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Abstract

Microfinance is an effective development tool to reduce poverty and empower the poor especially women, economically and socially. It is recognized as an effective tool in poverty alleviation in many developing countries including Sri Lanka. There is consensus that micro finance institutions extend financial services to the poor usually ignored by traditional financial intermediaries. This study aims to evaluate the effectiveness of microfinance for poverty alleviation.A comprehensive literature survey was carried out to evaluate various dimensions relating to of the microfinance and its effectiveness to alleviate the poverty. Peer reviewed articles were gathered from various sources. The review found a mixed result about the effect of microfinance on poverty alleviation. In fact, empirical literature that supports the positive effect of microfinance on the improvement of the living condition of the poor is prominent. Thus, policy makers and relevant authorities should revisit the microfinance programmes to ensure the expected return from such programmes.

Keywords: *Microfinance, poor, poverty alleviation.*

1. Introduction

Microfinance has gained a considerable attention as an effective tool for reducing poverty and improving welfare of the poor segment of the society in recent years. Microfinance concept has been in operation for centuries in different parts of the world, for example, "*notable*" in Indonesia, "*cheetu*" in Sri Lanka, "*tontines*" in Cameroon, "*susu*" in Ghana and "*pasanaku*" in Bolivia (Boateng & Boateng, 2014). The history of Microfinance Institutions (MFIs) in developing countries started in the mid-1800s with evidence of the benefits from small credits to entrepreneurs and farmers in a bid to reduce poverty, even though significant impact only came in after the end of the Second World War with the British Marshall plan. The modern concept of microfinance was emerged in the 1970s with the efforts of Professor Mohammad Yunus, who established Grameen Bank, a special kind of bank for the poor. Since its inception in the villages of Bangladesh in the 1970s, the modern microfinance revolution is emerging in many countries of the world as a tool for poverty reduction (Robinson, 2001). The award of the Nobel Peace Prize to Yunus and the acceptance of microfinance as one of the primary tools to attack poverty seem to have galvanized its opponents (Robinson, 2001).

The goal of microfinance is to improve the welfare of the poor. Therefore, poverty reduction is good proxy to measure the impact of microfinance for fulfilment of that goal (Nghiem, 2011). The World Bank defines poverty as 'pronounced deprivation in well-being' (World Bank, 2011). However, Sen in 1987 defined poverty as deficiency due to a lack of resources, both material and nonmaterial, e.g. income, housing, health, education, knowledge and culture. Poverty has become one of the multi-dimensional issues in most developing countries of the world. World Bank reported that in 2010, over 900 million poor people (78 % of the poor) lived in rural areas, with about 750 million working in agriculture (63 % of the total poor) (World Bank, 2015).

There is no clear consensus among researchers about the impact of microfinance in reducing poverty. In reviewing these diverse views, it is timely important to assess the impact of microfinance on poverty reduction. Thus, this paper reviews the extant literature to identify the effect of microfinance on poverty alleviation. The paper contributes to present microfinance literature and provides policy directives to improve the microfinance programmes to ensure the maximum return to the target groups.

2. Literature review

Poverty reduction has become a key challenge in many regions in the world, especially in South Asia. In the case of reduction of poverty, as that of microfinance, many studies have been done internationally. Most of impact assessment studies on Microfinance have largely focused on the poverty reduction. The relationship between microfinance and poverty is still in question and empirical evidence on impact of microfinance in reducing poverty has evolved with considerable disagreements. Some writers argue that microfinance do bring about immense socio economic benefits. In contrast, some other researchers pointed the negative impacts of microfinance. Between these two extremes, there are some other writers who believe that even though, microfinance has several beneficial effects, and it does not help the poorest.

This review is divided into three parts; the first section reviews the literature supports claim that the microfinance helps to reduction of poverty, the second section reviews literature deals with the negative effects of micro finance on poverty and the third section reviews mixed effects of microfinance.

Several studies supported the idea of enabling microfinance as a poverty alleviation tool. In 2006, Muhammad Yunus won the Nobel Peace Prize for pioneered the work in helping the poor in his home country. The replication and the microcredit in Bangladesh were taken as a model in other countries. Meanwhile some NGOs (such as BRAC in Bangladesh) had provided basic education in rural areas with the innovative methods and they were all potentially positive developments for poverty reduction efforts (Hossain, 1988). Hossain (1988) studied microfinance impact assessments in Bangladesh, having used the comparison group method. The study found that the average household income of Grameen members' was to be 43 percent higher than that of targeted non-participants

in comparison villages. Holcombe (1995) studied about the impacts of microfinance on Grameen Bank in Bangladesh and the study found the positive effect of microfinance for poverty alleviation. Khandker and Pitt (1998) conducted a study on the impact of BRAC, Grameen Bank and RD-12- three microfinance institutions in Bangladesh. This study has assessed the impact of three levels, namely, household, village and institution. The survey was conducted over 1800 households, selected randomly from 86 villages in 29 Thanas. The major finding of the study was quite expected ranging for micro-credit contributes to poverty alleviation. The 5 percent of Grameen and 3 percent of BRAC households have gone beyond the poverty level, every year at the household level. In another survey by Khandker (2001) tried to assess the long-term economic effect of micro finance in Bangladesh. The study compared the results of two studies in 1991/92 and 1997 /98, with 98/99 and found that the "Microfinance participants were better position than the non-participants of both the surveys in relation to per capita income, per capita expenditure, and household net worth. Park (2001) evaluated the effect of microfinance on poverty by targeting sustainability and impact. Survey method was used for conducting the study and focused on the household level as their main unit of analysis. The stratified random sample based on three strata typified by the amount of governmental involvement in the microfinance program was assessed. A high level of repayment activity suggested profits for the lending institution and thus a high repayment rate was also necessarily suggested a sustainable microfinance program. Change in household income was observed to measure the impacts of microfinance. This change in household income was an indication that people are trying to come out of the vicious circle of poverty. Kimos et al. (2009) evaluated the contribution of Sinapi Aba Trust towards poverty reduction in Bangladesh. They used cross-sectional data from 547 respondents. The study found out that the participation by the poor people in the programme has actually achieved the objective where clients now owned the saving deposits and subscribed to welfare scheme which served as insurance to pay off debts in times of illness or death. Established clients were also found to be in a better position to contribute towards the education of their children and payment of healthcare for members of their households as well as contribution towards the purchase of household durables. Katsushi et al. (2010) in their study examined whether household access to microfinance reduces poverty. Using national household data from India, treatment effects model was employed to estimate the poverty-reducing effects of MFIs loans for productive purposes. Significant positive effect of MFI productive loans on multidimensional welfare indicator was observed. A study conducted by Nawaz, 2010 in Bangladesh found a reasonable reduction of poverty of the microfinance clients by investigating a variety of socio-economic indicators, though such opportunities many of the poorest in the village have not reached the expected outcomes. The study suggests that incorporation of other services such as skills training, technological support, education and health-related strategies would make microfinance a more effective means of poverty reduction.

Imai and Azam (2012) studied the effect of microfinance on poverty reduction in Bangladesh. They used panel data covering four rounds from 1997 to 2005 and used a treatment effects model and propensity score matching for the participants and non-participants of microfinance programmes. The study found that household access to microfinance loans from MFIs has increased per capita household income if such facilities are only taken for productive purposes. Mamun and Adaikalam (2011) investigated the effect of Amanah Ikhtiar Malaysia's (AIM) Urban Microfinance Programme on quality of life of the clients in Peninsular, Malaysia. The study employed a cross sectional design with stratified random sampling method. A quality of life index using eleven selected indicators was used in the study. The study found that access to microfinance improved quality of life of participating households in Urban Peninsular, Malaysia and concludes that microfinance helps in coming out of poverty. Charles et al. (2011) examined the impact of microfinance on poverty alleviation in Nigeria. The results revealed that there was a vital effect of MFI in reducing poverty by rising the income. It also concluded that microfinance institutions have powerful strategies for poverty reduction. Ullah et al. (2013) conducted a study in Bangladesh and examined an overview about access to microcredit for rural poor and its impact on their poverty situation by focusing 360 microcredit recipients. The findings reveal that microfinance effects on income, assets endowment, standard of living and poverty reduction.

One of the early and most cited studies by Hulme and Mosley (1996) used a cross country survey in six leading micro finance institutions in four countries. The control-group methodology had been used in looking at the differences of changes in income between the households in the villages with microfinance programmes and similar households in non-programme areas. They found evidence to suggest that the poor in upper and middle-income categories tend` to benefit more from microfinance than poor who were in lower-income category. The findings of these studies were provocative: poor households did not benefit from microfinance; it was only non-poor borrowers (with incomes above poverty lines) who could do well with microfinance and enjoy sizable positive impacts. There is a vast majority of those with starting incomes below the poverty line actually ended up with less incremental income after getting micro-loans, comparing to a control group which did not get such loans. The study implied that credit was only one factor in the generation of income or output (Hulme & Mosley, 1996). There were other complementary factors that are crucial for making credit more productive. Among them, the most important was recipient's entrepreneurial skills. They found that micro-credit helps the upper and middle income poor rather than the 'poorest of the poor'.

Morduch (1998) attempted to look specifically at the role that microfinance plays in helping the poor by focusing the Bangladesh Institute for Development Studies (BIDS). World Bank survey data with a difference-in-difference method reported mixed results, including some positive and some negative effects of microfinance in alleviating poverty and helping the poor. The study found that the microfinance programmes help the poor moderately than the destitute. Further, he found that households that are eligible to borrow and have access to the programmes do not have notably higher consumption levels than that of controlled group of the households. Moreover, he found that households eligible for programmes have substantially lower variation in consumption and labour supply across seasons, thus the most important potential impacts of microfinance programs are with reducing one's financial vulnerability, and not necessarily poverty. Weiss et al. (2003) brought together all the evidences on the impact of microfinance activities on poverty reduction. Their paper examines extent to which microfinance activities help in pulling household permanently out of poverty. Paper also tried to answer questions such as do microfinance services reach to the core poor people and how far microfinance is a cost effective mean of transferring income to the poor. The paper concludes that microfinance has a positive impact on poverty reduction and suggests that microfinance is not a simple tool which can be used to address the poor so easily. Amin et al. (2003) used two measures such as non- parametric test of average monthly consumption of members and non-members of microfinance programmes of vulnerability and Maximum likelihood test of micro-credit membership on vulnerability. They found mixed impact, that was members were poorer than non-members and micro finance programmes were more successful at reaching poor, but less successful at reaching vulnerable group. According to Adams and Von-Pischke (1992) microenterprises in low-income countries were targeted by an increasing number of credit programmes. These efforts resembled earlier problematic attempts to assist operators of small farms with credit. Similarities discussed include target group definition, assumptions, policies, and project justifications. Authors then concluded that debt was not an effective tool for helping most poor people to enhance their economic conditions, be the operators of small farms or microenterprises.

A study conducted by Menon (2006) draws a sample from eight Grameen Thanas and estimates the impact of consumption smoothing by nonlinear least squares. The results revealed that although microcredit helps improve the beneficiaries' ability to smooth seasonal shocks, its effect diminishes over time and it has virtually no impact after four years of participation. Yirsaw (2008) studied about the performance of microfinance institutions in Ethiopia and he has selected six MFIs separately as small MFIs, medium MFIs, and large MFIs. To study the performance data had been collected through annual reports, journal, text books, the balance sheets of selected MFIs, newspapers, magazines, reports of various government and nongovernmental organizations under the secondary data. The entire study went through the case studies and the data had been analyzed using different statistical tools like mean and ratio analysis. According to the results MFIs in Ethiopia regardless of their social mission, they should be financially viable and sound to achieve their missions.

Roodman and Morduch (2009) revisited the studies carried out in Bangladesh and they used Two-Stage Least-Squares regressions and found that lives of the borrowers after thirty years of microfinance did not improve. Noor and Ashraf (2010) used seven factors to evaluate the MFIs in Bangladesh. These factors were membership criteria, cost of credit, income level, religious restrictions, risk of using loan, loan repayment policy and loan use opportunity. They targeted 300 customers of three MFIs in Bangladesh. The sample was selected by using convenience sampling method. To analyze those data researches used several analytical techniques such as factor analysis, multiple regression analysis, descriptive statistics, correlation analysis and ANOVA. The results of the study revealed that the overall satisfactory level of MFIs customers is modest and cost of credit, income level and loan repayment policy in MFIs in Bangladesh were significantly lower. With the use of secondary data of the MFIs in America, Lindsay (2010) examined the performance of MFIs using seven criteria by comparing three kinds of microfinance institutions as nonprofit MFIs (Jamii Bora), quasi MFIs (KIVA), and commercial MFIs (Blue Orchard). The results revealed that nonprofit institutions were less effective than quasi and commercial MFIs. Nonprofit institutions in America were the most efficient institution and 4 percent of the effective institutions were in trouble with the economic and personal growth of their members. Yahaya et al. (2011) studied the effectiveness of microfinance institutions in Kwara state in Nigeria. The study found that the gender and working experience of the clients mediate that effect of microfinance on poverty alleviation.

3. Conclusion

Microfinance has received a considerable attention over the years as it was recognized as an effective tool in alleviating the poverty. This paper reviewed the empirical literature deals with effectiveness of microfinance in poverty alleviation. The review finds that there are mixed results regarding the underline phenomenon. Some studies confirmed that microfinance supports the poverty reduction, while others deny such claims. However, empirical literature supports the positive effect of microfinance on poverty alleviation is prominent. Thus, well-grounded studies are essential to uncover the effectiveness of microfinance in poverty alleviation. Moreover, structural divergence between the microfinance programmes would lead the mixed effects of such programmes on poverty alleviation. Thus, policy makers and relevant authorities should revisit the existing programmes to ensure the maximum benefits to the target groups.

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Human resource management practices, business strategies, innovation and productivity: Evidences from Sri Lanka and China

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Abstract

Human resource management is presented as being context-specific and it is argued that with the growth of new markets world-wide, and increased levels of competition and globalization of business, there is a strong need for more cross-national human resource management studies. However, the literature shows the absence of an integrated framework, which can help to explain the different roles that context-specific facets of human resource management practices play. The aim of this study is to examine the existing human resource management practices in Sri Lanka and China to develop an integrative framework that may be used to evaluate cross-national comparative human resource management policies and practices by delineating the main distinctive facets associated with Human Resource Management and Business Strategies for innovation and productivity. Link between the human resource management practices and business strategies is taken as the conceptual framework of the comparative study. Senior managers following professional executive Master of Business Administration at recognized Universities in Sri Lanka and China were sampled, yielding valid questionnaire data and objective performance indexes from 58 executives. Data were analyzed using t-test and hierarchical regression. The result showed that various human resource management practices help boost innovation and productivity of the business firms. Moreover, a significant difference was found between the two courtiers on human resource practices. The managers were found to be praiseworthy existing human resource management policies and practices. The results of the study support the view that integrating human resource configuration with business strategies is conducive to the enhancement of innovation and productivity of business firms.

Keywords: *Business strategy, human resource management, innovation, organization characteristics, productivity.*

1. Introduction

Due to the dynamic nature of human being and human relations, Human Resource Management (HRM) practices in the context of modern work organizations are subjected to united change. HRM is considered as an umbrella' gathering several different approaches rather than a single theory. All these approaches have in common, the idea that HRM recognizes the vital role that human resource plays in organization (Schuler, 1987). Indeed, human resource management is a modern term for what has traditionally been referred as personnel administration or personnel management' (Byars & Rue, 1987). In order to understand the importance of HRM and to see how it is influenced by cultures and nations, this study attempted to compare situations in two significantly different countries, Sri Lanka and China. The cultural gap between those two countries is wide, and the way people are managed as a factor of production differs depending on the social culture of each of these countries. The context of post-communism, high economic growth and rapid development in China is viewed in parallel with a country where the people are well protected, economy is strong but the growth tends to slow down. Moreover, by choosing two countries which are located in two different continents, we will appreciate different approaches that are not directly linked but integrated to some extent.

The strategic human resource literature suggests that a firm will perform better through internal appropriate fit among HRM practices and through external appropriate fit between a firm's business strategy and HRM practices. The present study adopts a configuration approach to identify unique patterns of HR practices and business strategy which are posited to be maximally effective. Over a span of 30 years or so, the topic of HRM has become one of the most documented in the management literature (Schuler & Jackson, 1999). Moreover, the increased level of globalization and internationalization of business, the growth of new markets, growth of new international business blocs and an increased level of competition among firms at both national and international level has resulted in an increase in comparative HRM studies (Clark, Gospel & Montgomery, 1999). Managers and policymakers now need to know how human resources are managed in different regions of the world and how their counterparts in different parts of the globe perceive or react to similar concepts and pressures. It is also important to have an understanding about the main determinants of HRM policies and practices in different regional and national settings.

Academics have responded positively to meet the challenges raised by the globalization of business by investigating a number of issues and problems related to international business (Hendry, 1996). They have attempted to examine human resource management from a cross-national view point. This comparison of HRM policies and practices at a national level helps to test the convergence–divergence. Scholars have also developed and proposed different models of HRM both between and within nations (Boxall, 1995; Brewster, 1995; Guest, 1997). Interestingly, most models of HRM have an Anglo–Saxon base. As such, from a global perspective, principles of HRM have been developed from a restricted sample of human experience. During the infancy stage of HRM literature, such an ethnocentric approach was understandable and unavoidable. However, with the growth of a ‘‘global business village,’’ firms operating in different countries need appropriate information and guidance to develop their HRM policies and practices. Under such dynamic business conditions, the relevance of lessons learned from the Anglo–Saxon experience is questionable. It is therefore important to examine the extent to which Anglo–Saxon models of HRM are applicable in other parts of the world. It has now become clear that the study of HRM needs a cross-national comparative dimension and an international perspective (Brewster et al., 1996; Clark et al., 1999; Kochan, Dyer & Batt, 1992). However, the existing literature does not make it clear how we should examine the applicability of HRM models in different settings. For further developments in the field of HRM, it is important to have a framework, which can enable us to conduct such an analysis.

Some researchers have emphasized a practical 'best practice' framework for diagnosing HRM practices. Hiltrop (1996) presents 11 dimensions of HRM, which can be used as a checklist for evaluating the effectiveness of HR practices. These dimensions can also be used to benchmark HR activities and the relative influence of the best practices on organizational outcomes. However, in discussing the need to understand HRM in the Asian context, Forster and Whipp (1995) reinforce the need for the adoption of a contingent approach, which can highlight cultural, sectoral, and regional differences in companies. They argue against the 'one best approach,' suggesting that it is not practical for the development of global or Asian HRM strategies. One rational way of highlighting the suggested differences among firms in different countries is by identifying the main national factors, which significantly influence their HRM practices.HRM policies and practices in a cross-national context are influenced by both ''culture-bound'' variables such as national and organizational culture, institutions, and industrial sector dynamics and ''culture-free'' variables such as age, size, nature, and life cycle stages of organization (Brewster, 1995; Hofstede, 1993; Jackson & Schuler, 1995). The degree and direction of influence of these factors is, however, context-specific, and varies from region to region (Jackson & Schuler, 1995; Locke & Thelen, 1995). For example, the response of unions to common competitive pressures such as the introduction of new production technologies, large scale restructuring and re-engineering of organizations, and pressure to increase work flexibility, varies across different countries. Union membership has declined in countries such as China, whereas in Sri Lanka, it has remained stable.

Similarly, since 1989, union membership is on a continuous decline in China due to changes in the Korean political–economic climate. Such a phenomenon shows that different institutional configurations mediate in different ways the effects of common international pressures (Locke & Thelen, 1995). However, in order to evaluate and highlight the context-specific nature of HRM in different national or regional settings, we need to delineate the main factors and variables that could determine HRM in such settings. The dilemma regarding what factors to include under broad concepts such as 'national culture' or 'institutions' needs to be resolved. The issue regarding the selection and choice for certain contingent variables and organizational and HR strategies and policies as possible determinants of HRM also needs serious attention. A rational way to tackle this mammoth task is to understand the complex interactions between HRM practices and their determining variables on the basis of empirical data. However, there is a scarcity of research in this area. This is partly due to the fact that the number of methodological issues involved in cross-national research is many and more complex in comparison to national research, and partly due to the absence of a comprehensive framework for conducting such studies (Cavusgil & Das, 1997).

This paper presents an integrated framework which is suitable for evaluating and comparing HRM policies and practices and business strategies for innovation and productivity by examining their main determinants in a cross-national context. The framework developed in this paper contributes to the literature by serving three purposes:

- To highlight the main determinants of HRM policies and practices in a cross-national context within China and Sri Lanka.
- To help examine the cross-national applicability of the main models of HRM and Business strategies for innovation and productivity
- To provide a mechanism to test the convergence–divergence literature in the field of HRM and Business strategies.

Cross-national comparisons can be conducted at various levels (Kochan et al., 1992; Locke, Kochan, & Piore, 1995). This can range from nation state which is the focus of political literature, level of the firm which focus of labour economics and HRM literature, to individual level which focus of social psychology literature. The study proposes the framework for investigation and comparison conducted at both the national and firm levels. One should be aware of the measurement difficulties in conducting studies including more than one level of analysis. Most importantly, the type of factors to be used will vary in the two levels of analysis. Moreover, in comparison to a firm level of analysis, in a cross-national analysis, a whole range of issues need to be resolved such as ensuring equivalence (e.g., functional, concept, category, and variable), uniformity in data collection methods, clear time frame of study, and sampling issues (e.g., Adler et al. 1986).

2. Literature review

In the present context there is a need to study the similarities and differences among nations and management systems of different countries (Brewster et al., 1996). The major thrust of the comparative management literature can broadly be classified into four categories. Economic development approach developed by Harbison and Meyers (1959) and based on the premise that managerial input plays a significant role in achieving rapid industrial and economic development. Environmental approach proposed by Farmer and Richman (1965) and based on the assumption that managerial effectiveness is a function of external environmental factors such as sociocultural, legal–political, economic and educational. A number of researchers (Murray, Jain & Adams, 1976; Negandhi, 1975, 1983) adopted this approach in part or in full to develop frameworks for cross-cultural comparative management research. The behavioral approach developed from the work of scholars working in the field of organizational behavior (Barrett & Bass, 1970; Davis, 1971). It is based on the assumption that management practices, as well as managerial effectiveness, depend on cultural variables such as attitudes, beliefs, value systems, behavioral patterns, management philosophies, and so forth. Open systems approach used to conceptualize organizations and their interaction with the environment. Negandhi (1975, 1983) describes three kinds of environments in this regard; organizational (which deals with variables such as size, technology), task (which includes distributors, suppliers, employees, government, stockholders, and community), and societal (the macro environment explained in the environmental approach). Negandhi's categorization seems ambiguous and not logical. All four approaches to comparative management present a broad list of variables and factors which form the core basis for cross-national management comparisons. The choice for their selection depends on the nature and aims of the research. However, since they represent some of the most fundamental principles of analyzing management, it is sensible to consider the impact of these variables and factors on HRM policies and practices in a cross-national context. Several frameworks have been developed to evaluate HRM at separate levels of analysis (such as international, MNCs, comparative). Most of these frameworks adopt a contingency approach and are of developed origin.

Different scholars in the field of HRM have put forth a number of frameworks for conducting international HRM research. However, most of these are either normative in nature, or they present a very complex set of variables that cannot be tested empirically. This forms the basis of their general criticism. Three contingency frameworks are briefly analyzed to highlight the different aspects covered. Largely on theoretical and grounded theory arguments, the contributions made by these models are that they have built up a sophisticated awareness of important factors to be considered in international HRM comparisons. Murray et al. (1976) provide a framework for cross-cultural analysis of personnel policies at the level of analysis of comparative management. These functions are assumed to be present in all organization level HRM systems, regardless of national factors, segments highlight the characteristics of culture. A work of Welch (1994) is typical of cross-national analysis at the level of multinational organizations. She has developed a contingency model based on four in-depth comparative case studies in Australian companies. She suggests a framework for determining international HRM approaches and activities relevant for expatriate management. Welch (1994) specifies three sets of variables, which determine the generic functions of selection, training and development, compensation and repatriation of overseas employees.

Negandhi (1975, 1983) suggests that one way of incorporating the wide range of contingent factors and highlighting the interdisciplinary nature of the international management discipline is to ensure that cross-cultural management studies become part of organization theory. He asserts that a number of developments in organization theory are relevant for cross-cultural management research. Still reflecting the contingency theory perspective, he argues that frameworks should include those contextual variables, environmental factors, and sociocultural variables that both impact and provide a comprehensive cross-cultural understanding of the factors affecting the structuring and functioning of organizations, and accordingly the management policies and practices. We need to include all three sets of variables into one model. Negandhi conceptualizes these three sets of variables by visualizing three successive environments and boundaries. These are the organizational environment, the task environment and the societal environment. Different facets of these environments were explained under the open systems approach. While contingency theories have demonstrated the range of variables that shape HRM policies and the different type of influence they may have on the HRM process, comparative theories have helped to classify these variables into different system effects.

Building on this environmental approach to comparative management, and an analysis provided by Farmer and Richman (1965) and Gronhaug and Nordhaug (1992) propose such a perspective for international HRM. They argue that two sets of factors can be used to discuss the nature of international or cross-national management of HR. Gronhaug and Nordhaug (1992) did their analysis on macro and micro environmental factors to show how they influence different HRM elements such as acquisition, development, compensation, work system and labour relations. Comparative theories tend to emphasis only a few factors, with aggregated lists of things that influence national culture. The role of organizational and HR strategy is underplayed, as is changed over time. Similarly, different sets of contingent variables and organizational policies and strategies determine HRM practices in different countries. Empirical studies of HRM in comparative settings tend to reveal the context specific nature of HRM. An investigation into the influence of different factors (such as national culture and different national institutions), variables (such as age, size, life cycle stage, or type of organization) and organizational/HR policies and strategies (such as defender, analyzer, cost reduction, talent acquisition, or talent improvement) on HRM policies and practices can help to reveal national similarities and differences and the possible reasons for them.

One of the main criticisms of both the contingency and comparative frameworks is that they do not present a comprehensive list of factors and variables which determine HRM in a cross-national context. Moreover, most of the contingency models are proposed for expatriate management or management in MNEs, not general cross-national HRM comparisons. Budhwar and Khatri (2001) operationalized and examined the impact of these HR strategies on recruitment, compensation, training and development, and employee communication practices in matched Indian and British firms. The impact of these four HR strategies are varied significantly in the two samples, confirming the context-specific nature of HRM. On the same pattern, there is a need to identify and examine the impact of other HR strategies such as high commitment, paternalism, etc.

Apart from the above mentioned four HR strategies, recent research shows that organizational policies related to recruitment, training and development, and communication determine HR practices and policies in a cross-national setting and can be used to distinguish national groupings of organizations (e.g Brewster & Hegewisch, 1994; Budhwar & Sparrow, 1997; Dany & Torchy, 1994). A research by Budhwar and Sparrow (1997) reveals how internal organizational policies and strategies relate to recruitment, training and development and employees communication act as significant determinants of the levels of integration of HRM into the corporate strategy and devolvement of HRM to line managers practiced in Indian firms. These organizational policy variables represent the internal logic within the HR strategy. Importantly, they were more predictive of the presence of specific HR practices than traditional contingency variables such as age, size, and nature of the firm. Organizations also have different HR strategies for different levels and groupings of employees, and this varies across countries. The same study showed that in comparison to British organizations, Indian organizations shared less financial and strategic information with lower level employees. This was based on the rationale that management had less faith in the capability of lower level employees in India and less willing and saw less added-value in sharing such information with this level of employees (Budhwar & Sparrow, 1997). There is then a paucity of empirically grounded studies which detail the differential reflection of generic HR strategies such as empowerment, up-skilling or resourcing in the actual set of specific HR practices. The same strategic ends can be achieved through very different means (HR practices) across countries. The majority of the studies which have examined the impact of organizational and HR strategies and policies on HRM practices have been conducted in the Anglo–Saxon nations.

Increased integration between HRM and business strategy is one of the most important demands that are placed upon modern strategic human resource management. In both the management and the academic literature, it is generally acknowledged that the strategic deployment and management of personnel can contribute to the success and continuity of the firm. The human resources are the most important assets of an organization, in terms of firm's competitive advantage. At the same time, in addition to the importance of the human resources as such, it is believed to be important that the management of the human resources should be in perfect fit with the management of the organization as a whole and its strategic plans.

The literature often refers to a relatively small number of success stories. In general, most literature is mainly concerned with ‘what’ strategic human resource management is and much less with ‘how’ to implement it (Truss & Gratton, 1994). We would like to distinguish three aspects of the integration between business strategy and HRM. The first is concerned with the relational aspects between business strategy and human HRM: what is the position of personnel and human resource management in relation to other internal factors such as economic, technological and financial? The second issue reflects the content of both strategy and HRM and is concerned with the connection between a certain business strategy on the one hand and a certain HRM on the other. Third and finally, the process aspects refer to the ways in which the integration between business strategy and HRM is realized and continued. It will provide insight into the ways in which the integration between business strategy and human resource management is actually realized.

Integrating is to bring the people to organization for fitting with business strategy to achieve organization goals and to gain competitive advantage. To attempt for analyzing the integrating HRM and business strategy, the model was developed as external environment includes legal, technology, economics, social, culture, industrial structure, shareholders, consumer behavior, labor law, labor force and trade union whereas internal environment covers company’s mission, policies, corporate, culture and management style. HRM function of company has been identified and its functions were analyzed as recruitment and selection, training and development, performance appraisal and compensation. The purpose of the analysis through the above model is to examine how HRM fits to the business strategy of the organization.

Both processes have forced organisations to undertake changes involving reduced work forces and the introduction of new technologies aimed at improving labour productivity (Hodgkinson, 2001). Within this process, employee management regimes have also had to change. Some organisations have adopted a sophisticated, coherent set of employment policies and practices, while others use a more ad hoc approach, responding to pressures as they arise but without any consistent employment policy framework.

There has been an increasing interest in the employee relations literature on the strategic role which HRM plays within organisational change. HRM is defined as differing from other personnel management approaches because it emphasises “the link between managing human resources and business strategy” and therefore has an “emphasis on the integration of employment policies and practices with each other as well as with business strategy” or the development of competitive advantage. A second feature of HRM strategies is that line managers play a key role in the management of human resources and thus the attitudes of senior management towards employee relations is a key variable in determining which regimes will be found in different organisations (Sisson, 1994).

Given the link between HRM and business strategy, it is expected that effective regimes will have a direct impact on an organisation’s ‘bottom line’, particularly through improved productivity, improved quality of work life and by ensuring legal compliance (Kramar, et al. 1997). More recently, HRM regimes have been discussed in terms of soft’ versus ‘hard’ strategies. The dividing line between the two approaches is inexact.

Soft HRM strategies are taken to be more collectivist in philosophy and thus include a role for union representatives in consultation and participation processes. They are also seen to be more ‘people centred’ and hence attempt to achieve the organisation’s goals through increasing the commitment and competence of its workers. Soft HRM organisations would be expected to simultaneously pursue the objectives of improved productivity and improved quality of work life (Sisson, 1994). This approach involves a greater use of teams, total quality management techniques, direct involvement of workers in decision-making and investments in human capital to improve skills and multi-skilling in workers (Gollan & Davis, 2001).

Hard HRM strategies are more individualistic and hence have less tolerance of union participation. Employees are viewed more as a factor of production than a competitive asset so that employment policies and practices tend to focus on cost reductions, flexible or more insecure employment and the use of individualized payment systems to improve organizational performance (Sisson, 1994; Hamberger, 1995; Deery & Walsh, 1999). Some analysts, however, anticipate that the 'hard' or individual approach would result in higher absenteeism and labour turnover but lower levels of strikes and stop-works and lower investments in human capital (Sisson, 1993; Deery &Walsh, 1999) than the 'soft' approach. It is also suggested that the use of individual mechanisms will be significantly higher when management is opposed to the unionization of their workplace (Gilson & Wager, 1996).

During the last thirty years, innovation has evolved as the synonym for the development of nations, technological progress and driver of business success. Innovation nowadays is not simply the "creation of something new" but also a panacea for the solution of board range of problems. The link between vision, strategy and innovation is important to effective innovation management. Strategy determines the configuration of resources, products, processes and systems that firms adopt to deal with the uncertainty existing in their environment. It requires that firms make decisions about what businesses and functions they should be performing and in what markets. Successful innovation requires a clear articulation of a common vision and the firm expression of the strategic direction. This is a critical step in institutionalizing innovation. Without a strategy for innovation, interest and attention become too dispersed.

Innovation strategy is critical in directing organizational attention. In general, organizations that adopt an offensive strategy of trying to create the future (as opposed to protecting the past) are more innovative. The success of companies who broke the rules of their industry through innovation — with or without technology—and went on to become a dominant player has been well-documented (Hamel, 1998; Kim & Mauborgne, 1999). Several firm-level variables that can potentially affect the innovation and productivity are size of firm, age of firm, reward winner, and union present. Numerous organizational factors beyond intellectual capital may influence innovative capabilities. For example, large organizations may be more likely to develop innovative capabilities owing to their extensive resource bases (Cockburn & Henderson, 1998), however, smaller organizations may be more innovative owing to their flexibility (Cohen & Levinthal, 1990). The nature of the organizations and employee contribution are competing in environment control which is known to influence their innovative capabilities. It is important to note that these factors are broadly competitive in nature, and barring country/region characteristics, operate at the organizational level. Schuler et al.'s theoretical framework is more complicated than the framework of Murray et al. (1976) and Welch (1994) as they link these factors to both strategic MNE components (such as inter-unit linkages, i.e., how MNEs manage their various operations and internal linkages) and the different strategic international HRM issues faced (i.e., how MNEs effectively operate within the confines of local laws, politics, culture and economy). They differentiate three strategic international HRM functions (orientation, resources and location), four strategic international HRM policies and practices (staffing, appraising, compensation, and developing) and five MNE concerns and goals (competitiveness, efficiency, local responsiveness, flexibility, and learning and transfer). Based on these complicated connections, following conceptual framework and hypotheses are proposed for the present study.

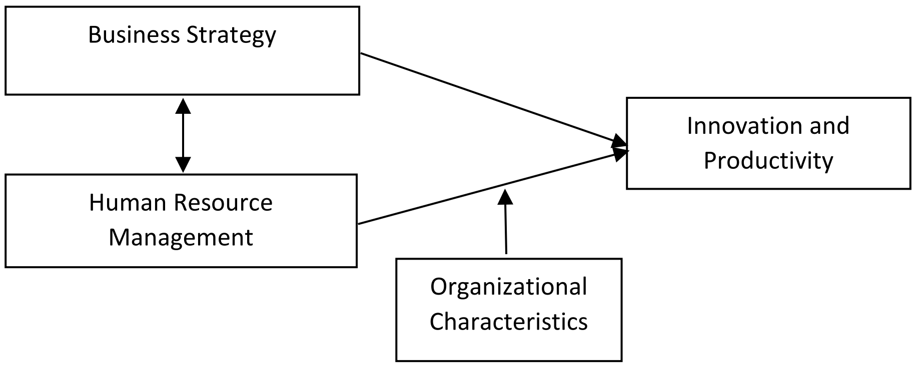

Figure 1 Conceptual Framework of the Study

Hypothesis I (H_1) The distribution of business Strategy towards innovation and productivity is different across country of Sri Lanka and China

Hypothesis II (H_2) The distribution of human resources management towards innovation and productivity is different across countries of Sri Lanka and China

Hypothesis III (H_3) The distribution of business strategy and human resources management towards innovation and productivity moderated by organizational characteristics is different across country of Sri Lanka and China

3. Methodology

Data were collected from senior managers those who follow professional executive Master of Business Administration (MBA) in recognized Universities in Sri Lanka and China. 30 executives participated in the survey making the total sample size 60. The questionnaire designed for this study was pre-tested and finalized before it was utilized for survey. Items of the survey questionnaire were developed after an extensive review of the relevant literature on human resource management, business strategy and innovation and productivity. The questionnaire consists of 42 items. Where applicable, items used in previous studies were adapted to the purpose of this study to ensure validity of survey measures. Likert type five scale was used to measure independent and dependent variables of the study. Reliability of all constructs was tested with Cronbach Alpha coefficients that were range from 0.55 to 0.83 and those are reasonably accepted. In data analysis, hierarchical regression analysis is used for testing the hypotheses of the study. In addition, descriptive statistics were used to analyze and interpret the statistical attributes of the sample. SPSS 21.0 statistical analysis software was used for data analysis.

4. Results and discussion

The respondents for the study come from a variety of different organizations including 35 percent male and 65 percent female. Their ages ranged from 20 to 49 years, around more than 50 percent of them were in age between 25-40 years. Most of them (62.1%) were married and more than 72 percent have bachelor and professional degree, around 12 percent have master degree in their discipline. Most of them have at least 5 year experience in present organization. Key functions they performed in the professions are accounting, advisory, engineering, finance, human resources, and marketing, operations, research, and technology services. The majority of firms was private limited companies (58.2 %) and 27.7 percent firms was public limited companies. The size of firm was measured in terms of number of employee. The number of small, medium, and large firms included in the sample was 13.2 percent, 38.5 percent, and 48.3 percent respectively. This grouping was based on a widely used criterion of defining manufacturing firms with 1-100 employees as a small-scale industry, 101-500 employees as a medium-scale industry, and those with more than 501 employees as a large-scale industry.

With respect to the industries, 33 percent of firms were in textiles, wearing apparel and leather products industries whilst 15 percent were in chemical, petroleum, coal, rubber and plastic products firms and 14 percent firms were specialized in food, beverages and tobacco products. Remaining firms were in various sectors including wood and wood products (8%), paper products, publishing and printing (7%), fabricated metal products, machinery and transport equipment (7%), non-metallic mineral products (6%), and 10percent of the firms surveyed operate in non-specified manufactured products (Not Elsewhere Specified).

The sample composition with respect to the firm age described that the majority of firms (59.4%) were established before 20 years and 17.7 percent of firms are less than 10 years old, 22.9 percent are between 11-20 years old, and 27.3 percent were established 21-30 years ago. Only 2.2percent have been established for more than 40 years. In this study, the firms were divided into two groups: older and young. The firms established before 1995 were named as older firms, and the firms established since 1995 were named as young. This division allowed the sample to be split into two groups including 59.4 percent of old and 40.6 percent of young firms.

Table 1
Results of Independent Samples Test

Variables	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
BS	5.336	.024	-.640	58	.525	-.17619	.27544	-.72754	.37516
HRM	1.847	.179	-2.452	58	.017	-.4368	.1781	-.7933	-.0802
IP	3.298	.075	-2.282	58	.026	-.48667	.21328	-.91359	-.05974
OCH	.356	.55	.053	58	.958	.1111	.2085	-.4063	.4285

BS Business Strategies, HRM - Human Resource Management Practices, IP – Innovation and productivity, OCH – Organizational characteristics

Independent samples t-test was conducted to compare HRM practices and business strategies in the two countries. The result reveals (see Table 1) that there was a significant difference in the two countries on HRM practices ($t = -2.452$, $p<0.05$)). Accordingly, HRM practices in Chinese firms are better than that in Sri Lankan firms. The result also indicates that Chinese firms are in a better position with respect to innovation and productivity when compared with Sri Lankan firms ($t = -2.282$, $p<0.05$). However, no significance differences were found between the two countries on business strategies and organizational characteristics.

It was noted that HRM practices differ from one organization to another due to both internal as well as external factors. External drivers could be globalization, market oriented economy, re-structuring, Govt. policies etc. Globalization has made market very competitive and mergers, acquisition, take over etc. are the order of the day. The existing literature on industry specific HRM practices and policies is fragmented. Still there are chances that HRM practices would vary sector wise. In IT, Fashion industry etc., the patterns of HRM practices would be very different from the traditional manufacturing organizations.

Table 2
Coefficients model on Innovation and Productivity of Sri Lanka and China

Variables	Sri Lanka		China		Overall	
	Model1	Model2	Model1	Model2	Model1	Model2
BS	-.104	-2.630	0.194	-0.751	-.029	-0.886
HRM	0.819	1.921	0.646*	1.162*	0.793	1.324*
OCH		-0.085		0.809		0.334
BS x OCH		3.623		0.316		1.107
HRM x OCH		-1.717		-2.730*		-0.962
BS x HRM x OCH		-0.590		2.382*		-0.010
β	-.092	-0.057	0.583	1.054	0.211	-0.668
R^2	0.570	0.607	0.632	0.963	0.601	0.680
Adjusted R^2	0.538	0.504	0.605	0.953	0.587	0.643
SE	0.683	0.707	0.375	0.129	0.549	0.510
F – Value	17.864	5.916	23.221	98.673	42.902	18.744
Sig.	0.000	0.001	0.000	0.000	0.000	0.000

BS – Business Strategies, HRM - Human Resource Management Practices, IP – Innovation and productivity, OCH – Organizational characteristics

Table 2 shows the results of hierarchical regression used to examine the impact of business strategies and HRM practices on innovation and productivity as well as moderating influence of the organizational characteristics. Adjusted R-square values ranging from 0.504 to 0.953 imply that variance in innovation and productivity in each model is significantly explained by the predictor variables. F-values in each model are significant at 0.01 and indicate that all models are well fitted. The result reveals that HRM practices are significant predictor of innovation and productivity only in Chinese firms. Thus, this result supports the belief that HRM practices can contribute significantly to innovation and productivity initiative of the organizations. The results further indicate that organizational characteristics moderate the relationship between HRM practices and innovation and productivity in Chinese firms ($\beta = -2.73$, $p<0.05$).

5. Conclusion

This study found that the alignment between the business and firm strategy is a key factor of success in innovation and productivity. When the HRM practices and business strategies are aligned, the innovation and productivity would be better than that of such alignments are not exist. The results confirmed the significance of HRM practices and strategy fit in creating competitive advantage. HRM refers to the overall philosophy about the organization and how people should be managed and is not merely limited to certain specific functions. HRM focuses on congruence and commitment instead of compliance and control. In the present day turbulent reality, there is a need to develop industry specific HRM policies and practices to remain in competitive and to develop committed workforce.

We have argued for the need of a framework that integrates our understanding from both international HRM and comparative management disciplines. The approaches, models and theories which we identified in order to develop our framework each deal with pieces of a larger phenomenon, but one which lacks a comprehensive framework to tie them together. We have presented the range of main national factors that create a metalogic for HRM and their various components. We have also delineated the important contingent variables and outlined the organizational and HR policies and strategies, which determine HRM policies and practices in a cross-national context. In so doing, it is important to note that the influence of all the different facets of the four main national factors (i.e., national culture, national institutions, dynamic business environment and industrial sector), contingent variables (such as size, age, nature, life cycle stage of organization, presence of unions, and HR strategies) and the HR strategy with its different organizational strategies and policies of HRM is context-specific. Different configurations of cultural, institutional, industry sector, or business dynamic metalogics alter the specific impact that the individual contingency factors. Understanding the complex interactions and causes-and-effect relationships between these different sets of metalogic factors, contingent variables and organizational strategies and policies now plays a crucial role in highlighting the cross-national but context-specific nature of HRM in different settings.

Further research is needed to test which HR and organizational strategies and policies become significant predictors of HRM in different regional settings. More facets of each national factor will undoubtedly be identified as our research understanding broadens and deepens. The issue of 'policy versus practice' needs serious consideration.

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Environmental impediments at the strategy implementation and hotel performance in Sri Lanka

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Abstract
Business firms running in a highly dynamic business environment have identified strategy implementation as a problematic area that generates negative consequences which directly affect on achieving organizational goals and objectives. Hotel industry is one of the labor intensive industries and considered as a most sensitive industry to the demand fluctuations. Hotels are also confronting insurmountable obstacles as they are going to make strategies work in the final stage of strategic management process. This paper intends to investigate the major environmental impediments that Sri Lankan star hotels have faced during the strategy implementation. To investigate this problematic and less glamorous area the quantitative research approach was employed where 39 general managers of above two star hotels were interviewed with a questionnaire. Results showed that star hotels are confronting three major environmental impediments during the strategy implementation. The greater impediment is economic influences while least adverse effect is from laws and regulations of the country. Influences from the competitive environment are modest. Establishing an effective change management system, regularizing environment scanning, establishing a proper marketing intelligence system and adopting swift implementation would help to minimize the negative impact of environmental impediments on strategy implementation.

Keywords: *Environmental impediments, star hotels, strategy implementation.*

1. Introduction

The hotel industry is considered as the main sector of the tourism industry, and it is one of the most rapidly expanding fields in the service industry (Go & Pine, 1995). Cho (2005) emphasized several unique attributes in the hotel industry such as severe competition, extremely sensitive to fluctuations in demand, hotels offer perishable products and a labor intensive industry providing a personalized service. Further, Cho (2005) explained that the hotel industry operates in a dynamic business environment where elements of the general and task environment directly impact on the overall business operation. In order to successfully grab the business opportunities arising from the external environment and conquer the unfavorable conditions in this environment, hotels have to formulate effective strategies first and then those strategies have to be implemented successfully. Without implementation, even the most superior strategy does not make any sense. Although formulating a consistent strategy is a difficult task for any management team, making that strategy work throughout the organization is even more difficult (Herbiniak, 2006). Noble (1999a) notes that the best-formulated strategies may fail to produce superior performance for the firm if they are not successfully implemented. Corboy and O'Corrbui (1999) define the obstacles as "deadly sins of strategy implementation" and go on explaining them as; "*a lack of understanding of how the strategy should be implemented, customers and staff not fully appreciating the strategy, unclear individual responsibilities in the change process, difficulties and obstacles are not acknowledged and ignoring the day-to-day business imperatives"*. Andrew (2014) studied closely at the strategy implementation barriers which can either be internal; management, communication, human factors such as resistance to change, leadership, organizational structure, information systems and technology or external factors; changes to the operating environment, un-anticipated competition or entrants by new players in the industry and changes in government policies. Rahimnia, Polychronkis and Sharap (2009) have identified five impeders of strategy implementation such as impediments of planning consequences, individual impediments, organizational impediments, managerial impediments and environmental impediments. This study aims to explore environmental impediments on strategy implementation and their effect on the performance of star hotels in Sri Lanka.

2. Literature review

There is no universally accepted definition for strategy implementation. Various definitions had been derived for the strategy implementation by scholars and researchers. According to Noble (1999b), strategy implementation is the process that turns plans into action and ensures that such plans are executed in a manner that accomplishes stated objectives in the planning. Strategy implementation is the total of the activities and choices required for the execution of a strategic plan (Smith & Kofron, 1996). Strategy implementation is a series of interventions concerning organizational structures, key personnel actions, and control systems designed to control performance with respect to desired ends (Noble 1999a). Herbiniak (2005) claims that the execution of strategy is not merely as clear and understood as the formulation of strategy. Parnell (2008) explains strategy implementation through the concepts of participation, conception, and commitment that affect the dissemination of the strategy. Wheelen and Hunger (2006) have identified a few important activities involved in strategy implementation ; (1) involving people from all organizational levels in strategy implementation, i.e. allocating the responsibility for strategy execution; (2) developing programmes, budgets and procedures; (3) organizing for strategy implementation; (4) staffing (matching the managers and employees with the strategy); and (5) leading by coaching people to use their abilities and skills most effectively and efficiently to achieve the organizational objectives. Strategy implementation is affected by number of factors. According to David (1989) motivation, leadership and direction skills and co-ordination affect the implementation of strategy. Strategy implementation relies on leadership, facilitating global learning, developing global managers, having a matrix structure and working with external companies (Herbiniak 2005). Peters and Waterman (1982) state that structure, style, staff, shared values, skills, system and strategy affect on the strategy implementation. Action planning, organizational structure, human resources, the annual business plan, monitoring and control had been identified by Herbiniak (2005) as the factors affecting on strategy implementation.

Dobni, Dobni and Luffman (2004) mentioned three primary reasons for failures of traditional approaches to strategy implementation. First, marketing strategies supporting a product or service quickly become generic and easily copied. Second, brilliant strategies do not always succeed, often succumbing to not so brilliant implementation processes. Lastly, there is often a failure to recognize the contributions that employees can have on strategy implementation. They attribute the failure to organization's ability to provide a sufficient operational interface between the environment and the organization. Al-Ghamdi (1998) identified six primary implementation problems during the strategy implementation process: implementation taking more time than originally anticipated, problems surfaced, which were not identified before, coordination and implementation activities not effective, competing activities distracting implementers, key implementation tasks and activities not sufficiently defined, information systems are not capable for monitoring the implementation process. Sterling (2003) has identified eight reasons for strategy implementation failure in an organization; unanticipated market changes, lack of senior management support, effective competitor responses to strategy, application of insufficient resources, failure of buy-in, understanding and communication, timeliness and distinctiveness, lack of focus, bad strategy, poorly conceived business models. Studies have shown following as the indicators of the domains of environmental impediments of strategy implementation; economic impediments, impact of competitive environment, state laws and regulations related to company activities, cultural and social impediments (Hambrick & Cannella; 1989, Schmelzer & Olsen; 1994; Al-Ghamdi,1998; Ogden,1995; Wilms & Zell, 2003, Coy & Pratt, 1998). De Vasconcellos (1990) claims that a well formulated but badly implemented strategy, will be effective, on the other hand, correct implementation of a haphazardly formulated strategy will be efficient but not effective. Strategies need to be redefined continuously as the knowledge increases and allow new insight. The organizations need to move together in the same direction, and this cooperation and harmony will help to implement strategies more effectively and efficiently (Brinkschroder, 2014). Firms need both effectiveness and efficiency to optimize their performance. The study found an empirical relationship between strategy implementation and the performance of the firm through a study (Sorooshian, Norzima, Yousof, & Rosnah, 2010). Well formulated projects merely provide superior performance for the firm when they are efficiently implemented strategies (Sorooshian et al., 2010). A research carried out by Sorooshian et al. (2010) confirmed that strategy implementation plays a positive role in achieving financial performance of firm.

Rappaport (1981) claimed that managers of profit seeking organizations strive to maximize firm performance through successful implementation of strategies. Strategy implementation is important to firm performance because strategies do not add value unless properly implemented (Heide, Gronhaug & Johannessen, 2002). Kaplan and Norton (2001) suggest that the balanced scorecard model is one of a number of performance measurement and management tools used in the hospitality industry in order to execute strategy. Philips and Louvieris (2005) showed that Hilton Hotel chain has been using balance scorecard tools in order to measure the performance since 1994. Quintano (2010) identified four major objectives of balance scorecard and dimensions which are related to the hospitality industry and were taken as the indicators of measuring performance of hotels in this study.

3. Methodology

This study investigated environmental impediments in strategy implementation of the star hotels by taking the general managers' viewpoints. Hotels which are above two star, were selected to gather required information for the study. One and two star class of hotels was omitted from the investigation due to in absence of systematic organizational set up for adopting the strategic management process. Studies suggest that general manager of the organization is the most appropriate person to provide a valid response to questions related to strategy (Bart, Bontis & Tagger, 2001; Hopkins & Hopkins, 1990; Conant, Mokwa & Varadarajan,1990) . In Sri Lankan context, the general managers of hotels always involve in strategic management process, therefore, they have a very clear sense about the entire strategic management process in the hotel compared with other functional level managers. Thirty nine (39) general managers of hotels above two-star were interviewed with a questionnaire including 5 point Likert- type items ranging from strongly agree (5) to strongly disagree (1). Content validity of the questionnaire was established taking expert views including the academic in the field. Factors analysis was employed to establish the construct validity of the instrument. Component matrix, composite reliability and average variance extracted were considered for the purpose of assessing the appropriateness of the factor analysis for the environmental impediments of strategy implementation. In order to identify the major environmental impediments of strategy implementation, univariate analysis was performed, where means and standard deviations were computed for all items. To test whether environmental impediments of strategy implementation vary in terms of star class of the hotels, one way ANOVA was performed. To assess the strength and direction of the relationship between environmental impediments and performance of the hotels, correlation analysis and regression analysis were used.

4. Results and discussion

The factor analysis was performed to extract specific factors from the items used to measure the environmental impediments of strategy implementation. Kiser-Mayer-Olkin measure (KMO= 0.643) confirms the sample adequacy for the factor analysis. Values for Bartlett's test of Sphericity is also significant (χ^2=33.967, $p<0.01$). These results indicated that original correlation matrix is an identity matrix. The analysis extracted three factors from the items used to measure the environmental impediments of strategy implementation. These three factors can explain 68.95 percent variance in environmental impediments. These results manifest that three instruments are sufficient for measuring the environmental impediments of strategy implementation of the study. Therefore, these factors were named as competitive environment, economic influences and laws and regulation. Moreover, correlation coefficients between these factors confirm that there is no multicollinearity problem.

As results shown in Table 4, economic influences record the highest mean (4.82) with the standard deviation of 0.388 while the least mean (4.43) is recorded for laws and regulations with the standard deviation of 0.502. Mean and standard deviation of competitive environment are 4.769 and 0.426 respectively. Thus, economic influences, competitive environment and laws and regulation are significant in environment impediments. Moreover, ANOVA test reveals that each and every has experienced these impediments in strategy implementation regardless of their star-grade.

Table 1
Descriptive statistics

Variable	Mean	Standard Deviation
Economic influences	4.820	0.388
Competitive environment	4.769	0.426
Laws and regulations	4.435	0.502

The relationships between environmental impediments and the hotel performance were measured using correlation analysis. Table 6 shows the results of the analysis.

Table 2
Results of correlation analysis

Variable	Hotel performance
Economic influences	-0.254*
Competitive environment	-0.401*
Law and regulations	-0.334*

**- Correlation is significant at the 0.05 level (1-tailed).*

As results shown in Table 2, there is a significant negative relationship between competitive environment and the hotel performance (r=-0.401, p<.05). The economic influences are also negatively correlated with the hotel performance (r=-0.254, p<.05). Moreover, law and regulations are also negatively correlated with the hotel performance (r=-0.334, p<.05). These results manifest that environmental impediments are negatively associated with the hotel performance.

Regression analysis was performed to examine the effect of environmental impediments on the hotel performance. According to the results shown in Table 3, economic influences have a significant negative effect on the hotel performance (B=-0.148, p<.01). The results also reveal the negative effects of competitive environment (B=-0.275, p<.01) and law and regulations (B=-0.123, p<.01) on the hotel performance. These results confirm the results of correction analysis and negative effects of environment impediments on the hotel performance.

Table 3
Results of regression analysis

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig
	B	SE	B		
Economic influences	-0.148	0.178	-0.221	-1.358	0.002
Competitive environment	-0.275	0.169	-0.362	-1.633	0.001
Laws and regulations	-0.123	0.113	-0.191	-1.093	0.004
Adj. R square = 0.162	*F =7.158, Sig(F)=0.011*				

5. Conclusion

The study found that all types of star class hotels operated in Sri Lanka confront three major environmental impediments such as unfavorable economic influences, severe competition and unfavorable laws and regulations. Among these impediments, unfavorable economic influence is the serious problems in all star hotels whereas unfavorable government laws and regulations have become a minor problem. The results manifest that environmental impediments hamper the successful strategy implementation by obstructing the achievement of the expected performance.

Transforming strategy into action is complicated and difficult task. Empirical evidence and literature have shown that implementation is fraught with difficulties and generally falls short of performance. Successful strategy implementation requires change and varies according to the circumstances and environmental conditions. Therefore, management is required to establish an effective change management system with the implementation of new strategies in order to address potential environment implements. Effective change management system will ensure the smooth implementation of strategies and in turn the better performance. Keeping on regular environment scanning and establish a proper market intelligence system enable hotels to successfully strategy implementation while expanding market share and increasing brand awareness of the hotels. The business environment, especially in hospitality industry is extremely dynamic and constantly changing with the intense rivalry, therefore, hotels should adopt swift strategy implementation in order to sustain competitive advantages.

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ICT adaption and customer satisfaction in star category hotels in Sri Lanka

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Abstract
ICT has become a major productivity enhancing tool in business firms, success stories of ICT applications are widely spreading in various fields including hotel industry. Although research has given significant attention on the use of ICT and its role in hotel industry in last few decades, findings are inconclusive and loaded with vague ascertain. This study examines the impact of ICT on customer satisfaction in star category hotels in Sri Lanka. A sample of 33 star category hotels was selected for the study. Data were gathered from executive officers and guests from the selected hotels using structured questionnaires. Structural equation modeling was used in data analysis. The results show that ICT adoption in hotels ensures superior service to the customers and in turn enhances their satisfaction. Thus, management should take corrective measures to adapt modern ICT in the hotels to provide effective and efficient service to their customers.

Keywords: *Customer satisfaction, ICT adoption, star category hotels.*

1. Introduction

Advancement of technology creates new capabilities and opportunities. This decade provides enormous evidences for technological changes and advancements took place in different sectors such as computer technology, electrical, mechanical, telecommunication and many more. ICT expands its' technological capabilities and applications by creating new services and values in various fields. Usage of ICT in hotel and tourism industry, where customer satisfaction becomes a vital factor, creates new research area to uncover the impact of technology on hotel and tourism industry (Sirirak et al., 2011). Increasing competition and customer expectation lead hotels to look for novel ways and means to achieve competitive advantage in highly volatile, dynamic, and complex environment.

Many hotels have adopted ICT as a way to cope with rapidly changing environment, specifically to handle hotel operations and guest satisfaction. Room reservation systems, procurement and inventory systems, wireless internet, e-mail, electronic transactions, and hotel web sites are some of the ICT applications that have been broadly implemented throughout the industry (Ham et al., 2005). Hotel managers consider ICT adoption is a key success factor in improving hotel performance (Siguaw et al., 2000; Sigala et al., 2001). Improving both operational productivity and customer satisfaction is perceived as key determinants for survival and success in the long term (Jones, 1999). The renewal and advancement of the technology creates new landscape for human being to discover new capabilities, values, beliefs and quality of life (Zyngier, 2001). However, literature dealing with the impact of ICT on hotel and tourism industry has not yet been well developed and existing studies are ended up with inconclusive and contradictory results (Sirirak et al., 2011). Therefore, this study seeks to investigate the impact of ICT on customer satisfaction in hotels in Sri Lanka.

2. Literature review

The term ICT comprises with two important knowledge areas; information technology and communication technology. Information technology refers knowledge and techniques which are needed for working with information; this technology includes different hardware and software technologies that are necessary to input data, process data and to produce information for various purposes (John, 2003). Communication technology includes different technical aspects for communicate data or information with different parties. The communication can happen between machines, in between machine and human.

In the effort to understand technology adoption and implementation, the technology acceptance model (TAM) introduced by Davis (1989) would probably be the most extensively used model to explain and predict consumers' and/or organizations' willingness to adopt new technologies (Wang & Qualls, 2007). Several other models built on Davis' work have been proposed to guide inquiry into this phenomenon (Cheong & Park 2005; Davis, 1989; Venkatesh et al., 2003). These studies on technology adoption have provided the theoretical basis for a viable behavioral framework of technology adoption by integrating concepts and findings from the studies of innovation adoption. The central theoretical premise underlying TAM is that an individual's intention to purchase a product or service is determined by two factors: perceived usefulness and ease of use of the product or service.

Technology adaptation research investigates level of technology availability, integration and usage. Sahadev and Islam (2005) have conducted a research to explore the propensity of adoption of ICT-based facilities in the hospitality sector. They divided factors that influence a hotel's propensity to adopt ICTs into two broad categories as location-related and firm-related. Relative impact of the factors on the ICT adoption propensity has been analyzed through a survey amongst 95 hotels from seven locations in Thailand. The study concluded that hotels in highly developed markets with a large number of visitors hailing from the USA and Europe are more prone to adopt ICTs. Hence, when new technologies are launched for the hotel industry, it is advisable to target hotels catering to such a clientele, since their propensity to adopt technologies is higher compared to hotels that do not really cater to customers from high internet penetration countries. The study also shows that when general occupancy rates are low (i.e. the level of competition is high in a location), hotels tend to be more inclined to adopt ICTs. This tends to endorse the belief that competition propels innovation.

Badnjevic and Padukovas (2006) found negative factors in ICT adoption such as lack of education, bureaucracy and physical infrastructure. They noticed that slow internet connection and band breadth were also obstacles. Similar types of findings are also seen in Malaysia (Kasim & Ern, 2010). Elements for measuring the level of ICT adoption in hotels include availability of ICT components, integration of ICT components and intensity of ICT usage (Sigala, 2003). The availability of ICT components in a hotel can be measured in terms of the number of items it has (Siguaw et al., 2000; Ham et al., 2005; Prakash & De, 2007). The integration of ICT components can be measured by the number of ICT linkages between a specific operational domain and other operational domains or to the main server systems (Sigala, 2003). The intensity of ICT usage can be measured by the percentage of the total operations carried out using ICTs. For example, the intensity of ICT usage in a reservation process can be measured by the percentage of transactions carried out through the hotel web site reservation system (Sahadev & Islam, 2005).

ICT impact in hotels has been identified in a research conducted by Sigala (2003). Her research indicates that despite the increasing ICT investments, the productivity impact of ICT has been elusive. Findings provide robust conclusions regarding the ICT productivity paradox highlighting that this debate has been a methodological artifact. Her research revealed that hotels using PMS (property management systems) and customer databases for informational and transformational activities achieved significantly greater productivity scores than those using ICT for automation only.

Irvine and Anderson (2008) examined the role of ICT in small rural hospitality businesses. They found that though ICT is often presented as a means of reducing the impact of being rural, little is known about the extent or level of use of ICT. The study found that 84 percent of the businesses use ICT effectively, ICT mainly use to provide information and improve service quality. In addition, some firms had adopted very successful methods of using the internet for sales and marketing but ignored supply functions. Bulchand-Gidumal (2011) surveyed all types of hotels to examine whether offering free Wi-Fi improves hotels' online ratings, factors that are effect on customer satisfaction. He found that offering free Wi-Fi helps hotels to improve their ratings by up to 8 percent.

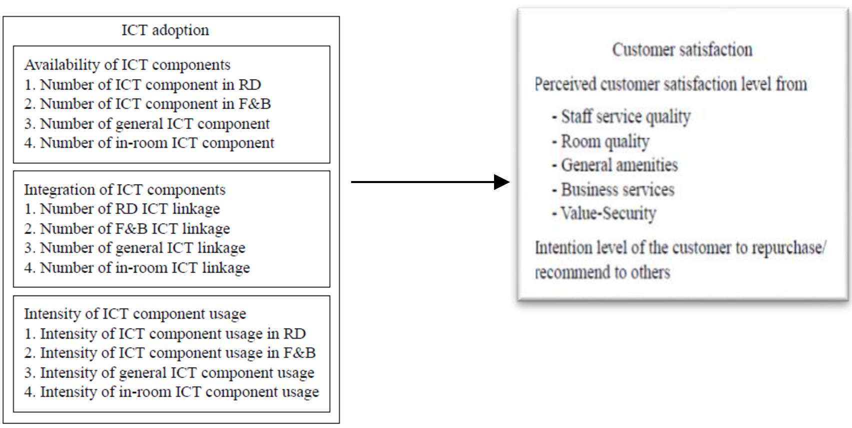

***Figure1**:* Conceptual framework

The conceptual framework (See Figure 1) used in this study is adopted from model proposed by Sirawit and Islam (2010). According to the model, ICT adoption consists of three elements; availability of ICT components, integration of ICT components intensity of ICT usage.

3. Methodology

This study focused 3 to 5 star category hotels in Sri Lanka and used quantitative approach to examine the underline phenomenon. Data were collected from hotel managers as well as guests who stayed at the selected hotels. Structured questionnaire was designed and sent to hotel managers through email and managers in 33 hotels returned filled questionnaires. In order to measure the level of customer satisfaction, 5 customers were selected from each hotel using the checked out list on selected dates and researcher personally met them and get their feedback to the survey developed. Key variables of the study were measured with items on Likert type five scale. Survey questions were developed based on relevant literature to ensure the validity of data. Questionnaires were pre-tested focusing 20 respondents before original survey. Each construct of the questionnaires was tested for internal consistency and reliability analysis produced Cronbach Alpha values over 0.7 for each construct. Data collected from two samples were integrated to facilitate cross- sectional analysis. in particular, data on customer satisfaction which were collected from customers of a particular hotel were analyzed separately and the mean values of the indicators of the construct of customer satisfaction were linked with the data collected from the management of the relevant hotel. Statistical analysis of the study consists of descriptive statistics and inferential statistics. Descriptive statistics such as mean, standard deviation are used to describe the key variables of the study. Inferential statistics such as correlation analysis and structural equation modeling are used to test the research model. AMOS statistical software was used for this purpose.

4. Results and discussion

The sample of the study consists of both hotel executives and guests to the selected hotels. In the first sample, there were 33 hotels including 10 three star category hotels, 14 four star category hotels and 9 five star category hotels. One executive from each hotel responded to the survey making 23 male and 10 female executives. With respect to the highest education qualification, 17 had bachelor degrees, 5 had master or postgraduate qualification. The second sample comprises 224 guests including 100 male and 124 female tourists who have arrived various part from the World such as Asian region (56.3%), North America (16.1%), Europe (22.3% and Oceania (5.4%).

Table 1 represents descriptive statistics calculated for key variables of the study. Mean values reveal that use of ICT in selected hotels is in better position in terms of availability of ICT, ICT links and operations carryout suing ICT. In addition, standard deviations show that there is no high variation among the selected hotels on use of ICT in their hotels. Mean value for customer satisfaction (M=4.0289) indicates that guest to the selected hotels have experienced greater satisfaction about the services rendered by the hotels.

Table 1
Descriptive Statistics of the Research Variables

Variable	Mean	Std. Deviation	Skewness	
			Statistic	Std. Error
Availability of ICT	3.7027	.37781	-.301	.409
ICT Links	3.4242	.49008	.319	.409
Operations done using ICT	3.4015	.39990	-.723	.409
Customer satisfaction	4.0289	.17621	-1.459	.409

Table 2 presents the result of Correlation Analysis. The results indicate that there is a positive and significant relationship between ICT availability and customer satisfaction in the hotels. Moreover, ICT Links and operations done using ICT are also correlated positively and significantly with customer satisfaction.

Table 2
Results of Correlation Analysis

Variable	Customer satisfaction
ICT availability	.399*
ICT Links	.387*
Operation Done using ICT	.381*

** - Correlation is significant at 0.05*

Results of structural model used to examine the impact of use of ICT on customer satisfaction are reproduced in Table 3 and Table 4. Overall fit indices, Chi-square, $\chi 2$ = 123.626, RMSEA (root mean square error of approximation) = 0.017, GFI (goodness of-fit) = .908, AGFI (adjusted goodness-of-fit) = .903, CFI (comparative fit index) = 0.830. and NFI (Nonnormed fit index) =0.921 or TLI = .928 show the better fit of the model.

Table 3
Fit indices

X^2	P value	RMSEA	GFI	AGFI	NNFI	CFI	TLI
123.626	0.004	0.017	0.908	0.903	0.921	0.830	0. 928

The regression estimates show the impact of each construct and independent variables on other construct, dependent variables. Table 8 presents standardized regressions of each variable of the structured model, according to the data all regression (impacts values) are significant at 0.05, and specifically regressions values of ICT adoption on customer satisfaction is 0.286 which shows considerable impact value.

Table 4
Standardized regression estimates

Variable	Path	Variable	Estimate	S.E.	C.R.	P
Customer Satisfaction	<---	Operations done using ICT	.778	.194	4.0103	***
Customer Satisfaction	<---	ICT Links	.901	.305	4.935	***
Customer Satisfaction	<---	Availability of ICT	.667	.285	3.778	***

***** *Estimate is significant 0.001*

Standard regression estimate 0.778 which in significant at 0.001 indicates that operation done using ICT has a positive and significant effect on customer satisfaction. Similarly, ICT links also have a positive and significant effect over customer satisfaction (β=0.901, $p<0.001$). Moreover, it is revealed by the results that availability of ICI in the hotel enhances the customer satisfaction ((β=0.667, $p<0.001$). These results disclose that use of ICT in the hotels would help to fulfill guests' needs in effective and efficient manner.

5. Conclusion

This study examined the impact of use of ICT on customer satisfaction in star category hotels in Sri Lanka. The study found that availability of ICT, ICT links and operations done using ICT have positive effect on customer satisfaction in the hotels. These findings are consistent with the results of studies in similar context (Ham et al., 2005 ;). Sirirak et al., 2011Therefore hoteliers can ensure the superior service to their guests by adopting modern ICT to hotel operations and thereby gain competitive advantages in the industry. Hotel managers and executives should give more attention to configuration of existing and new products and services with modern ICT to meet the current and future needs of the customers.

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Compliance difference of audit committee attributes and financial distress of listed companies in the Colombo Stock Exchange in Sri Lanka

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Abstract
The effectiveness of the audit committee is one of the significant themes in corporate governance debates. This study contributes to the debate by examining compliance difference of audit committee attributes and its impact on financial distress of listed companies in Sri Lanka. Three attributes of the audit committee, size, composition and frequency of meeting, were examined. The study was based on the secondary data which were obtained from Colombo Stock Exchange archives and annual reports of the respective companies. Altman Z-score model was employed to identify 32 distress and 32 non-distress companies during the period spanning from 2011 to 2015. The t-test was employed to examine audit committee practices of distress and non-distress companies. The results show that the level of compliance with audit committee practices of distress companies is significantly lower than that of non-distress companies. Moreover, this study revealed that the composition and meeting frequency of the audit committee have a negative and significant effect on financial distress of a company. The result suggests that the majority representation of independent non-executive directors in the committee and meeting frequency of audit committee members are important factors for resolution of financial distress of the company. The participation of independent non-executive members in a greater proportion improves the independence of the audit committee and increases the capacity of corporate boards to effectively advice, monitor and consequently, reduces the likelihood of financial problems. Meeting frequency plays an important role to ensure the integrity of financial reporting and provide better monitoring and review the operations effectively.

Keywords*: Audit committee attributes, distress and non-distressed companies, financial distress.*

1. Introduction

Recently, the World has witnessed dramatic financial scandals which put the public to the research in corporate governance systems. Consequently, government's put forwarded new regulations to enhance boards' committees and to improve the efficiency of corporate governance systems (Cadbury, 1992). In this context, the boards of directors play a major role in management control through its committees in order to enhance corporate governance efficiency. According to Blue Ribbon Committee (BRC) good corporate governance can enhance the accountability relations between companies' participants in order to protect stakeholders' interests. Consequently, the board of directors delegates their authorizes to the audit committee to overseeing company's internal control process and financial reporting. In this context, audit committee should assist the board of directors in effective management and monitoring with the aim of protecting the interest of the shareholders.

An audit committee in a firm works as an internal corporate governance mechanism and reduces agency costs (Forker, 1992). Collier and Gregory (1999) state that, "*the presence of an audit committee in a firm helps directors in meeting their statutory and fiduciary responsibilities such as accounting records, annual audit and ensures the quality of the financial reporting and control system*". According to Hicks and Goo (2008) the audit committee enables the non-executive directors to contribute an independent judgment and play a positive role in the matters of the firm (Miglani, Ahmed & Henry, 2010). Similarly, Calleja (1999) reported that companies with audit committee tend to perform better than the companies without an audit committee. Miglani et al. (2010) also identified a negative association between the existence of an audit committee in a firm and financial distress probability.

In recent past, Sri Lanka has experienced a number of corporate failures (Sirmanna, 2011). In this evolving context the Central Bank of Sri Lanka stated that there were several common issues behind the collapse of these companies, such as lapses of directors and managers, imprudent related party transactions and investments, unauthorized deposit taking by related companies, weak risk management systems, unethical business practices, mismanagement, and corruption negative capital and accumulated losses (Sirmanna, 2011). Therefore a great deal of attention should be devoted to an early recognition of distress condition and to seek promptly actions of turnaround. Therefore, identification of those companies impending distress condition is an important prerequisite in the quest of rescuing them. In this light, many academics suggested that corporate governance attributes are leading factors for success or failure of a corporation (Parker, Peter & Turetsky, 2002; Gilson, 1990; Daily & Dalton, 1994).

This contemperary interest follows colsely on recent initiatives to improve the performance of the audit commitee. In this context many studies examined the relationships between effectiveness of audit committee and entity performance (Adams, 1997; Rahmat & Iskandar, 2009; Dalton, Daily, Johnson & Ellstrand, 1998). Adams (1997) found that effective audit committee could increase the financial statement credibility and objectivity. Further Rahmat and Iskandar (2009) found that the audit committee effectiveness depends on the prosperity or financial distress of companies such as financially literate of the audit committee members increase the company performance and prevent its financial distress. Hence evidence of competence between members enhances company performance and reduces the likelihood of financial problems. Charbel, Salloum, Azzi and Gebrayel (2014) foud that the meeting frequency of audit committee members is an important factor as it helps the audit committee to hinder the financial distress. Moreover, it is expected that the domination of indipendent non-executive members helps the company to enhance its performance and to avoid any financial distress.

According to Senaratne and Gunaratne (2012), the compliance with corporate governance practices of Sri Lankan firms is closely associated with ownership structure and better governance seems to associate with higher financial performance of the firms. Therefore existing literature in Sri Lankan context generally focused the structure of the corporate governance and their relationship over the financial performance of the company. In this context, it is observed that the use of bankruptcy model for predicting financial distress of Sri Lankan companies and impact of audit committee attributes of corporate governance on financial distress of a company has not been completely addressed by previous studies in Sri Lanka. Therefore, this study attempts to fill this persistent gap in the literature.

2. Literature and hypotheses

Collier (1993) found that the presence of an audit committee in a firm helps directors to meet their statutory and fiduciary responsibilities such as accounting records, annual audit and ensures the quality of the financial reporting and control system. Audit committee is playing a vital role as a board subcommittee and therefore governance codes contain extensive requirements for audit committee. As per Code of Best Practices of Chartered Accountants of Sri Lanka (CASL) an audit committee should have written terms of reference indicating the purpose, duties, and responsibilities of the committee. Further, it requires an audit committee to have two independent non-executive directors (NED) or exclusively NEDs with a majority of independent directors. Effectiveness of the audit committee depends upon the composition of the committee, and its processes. Composition concerns the number of independent directors, having accounting and finance professionals in the committee and having an independent chairman. Processes deal with the role of selecting auditors and maintaining a working relationship with them, procedures regarding minutes, remuneration of committee members and written terms of reference for committee proceedings. Moreover some studies have examined the effect of audit committee attributes on firm performance. Gan, Saleh, Abessi and Huang (2013) suggested that there is a negative relationship between size of audit committee and financial performance. Further Salloum et al. (2014) found that the there is a negative and significant relationship between meeting frequency of audit committee members and financial distress of the firm.

Anderson, Deli and Gillan (2003) found that large size audit committee improves financial reporting quality as its effectiveness increases with the existence of experienced and knowledgeable members. This is evident that the right-sized committees can use their experience to help the committee in monitoring. On the other hand, Pincus, Rusbarsky and Wong (1989) found that a weak association between the size of audit committee and company performance. Therefore, the large audit committee loses concentration and becomes less participative than the smaller one. However, Rahmat and Iskandar (2009) suggested that there is a negative relationship between size of audit committee and financial distress. Thus, this study suggests that;

Hypothesis I (H_1): There is a negative relationship between size of an audit committee and financial distress of the firm.

Audit committee composition focuses on independence aspect. It is defined by the ratio of independent non-executive directors to total number of directors in audit committee. When higher the proportion of independent non-executive directors, the audit committee is considered independent. However, executive members can impair the effectiveness of audit committee by influencing the decision making process of the board (Ruiz, Biedma & Gomez, 2007). High presence of executive directors limits the amount of information held by board members. Thus, a large proportion of independent directors enhances management monitoring (Xie & Dadalt, 2003), which evidences that more independent audit committee has a high level of audit coverage (Ghafran & Sullivan, 2013). There is evident that more independent audit committees are seeking to preserve the independence of the external audit process. The participation of independent non-executive members in large proportion improves the audit committee independence. This enhancement of audit committee independence should facilitate decision and assure information objectivity (Vinteen & Lee, 1993). For this reason, the audit committee should maintain the monitoring role delegated by the board with aim to provide better reliability of information. Consequently, the presence of independent board committees increases the capacity of effective advice and monitoring of corporate boards (Ntim, 2013). Carcello and Neal (2000) found a negative association between the audit committee independence and the going-concern of financially distressed companies. In other words, they found that the greater the proportion of affiliated directors in the audit committee, the lower the likelihood the auditor will issue a going–concern reports. Mcmullen and Raghunandan (1996) stated that the presence of independent non-executive directors in audit committee reduces the likelihood of financial problem. Thus, this study postulates that;

Hypothesis II (H_2): There is a negative relationship between the composition of non-executive directors in audit committee and financial distress.

Abbott, Parker and Peter (2004) suggested that frequent meetings of audit committee provide a better monitoring of financial environment and reduce financial reporting problems. Further Mcmullen and Raghunandan (1996) argue that by meeting regularly, audit committee provides its effectiveness and ensures the integrity of financial reporting process. Hence this implies that audit committees in companies with financial reporting problem do not hold frequent meetings compared with audit committees in companies with no such financial reporting problems. Therefore these studies found a positive relationship between frequency meetings and audit committee effectiveness. In this light frequency of audit committee meeting plays an essential role in effectiveness of audit committee with respect to reduce any perceived audit and controls risk. Moreover Charbel et al. (2014) found that the meeting frequency of audit committee members is an important factor as it helps the audit committee to hinder the financial distress. Thus, third hypothesis of the study is developed as follows.

Hypothesis III (H3): There is a significant negative relationship between the frequency of audit committee meeting and financial distress.

3. Methods and materials

In order to accomplish the objectives of the study, secondary data were obtained from Colombo Stock Exchange (CSE) archrivals and annual reports of respective companies of the period spanning from 2011 to 2015. The working sample was achieved after screening the sample firms for missing information. This process reduced sample to 168 listed companies. The classification of financial distress and non-distress was then performed based on the calculated Altman Z values of these companies. If the computed Z value of the company falls below 1.81, it was classified as "Distress" and if Z value equal or greater than 1.81 it was classified as "Non distress firm". It left the final sample with 64 companies which consists of 32 financially distressed and 32 financially non-distressed companies. Thus, analysis was perfumed with 320 firm-year observations. The relative levels of compliance with audit committee practices were assessed based on a scores of index that was constructed referring the Code of Best Practice, Listing Rules of CSE and the prior research studies. The impact of audit committee attributes on financial distress was examined through binary logistic regression model. The binary regression model is specified as follows:

$$\text{Financial distress} = \infty_0 + ß_1 \text{ AS}_{it} + ß_2\text{AC}_{it} + ß_3 \text{ AMF}_{it} + ß_4 \text{ SF}_{it} + ß_5 \text{ FR}_{it} + \varepsilon$$

Where, for sample firm i and year t, Financial Distress$_{it}$ = 1, when firm is classified as being in financial distress, and 0 otherwise, Audit committee size (AS), Audit committee composition (AC), Meeting frequency of Audit firm (AMF), Size of the Firm (SF), Financial Risk (Leverage) (FR) , ε - Error term

4. Results and discussion

It is interesting to note that more than 75 percent of sampled firms have an audit committee irrespective of the category into which they fall. İt was also revealed that the majority of distress companies have no clearly defined written terms of reference and is lack in conducting of recommended frequency of audit committee meetings compared to non-distress companies. The lack of independence and the relatively low level of activities carried out by audit committees of distress companies compared to non-distress companies suggests that even the boards have control over the functions of audit committees, they are meant to be independent from the executives and owners. Non-distress companies demonstrate greater concern for the independence of the committees and relationship with the external auditors.

As shown in Table 1, non-distress companies obtained higher mean values for audit committee attributes than that of distress companies. This result indicates that compliance levels of distress companies are relatively lower than that of no distress companies. Results of Independent Samples t-test also reveal that there is a significant difference between distress companies and non-distress companies in terms of audit committee size ($t=-5.897$, $p<0.05$), audit committee composition ($t=-12.525$, $p<0.05$) and frequency of audit committee meetings ($t=-14.648$, $p<0.05$). The higher frequency of committee meetings of non-distress companies indicates the active functioning of these committees by securing the independence and efficiency of audit committees. These results therefore confirm that level of compliance with audit committee practices of corporate governance of distress companies is significantly lower than the non-distress companies in Sri Lanka. This tendency raises a question, whether compliance with audit committee practices may have impact over financial distress condition of a firm. Thus, it warrants further analysis to find out whether the compliance with these audit committee practices have created diverse impacts on financial distress condition in Sri Lankan companies.

Table 1
Descriptive statistics of audit committee attributes

Variables	Distress			Non-Distress			t
	Mean	Std. Deviation	Skewness	Mean	Std. Deviation	Skewness	
AS	2.00	1.594	-0.174	3.00	0.858	-0.523	-5.897
AC	0.46	0.382	-0.105	0.89	0.200	-2.434	-12.525
AMF	2.00	1.726	0.400	5.00	1.693	0.653	-14.648

AS: Audit committee size, AC: Audit committee composition and AMF: Frequency of Audit Committee Meetings

The binary logistic regression analysis was performed to examine the impact of audit committee attributes on financial distress of the firm. Binary logistic regression is appropriate as logistical regression provides significance tests on the parameter estimates and enables researcher to generate probabilities for financial distress for each firm to examine the classification accuracy. Moreover the binary logistical regression analysis was widely employed by the studies carried out in the field of financial distress for prediction purposes (Miglani et al., 2010). Table 2 presents results of the analysis.

Table 2
Results of Logistic Regression

Nagelkerke R Square 0.641	Classification Performances 85%
Omnibus Tests of Model Coefficients	Chi-square 209.779 (Sig 0.000)
Hosmer and Lemeshow Test	Chi-square 14.963 (Sig 0.060)

Variable	B	Std. Error	Wald	Sig.	Exp(B)
AS	-0.810	0.219	3.673	0.071	2.247
AC	-3.073	0.746	16.961	0.000**	0.046
AMF	-0.984	0.157	39.534	0.000**	0.374
SF	-0.421	0.386	1.194	0.275	0.656
FR	2.102	0.731	8.275	0.004**	8.184
Constant	6.089	3.451	3.112	0.078	440.808

*Notes-** Statistically Significant at 0.05 level Audit committee size (AS), Audit committee composition (AC), Frequency of Audit Committee Meetings (AMF), Size of the firm (SF), Financial Risk (Leverage) (FR)*

The result of the Omnibus test of model coefficients in Table 2 indicates that the model is statistically significant (Chi-square= 209.779, $p<.05$). Nagelkerke R Square value (0.641) reveals that the predictor variables have ability to explain 64.1percent of variation in financial distress the sampled firms. In addition Classification Performances (85%) indicates the number of observations in the sample that an estimated equation classified correctly and the model performs well in distinguishing between financially distressed and non-distress firms. Furthermore Hosmer and Lemeshow test (Chi-square=14.963, $p>0.05$) shows the better model fit. It implies that the model's estimates are in acceptable level. In other words the model predictions are not significantly different from observed values. A closer look at the individual coefficients in Table 2 reveals that composition of an audit committee and frequency of audit committee meetings (B_{AC} = -3.073, $p<.05$; B_{AMF} =-0.984, $p<0.05$) have significant and negative effect on finance distress of the firm. Therefore *Hypothesis II* and *Hypothesis III* are supported by these results. However coefficients associated to the size of audit committee (B_{AS}= -0.810, $p>.05$) is negative as expected, but not significant. Hence, Hypothesis I is rejected at 0.05 level of significance.

With respect to the control variables, size of the firm (SF) is not statistically significant at any confidence (1% and 5%) level. Financial Risk (Leverage), on the other hand, is positive and statistically significant ($p<0.05$), which suggests that higher leverage companies are more likely to experience financial distressed than lower firms. These findings are consist with the argument of Chan and Chen in 1991.

5. Conclusion

The audit committee is arguably the most important of the board subcommittees. An audit committee is required to assist the board over matters such as accounting and financial statements, compliance with regulations, internal control, going concern assessment and external auditor's independence and performance. This study found a significant difference between distress and non-distress companies in relation to the compliance requirements of audit committee. İn particular, majority of distress companies have no clearly defined written terms of reference and lack in conducting of recommended frequency of audit committee meetings, while non-distress companies demonstrate greater concern on them. It indicates that relatively low activities carried out by the audit committees of distress companies. The lack of independence and the relatively low level of activities carried out by audit committees of distress companies compared to non-distress companies suggest that the board even have control over the functions of audit committees, although they are meant to be independent from the executives and owners.

The results of the study further revealed that composition and frequency of meeting of audit committee members have negative effect on financial distress of the firm. This implies participation of independent non-executive members in large proportion improves the independence of the audit committee and increases the capacity of corporate boards to effectively advice, monitor and consequently, reduces the likelihood of financial problems. Moreover frequent meetings of the audit committee are able to help audit committee members to fulfill their responsibilities. In other words, audit committee is able to ensure the integrity of financial reporting, to provide better monitoring and to review effectively the operations.

İt was further found that the listed companies in Sri Lanka meet the minimum requirements of code of best practice of corporate governance in terms of existence and size of audit committee. This is a clear evidence that Sri Lankan listed companies comply with basic principles of code of best practice of corporate governance. However, complying with these requirements is not enough to enhance performance of the audit committee and avoid the financial distress of the company. Other qualitative factors may have influence on audit committee performance (Rahmat & Iskandar, 2009), such as quality of discussion during meetings, level of commitment of audit committee members and organizational work environment. Finally, study infers that if the distress companies can strengthen their performance of audit committee in terms of increasing the proportion of independent non-executive directors and frequency of meetings may have a positive contribution towards the resolution of their financial distress. Further studies are required to validate the findings of the present study.

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