent the lag length of the auto regressive process, the coefficient on a time trend and time trend variables respectively.

As an initial requirement, VECM necessitates the time series to be co-integrated with the same order. If the series be non- stationary, the series to be difference d times until it will become under the stationary. Granger et al. (1986) noted that; if the variables are co-integrated under same conditions, then VECM can be used for evaluating the equilibrium relationship exist among the variables to find long run as well as short run relationship between variables. The vector error correlation model for the variable x can be implicated by equations as follows.

$$\Delta y_t = \delta + \sum_{i=1}^n \beta_{ia} \Delta y_{t-1} + \sum_{i=1}^n \alpha_{ib} \Delta x_{t-1} + \sum_{i=1}^n \varphi_{ic} \Delta z_{t-1} + \lambda_1 ECT_{t-1} + e_{it} \tag{3}$$

In the above equation (3), the serially uncorrelated error term (e_{it}) normally distribute and wide noise. Furthermore, the term ECT_{t-1} represents the lag error correlation term that is derived from the co-integration relationship and measure the magnitude of past disequilibrium. To investigate the long term as well as short term dynamic relationships between market fluctuations and macroeconomic variables in Sri Lankan context, multivariate time series techniques such as Johansen’s co-integration technique, Vector Autoregressive Regression and VECM methodologies were employed. The data were obtained from annual reports of Central Bank of Sri Lanka, the monthly trading reports from CSE, various types of background readings and other relevant sources and etc. Monthly data for seven year period from January 2009 to December 2015 were extracted and tabulated. All the selected macroeconomic variables are presented in Table 1.

Table 1
Definition of variables

| Variables | Definition of Variables |
|-----------|---|
| $ASPI_t$ | All share Price Index of market-ended closing prices |
| $CCPI_t$ | Month-end Colombo Consumers’ Price Index (2002 = 100) |
| FDI_t | Month-end 12 month fixed deposit rate |
| GDP_t | Month-end per capita real Gross domestic product |
| MC_t | Month-end per Market capitalization (Rs. billion) |
| $M2_t$ | Month-end per Broad money (M2) |
| $M1_t$ | Month-end per Narrow money (M1) |
| REV_t | Month-end per Revenue (Rs. billion) |

3. Results

At the initial stage, stationary and non-stationary conditions were measured using two different Unit root approaches namely Augmented Dickey-Fuller test statistic (ADF) and Phillips-Perron test statistic (PP). According to Table 2, all the variables are integrated in a same time in their first differences. Furthermore, PP test results confirmed that, all the selected variables can be categorized under the I(1) process.

Table 2
Results of ADF and PP Tests

| Sector | Level data (P-value) | | Sector | 1 st Difference(P-value) | |
|--------|----------------------|---------|--------|-------------------------------------|---------|
| | ADF Test | PP Test | | ADF Test | PP Test |
| ASPI | 0.1768 | 0.0010 | ASPI | 0.0000 | 0.0000 |
| BT | 0.0567 | 0.0887 | BT | 0.0000 | 0.0000 |
| CCPIM | 0.0000 | 0.0000 | CCPIM | 0.0000 | 0.0001 |
| FDI | 0.0000 | 0.0000 | FDI | 0.0000 | 0.0000 |
| GDP | 0.2294 | 0.2346 | GDP | 0.0320 | 0.0000 |
| M1 | 0.3324 | 0.2253 | M1 | 0.0000 | 0.0000 |
| M2 | 0.5249 | 0.1501 | MC | 0.0000 | 0.0000 |
| MC | 0.4186 | 0.4066 | M2 | 0.0000 | 0.0000 |
| REV | 0.0000 | 0.0000 | REV | 0.0000 | 0.0001 |

In the second stage, Johansen (trace) co-integration rank test and Maximum Eigenvalue test were employed to test whether there is any co-integrating relationship between the variables. Table 3 shows the number of co-integrating vectors for selected variables.

Table 3
Results of Co-integration

| Co-integration Rank Test (Trace) | | | |
|---|-----------------|-----------------|---------------|
| Hypothesized No. of CE(s) | Eigenvalue | Trace Statistic | Prob.** |
| None * | 0.682621 | 230.8552 | 0.0004 |
| At most 1 * | 0.523937 | 164.2909 | 0.0268 |
| <i>At most 2</i> | <i>0.455075</i> | <i>121.2429</i> | <i>0.0896</i> |
| At most 3 | 0.382061 | 86.03075 | 0.1932 |
| At most 4 | 0.299734 | 58.11151 | 0.2979 |
| At most 5 | 0.285582 | 37.44636 | 0.3268 |
| Co-integration Rank Test (Maximum Eigenvalue) | | | |
| None * | 0.682621 | 66.56426 | 0.0066 |
| At most 1 * | 0.523937 | 43.04795 | 0.0320 |
| <i>At most 2</i> | <i>0.455075</i> | <i>35.21219</i> | <i>0.4465</i> |
| At most 3 | 0.382061 | 27.91924 | 0.5676 |
| At most 4 | 0.299734 | 20.66515 | 0.7091 |
| At most 5 | 0.285582 | 19.50464 | 0.3765 |

Note : Trace test indicates 2 cointegrating eqn(s) at the 0.05 level, * denotes rejection of the hypothesis at the 0.05 level, **MacKinnon-Haug-Michelis (1999) p-values

Estimated co-integration rank test ($0.0896 > 0.05$) and Max-eigenvalue ($0.4465 > 0.05$) test suggested that there are two co-integration equations exist at the 0.05 level of significance. Furthermore, results show a significance association among the stock market indices and the selected macro-economic variables in the long run.

In the next stage, maximum likelihood method based on VECM is set up to investigate these causality relations between dependent and independent variables. Theoretically, when the variables are co-integrated in same order, maximum likelihood method based on VECM can be performed to find the causality between the underline variables.

Table 4
Results of co-integration

| | Coefficient | Std. Error | t-Statistic | Prob. |
|-------|-------------|------------|-------------|--------|
| C(1) | -0.824613 | 0.165935 | -4.969489 | 0.0000 |
| C(2) | 140.2245 | 140.3277 | 0.999265 | 0.3185 |
| C(3) | 0.251236 | 0.164713 | 1.525292 | 0.1282 |
| C(4) | 0.393016 | 0.096080 | 4.090532 | 0.0001 |
| C(5) | -123.1285 | 128.4486 | -0.958582 | 0.3385 |
| C(6) | -12.37431 | 117.9301 | -0.104929 | 0.9165 |
| C(7) | 0.005998 | 0.002815 | 2.131076 | 0.0339 |
| C(8) | 0.002982 | 0.002742 | 1.087883 | 0.2775 |
| C(9) | -19.79749 | 164.2168 | -0.120557 | 0.9041 |
| C(10) | -184.7608 | 162.7329 | -1.135362 | 0.2571 |

According to the result in Table 4 the coefficient of co-integrated is significant at the 0.05 level of significance ($p < 0.05$) with negative sign (-0.824613). It means that, there is causality generally shows the short run relationships from independent variables such as FDI, GDP, M1, MC, M2 and REV to dependent variable ASPI.

Table 5
Wald test Results

| Variables | CCPIM | FDI | GDP | M1 | MC | M2 | REV |
|-----------------|-------|-------|-------|-------|-------|-------|-------|
| Chi-square Test | 0.039 | 0.050 | 0.470 | 0.004 | 0.001 | 0.003 | 0.037 |
| Probability | 0.040 | 0.051 | 0.475 | 0.004 | 0.003 | 0.003 | 0.038 |

The short-run adjustments along the co-integrating equilibrium relationships were then developed to test whether any short run causality exists between independent and dependent variables. The Vector error- correlation estimates with Wald statistic results in Table 5 reveals that, short run causality running from M2 ($0.0034 < 0.05$), M1 ($0.0044 < 0.05$), CCPIM ($0.0401 < 0.05$), MC ($0.0003 < 0.05$) and REV ($0.0381 < 0.05$) to ASPI. However, short run elasticity of FDI ($0.0506 = 0.05$) with respect to the ASPI is very low but is reasonably significant. However, only GDP does not have has not seen any short term relation between ASPI.

4. Conclusion

The Economical Time series are widely used to develop the economic relationships, especially for the nonlinear models under the stationary and non-stationary frameworks for predestining and forecasting future patterns. This study sheds light on design and

explaining the long term and short term predictability of technical trading strategies in the CSE during seven year period spanning from 2009 January to 2015 December.

The results detected that the Colombo Stock Market is more sensitive to external factors such as changes in interest and exchange rates. For instance, Masih et al. (1996), Samarakoon et al. (1996), Goswami and Jung (1997), Qiao et al. (2008), Rjoub et al. (2009) and Rathnayaka et al. (2014) reported similar type studies based on various type of methodologies with respect to macro-economic variables.

We strongly believed that these findings will be useful to both investors domestic and internationals and policy makers for make better investment decisions using the both long-run equilibrium and long-periodic co-movements.

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Micro and small scale travel agencies in Sri Lanka: An exploratory study

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Abstract

Sri Lanka tourism is booming with a two digits growth rate since 2010. Micro and small scale travel agencies in Sri Lanka are a vital sector in tourism which makes an immense contribution to the present tourism growth. Unfortunately, smooth operations and the survival of such travel agencies have been challenged by various reasons. The main objective of this study is to uncover the difficulties faced by micro and small scale travel agencies in Sri Lanka and identify corrective measures to overcome them. The study was primarily grounded on a qualitative approach that uses in-depth interviews and focus group discussions in data collection and content analysing in data analysis. The results of the study reveal that micro and small scale travel agencies in Sri Lanka are facing various operational and marketing difficulties including inability to secure good hotel rooms, lack of professional guides and vehicles, lack of opportunities to participate at international travel marts, less investment on familiarization tours, immoral competition, lack of competent professionals and unstructured internal management systems. Policy initiatives such as forming a common policy for hotel rooms, guides, vehicle reservations and empowering the sector through various financial, advisory and human capital development supports would help to build a conducive environment for the sector.

Keywords: *Familiarization Tours, micro and small scale travel agencies, tour guides, tourism.*

1. Introduction

At present, tourism is one of the major components of socio-economic sectors in Sri Lanka. With the present development objectives, Sri Lankan government has given much weight upon the tourism sector considering the positive outcome it generates. Sri Lanka, as an island, has all the privileges to develop through tourism as Sri Lanka is blessed with natural, cultural and man-made resources. The growth of Sri Lanka tourism has faced

leaps and bounds since tourism was officially introduced to Sri Lanka in 1960's (Samaranayake, 2012). Tourism industry is also known as a multi-sectorial and multi-faced industry as it is consisted of many sectors namely: transport, accommodation, food & beverages, guiding, entertainment, airlines, travel agents etc. (Inskeep, 1991). The contribution of travel agents in the tourism cluster cannot be undermined. Duties and responsibilities of travel agents have grown widely and immensely in parallel to changing needs of the tourists. Some of the services provided by travel agents are tour planning, organizing, costing, quoting, room reserving, transport arrangements, allocating guides, air tickets reserving, handling charter flights and cruises etc. Millions of tourists obtain the services of travel agents since they facilitate the tourists with their expertise.

Although there are a large number of travel agencies registered under Sri Lanka Tourism Development Authority (SLTDA), few travel agents are making an undue influence over the industry with in their capacity of large scale travel agencies. As a result, irrespective of the contribution made by the travel agencies, the Micro and Small Scale (MSS) travel agencies are facing many difficulties when it comes to operations and marketing (Kalegama, 2014). In particular, there are 592 registered travel agencies in Sri Lanka (SLTDA, 2014), out of which a majority of the travel agencies are either small scale or medium scale attracting less than 1000 tourists per annum (SLTDA, 2013). Although it is not documented about the total inbound and outbound travel agencies in Sri Lanka it is assumed that 60 percent are inbound travel agencies and 40 percent are outbound travel agencies (Rathnayake, 2014). Rathnayake (2014) further states that the top 20 international travel agents in Sri Lanka accounts for 80 percent of the total profit from the industry sector. This indicates clear polarization which further widens the gap between large and medium scale and MSS travel agencies. This was found by Morrison and Thomas (2004) relative to the international tourism industry as a whole, while Holmengen (2004) adds that the business model supporting many MSS travel agencies in tourism is generally considered to be weak.

Although, the relative importance of MSS travel agencies is low when compared to large and medium scale travel agencies, it is important to maintain free and fair market conditions that are applicable to all travel agencies equally. It is unfortunate to note that travel agencies are treated differently by the supporting industries: hotel, transport, guiding etc. based on their market position (Kalegama, 2014). This situation is not healthy to Sri Lankan tourism when achieving its mid-term goal of attracting 2.5 million tourists in 2016. Accordingly, this exploratory study arises from identifying the knowledge gap related to the difficulties facing MSS travel agencies on Sri Lankan. Therefore, the main objective of this study is to identify the difficulties; both marketing and operational related, faced by MSS travel agencies in Sri Lanka and to make recommendations to overcome them. The subsequent sections of the paper provide an outline of the present state of relevant knowledge deals with difficulties faced by MSS travel agencies with emphasis on the international context, describe the research methodology employed, present and discuss the results of the study and finally present conclusion and recommendations.

2. Literature review

The term SMEs is used to denote micro, small and medium enterprises. Different countries use different definitions for SMEs based on their level of development. The commonly used yardsticks are total number of employees, annual turnover and total

investment. US Market Research Report (2010) defined a small scale business as single site firms with fewer than 25 employees. Accordingly, it is said that, small scale travel agencies are enterprises that involve in travel related business having less than 25 employees. In the Sri Lankan context, the SME policy framework defines SMEs based on the number of employees and annual turnover.

Morrison (1998) defined SME travel agencies are those, which are independently owned, managed in a personalized manner by the owner-manager and not contracted out to an agent, represent the primary source of income for the owner-manager, and employ less than 50 employees. SMEs have been identified as an important strategic sector for promoting growth and social development in Sri Lanka over the years; SMEs have gained wide recognition as a major source of employment, income generation, poverty alleviation and regional development (United Nation, 2003).

SMEs play a vital role in any country and contribute to enlarge economy in numerous ways. In Sri Lanka more than 90 percent of tourism related business ventures are SMEs and have contributed to the economy in numerous ways. The entrepreneurs have to go through a risk bearing difficult journey in running their businesses” (Gnanapala, 2008). SMEs enact a unique role in driving an economy towards the future. In most developing countries SMEs which make up majority of the industrial sector, also make a significant contribution to the Gross Domestic Production (GDP) and employment. This is visible through the role played by the SMEs in the Sri Lankan economy.

According to Sing (2002) there are many issues with SMEs and this situation also affects to MSS travel agencies. Competition among travel agencies is one of the main obstacles that these firms are facing. Increased number of travel agencies getting registered and incentives of the government has made this industry a honeypot in Sri Lanka. As a result, the MSS travel agencies have to compete with each other. Travel agents are currently facing keen competition. With the competition of tour industry, small travel agencies try to improve their promotion to enhance their fame among customers and marketing share. However, MSS agencies have limited financial capability to put on promotion (Sun, 2003). Even the MSS travel agencies in China not only are being threatened by a continuously decreasing market share, but also by reducing profit levels (Zang & Morrison, 2007).

They compete not only on pricing, but also the variety of services offered, including designing personalized tour itineraries, booking of hotels and sightseeing activities, etc. (Stephen, 2005). Madhu (2010) states that a common perception is that booking through travel agent has to be expensive and people think that travel agents hide something from them and it will be cheaper to book online. The literature shows that being small in size and simple structure, short period of time in business operation, lack of management experience and market recognition are some of major characteristics of MSS travel agencies. Furthermore, they are facing an increasingly competitive environment and their sustainability is being threatened by a continuously decreasing market share and reducing margins (Zang & Morrison, 2007).

Similar to small firms from other sectors, small tourism firms encounter difficulties related to: lack of financial resources and management skills; limited access to expertise in core business disciplines; and life style motivations that create long-term economic problems (Morrison, Rimmington & Williams, 1999; Ateljevic & Doorne, 2003). In general, travel agents choose not to continue their business because of personal reasons, commercial decisions, conflicting views on business strategies among partners, or

unfavourable external economic environment (Gregory, 2010). According to Gregory (2010) many travel agencies are being shut down due to many external factors related to hotels, transport service providers, banks, and also higher competition in the market.

Zhen (2009) has shown the various aspects of the difficulties which small travel agencies were facing in Shenyang. According to him, all the problems are resulted from two aspects. Firstly, there is no network cooperation among small travel agencies in Shenyang, which will lead to promotion disadvantages and lack of resource sharing, which makes customers lose confidence and understanding of these small travel agencies. As a result, small travel agencies will cover a small market with lower efficiency. Secondly, agency industry distribution system of large scale travel will make small agencies to locate themselves in an unclear position which will lead to a fierce competition or price wars among agencies that will strongly jeopardize the development of tour industry in Shenyang.

Through the literature review it is evident that the difficulties faced by MSS travel agencies are common phenomenon in the world. . However, as indicated in the preceding section, Sri Lanka literature is silent on such difficulties. At an era Sri Lanka entering in to the tourism world more aggressively, it is very necessary to identify and analyse the type of difficulties facing by MSS travel agencies and make recommendations to contribute to the body of knowledge and to develop the industry.

3. Materials and methods

This study defines SMS travel agencies as travel agencies that are owned and managed by a single owner, whose turnover is less than Rs.250 million per year and employing less than 25 employees. Initially twelve MSS travel agencies were approached and only eight agreed to take part the survey. A qualitative methodological approach was basically applied in the form of exploratory in-depth interviews and focus group discussions. The interviews were conducted with a group of eight owner-managers of MSS ravel agencies in Colombo district conforming to the above definition. A semi-structured questioning framework was utilized in the interview. . Operations managers / operations executives of the each travel agency were interviewed to identify their operations related issues. Marketing managers of each travel agency were also interviewed to recognize the marketing related difficulties of each travel agency. In addition, three (03) focus group discussions were conducted with the operational level employees of four (04) travel agencies to grasp the insight of the operational issues following the interviews of operations managers. 8 – 10 number of operational level employees participated for the focus group interviews. On average the interviews and focus group discussions lasted for 45-60 minutes, varying between 30 minutes to one and a half hour. The resultant data were consolidated and the content analyzed. Further, descriptive approach was used to analyze the data with unattributed quotes to preserve anonymity yet also to illustrate dominant issues in respondents' own words. This allowed the researchers to identify emergent recurring themes, contributing to the evolution of a more comprehensive understanding of the difficulties faced by MSS travel agencies in Sri Lanka.

The validity and reliability of the study was ensured by referring closely to previous work undertaken relevant to the MSS travel agency operations and difficulties in international context. Further, when the findings of interviews and focus group discussions conflicted, the researcher re-discussed, verified and validated the findings with interviewees.

4. Results and discussion

The travel agency business encompasses of numerous foreign visits especially for business purposes. In order to meet the potential clients and tour operators, the travel agencies have to visit abroad targeting the travel shows or travel fairs.

As mentioned by a senior operational executive:

“The travel fairs connect destination area suppliers and generating area operators. The initial discussions taking place at these travel fairs often lead to sign contract that will last years. So it is very important for Sri Lanka travel agents to participate in these travel fairs”

Despite of the importance, the MSS travel agents find it difficult to participate in travel fairs due to high cost. The following assertions illustrate the difficulties they face in participating at the travel fairs:

“Firstly, we have to get ourselves registered as participants to the trade exhibition. Then, we have to have a stall to exhibit our products. Also, we need top class brochures, videos to distribute among the participants. As a small travel agency such costs are unbearable”

“All the good and promising travel fairs take place in European countries. Can you imagine the cost of two return flight tickets? Not only that, we have to find suitable accommodations, we have to entertain the principles, top of that transportation and food and beverages cost us a lot”

“Once I requested the support of the Sri Lanka Tourism Development Authority (SLTDA) for any type of a support. Over the time I observed that even going with them does not hinder my costs, but increases responsibilities”

World’s best travel trade shows take place in Europe, America, Middle East and Pacific countries; IFTM Top Resa (France), WTM (UK), ITB (Berline), Fitur (Spain), ATB (UAE), ATE (Australia) etc. (Holloway , Humphreys , & Davidson, 2009). Although the situation is such in Sri Lanka the South African model in promoting MSS travel agencies are promising. As stated by Nemasetoni and Rogerson in 2005 “the Gauteng Tourism Authority provided funding support for tour operators to participate at local tourism trade shows or exhibitions, most importantly the annual tourism Indaba”.

Further to the above issue, the majority of the marketing managers expressed their views regarding their inability to place advertisements in international travel magazines.

“It is paramount important that we place advertisement in international travel magazines through which we gain the publicity and the business. Unfortunately, we do not have reputed international travel magazines in Sri Lanka and we have to place our advertisements in foreign international travel magazines which are expensive”

“Last two years we could place our advertisements in both French and German travel magazines, but this time we find it difficult to reach those magazines”

Most of the travellers develop their travel motives through international travel magazines (Baillie, 1980). Placing tour advertisements popular travel magazines are always fruitful. Most popular travel magazines in the world includes: Traveller (National Geography), Afar, Travel + Leisure, Coastal Living, Conde Nast Traveler, Backpacker, National Geographic, Global Traveller (Holloway , Humphreys & Davidson, 2009). As depicts above, placing an advertisement in such a travel magazine has always been a discouraging factor due to the high cost involvement. As stated by Zhen (2009) small travel agencies have limited money to put on promotion. As a result, cooperative advertisement among small travel agencies could be a good choice, which could publish advertisement in newspaper, magazine, on TV and many other mass media for the products of the alliance. This cooperative advertisement could not only help customers to understand the products, but also save the cost to reach a better result (Sun, 2003).

Conducting familiarization (FAM) trips is one of the most popular promotional methods used by travel agencies. The FAM trips are offered to the operators on complimentary basis or they are charged a nominal fee for the entire tour. The travel agents who invite the foreign principals bear any cost involved in the tour. With all financial difficulties, small and micro scale travel agencies reserve an insignificant amount for FAM trips, which is not sufficient to host a group of tour operators or journalists within a destination. Relevant quotes illustrating this disposition are;

“Organizing and conducting FAM tours are viewed simple. However, the moment we meet with the difficulty is when offering discounts and complimentary services to the operators”

“Usually, the FAM tours organized by large scale travel agencies are sponsored by the Airlines and the Hotels. However, considering our market share and the business we bring to the country, none of the suppliers are willing to offer us even discounted services”

In his book, *Travel and Tourism Management*, Foster (1993) mentioned that the layout of a travel agency represent the quality of the service they are rendering. Through observation it was noted that most of the travel agencies do not have sufficient space to continue their operations smoothly. Offices have lack of comfortable chairs and sofas for clients and other customers to sit. Further, one tour executive mentioned that they are not inviting their clients to the office, but book a separate meeting place, preferably a hotel, to discuss the queries. As three managers emphasised;

“We know how to make our offices appealing, but what we do not have is the money”

“Although the management needs to refurbish the office premises, we are struggling to maintain our payroll without any delay”

“We have already planned to move to better premises, but have to wait a little longer till we are financially stable”

All the travel agencies did complain about the unethical behaviour of large scale travel agencies in Sri Lanka. For examples, according to travel agencies, some large scale operators who have both travel agencies and hotels try to track the names of the operators who are working with MSS travel agencies through hotel reservation vouchers. The large scale travel agents thereafter make visits to the operators in generating countries and use different strategies to get the operators to their side. Such a situation leads many interviewees to state:

“The big companies, even _____ are trying to steal our operators these days. So we take precautions not to disclose the operators’ names to third parties”

“Earlier we used to mention the name of the operator in the reservation vouchers. But now, we do not practice it as we heard some big travel agencies in Sri Lanka are trying to approach our operators”

“It is not only the local travel agencies posing a competition. But also, the foreign reputed brands trying to steal our businesses through their henchmen”

“Now is the time for the government to protect us from these unethical practices”

This situation results in decreasing of market share, income and the profit level of the MSS travel agencies. This is further worsened by the competitive activities of local and foreign large scale travel agencies and tour operators who are attempting to dominate the industry. This situation is also reported in China (Wang, 2005).

Overall, the MSS travel agencies in Sri Lanka are facing difficulties in respect to

marketing of their products and services mainly because of lack of funds. Similarly, limited funds and lack of support from the authorities have also been identified as a constraint to develop MSS travel sector in South Africa (Nemasetoni & Rogerson, 2005).

On the other hand, securing suitable accommodations is an important duty of a travel agent. All the travel agents are trying to secure the best accommodations for their clients according to the taste and budget of the clients. However, all the interviewed travel agents complained that large scale travel agents are securing allotments for their clients with a minimum release period, restricting their room reservations. During the focus group discussions following points were highlighted;

“Large scale travel agencies have a big bargaining power, such that they block a considerable number of hotel rooms”

“The hoteliers are much interested in selling the rooms to the big travel agencies, because then they do not have to worry about promoting of their properties”

“Sometimes, during the peak periods, the large travel agencies even book the rooms outside their allotments, shrinking our opportunities to reserve rooms”

Securing good hotel rooms for the clients of MSS agencies is not only visible in Sri Lanka, but also in other countries. As Bailie (1980) states, the growth in tour packaging has increased the number of those Canadians who are now able to vacation abroad, since tour wholesalers are able to buy plane seats and hotel rooms in bulk and offer them at bargain rates.

The second most concerned difficulty is regarding hotel rates. The hotel rate is one of the key considerations in tour costing. Any travel agency that can obtain low hotel rates will definitely take the businesses with the lowest quotations offered to the tourists. The large travel agencies, with their market size, possess a strong bargaining power. As a result they enjoy the best hotel rates in the market. The interviewees revealed following difficulties related to the hotel rates;

“Large scale travel agencies are more promising sources of businesses in the eye of the hoteliers. They even secure the rooms on guaranteed basis. So they get attractive rates than us”

“Securing room allotments make the hotel operations easier as the business is easier, So that the hoteliers give better rates to the large travel agencies”

“Large scale travel agencies get low room rates and therefore their tour quotations are low than other. This makes the large scale travel agents to develop further and us to decline gradually”

Amongst the difficulties faced by the MSS travel agencies, they are discriminated in terms of the credit facilities given by hotels. The focus group discussion revealed that MSS travel agents do not receive money from their operators before the clients' arrival. But the hotels request at least 50 percent payment from the total bill at the time of the reservation and the balance to be paid before the departure of the guest. Without getting money from the operator the MSS travel agents find it difficult to make the relevant payments on time. However, on the other hand large scale travel agents are given average one month credit period to settle their clients' bills. The frustrations and difficulties experienced by MSS travel agencies are evident by;

“Our guides always complain about the facilities they are receiving at hotels. Also, when there is an overbooking situation at a hotel, it's our guides who are transferred first to other hotels”

“The national and chauffeur guides with a high demand, with their foreign language

capability, often refuses to work with us because they have informal agreements to work only with large scale travel agencies”

“With the present tourism growth and demand, we cannot always employ qualified, licensed guides. They all want to join with large scale travel agencies whose business is more promising than us. As a result we are cornered to employ unlicensed chauffeur guides”

“Unlike large scale travel agencies, we cannot employ guides on permanent basis since we do not have back-to-back tours. So that we have to use guides who are not much familiar to us or to the industry. Often we are receiving complaints from the clients regarding their service”

“We cannot maintain a permanent pool of chauffeur guides. Therefore on needy basis we hire the guides. We face lot of difficulties with these guides. They do not know us, our company policies, the procedures and we also do not know what type of people they are. Especially when it comes to the payment and tour settlements, our executives meet problems with these guides”

Most of the operational managers, during the interview, revealed about the dearth of professionals they have to cope with, by being a MSS travel agency. There are not many academically and professionally qualified professionals in the travel and tourism field. The enormous difficulties faced by MSS travel agencies in employing qualified employees were expressed by several interviewees:

“I know the importance of having academically and professionally qualified workforce to serve my clients. But, I cannot afford them”

“We always looking forward to recruit qualified staff, but the availability of such qualified staff in the labour market is rare. Even though the Universities are producing employees, most of them cannot communicate perfectly at least in English. This is a common problem to the entire travel sector”

“We do not have many qualified employees here. As you see, this is a small office with a small number of staff. The office atmosphere here is not matching with modern employees”

Employees and the customers are the lifeblood of any organization. However, due to the nature of the business and the industry capacity, the MSS travel agencies cannot employ a qualified staff. Ateljevic and Doorne (2003) concluded their study that lack of skilled and motivated employees is the key disadvantage that the small tourism firms are facing in New Zealand.

In addition, the focus group discussion revealed some more issues related to the employees. As illustrated by an operational executive:

“When it comes to the hiring, the boss always tries to get one of his contacts, may be sons or daughters of his friends and relations, to the company. When such people are there we do not feel comfortable to work with them”

This draws a clear picture on favorations made by the management in recruiting and selecting of employees. It was further discovered that, qualified employees working under MSS travel agents always receive lucrative offers from well-reputed travel agencies. Young executives, who are squeezed with financial burdens, always tend to accept such offers from the opponent travel agents.

5. Conclusion

The study revealed that the fragment of MSS travel agencies is confronted by an array of marketing and operation difficulties including inability to secure good hotel rooms, lack of professional guides and vehicles, lack of opportunities to participate at international travel marts, less investment on familiarization tours, immoral competition, lack of competent professionals and unstructured internal management systems. Moreover, the external and internal environment of MSS travel agencies is not much favorable to guarantee the smooth function of the sector. Therefore, practitioners and policy makers should make them aware of these issues and take corrective measures to defeat them. More specifically, Sri Lanka Tourism Promotion Bureau and other relevant government agencies should empower the sector through various supports including financial assistance, training and development and other policy interventions.

The interpretation of the findings must be done with caution as it limits the generalization of the findings. Another limitation of the study is that it only looks at two driving areas of the MSS travel agencies: operational and marketing related problems. Therefore, the future researchers may consider other areas and use a larger sample through which better generalization could be reached.

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Board size, board composition and firm performance of Sri Lankan listed companies

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Abstract

This study examines the impact of selected corporate governance measures on corporate performance of listed non-financial companies in Sri Lanka. This study uses the return on assets and Tobin Q as proxy measures for corporate performance. The study employs a cross sectional analysis of 125 firms listed in Colombo Stock Exchange for the financial year ending 2013 and multivariate analyses are used to test the hypotheses. The results reveal that board size is negatively associated with return on assets. The study also finds that board independence is not significantly associated with return on assets. Furthermore, control variables of firm size and dividend yield are positively linked with return on assets and chief executive officer duality is negatively associated with return on assets. However, leverage has no any significant relationship with return on assets. None of the corporate governance measures was statistically significant in explaining corporate performance based on Tobin Q. Implications of the findings are also discussed in the paper.

Keywords: *Board independence, board size, corporate governance, corporate performance, return on assets (ROA), Tobin Q.*

1. Introduction

Corporate governance is one of the most important areas, widely studied and enhanced by many researchers for increased corporate performance. It is generally known that if corporate governance improves then firm performance will also get better. There are different dimensions of corporate governance such as board composition, audit committee, Chief Executive Officer (CEO) compensation, CEO duality and ownership structure. To mitigate the agency problem, Rose (2005) argues that the corporate board plays a key role in supervising management and aligning with the interest of shareholders. The board is considered to be a most important internal corporate governance system

(Brennan, 2006) as the board monitor and supervise management, and gives management strategic guidelines. A board works to boost the corporate performance and ratify legally vested responsibilities and fiduciary duties (Zahra & Pearce, 1989). There is a gap of studies as to whether the board composition can meet these stated responsibilities in the same ways in differing market contexts and jurisdictions in which they manage.

The board is a key element in corporate governance mechanisms that monitor and instruct management in carrying responsibility to protect and increase shareholders' wealth (Fama & Jensen, 1983). Ruigrok et al. (2006) state that boards also have important roles to play with respect to activities such as designing and implementing strategies and fostering links between the firms and its external environment. In theory, the board is responsible to the shareholders and is supported to govern a company's management. The task of the board of directors has increasingly come under inspection in glow of corporate scandals such as those at Enron, WorldCom and HealthSouth, in which the board of directors failed to act investors' best interest.

Board size refers to the number of directors on the board. From an agency viewpoint, it can be argued that a larger board is more likely to be watchful for agency problems simply because a greater number of people will be reviewing management events. Jensen (1993) suggests that board limit at around eight directors, as any larger number will obstruct with group dynamics and slow down board performance. Much research carried out to determine the suitable number of directors in a board to obtain better performance and has been regarded as one of the important corporate governance variable (Bonn, 2004; Dalton et al., 1999). Bonn (2004) concludes that effectiveness of the board depends on the level of expertise and knowledge of the members in the board. It has been suggested by the scholars that neither too big nor too small, the members of the board gain better performance. Cheng (2008) states that larger board are less efficient and slower in decision making, because it is more difficult for the firm to organize board meetings and for the board to reach a consensus.

In relation to board composition, a board of directors commonly consists of two types of directors such as executive directors and non executive directors. Executive and non executive directors have same responsibilities in law. An executive director is a director who has separate responsibilities within the company as an executive. They perform operational and strategic business functions such as managing people, looking after assets, hiring and firing, entering in to a contract. They are usually employed by the company and paid salary. In contrast, non executive directors are not usually involving with day to day management activities. They use their experience and expertise to provide independent advice and objectivity, and they usually have a role in monitoring executive management. Furthermore, they bring an objective view of the business, can improve the boards' effectiveness at relatively low cost and provide valuable business connections.

According to agency theory, effective boards will be comprised of outside directors. These directors are believed to give better performance benefits to the firm as a result of their independence from firm management. There is near consensus in the conceptual literature that effective boards will be comprised of greater proportion of outside directors (Lorsch & Young, 1990; Zahra & Pearce, 1989).

Although there exist several studies on corporate governance in less developed and emerging economies (Shleifer & Vishny, 1997; Shah et al., 2011), in the context of Sri Lanka there are very few studies on corporate board practices and governance (Fernando,

2012; Senaratne & Gunaratne, 2012; Kajanathan, 2012). These studies focused some selected sectors. The present study extends the literature on corporate board practices such as board size, board composition and corporate performance by providing evidence from this emerging economy.

The aim of this study is to identify the impact of board characteristics namely board size and board composition on the performances of selected Sri Lankan listed companies while answering the questions: does board size can influence a company's performance?, is there any association between number of non executive directors in the board and the company' performance?

The remainder of the paper is structured as follows. Section two presents the related literature review and hypotheses development of this research. Section three explains the data collection and research method used. Section four presents data analysis and discussion. Finally, section five gives the conclusion of this study.

2. Literature and hypotheses

According to the resource dependency theory, bigger board size will guide to better corporate performance because of the different skills, knowledge, experience and exposure brought into boardroom discussion. Hermalin and Weisbach (2003) argue that larger boards can be less successful than small boards. The earlier literature in relation to board size is argued that the favorite for smaller board size stems from technological and organizational change which eventually leads to cost cutting and downsizing (Lipton & Lorch 1992; Jensen, 1993). Regardless of the previous findings, it is still arguable whether the effectiveness of a firm can be achieved from a small board or large board.

The majority of US empirical studies have documented a negative relationship between board size and corporate performance, leading Hermalin and Weisbach (2003) to conclude that this relation is one of the prominent empirical regularities in the literature using data from 452 large U.S. industrial corporations between 1984 and 1991. Yermack (1996) documents a negative relationship between board size and corporate performance, as measured by Tobin's Q and profitability. Other US studies have found very similar results (Cheng, 2008). In addition, Eisenberg, Sundgren and Wells (1998) and Mak and Kusnadi (2005) also conclude that there is a strong negative association between board size and corporate profitability. In the case of Sri Lanka, Fernando (2012) finds a negative association between the board size and corporate performance in Sri Lankan largest companies.

Only two US studies (Adams & Mehran, 2005; Dalton et al., 1999) find a positive effect of board size on performance. In the similar perspective, Zubaidah et al. (2009) find that the board size has a positive impact on corporate performance with the sample of 75 listed companies in Bursa Malaysia. As the majority of prior studies emerge to suggest a negative association between board size and corporate performance, it is hypothesized that companies with small board size attain better performance than others.

H₁: There is a negative association between board size and corporate performance

It is broadly debated in the corporate governance literature with regard to whether board composition in the form of representation of outside independent directors may add any profitable value to the firm (Hermalin & Weisbatch, 2003). Yermack (1996) concludes

that there is a significant positive relationship between ROE, board composition and audit committee. Shah et al. (2011) find that more independent and efficient board of directors accelerates or boosts a firm's performance. In the similar perspective, Zubaidah et al. (2009) find that independent non-executive directors contribute significantly in the long term performance of the company. Dehaene et al. (2001) conclude that there is a significant positive relationship between the independent directors' percentage in a firm and return on equity (ROE) among Belgian companies. Similar results were found by O'Connell and Creamer (2010).

In contrast, Agrawal and Knoeber (1996) find a significant negative association between outside board members and corporate performance. This result is also supported by Bhagat and Black (1999) with the findings of firms having more outside directors performs poorer than other firms.

However, Forsberg (1989) finds no relation between the outside director proportion in the board and different firm performance measures. Bhagat and Black (1999) find no significant relationship between board composition and performance. Empirically, research on non-executive director in relation to firm performance is inconsistent.

H₂: There is a positive association between the proportion of independent non-executive directors and corporate performance.

3. Methods

Data and sample: The study basically employs secondary data on the financial statements of 125 listed non financial firms on Colombo Stock Exchange (CSE). The use of listed firms is due primarily to data availability and reliability because these are required by law to provide their financial statements at the end of each financial year. The banks and the other financial institutions are excluded because of their massive debt structure. The data and other related information for this study were collected from the published annual reports, CSE website and publications.

The total listed companies in the CSE enclosed 293 companies including the financial sector in 2015 and have been categorized with 20 different sectors. The sample of this study consists of 125 non-financial public listed companies in Sri Lanka

Model specification: An ordinary least square regression model was used to test the hypotheses of this study. The regression model utilized to test the relationship of board size and board composition with corporate performance is as follows:

$$\text{Corporate Performance} = \alpha + \beta_1 \text{Board Size} + \beta_2 \text{Board Composition} + \beta_3 \text{CEO Duality} + \beta_4 \text{Firm Size} + \beta_5 \text{Dividend Yield} + \beta_6 \text{leverage} + e_i$$

Dependent variables: Corporate performance represents the return on assets (ROA), and Tobin Q as a proxy to measure firm performance. ROA is calculated using the formula of Net Income / Total Assets. Tobin Q is the ratio of the market value of a company's debt and equity to the current replacement cost of its assets.

Independent variables: Board size is the number of directors on the board and board composition refers to the percentage of membership held by the outside independent directors.

Control variables: The considered control variables are as follows; CEO duality, firm size, dividend yield and leverage. CEO duality is considered as a binary, which is equal to be one (1) if the CEO and Chairman are held by the same person, otherwise zero (0).

The natural logarithm of total assets is considered as the firm size. And also, dividend yield is measured by the cash dividends paid as a percentage of total shareholder equity. Finally, Leverage is calculated using the formula of Total debt / total equity.

4. Results and discussion

Descriptive statistics were calculated to obtain sample characteristics. Table 1 provides descriptive statistics of dependent and independent variables.

Table 1
Descriptive Statistics

| Statistics | ROA | Tobin Q | Board size | Board Indp | CEO dual | Firm size | Dividend yield | Leverage |
|------------|--------|---------|------------|------------|----------|-----------|----------------|----------|
| Mean | 0.059 | 0.699 | 7.888 | 0.712 | 0.144 | 9.657 | 0.053 | 0.368 |
| Median | 0.056 | 0.716 | 8.000 | 0.714 | 0.000 | 9.661 | 0.016 | 0.153 |
| Std. Dev. | 0.119 | 0.193 | 1.981 | 0.205 | 0.353 | 0.634 | 0.226 | 0.754 |
| Skewness | 2.188 | -0.471 | 0.137 | 0.257 | 2.028 | -0.053 | 9.529 | 6.791 |
| Kurtosis | 25.569 | 2.693 | 2.698 | 2.216 | 5.113 | 2.897 | 98.940 | 61.133 |

Of the firm studied, the mean board size is about eight (8) directors with a minimum of 3 and maximum of 12 directors. It is suggesting that firms in Sri Lanka have comparatively moderate board sizes. This result is consistent with the findings of Jensen (1993), Mark and Kusnadi (2005) and Lipton and Lorch (1992). The mean percentage of non executive directors of the board is 71.2 percent. This is higher than the 39 percent reported by Vafees and Theodorou (1998) for UK companies. In addition, descriptive statistics indicate that the majority of firms in the sample separate the position of the board chairman and CEO, thus about 86 percent of the firm practice dual leadership and balance 14percent of the firm have their CEO and chairman positions combined in one personality.

Table 2
Correlation matrix

| | A | B | C | D | E | F | G |
|-------------------|----------|-----------|----------|-----------|--------|---------|--------|
| A. ROA | - | | | | | | |
| B. Tobin Q | -0.136 | - | | | | | |
| C. Board Size | -0.087 | 0.000 | - | | | | |
| D. Board Indp | -0.129 | 0.116 | -0.127 | - | | | |
| E. CEO duality | -0.167* | -0.083 | -0.081 | -0.171** | - | | |
| F. Firm size | 0.239*** | -0.266*** | 0.288*** | -0.261*** | 0.029 | - | |
| G. Dividend yield | 0.491*** | -0.204** | -0.058 | -0.078 | -0.032 | 0.103 | - |
| H. Leverage | -0.097 | -0.031 | 0.036 | 0.068 | -0.003 | 0.196** | -0.054 |

*Correlation is significant at the 0.1 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.01 level (2-tailed)

Correlation analysis was carried out to find the inter-relationship within the variables. Table 2 presents the coefficients of correlations and the results indicate that board size and board independence are negatively correlated with ROA and positively correlated with Tobin Q but not significant. Control variable of CEO duality is significantly and negatively associated with ROA at 0.10. Furthermore, firm size and dividend yield are significantly positively and inversely related with ROA and Tobin q respectively.

In addition, to test the impact of independent variables on the dependent variables, the study used regression analysis. Table 3 exhibits the regression results of the association between the independent variables and ROA.

Table 3
Results of regression analysis- ROA

| Variable | Coefficient | t-Statistic | Prob. |
|--------------------|-------------|-------------|--------|
| C | -0.224307 | -1.28772 | 0.2008 |
| Board size | -0.012047 | -2.281122 | 0.0246 |
| Board indep | -0.047054 | -0.945184 | 0.3468 |
| CEO duality | -0.058354 | -2.065002 | 0.0415 |
| Leverage | -0.017093 | -1.364922 | 0.1753 |
| Firm size | 0.043362 | 2.49465 | 0.0142 |
| Dividend yield | 0.225094 | 5.518886 | 0.0000 |
| R-squared | 0.351963 | | |
| Adjusted R-squared | 0.313843 | | |
| F-statistic | 9.23305* | | |

The board size is significantly negatively correlated with ROA. Hence, in line with prior work of Yermack (1996) and Eisenberg et al. (1998), current study offers some support for the view that a negative relation between board size and corporate performance is also obvious in the Sri Lankan setting. Therefore, Hypothesis 1 is accepted. In relation to board independence, the results show that there is a weak negative relationship between the percentage of non executive director and firm performance. This result is consistent with the results of Agrawal and Knoeber (1996) and Bhagat and Black (1999). Hence, Hypothesis 2 which stated a positive correlation between the proportion of independent non-executive director and firm performance is rejected. In keeping with earlier works on this topic, present study includes control variables in the regression analysis. Table indicates that CEO duality is significantly negatively correlated with ROA. In contrast, firm size and dividend yield are positively strongly associated with ROA. Relating to leverage the result shows that there is an inverse impact on ROA.

Table 4 exhibits the regression results of the independent variables on Tobin Q. The results reveal that board size and board independency have no any significant effect on Tobin Q. However, both firm size and dividend yield have significant positive effect on Tobin Q.

Table 4
Results of regression analysis- Tobin Q

| Variable | Coefficient | t-Statistic | Prob. |
|--------------------|-------------|-------------|--------|
| C | -0.51416 | -1.316927 | 0.1908 |
| Board size | -0.007026 | -0.594667 | 0.5534 |
| Board Indp | -0.060904 | -0.54687 | 0.5857 |
| CEO duality | -0.013365 | -0.211412 | 0.8330 |
| Leverage | -0.034191 | -1.220455 | 0.2251 |
| Firm size | 0.073756 | 1.896751 | 0.0607 |
| Dividend yield | 0.941808 | 10.32207 | 0.0000 |
| R-squared | 0.548965 | | |
| Adjusted R-squared | 0.522434 | | |
| F-statistic | 20.6911 | | |

5. Conclusion

The study examines the impact of corporate governance measures such as board size and board composition on corporate performance of listed non financial companies in Sri Lanka. This study uses the ROA and Tobin Q as proxies for corporate performance. The results of the study show that board size is significantly negatively correlated with ROA. With regards to board independence, there is no significant relationship between the percentage of non- executive directors and corporate performance. The results also show the negative relationship between these two dependent and independent variables. This means that non-executive directors do not add economic value to the firms.

The major limitations of this study are as follows: Firstly, the study is based on the cross sectional study which concerns about one year period and it may not provide more generalized result. Secondly, this study used only ROA and Tobin Q as performance measures. Return on equity, return on capital employed and return on investment are also used in this purpose. Thus, it is highly recommended that future research should use panel data and a wider range of performance measures to validate the findings of the present study. Future studies should also consider on non-financial aspects of performance such as customer satisfaction, employee satisfaction, and managerial satisfaction.

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