

**Volume 01, Issue 01**

**JBM**

**Journal of Business Management**

**Faculty of Business Studies  
Vavuniya Campus of the University of Jaffna  
2018**





ISSN: 2651-0189

**Journal of Business Management**  
**Volume 01, Issue 01,**  
**A Biannual Journal**

**EDITORIAL BOARD**

Chief Editor

**Mrs.Janaki Samuel Thevaruban**  
(Vavuniya Campus of the University of Jaffna)

*Members*

**Dr.Y.Nanthagopan**  
(Vavuniya Campus of the University of Jaffna)

**Mr.A.Thayaparan**  
(Vavuniya Campus of the University of Jaffna)

**Dr.GnanaseelanJeyaseelan**  
(Vavuniya Campus of the University of Jaffna)

**EDITORIAL ADVISORY BOARD**

**Prof.T.Velnampy**  
(University of Jaffna)

**Prof. K. Amirthalingam**  
(University of Colombo)

**Dr.PoongothaiSelvarajan**  
(Vavuniya Campus of the University of Jaffna)

**Dr.(Ms). M.A.K.Sriyalatha**  
(University of Sri Jayewardenepura)

## **Journal of Business Management**

---

All papers on which this is printed in this journal meet the minimum requirements of University of Jaffna.

All papers published in this journal are accessible online.

### **Journal Information**

ISSN Print: 2651-0189

Barcode: 9 772651 018000

Website: <http://www.vau.jfn.ac.lk/fbs/jbm/journal.html>

Email: [editorjbm@yahoo.com](mailto:editorjbm@yahoo.com)

Publisher: Faculty of Business Studies, Vavuniya Campus of the University of Jaffna

Mannar Road, Pambaimadhu, Vavuniya, Sri Lanka

Phone: 009424 2228231

Website: <http://www.vau.jfn.ac.lk>

### **Editorial Assistance Team**

1. Mr. Thangathurai Kartheeswaran (Lead)
2. Mr. Satkunathas Venujan (Cover Design)
3. Ms. Sivatharmini Sivarasa (Data Entry)
4. Mr. Gnanaraj Thadchatharan (Data Entry)

2018 © Journal of Business Management

No part of this journal may be produced in any form, by print, photo print, microfilm, or any other means, without the written permission from the publisher.

## REVIEWERS

Prof. AthulaGnanapala	(Rajarata University of Sri Lanka)
Prof.T.Velnampy	(University of Jaffna)
Dr.T.Mangaleswaran	(Vavuniya Campus)
Dr.A.Pushpanathan	(Vavuniya Campus)
Dr.(Mrs).P.Selvarajan	(Vavuniya Campus)
Dr.K.Thabotharan	(University of Jaffna)
Dr.N.Kengatharan	(University of Jaffna)
Dr.Y.Nanthagopan	(Vavuniya Campus)
Dr.A.Saravanabawan	(University of Jaffna)
Dr.(Mrs).K.Kalainathan	(Vavuniya Campus)
Dr.J.Kennedy	(Eastern University of Sri Lanka)
Dr.James Robinson	(University of Jaffna)
Dr.AMM.Navas	(South Eastern University of Sri Lanka)
Dr.M.Alfrad	(University of Peradeniya)
Dr.Niruba S Jayasundara	(Trincomalee Campus)
Dr.K.Kajendra	(University of Colombo)
Dr.G.Jeyaseelan	(Vavuniya Campus)
Mrs.J.S.Thevaruban	(Vavuniya Campus)
Mr.A.Thayaparan	(Vavuniya Campus)
Mr.S.Thirukumaran	(Vavuniya Campus)
Mr.R.K.D.Randeni	(Rajarata University of Sri Lanka)
Mr.M.Karunanithy	(University of Jaffna)
Ms.M.G.S.Pathmini	(Rajarata University of Sri Lanka)
Mr.T.Pratheepan	(Vavuniya Campus)
Mrs. Paulina M Godwin P	(Vavuniya Campus)
Ms.T.Raveendran	(University of Jaffna)
Mrs.K.Sivaji	(University of Jaffna)
Ms.D.Ajanthan	(University of Colombo)

## **Editor's Note**

### **GREETINGS!**

It has been our great pleasure working with with the Editorial team to present you the very first issue of the Journal of Business Management, with high-quality social science research papers. Faculty of Business Studies, Vavuniya campus of the University of Jaffna publishes this journal biannually. The Journal consistss of the full Research papers of the best Extended Abstracts selected in the Research Conference of the Faculty of Business Studies in 2016 and called for new research papers in 2018. There are altogether sixteen

(16) research papers we received. Based on the two blind reviews, only ten (10) research papers only met the standard and were selected to publish in the journal.

Our faculty has also taken the steps to publish a journal from our faculty name, today we have achieved that. This great success will not be possible without a dedicated supporting cast of our Rector, Dean, and Faculty members who have attributed to this great effort voluntarily. Academics are not only involved in teachingbut also they should be involved in research activities. Those researches will be helpful to the society in many ways. Journals are one of the paths to publishing their research work. Our journal of business management also gives an excellent opportunity to publish their social science research works.

We are happy to report that our journal will also experience steady and healthy growth in the future. At this juncture, we would like to thank all the authors, reviewers for having spent their valuable time for reviewing the papers and the the advisory board for their guidance. Further, our thanks go to the Vice-Chancellor, Rector, Dean, the academic, administrative and non-academic staff of Vavuniya Campus of the University of Jaffna. Finally, last but not least, our sincere thanks go to the Vice- Chancellor, the Chairman of the University Research Committee and the members for their willingness and support to release the fund to publish this journal.

**Mrs.Janaki Samuel Thevaruban**

Chief Editor

# Journal of Business Management

## CONTENTS

<b>The Employee Relations on Employee Performance in the Apparel Industry in Sri Lanka</b> Sivalogathan.V and Thewarapperuma, T.A.D.N.	<b>01-10</b>
<b>Influence of Organizational Stressors among Executives in the Bank of Ceylon – Sri Lanka</b> Prabaharan. T	<b>11-21</b>
<b>Euphemism as a Persuasive Advertising Strategy</b> Rasakumaran. A	<b>22-33</b>
<b>Noun Phrase Formation in Business Letter Writing in English</b> Gnanaseelan. J and Jeyaseelan. S	<b>34-57</b>
<b>Role of Rural Development Banks and its Impact on Paddy Harvest in Puttalam District in Sri Lanka</b> Thayaparan A, Gunathilaka G.Y.N and Thennakon S.N	<b>58-67</b>
<b>Does Central Bank Financial Strength Matter for Inflation in Sri Lanka?</b> Perera G.A.N	<b>68-85</b>
<b>Disclosure Practices of Intellectual Capital in Sri Lankan Context</b> Larojan.C and Fernando. A. J	<b>86-98</b>
<b>Influence of Credit Rationing on Child Labour in Poor Household in Sri Lanka</b> Priyadharsan. S and Channa. A.M	<b>99-108</b>
<b>The Impact of Human Resource Management Practices on Employees’ Performance: The Evidence from Selected Commercial Banks in Jaffna District</b> Vivek. R	<b>109-121</b>
<b>Working Capital Management and Financial Performance of Manufacturing Sector in Sri Lanka</b> Rodrigo W.S.L and Chandima S.H.I	<b>122-132</b>

## **The Employee Relations on Employee Performance in the Apparel Industry in Sri Lanka**

Sivalogathan, V. ; Thewarapperuma, T.A.D.N.

Department of Management Studies, Open University of Sri Lanka  
*vsiva@ou.ac.lk ; thenudi@gmail.com*

### ***Abstract***

Performance is a critical factor in organizational success. To achieve strong employee performance for organizational success, maintaining healthy employee relations in an organization is a pre-requisite. Employee relations generally deal with avoiding and resolving issues concerning individuals which might arise out of or influence the work scenario. Strong employee relation depends upon healthy and safe work environment, involvement and commitment of all employees, incentives for employee motivation, and effective communication system in the organization. Employee performance can be identified as one of the prime factor that determines successful achievement of organizational goals, in any organization. The objective of the study is to find out the impact between employee relations and employee performance at the selected company. This study was also intended to help the organization understudy to improve performance through good employee relationship. The study was carried out to measure the relationship between Employee Relation and Employee Performance. Out of 150 questionnaires, 120 were selected after the data validation. The reliability is tested for all the independent and dependent variables. The research findings show that there is a positive relationship between the Employee relations and the Employee performance. It was proved with the values taken for both variables at correlation. It shown that when Employee relations are high the Employee performance is likely to increase. In order to improve the Employee Relations further in the organization the management of the organization can introduce some motivation programs and training programs.

**Keywords:** employee relations, employee performance, apparel industry

### **Introduction**

Employee performance is defined as whether a person executes their job, duties, and responsibilities well. Many companies' asses their employee's performance on an annual or quarterly basis in order to define certain areas that need improvement. Performance is a critical factor in organizational success. To achieve strong employee performance for organizational success, maintaining healthy employee relations in an organization is a pre-requisite. Employee relations generally deal with avoiding and resolving issues concerning individuals which might arise out of or influence the work scenario. Strong employee relation depends upon healthy and safe



work environment, involvement and commitment of all employees, incentives for employee motivation, and an effective communication system in the organization. Healthy employee relations lead to more efficient, motivated and productive employees which further lead to increase in production level.

Employee relations, known historically as industrial relations, are concerned with the contractual, emotional, physical and practical relationship between employer and employee. An individual who works part or full-time under a contract of employment, whether oral or written, express or implied, and has recognized rights and duties. Employee relationship refers to the relationship between employees and management as a framework of organizational justice consisting of organizational culture and management style as well as rules and procedural sequence for grievances and conflict management indeed, the objective of employee relationship is to achieve harmonious employee relations and minimize conflict practices in employment (Torrington and Hall, 1998).

Employee performance refers to the output in terms of quantity and quality that helps the organization to realize its set objectives. In other words, performance can be measured by traits, behaviors' and/or outcomes, (Bratton and Gold, 2003) employee performance encourages the employee to get involved in the planning for the company, and therefore anticipates by having a role in the process the employee will be motivated to perform at a high level.

Most organizations in an attempt to increase productivity have come up with the motivation of employees aimed at improving on the organization performance and condition of the job. Hence proper performance, organizations should induce their employees to work hard towards achieving the business set objectives. This can be done through the provision of incentives (Peter Drucker, 1999). The values, beliefs, attitudes, and behavior of the enterprise's employees are held to occupy strategic roles in corporate success. All organizations which aim at high performance need to have policy agenda to create the relationship with the employees or working people.

## **Problem Statement**

ABC Apparel Export (Pvt) Ltd is an organization that makes a significant contribution to the apparel industry of Sri Lanka. The total workforce of the company is 400. However, an analysis of the employee performance in recent past has revealed that there had been a significant fluctuation of employee performance in 4 main production lines such as casual wear, performance wear, work wear and sublimation products. Furthermore, it had been revealed that there had been the issue associated with employee relations of the company. Employee performance can be identified as one

of the prime factors that determine the successful achievement of organizational goals, in any organization. Hence, it is imperative for the top management of ABC Apparel Export (Pvt) Ltd to take these changes of employee performance very seriously. Therefore, paying attention to employee performance as well as the factor that affects employee performance is of utmost importance in this scenario.

Out of numerous factors that affect employee performance, Employee relations can be identified as one important factor. Given that the deterioration of employee relations in ABC Apparel Export (Pvt) Ltd that has led to some organizational issues, it is very important to study whether employee relations have had an impact on recent fluctuations of employee performance and if so what extent has formerly affected latter. In this manner, the researcher wants to find out is there a significant impact on employee relations and employee performance.

## Objectives of the Study



To find out the impact on employee relations and employee performance at ABC Apparel Export (Pvt) Ltd.



To find out the relationship between employee relations and employee performance at ABC Apparel Export (Pvt) Ltd.



To examine the level of employee relations at ABC Apparel Export (Pvt) Ltd.



To examine the level of employee performance at ABC Apparel Export (Pvt) Ltd.

The significance of this quantitative research project is notable since little research exists concerning employee relations and job performance in the apparel industry. The study will help the general public to know how the organization relates to its employees in order to improve their performance. This study was also intended to help the organization understudy to improve performance through good employee relations.

## Literature Review

### Employee Relationship

Employee means an individual who works part-time or full time under a contract of employment whether oral or written, express or implied, and has recognized rights and duties. Employment is a contract between two parties, one being the employer and the other being the employee. An employee may be defined as: "A person in the service of another under any contract of hire, express or implied, oral or written, where the employer has the power or right to control and direct the employee in the material details of how the work is to be performed." (Black's Law Dictionary, 1979)

Employees are one of the major stakeholders for every organization, both commercial and nonprofit organizations. Employees give the best part of their lives to the organization; therefore, a moral obligation to let them know how they are performing. At the same time organizations have to measure the performance of all their resources, unlike technology and capital. These resource peoples have expectation and interests and they are manifested in behavior which impacts performance.

Michael (2005) defined that Employee Relations is to manage the relationship between employer and employees with the ultimate objectivity of achieving the optimum level of productivity in terms of goods and services, employee motivation taking preventive measures to resolve problems that affect adversely the working environment. Employee Relation Managers exercise their expertise to provide guidelines to the line managers how to improve performance and behavior of the employees. Employee Relation Managers provide assistance to the Business Managers in resolving employee grievances, disputes, and legal matters. This is one of the basic responsibility of Employee Relations Department to provide information to internal customers about rules, regulations, policies, goals, and targets of the organizations to communicate the vision and mission of the Management.

### **Employee Performance**

Employees are performing different jobs in an organization depending upon the nature of the organization. They mainly perform tasks like production, storage, manufacturing, transportation, marketing, purchasing, distribution, promotion of business, finance and accounting, human resource, research and public relations. All these activities are interrelated to achieve the targets. These are to be performed by the employees properly so they can give their best output on the job.

Performance means both behaviors and results. Behaviors emanate from the performance and transform performance from abstraction to action. Not just the instruments for results behaviors are also outcomes in their own right the product of mental and physical effort applied to tasks and can be judged apart from the result. (Armstrong, 1996) Performance is a multidimensional construct the measurement of which varies depending on a variety of factors. (Bates and Holton, 1995) Job performance is how well (or poorly) employees perform their job duties compared to expectations for the job. (Donald and Dunham, 2001).

This is the ability to achieve organizational goals more effectively and efficiently. If an organization is to meet its goals effectively and efficiently ways of accurately measuring management performance must be

implemented for performance to be effective employers should recognize the legitimate desires and needs of employees for progress in their professions Harold Koontz (1994) ways in which employee's performance can be increased to achieve organizational goals include proper incentives systems, these include financial incentives and non-financial incentives.

Performance is a major concern to all organizations. It's the level at which an organization is placed in a particular industry various measures are used to measure it, ranging from gross sales, profit, market share, competitive advantage and customer rating. Performance of an industry in an economy could best be measured in terms of time taken to finish and costs incurred in relation to the originally planned project duration and financial budget Ubeku (1983). Purpose of this study is to find the relationship between employee relations and employee performance. Based on this, the following conceptual framework has been developed.

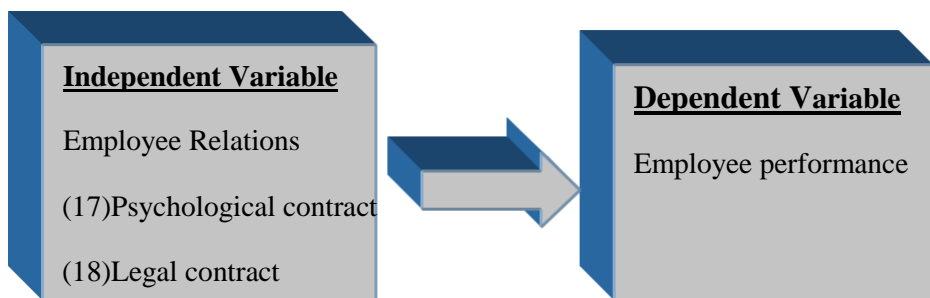


Figure 1: Conceptual Framework

**H<sub>1</sub>**– There is a significant impact on employee relations and employee performance, psychological contract and employee performance, legal contract and employee performance in ABC Apparel Export (Pvt) Ltd.

**H<sub>2</sub>**– There is a significant relationship between the psychological contract of employee relations and employee performance in ABC Apparel Export (Pvt) Ltd.

**H<sub>3</sub>**– There is a significant relationship between legal contract of employee relations and employee performance in ABC Apparel Export (Pvt) Ltd.

## Methodology

The data collection process used in this research is a mix of two basic methods that are questionnaires and personal interviews. The researcher has decided that questionnaire as the best effective and suitable data-collection technique for the study with the aims of getting an appropriate response. Also, some informal interviews have been carried out to collect primary

data. To collect primary data the researcher would visit 4 main production lines such as casual wear, performance wear, work wear and sublimation products informally and by distributing questionnaires to a random sample. Secondary data were collected from available books, publications, research studies, articles, and websites. As well as the researcher used company internal records like work-study reports and performance appraisal reports. All employees at ABC Apparel Export (Pvt) Ltd is taken as a target population and numerically it will be 400 employees. A sample size was taken as 150 of the total employee from 4 main production lines of ABC Apparel Export (Pvt) Ltd for the research.

For the purpose of evaluating the Employee Relations and Employee performance in ABC Apparel Export (Pvt) Ltd, a printed questionnaire was developed and distributed. Questions are mainly related with the Employee Relations and Employee performance. Questionnaire consist of three parts. In the first part represent the personal details of selected employees, second part used to find out Employee Relations through the Psychological contract and Legal contract and the third part are used to evaluate the Employee performance through the Traits, Behaviors, and Results. Statements which are used to test with 5-point Likert scales ranging from strongly agree to strongly disagree.

## **Data Analysis and Discussion**

The study was carried out to measure the relationship between Employee Relation and Employee Performance in ABC Apparel Export (Pvt) Ltd. Descriptive and Correlation analysis was used to check the relationship between the level of employee relationships and the level of performance. Out of 150 questionnaires, 130 were received. Finally, 120 were selected after the data validation. The reliability is tested for all the independent and dependent variables. According to Sekaran reliability should take a value of 0.7 or more to be acceptable (Sekaran, 2003). The questions regarding employee relations since it takes a value of 0.893 and also reliable employee performance are 0.923 which are greater than 0.7.

Descriptive statistics show that the male and female representation of the total sample. Among them, 31 are male which represents 25.83% of the sample and 89 are female which represents 74.17% of the sample. There are 58 married respondents which represent 48.33% of the sample. There are 62 respondents who are single which represent 51.67 % of the sample. The age of respondents where the majority are in 21-25 years of age. 37 respondents include in it (30.8%). The age between 26-30 and less than 20 years represents 27 respondents (22.5%). The age between 31-35 represent 18 respondents and the percentage is 15%. The age above 40 years represents 8 respondents and the percentage is 6.7%. The rest, between 36 and 40 represents 3 respondents (2.5%). Further shows the work experience of

employees where the majority is in 1-3 years' experience taken 27%. Next are in 6 months – 1-year as 26.7%. 19 are between 3-5 years as 15.8%. more than 5 years and less than 6 months get equally 18 as 15%.

There is an approximately linear relationship between employee relation and employee performance. So Pearson correlation can be used to analyze the strength of the relationship. According to Table 1, the Correlation between psychological contract and employee performance is 0.713 at a significant level of 0.01 which indicates that there is a strong positive relationship between psychological contract and employee performance and that relationship is significant. The Correlation between the legal contract and employee performance is 0.674 at a significant level of 0.01 which indicates that there is a strong positive relationship between legal contract and employee performance and that relationship is significant.

Table 1- Correlation between psychological contract and employee performance

<b>Correlations</b>		Employee performance
Psychological contract	Pearson Correlation	.713 <sup>**</sup>
	Sig. (2-tailed)	.000
Legal contract	Pearson Correlation	.674 <sup>**</sup>
	Sig. (2-tailed)	.000
Employee relation	Pearson Correlation	.745 <sup>**</sup>
	Sig. (2-tailed)	.000

<sup>\*\*</sup>. Correlation is significant at the 0.01 level (2-tailed).

The correlation between employee relation and employee performance is 0.745 at a significant level of 0.01 which indicates that there is a strong positive relationship between employee relation and employee performance and that relationship is significant. Same as the correlation between psychological contract, legal contract of employee relation and employee performance were significant at the level of 0.01. Therefore, hypotheses H2 and H3 are accepted.

Table2 - Model Summary (Between employee relation and employee performance)

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.745 <sup>a</sup>	.556	.552	.329

a. Predictors: (Constant), Employee relation

After including these variables to the model, the  $R^2$  value is .556, implying that variable (employee relation) explains 55.6% of the total variability of the dependent variable (Employee performance).

Table 3 - Coefficient (Employee relation)

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.510	.136		3.760	.000
	Employee relation	.698	.057	.745	12.145	.000

a. Dependent Variable: Employee performance

Above table shows the value of beta coefficients of employee relation is .745. This explains the impact of .745 of employee relation helps to increase employee performance by one point. Therefore, hypothesis H1 is accepted at the level of 0.01. The mean value of Employee relations is 2.30 where it indicates most of the sample respondents believe that there is a good employee relation in the organization. Its median value takes 2.29 and mode takes 2.29. The mean value of Employee performance is 2.11, where it indicates that the employee relations have affected in a good manner to improve the employee performance. Its median value takes 2.20 and mode takes 2.30.

## Conclusion and Recommendations

### Conclusion

The research was focusing on the employee relations and the impact of it on the employee performance. The research findings show that there is a positive relationship between the Employee relations and the Employee performance. It was proved with the values taken for both variables at correlation. Employee performance value takes positive 0.745 value. So, it proved that there is a positive relationship between the Employee relations

and the Employee performance. It implies that when Employee relations are high the Employee performance is likely to increase. The mean value of employee performance is 2.11 which is showing that the Employee performance is high in the organization. It could be concluded, that there is a moderate positive relationship between Employee relations and the Employee performance.

### **Recommendations**

In order to improve the Employee Relations further in the organization, the management of the organization can introduce some motivation programs and training programs. And also having entertainment programs might also lead to improving the Employee relations of the organization, which could automatically affect the Employee performance of the organization in a very good and healthy manner. If the management gets involved with the staff of the organization more, especially with the lower level of employees the Relations might be improved rapidly. So, it could affect in a very positive manner in the Employee Performance as well. Taking initiatives at the right time is so important as far as the Employee Relations are concerned. Initiatives should be taken in a good positive manner, otherwise, it may affect the organization badly.

There are some limitations regarding this study according to the researcher's identification. This particular study focuses only on a single organization. This study produced a number of questions that prompt the need for future research. It can be done using both the domestic and the foreign organizations. The research is conducted based on the questionnaires prepared according to the standards. Conducting face to face interviews with respondents could be given some valuable information regarding Employee Relations and the Employee Performance.

### **Reference**

- Alleyne, p., Doherty, l. And Greenidge, d. (2006), —approaches to HRM in hotel Industry", the international journal of contemporary hospitality management, vol. 18 No. 2, pp. 94-109.
- Aung, m. And heeler, r. (2001), "core competencies of service firms: a framework for strategic Decisions in international markets", the journal of marketing management, vol. 17, pp.619-43.
- Batt, r. (2002), "managing customer services: human resource practices quit rates, and sales growth", the Academy of management journal, vol. 45 no. 3, pp. 587-97.
- Becker, b. And Gerhart, b. (1996), "the impact of human resource management on organizational performance: progress and prospects", Academy of Management Journal, vol. 39 no. 4,



- Boselie, p. (2009), "a balanced approach to understanding the shaping of human resource management in organizations", *management review*, vol. 20 no. 1, pp. 90-108.
- Karanja, c. J. (July 2011). Employee relationships and organizational performance a case study of Tororo cement factory. 1-51.
- Kazlauskaite, r., Buciuniene, i., &tura, l. (2011). Organizational and psychological empowerment in the hrm-performance linkage. The current issue and full-text archive of this journal are available at, pp. 138 - 158.

## **Influence of Organizational Stressors among Executives in the Bank of Ceylon – Sri Lanka**

Prabaharan, T.

Department of Management, Eastern University, Sri Lanka.

*p\_thambirajah@yahoo.co.in*

### ***Abstract***

Stress is a serious and enduring problem in the workplaces. The last few decades have brought about dramatic changes like work in organizations. The demands for skilled or multi-skilled employees have increased in tandem with the growth of information technology. Employees are asked to perform multiple tasks and are forced to carry work home. All these changes in the work atmosphere, along with organizational changes, increased the organizational stress and related disorders among the employees. Therefore, banks should be conscious of the factors of organizational stressor affecting on role overload. This paper aimed to investigate the Influence of organizational Stressors on role overload among executives in the bank of Ceylon – Sri Lanka. The objective is to identify the level and impact of organizational Stressors on role overload. The data were collected from the respondents who are working as executives in Bank of Ceylon, Sri Lanka. The relevant data on various aspects have been collected using the questionnaire. Totally four hundred and three Executives were approached for data collection. The descriptive statistics and regression analysis were used to analyze the data. The results revealed that organizational Stress was significantly impacted on role overload. Therefore, it is reasonable to conclude that Banking Sector could design and offer stress reduction program to assist employees in reducing worry and anxiety, and cope with their stress and may further give them good advice when wanted. It may create a sound psychological wellbeing of the respondents.

**Keywords:** organizational stressors, role overload, bank of ceylon.

### **Introduction**

People across the globe are under severe work pressure as they work in a competitive environment and hence the outcome is high-level stress among employees and executives. No organization in any country is free from stress. A higher level of stress impairs the physical and psychological health of executives and employees. Stress in the workplace is a growing phenomenon across the globe (Horwitz, 2010). Among the identified potential causes of work-related stress, role stress has been recognized as a significant contributor to work stress (Boles, Wood, & Johnson, 2003;

Distinguishing the banking sector's stress from its fragility is essential. Stress emerges from the combination of exogenous shocks and fragilities in the banking system. A fragile banking sector does not systematically suffer stress if it benefits from a quiet and stable environment.

Conversely, a stable banking system can undergo stress if it experiences extreme exogenous shocks. The interaction of the shock's magnitude and the banking system's fragility determines the stress level. For that reason, the Bank of Ceylon was selected to study about organizational stress. According to Sobeih (2006), the potential causes of stress at the workplace are work-overload, too less work, time pressures, and deadlines. Stress is felt by the individual at varying degrees, i.e., from mild to severe level. It is dependent on upon an individual's physiological and psychological makeup.

Mild stress is not harmful to the individual employee. However, severe or extreme stress creates complications in individual health, mental health, career growth, and organizational effectiveness. Studying organizational stress in the banking sector has become essential as employees of such organizations are facing severe work pressure worldwide. Many professionals can sustain pressure, and others are unable to do so. A continuous pressure leads to a stage whereby psychological homeostasis of the employee is significantly affected. It may lead to dissatisfaction and work slowdown.

The critical problem banks executives are facing is the high rate of family issues leading to disruptions in work, quarrel with colleagues and ultimately ends with the loss of customers. As a result, it leaves a detrimental impact on the corporate image of the bank. Several studies have been performed on bank employees and found that one of the essential reasons may be employees' stress due to do their job. Organizational stress is mostly found among the bank executives due to their typical nature of the work.

## **Problem Statement**

**High Competition among Banks:** There has been a paradigm shift in the focus of banks from social objectives to sound business objectives, **Risks Associated with Cash-handling,** **Banks' Staff Compelled to Work Longer Hours,** **Public Opinion of Banks:** The private sector banks that delegate considerable powers to Branch Managers pave the ways for instant attention of customer needs, **Stresses and Strains Experienced by the BOC (SL) employees,** **Confronting Hardships Relating to Individual Characteristics:** The BOC (SL) employees' reaction, also in hundreds of branches across the country, to work pressure varies from person to person, **Work Overload of the BOC (SL):** Work overload may be either **'quantitative overload'** or **'qualitative overload'**.

Problems being confronted by Sri Lankan banking sector and management/employees of the Bank of Ceylon, Sri Lanka. In the Sri Lankan environment, while there are formidable challenges and stiff competitions among the banks both public and private sectors, there are also inherent and associated problems that are faced by the employees of the Bank of Ceylon, Sri Lanka (BOC/SL), in particular. Those could be stipulated as follows: Difficulties in coping with high technological skills, competency, and knowledge required of the BOC/SL's staff, Globalization and Information Technology, Restructuring contemplated by the BOC (SL), Future Challenges to the BOC (SL), Intriguing Questions on BOC (SL). Therefore, the Present Study Addresses the Following Intricate Questions: What is the extent of organizational stress confronted by the BOC (SL) employees?

Frequent studies on stress would help to uncover the shadow areas so that steps can be initiated to minimize the effect of the determinant factors of 'stressors' and also help individuals and the BOC (SL) evolve new and effective coping strategies. It is with this view the present study has been undertaken. Further Cooper and Kelly (1993) also emphasize that the Research regarding occupational stress and the role of educational administrators who have dual responsibilities of managing people and program finances found that work overload and handling relationships with staff were the primary sources of stress. No study conducted here on organizational Stressors of employees in the BOC (SL): It appears that a systematic, complete study was not conducted so far on "Organizational Stressors of the BOC (SL) Employees" either by the research institutions or by the BOC (SL) itself. Furthermore, the researcher takes a keen interest in this endeavor throwing energetic, dynamic challenge using his rich knowledge and experience.

### **Objective of the Study**

- Identify the level of organizational stressors and role overload among the executives in the banking sector.
- To find out the effect of organizational stressors on role overload among the executives in the banking sector.

### **Literature Review**

Organizational related factors are organizational stressors that influence role overload. Several authors (Sofer, 1970; Landy and Trumbo, 1976; Ivancevich and Matterson, 1980; Schuler, 1982) have identified the

influence of organizational stressors on role overload. Goldenharet al., (2003) have identified five stressors that are profoundly influencing organizational stress namely, safety climate, training, job certainty, social support and harassment, and discrimination.

Using the organizational Stress Scale, Pareek (1983) observed little difference between the scores in the three banks but found differences in role stresses at the organizational levels. He observed that people at the lowest level felt that they were stagnating both individually and role-wise. However, this feeling decreased as people moved up in the hierarchy. As regards coping styles used by bank professionals, it emerged from the analysis that employees differed in their use of coping styles from one bank to another. Bhatnagar and Bose (1985) studied "Organizational stress among branch managers" of a banking organization to understand the relative strength of different stressors for bank managers on the assumption that branches form the backbone of a bank and its role incumbents are simultaneously subjected to internal, organizational and environmental stresses.

Chaudhary (1990) examined the relationship between organizational stress and job satisfaction among bank officers. Half of the respondents (n=50) belonged to the higher age group (above 35 years) and the other half (n=50) to the lower age group (below 35years). The organizational stress Scale (Pareek,1983c) and the Employees' satisfaction-dissatisfaction inventory (Pestongee 1973b) were administered to the sample population to obtain data about organizational stress and job satisfaction variables. Critical ratio test and product-moment co-efficiencies of correlation were used for analyzing the data. The main findings of the study are as follows.

No significant differences were observed between the two age groups on organizational stress dimensions.

The overall indices of role stress and job satisfaction were found to be negatively correlated in the higher as well as, the lower age groups of bank officers.

The role overload affects job stress as stated by Idris (2011). The role overload through the impact on employees during job stress that is in continuous condition will also cause employees' performance. Tensions describe the job stress because there is psychological pressure in the job environment. Job load on the employees can make them feel tired both physically and psychologically and finally they are not comfortable with the job condition. Other studies strengthen the effect of role overload on job stress. Studies by Wang'eri and Okello (2014), Karimi et al. (2014) found that the role overload can affect job stress. The higher the role overload, the lower the performance is. Therefore, the first hypothesis can be stated as the

following. H1 = The role overload has a significant effect on the employee's job stress in the trade center of cellular phones in Surabaya

The relationship between role overload and employees' performance was also described by Malik et al. (2013). Role overload causes the employees' low productivity. Employees with excessive tire job cannot concentrate on their job so that they cannot accomplish the jobs, either. The redundant burden in the job immediately can also lead to encourage employees unable to do the job quickly so that they cannot get the target. The employees, then, cannot do the job entirely because of the higher demands to be done. In such a condition, the quality of the job will decrease.

## Methodology

This research comes under the category of descriptive study as the researcher is interested in determining the relationship between different variables. The strength of survey research is the broad scope to collect detailed information from a sample of a large population. The data were collected from the respondents who are working as executives in Bank of Ceylon, Sri Lanka. A structured questionnaire was designed using those variables. Five-point scale has been used in the survey instrument. A pilot study was carried out with 50 respondents. Based on the nearness and accessibility, the respondents for this study were those who are working as Executives in Bank of Ceylon in Eastern Province. Using simple random sampling method the researcher had chosen 154 branches. From the selected branches, 169 Branch Managers, 141 Assistant Managers, and 93 Senior Officers were employed. So, 403 Executives were approached for data collection. The SPSS did the data analysis. As illustrated in the literature the following hypotheses formulated and assessed through the regression analysis.

To find out the effect of organizational stressors on the role overload among the executives in the banking sector.

**Null Hypothesis (H0):** *Organizational stressors do not influence role overload among the executives in the banking sector.*

**Alternative Hypothesis (H1):** *Organizational stressors significantly influence role overload among the executives in the banking sector.*

## Data Analysis and Results

403 Executives were approached for data collection. Out of 403 filled questionnaires distributed, 16 questionnaires are found to be improperly filled, and hence, finally, the valid sample was settled at 387 representing 96 percent response rate.

## Sample Profile

The descriptive statistical analysis was run on respondents' demographic variables. The results are shown in Table 1.

Table 1: Summary of demographic information

<b>Demographic Profile</b>	<b>Frequencies</b>	<b>Percentages (%)</b>	<b>Demographic Profile</b>
<b>Age</b>	Below 30 Years	53	13.7
	30-40 Years	117	30.2
	41-50 Years	198	51.2
	Above 50 Years	19	4.9
<b>Present Designation</b>	Branch Manager	166	42.9
	Assistant Manager	133	34.4
	Manager	88	22.7
	Senior Manager		
<b>Experience</b>	Below 16 Years	68	17.6
	16-20 years	121	31.3
	21-25 Years	109	28.2
	Above 25 Years	89	23.0

As per the table 1, most of the respondents are fallen in the age category of 41-50 years (51.2%). Moreover, most of the respondents' present designation is branch manager (42.9%)

## Descriptive Statistics of Study Variables

The descriptive data including, reliability, mean, and standard deviation of the study variables were obtained and shown in the following Table.

Table 2: Reliability

<b>Variable</b>	<b>No. of Statements</b>	<b>Cronbach's Alpha coefficient</b>
<b>Safety Climate</b>	5	0.834
<b>Training</b>	4	0.897
<b>Job Certainty</b>	4	0.818
<b>Social Support</b>	12	0.881
<b>Harassment and Discrimination</b>	6	0.834
<b>Role overload</b>	6	0.855

The overall Cronbach's Alpha Coefficient values for selected variables indicated a robust internal consistency among the attributes. Therefore, the variables used were concluded as reliable.

Table 3: Mean and Standard Deviation of Organizational Stressors and role overload among the respondents in BOC

Dimension	Mean	S.D	Decision Attribute
Safety Climate	3.4729	.71314	High Level
Training	2.9264	.74658	Moderate Level
Job Certainty	3.2610	.80380	Moderate Level
Social Support	3.3519	.35742	Moderate Level
Harassment and Discrimination	2.2093	.84456	low Level
Organizational Stressors	3.0443	.31543	Moderate Level
Role Overload	3.4763	.463	High Level

Table 3 shows the mean and standard deviation of different dimensions to measure the organizational stressors. Among the five dimensions that measure organizational stressors, it is observed that the 'safety climate' (mean = 3.4729; SD = 0.71314) has high mean values followed by social support (mean = 3.3519; SD = 0.35742), 'job certainty' (mean = 3.261; SD = 0.8038), and 'training' (mean = 2.9264; SD = 0.74658). However, it is noted that the respondents give poor response to the dimension regarding harassment and discrimination (mean = 2.2093; SD = 0.84456).

Table 4.1: Regression Analysis - Influence of Organizational Stressors on Role Overload Dimension of Organizational Stress.

Coefficients						
S.No		Unstandardized Coefficients		Standardized Coefficients		p
	Model	B	Std. Error	Beta	t	
	(Constant)	6.309	.284		22.188	.000
1	Safety Climate	.036	.028	.056	1.276	.203
2	Training	-1.592	.093	-2.568	-17.201	.000
3	Job Certainty	.202	.026	.350	7.639	.000
4	1 Social Support	-.796	.061	-.614	-12.975	.000
5	Harassment and Discrimination	1.680	.086	3.064	19.644	.000

a. Dependent Variable: Role Overload

The regression analysis for Safety Climate, Training, Job Certainty, social support, Harassment and Discrimination, and Role Overload is explained by the above tables 4.1 and 4.2.

The measure of the strength of association in the regression analysis is given by the coefficient of regression determination denoted by adjusted



R<sup>2</sup>. The adjusted R<sup>2</sup> value is 0.548 which implies 54.8 percent of the variation in the Role Overload. To check whether R<sup>2</sup> is statistically significant, ANOVA is used. The F value obtained is 94.525 (P<0.000) and ascertains that there is a significant relationship between dependent and independent variables.

Table 4.2: Regression Analysis - Influence of Organizational Stressors on RoleOverload Dimension of Organizational Stress.

Model	R	R Square	Adjusted R Square	Std.The error of the estimate	F	P
1	.744 <sup>a</sup>	.554	.548	.31136	94.525	.000 <sup>b</sup>

Predictors: (Constant), Harassment, Job Certainty, Social Support, Safety Climate, Training

It can be ascertained from this table that Safety Climate, Training, Job Certainty, Social Support, Harassment, and Discrimination are not the only determinant factors of Role Overload. 45.2 percent of variations in Role Overloads are still not explained. However, they appear to play a significant role, regardless of the Safety Climate, Training, Job Certainty, Social Support, Harassment and Discrimination of the respondents. An examination of t – values of this table shows that ‘\_Harassment and discrimination’ (t = 19.644), and ‘\_Job Certainty’ (t = 7.639) are found to have significantly contributed in the prediction of Role Overload. ‘\_Training’ (t=-17.201) and ‘\_Social Support’ (t=-12.975) contribute negatively and significantly to the prediction of role Overload. ‘\_Safety Climate’ (t = 1.276) have not significantly contributed to the prediction of Role Overload. Results of this study confirm that Training, Job Certainty, Social Support, Harassment, and Discrimination influence Role Overload, which is similar to the study of Boyar and Mosley (2003). From the results, it is further observed that Harassment and Discrimination are found to be the most significant related factors affecting the Role Overload. Training is the second important factor followed by social support, and Job Certainty. So Harassment and Discrimination and Training have a notable influence on the Role Overload.

The regression analysis for Safety Climate, Training, Job Certainty, Social Support, Harassment and Discrimination, and Role Ambiguity is explained in the above Table 4.1. Many factors influence the Role Ambiguity. For testing the influence of independent variables taken up for the study on the dependent variable, a regression analysis was applied. The independent variables taken up for the study are Safety Climate, Training, Job Certainty, Social Support, Harassment, and Discrimination. From the Adjusted R

square value, it is inferred that independent variables explain 25.7 percent of the dependent variable. To check whether  $R^2$  is statistically significant, ANOVA is used. The value of F is found to be significant at 0.001 level. So there is an influence of Job Safety Climate, Training, Job Certainty, Social Support, Harassment, and Discrimination. It can be ascertained from this table that Safety Climate, Training, Job Certainty, Social Support, Harassment, and Discrimination are not the only determinant factors of Role Ambiguity, (74.3 percent of variations in role ambiguity are still not explained).

## **Conclusions and Suggestions**

Many professionals can sustain pressure, and others are unable to do so. A continuous pressure leads to a stage whereby psychological homeostasis of the employee is significantly affected. It may lead to dissatisfaction and work slowdown.

After successively collected and analyzed the data the research concluded that hypotheses are valid and show a significant relationship between organizational stressors on role overload. The findings of the study revealed that when stressful situations are trying to control for the organization, prevention strategies such as creating safety climate, training, job certainty, social support and so on to minimize the stress of the employees.

From the research findings, it has been suggested that bank officers must identify the effective methods to reduce, eradicate or cope up with role overload. Bank management must enhance the best ways to develop the psychological well-being of their officers. The purpose of the research was to examine through empirical research, the essential factors influencing organizational stress. If the bank managers are stress-free, their job performance will be accurate with societal care, which is the need of efficient banking service for sustaining and improving the economy of the developing nation, like Sri Lanka. Further study aligned with the findings of Travers (2001) who did a Studies regarding the occupational stress of teachers and findings revealed that Conflicting demands by supervisors and work overload are some stressors leading sources of teacher stress (Travers, 2001;

As harassment and discrimination are the critical influencing factor of the organizational stress of bank executives, Bank of Ceylon should come up with a strict rule of taking disciplinary action against those who involved in harassment of other employees. Discrimination is another dimension that should be eradicated by conducting different indoor or outdoor programmes involving the member of the heterogeneous group. This will reduce the gap

to some extent and make the employees unity, which will reduce their organizational stress considerably.

This research only focuses on the banking sectors in Sri Lanka. Additional studies need to be undertaken to examine organizational stress on role overload in other fields. However, this can be further expanded into fields such as insurance, leasing and another financial sector.

## References

- A.P. Singh, A.K., 2011 Dubey Role of stress and locus of control in job satisfaction among middle managers. *The IUP Journal of Organizational Behavior*, X (1) pp. 42-56
- Boyar SL, Maertz CP, Jr, Mosley DC, Jr, Carr JC, Keough S., 2003 Work-family conflict: The impact of moderators on the demand-conflict relationship. Paper presented at the meeting of the Academy of Management; Seattle, Aug.
- Cooper, C.L., and Payne, R. (1988). *Causes, coping and consequences of stress at work*. New York: Wiley.
- Idris, MK 2011, 'Over time effects of role stress on psychological strain among Malaysian public university Academics,' *International Journal of Business and Social Science*, vol. 2, no. 9, 154- 161
- J.S. Boles, J.A. Wood, J. Johnson, 2003, Interrelationships of role conflict, role ambiguity and work-family conflict with different facets of job satisfaction and the moderating effects of gender. *Journal of Personal Selling and Sales Management*, XXIII (2) pp. 99-113
- Karimi, R, Omar, ZB, Alipour, F & Karimi, Z 2014, 'The Influence of role overload, role conflict and role ambiguity on occupational stress among nurses in a selected Iranian hospital,' *International Journal of Asian Social Science*, vol. 4, no. 1, pp. 34–40.
- Malik, MI, Sajjad, M, Hyder, S, Ahmad, MS, Ahmed, J & Hussain, S 2013, 'Role overload: A cause of diminishing employee retention and productivity,' *Middle-East Journal of Scientific Research*, vol. 18, no. 11, pp. 1573–1577.
- N. Hang-Yue, S. Foley, R. Loi Work 2005 role stressors and turnover intentions: a study of professional clergy in Hong Kong *International Journal of Human Resource Management*, 16 (11) pp. 2133-2146.
- Prince Martin v.(2007) a study of job satisfaction about the occupational stress of professionals (doctoral dissertation. Deemed University).
- Terry and Franklin, *Principles of Management*, All India Traveler Book Seller, 2001

- Sobeih, T., Salem, O., Daraiseh, N., Genaidy, A., & Shell, R., 2006. Psychosocial systematic review. *Theoretical issues in Ergonomics*, 7(3), 329-344. The Milbank Quarterly, 88 (1) (2010), pp. 112-138
- Wang'eri, T & Okello, LW 2014, 'Role overload, teacher-pupil-ratio, school type, years of teaching experience, gender and burn out as factors related to job stress among primary school teachers in Kasarani division, Nairobi County, Kenya', *Global Journal of Human Social Science, Linguistics & Education*, vol. 14, no. 1, pp. 55–64.

## **Euphemism as A Persuasive Advertising Strategy**

Rasakumaran, A.

English Language Teaching Unit, University of Jaffna, Sri Lanka

*rasakumaran1957@gmail.com*

### ***Abstract***

Understanding advertising as a communication process built through persuasive strategies, this work aims to analyze euphemisms, a strategy frequently used in current advertising texts. In this sense, the reasons why this verbal appeal persuades the target audience, as well as why it leads to the buying action, are analyzed. To illustrate the placements, two advertising pieces are used as examples, in order to deduce the facts established throughout the study. It has been found that euphemisms correspond to a persuasive strategy of great utility to attenuate unpleasant expressions and, therefore, avoid situations embarrassing to the target public of the message.

**Keywords:** advertising, euphemism, persuasion

### **Introduction**

More than a large-scale production industry, advertising is the factor that allows us to understand what makes us part of a community and how we should act in it that is; we create our identity from the framework of a common culture that set forth to us. Thus, we accept as ours the precepts presented by the advertisers, since they dominate the cultural and media scene dictating the subjects that must be discussed and the way each individual should stand before the established propositions, demonstrating own agenda of the subjects that must be discussed in society.

The effects of the meaning of the advertising discourse aim, to some extent, to exert a dominion of the real. Through this we construct a parallel universe of suggestions and interpretations, using various voices and senses since language moves fundamentally through polysemic processes (Falkum, 2015). From publicity that reaches high recall, which makes history by innovating in attitudes and concepts, we put in check traditional values and we begin to structure new principles.

In this sense, the advertising message shows an unprecedented strength. It seeks essentially to build a positive and favorable image of the product and/or brand with the recipient (target audience), creating consumer habits in this, through the aspirations and desires that have and also identifies gifts

in the advertised product. The connection between the advertised product, the message that transmits it and the recipient that will receive this information is made fundamentally through the communication process, which integrates the persuasive dimension of advertising par excellence. Persuasion is a synergistic force that exerts power over the recipient - usually implicitly - leading him to take a stand and/or perform an attitude.

Thinking about persuasion through the strategies that constitute it within advertising pieces, we propose here to analyze a persuasive element recurrent in the contemporary advertising text: the euphemisms. We will discuss the ways in which euphemisms, in the composition of the set of strategies of the message, persuade the target audience and induce a purchase action, since it is a verbal resource very useful to block unspeakable words and repudiates, and consequently avoid unpleasant situations to which the message is addressed.

As a basis for the propositions, we will first characterize the communication and the parameters that include advertising as a communicational process. Next, we will theorize about persuasion and how it develops in the advertising context, and then discuss the importance of the lexical work in the composition of the advertising message and its implications in the public's conviction; the definition and characterization of euphemism, the basic element of this analysis and the component of lexical choice, will be dealt with in a special item. In a second section, two advertisements will be analyzed, trying to identify which expressions are being suppressed by the use of euphemisms and the persuasive implications that this exchange of meanings generates in the target audiences.

## **Literature Review**

We know that when a text is created and uttered, it is free from any naturalness or innocence. The speeches indicate much more than information on the subject treated and also ways of conceiving and presenting the worldview of the speaker and which ideological principles are followed. Thus, it is evident that a certain form of language is not only a means by which knowledge is transmitted (Bandura, 1989); it is also the space where ideas and precepts are present and have a total capacity of expression.

Thus, it is verified that every act of language, regardless of the dimension it possesses, acquires meaning in a communicational circumstance. As Kecskes (2010) points out that to evaluate an act of language it is necessary to verify the situation in which it is used and the positions occupied by the communicants. The communicational circumstance is the space where the constraints and obligations that define the values of linguistic exchange are established. The limitations occur due to the understanding of the communicative purpose, the character of the identities of the

communicants, the socio-cultural and economic situation in which they are and what is going to be said. Therefore, the act of language can be understood as a phenomenon that includes speaking and doing.

In this way, it is understood that communication takes place between the people who make it, and not in them or on them. To communicate at the human level is to establish a relationship between one person and another through a material medium commonly called a message, which implies the representations of the communicating subject. That is, communication presupposes finding the other, but it will only meet what is meaningful to it, something that contemplates its needs, thoughts, and desires. Therefore, it can be understood that every message has a persuasive and intentional character (Marková, 2008) since we need to adjust it according to the needs of the interlocutor to approach it and carry out a communicational act.

One of the great phenomena that construct the messages using these precepts is the publicity, composed entirely by the persuasive language, since it has as purpose to persuade the recipient to accept and to want what is being announced, making that the expectations that it has are all reunited in what is intended to be sold. As persuasion is the "touchstone" of communicational acts, especially of advertising, it can be said that persuasion is the decision or the adoption of an idea or attitude by the subjective recognition of the value of the message or object, according to the criteria themselves. There is only persuasion in subjective personal adhesion to the proposed value, and there is no persuasion where there is no subjective object evaluation space (Marková, 2008).

Thinking about persuasion within advertising and marketing, we can understand it as a discursive, sometimes argumentative, way that seeks to structure the message in such a way as to solidify or change the expectations of those who intend to reach, considering reciprocity in the relationship of communicators. However, we should not confuse it with manipulation, since persuading implies giving choices of choice to the receiver, discourse in favor of an option; manipulating presupposes forging the argument, indicating that there is only one way forward (Johannessen, 2010).

It should be noted that the use of persuasion in advertising is based on two essential elements of communication as a whole: the linguistic and the iconic (Zueva, 2016). The presence of the linguistic elements occurs through the discursive and argumentative power of the verbal signs, resorting to structures that actually materialize the persuasion. The iconic elements or the imagery strengthens the linguistic symbols, giving support to the advertising text. The conjunction of the verbal and visual message is the basic concept for understanding the functioning of advertising persuasion.

Persuasion gains strength through these elements to the point of establishing itself in all processes of human interaction, with advertising being the place where it has a greater commitment since the advertising communication needs to arouse the interest of the public and conquer it. Thus, it is sought to formulate strategies that make the interlocutor voluntarily accept what is proposed to him, mainly to have desires to satisfy, because it is through these that the publicity seduction becomes. With these considerations in mind, it is easy to understand why advertising has the power to make products acquire symbolic values, sometimes much larger than the product's own financial value. In addition, it can be concluded that persuasion, in the scope of advertising and marketing, aims to promote consumption and, more than that, includes the individual in a particular social group, indicating that to obtain a certain position in this group needs to consume certain products.

This power to conquer publicity, in order to be effective, operates by always showing happy, fascinating and very successful people in their lives, in such a way that it creates an imaginary universe, and even parallel, in which the public idealizes everything they would like to have and be.

It is in the advertisements that we can verify these meanings since they are made up of promises to the reader, that is, advertising seeks to induce consumption through an imaginary reality, which, in general, hardly resembles the life of each person. In summary, commercials, to a large extent, are very poor informational content and too rich in emotional suggestions to be read literally. If this happens, people will understand their error when the fascinating promises contained in them do not materialize (Marcelo, 2012).

Although everyone knows that advertising creates another world, a non-existent reality (at least for the great majority of the population), they submit this affirmation to their own desire to become people in the imaginary universe, such is the fascination that this fantasy world causes. The ecstasy that is due to the use of persuasion, where the advertisement is constructed in such a way

By compensating for the monotony of everyday life with the use of fantasies, advertising inevitably proves the monotony of everyday life. By showing people how they might turn out to be, the advertisements only show by implication what they are not presently. In this sense, the study of advertising and the products/services that it announces allows us to make a reflection on consumption and communication, as well as on culture.

Kannan and Tyagi (2013) in studying the processes that form the aesthetics of advertising and art recall that propaganda collects meanings present in the cultural domain, developing from this point a new sense configuration,



but not so new that it cannot be understood and/or appreciated by many. In this way, the advertising language seeks to present real and subjective parameters to characterize the product, aiming to organize systems of a chain of ideas that aim to persuade individuals to take advantage of what is proposed to them by the communication (Clow & Baack, 2012). The author also adds that expressiveness is the great concern of advertising, an element that provides greater efficiency and eloquence for language.

In terms of expressiveness, Huertas, and Campomar (2009) state that the advertising language is based on rational, emotional arguments. The logical-rational (referential) arguments aim to demonstrate the practical use value of the product, evidencing its attributes through rational findings, in order to prove that it has utility. In the case of logical-emotional arguments, the factors explored are the feelings, the emotional side of the people, persuading themselves through exacerbated seduction, in order to capture the target audience for the vulnerabilities and psycho-emotional deficits it possesses. Finally, mixed texts are the most usual, because they combine rational and emotional arguments, obtaining greater chances of persuading the interlocutor of the advertising message. This is due to the use of rational (pseudo) methods to represent emotion.

However, even using solid arguments, the audience can interpret the message in different ways and may not reach the intended goal, and it is, therefore, fundamental to outline which paths to follow in order to maximize the reading so that it reaches a single end. In this sense, advertising language structures persuasion through strategies, that is, planned and systematic activities that aim to adjust the message according to the beliefs, ideologies, and values of who it is intended.

One of these strategies, among several, is to use words to construct the message, in a meticulous process of choosing the terms that will compose the advertising text, in such a way that they make their contents close to the public, making them feel familiar with which is being exposed, due to the fact that the lexicon used is similar to or equal to the one used daily, increasing adherence to the proposed objectives. Oyeleye and Adeyinka (2014) call this persuasive strategy "lexical choice" and states that it is one of the most important tactics used by advertising to achieve the intended effects. According to these authors, the construction of a persuasive message is the fruit of a careful research of words, vital in the elaboration of the propaganda text. Opting for this or that term is not an arbitrary attitude, but the result of an ideology. The words that make up the text of an advertisement are chosen not only for its functionality in the narrated story but with the aim of broadening the communion with the audience, as well as often emphasizing the peculiarities of the promoted product, service or brand.

In addition, the correct choice of words provides very effective advertising, as it pleasantly tells the consumer everything he or she expects to hear, producing a kind of delight. At the level of pleasant words, it is possible to highlight an element that composes the lexical strategy and that contributes to making embarrassing, even irritating, subjects more pleasing to the public: the use of euphemisms. As this tactic has been used repeatedly by advertising over the years, and on an increasing scale, it instigates to understand the reasons that lead to its application and, more importantly, to understand how they persuade the public and induce the purchase, since most of the time they deal with delicate subjects.

## **The Euphemisms**

Advertising text, in order to attain its basic function that is to persuade the target audience, must be engendered according to the socio-cultural and psychosocial characteristics of its audience, in order to make it believe that the message was specially made for it, by demonstrating peculiar shared characteristics by the same. However, there are some products that are intended for people who have certain disorders / illnesses that are uncommon among the population, requiring care in the treatment of these subjects, so as not to cause embarrassment and ridicule to these individuals, since such matters are about subjects often considered taboo, as is the case of "sexual impotence" - the motes that make up the corpus chosen for this analysis, an announcement of a brand of yogurts and the other of a tablet that removes impotence. Thus, to achieve this effect, the message of the advertisement is developed through a figure of thought - subdivision of the figures of language - called euphemism.

Figurative language is a resource that facilitates/promotes the linguistic creativity of a people. It is used to give a new tone to the thought that we possess, adding greater vigor and graciousness to human communication and expression. Among the three divisions that it has, the one that interests us refers to the figures of thought, that is, expressive methods that insert an idea different from that of the word commonly expresses. It is within the figures of thought that we find the definition for euphemism: euphemism is using mild, soft and appealing expressions instead of harsh ones.

In order for a word to be considered a euphemistic, it cannot be taken in isolation; the context in which it appears, the effect it intends to achieve with its use and the intentions of the speakers must be taken into account. From the synchronic point of view, a word can only be considered euphemistic if its meaning is ambiguous, allowing, then, two interpretations of the event, one literal and the other euphemistic. The author adds that often a word, even though it is not considered taboo, turns out to be inconvenient or uncomfortable in a given context. In these cases, the use of

euphemism acts as semantic engineering in order to overcome undesirable effects of the word that it is replacing.

## **Methodology**

Two advertisements - one for a brand of yoghurt (we have named it as X to keep it anonymous) and another for a medically approved pill (we have named it as Y to keep it anonymous) - were taken from the web and the euphemistic language used was analysed based on the discussion in literature review.

## **Analysis of the Data**

The language, linguistic and iconic, used in these two advertisements to attract the customers will be analyzed here. We can observe how the categories previously exposed are used in the two advertisements mentioned above.

The advertisement for the yogurt goes on as "X Yoghurt contains in addition to yogurt ferments, the bacillus Dan Regularis, which helps intestinal transit. Dan Regularis is the only probiotic agent that resists the passage through the stomach, thus reaching the intestine actively.

X is a 100% healthy way to make your bowel work again, forget the remedies that harm your body in the long run. Change of Life, Change for X ".

X is a line of dairy products developed by Y and marketed in several countries around the world. It contains an exclusive probiotic culture that helps regulate intestinal transit. It is observed that the announcement is based mainly on the informational language, because it transmits tangible and observable values, using rational arguments to prove the effectiveness of the product, fact verifiable in the sentence "X contains besides the yogurt ferments, the bacillus Dan Regularis , which helps intestinal transit. "

In addition to the informative text, the advertisement is composed of images of fruit and milk, which refer to natural and therefore healthy. As for colors, we see that green, besides being an integral part of the brand, is the chromium color that supports the advertisement, as it makes up almost the entire page. In this context, the green used refers to the lightness, cleanliness, tranquility, calmness, and health, alluding to the fact that using the product, the consumer will reach all these sensations, because he will be free of something that bothers him, obtaining a healthier life and serene

Euphemisms are present, notably, in the linguistic and iconic elements of an advertisement. In the verbal components, we find the euphemisms in the expressions "help the intestinal transit" and "make your intestine work again". As for the iconic or non-verbal part, the euphemism is present in the advertiser's mark, precisely in the yellow downward-pointing arrow, which

helps to compose the letter "I" that comes in the middle of the brand name X.

The three cases of euphemism in the advertisement fit into the first function proposed by Crespo-Fernández (2014), the function of concealment, that is, the use of such euphemisms in the announcement of X yoghurts is given to meet standards that establish good social interaction, avoiding direct mention of unpleasant elements, making the language more gentle and pleasant. Semantic isotopes occur, then, because the subject matter is quite embarrassing. In the linguistic case, the two euphemisms used explicitly allude to the physiological disorder that the product helps to resolve, known technically as intestinal constipation, or popularly as a stuck intestine, lazy bowel, lack of "toes," constipation, other expressions that refer to the word feces. So how do you handle such a nasty, and sometimes disgusting, affair by naming the audience you target at websites, magazines, and television? Nothing is better than replacing some words with others, generating other effects of meaning, but referring to the intended final meaning.

In this way, the great contributor of the euphemisms in the constructions of sense that realizes is the polyphony, because through the use of different voices it makes possible to reach the planned uniqueness. Nølke (2017) states that all text is polyphonic, that is, it expresses a mosaic of voices. Each speech is a platform of expression of a plurality of speeches, some intentionally generated by the enunciator and others that he does not even realize. Therefore, polyphony is voices that emanate from other semantic fields and help us to build the networks of meanings and meanings towards our interlocutor. The concept of polyphony also refers to the textual networks triggered in each enunciation. Thus, in X Yoghurt's announcement, polyphony is present in the verbal part, composing the euphemistic expressions, and in the iconic elements - specifically in fruits and milk - because they allude to how healthy the product is, since they bring the "voice of naturalness" that characterizes the process by which they are produced.

We then perceive that the words that had the euphemisms used in their place were replaced by the fact that on these words and expressions weighs a social, and even moral, a judgment that is inadequate in certain conversational contexts. It is precisely in this fact lies the persuasion factor of the euphemisms used in the announcement of X Yoghurt, because through these attenuating expressions of meaning it is possible to indicate the target audience of the product without naming it explicitly and, more important, without revealing openly and offensively which affects the readers. Thus, we avoid embarrassment and ridicule to those who are consumers of the product, because this is considered as having the "lazy gut" and not as a person with "difficulties to defecate."

The same is true for the iconic language of the ad: there is a yellow arrow pointing down. It can be attributed the same meanings and persuasive

effects present in the linguistic part, but with a differential: integral of the brand, the arrow is the element that more explicitly show the effect of the product, since it refers to the exit of something, due to the indicating that it is half the letter "I" of the brand name, as if the other half had already been "eliminated", in a direct allusion to the effect of yogurt, that is, improvement of intestinal flow after regular consumption of X yogurt. In this way, we find that, in addition to the attenuating role they play, the euphemisms ensure the semantic continuity of the text and the persuasive character of the advertisement.

Another ad used as an example is the drug Y, a drug sold under a medical prescription that has sildenafil citrate as the active ingredient - a pioneer in the treatment of male erectile dysfunction. It was originally synthesized by the pharmaceutical company Pfizer and is present in more than 110 countries.

It is seen that the advertisement is based essentially on linguistic elements, where the pill and the color of support of the page are the only components that indicate iconicity. The language used is subjective, for it evokes the particular interpretations of the reader by means of an emotional argument that refers to sexuality and pleasure, since the phrase can be translated as "Hard Work", so that it induces the public- aim to recall feelings, as well as instigates you to experience this new form of pleasure.

The colors, in soft gradient, obey the very mark of the product, fact verifiable in the phrase, where there is a gradation of shades from blue to black. The background color, a shade of practically white blue, refers to happiness, peace, tranquility, serenity, suggesting that the consumer will obtain all these benefits when consuming the product, but also refers to the sensation of relaxation that men (target audience) will feel.

A very interesting fact is also observed. The advertising strategy used to compose this ad conceals the intention to sell the product to the maximum, for the following reason: the World Health Organization (WHO) prohibits the making of advertisements for medicines that need a medical prescription to be sold. Therefore, in order to be able to advertise, you can not explicitly mention the product or the advantages it provides, everything should be understood. Creativity, therefore, euphemisms and polyphonies are put into motion.

From the foregoing, it is characterized that the euphemism is present in the linguistic or verbal part of the advertisement, in the expression "Hard Work". In this paper, we can classify this case, as in the previous one, as the function of concealment, since it was used to fulfill precepts that organize the forms of social interaction and allow the good relationship between the communicators, since it is replacing the mention of an unpleasant disturbance by a more humored, and by polite extension, of treating on a taboo subject and too uncomfortable to men.

Despite the changes that have taken place over time, the world still demonstrates reflections of the social relations experienced in previous decades, at a time when society was clearly heterosexual, patriarchal and macho, and men were considered superior to women and endowed with all strength and power to work and to procreate. Even so, they still compete with each other to reach the best positions in almost all spheres, with only the strong surviving. Based on this assumption, it is impossible for a man with sexual impotence to be credited as "male" since the concept of man that is conveyed refers to the capacity of reproduction that he has, relating sexual power to manhood.

By these erroneous precepts, many prejudices have been established, especially among men, who ridicule and make fun of those who have erectile dysfunction - all because they feel the need to assert their position and masculinity to others. Like this, it is quite understandable why the euphemism is used in the announcement of Y, since for some men it is outrageous and offensive to treat sexual impotence, because on this fact weighs a very great social and moral judgment, being necessary to use an expression that allows to adapt the language to the proposed communication context, that is, superficially nothing seems to have a similarity between "Hard Work" and erectile dysfunction. However, such is the similarity between terms that make it possible to deal with a taboo subject without causing embarrassment, discomfort or ridicule.

Again, it is clear why euphemisms have such persuasive power in advertising. They make it possible to construct the message in order to attract the attention of the target audience and induce it to action without causing an unpleasant or demeaning situation, because in providing other meanings to the treated mote, they make the language free of pejorative interpretations that will trigger in the readers an attitude of repudiation of the product.

In addition, specifically in the ad of Y, the phrase in question allows for other connotations that go beyond the euphemism frontier and places the advertisement at a higher level of representations because it is constructed through a veiled, intimate, sexuality discourse. The term "hard work" is based on ambiguity and the play of words and the reference made is not correlated with any form of work in the sense of employment, but rather with the sexual act. In this correlation also occurs polyphony, because it brings a "voice" that at first refers to the world of work, but when we look further we realize that the meaning of the word is another. This conclusion is reached through the following considerations: when the pill is ingested, the man will have his problem of erectile dysfunction healed, being able to have a sexual relationship that takes place for hours, requiring great effort and dedication of the same, so the work becomes hard/arduous. The term "hard" also alludes to the effect of the drug that is, obtaining an erection. In addition, the ad mocks the sexual act and the willingness to perform it,

suggesting that it will be wearing because the man will be very willing to do so after consuming the pill.

## Conclusions

Initially, it is verified that the advertising language has as a great deal of persuasion, a strategy that seeks through words and/or images to structure a discourse that makes the subject-reader get involved in the message from the suggestion of different meanings. The persuasive process goes far beyond the simple interpretation of the elements and enters the field of relations, putting emitter and receiver in contact, in order to concretize the process of persuasion.

In this sense, the message will only take effect if it is cleverly worked, and it is fundamental to choose the words to use, in order to establish for each word a function and an objective within the textual fabric. It is also through the lexical choice that we indicate the target audience and we address it with propriety on the product/service advertised. However, sometimes it is necessary to deal with delicate subjects or that cause discomfort in certain people, and it is necessary to further refine the vocabulary used to compose the advertising piece. Euphemism helps to achieve this goal.

As shown in the analysis of the corpus, euphemisms are a subtle way of talking about something unpleasant and their use varies according to the words they will replace, the conversational context and the intended audience. Most of the time they work in advertising, reducing as much as possible the discomfort and miseries in dealing with certain disorders that affect some people and therefore manage to take the product even to them, instigating them to buy it. They also conquer individuals because they are usually associated with humor, dispersing undesirable and/or unpleasant interpretations that may occur. Furthermore, they constitute an important expressive function and enable the continuity and fluency of the text.

We can see that euphemisms persuade customers because they reconfigure the uncomfortable character of certain expressions, making even the most unpleasant situations subtle and acceptable since they do not create embarrassment and/or ridicule for the parties involved.

## References

- Bandura, A 1989, '*Social cognitive theory*'. In R. Vasta (Ed.), *Annals of child development*. Vol. 6. Six theories of child development (pp. 1-60). Greenwich, CT: JAI Press.
- Clow, K E, & Baack, D 2012, *Integrated advertising, promotion, and marketing communications*, Harlow: Pearson Education Limited.

- Crespo-Fernández, E 2014, 'Euphemism and Political Discourse in the British Regional Press'. *Brno Studies in English*, 40(1), 5-26. DOI: 10.5817/BSE2014-1-1
- Falkum, IL 2015, 'The how and why of polysemy: A pragmatic account'. *Lingua* 157, 83-99.
- Huertas, MKZ, & Campomar, MC 2009, 'Rational and emotional appeals in advertising of prescription medicines: a study of a slimming drug in Brazil', *Innovative Marketing*, 5(4), 80-88.
- Johannessen, KS 2010, 'The language of advertising: Powerful, innovative and environmental?', *New perspectives on sustainability*, 2, 6-27.
- Kannan, R & Tyagi, S 2013, 'Use of language in advertisements', *English for Specific Purposes World* 37(3), 1–10.
- Kecskes, I 2010, 'Situation-bound utterances as pragmatic acts', *Journal of Pragmatics*, 42, 2889–2897. Available at: <https://www.albany.edu/faculty/ikecskes/files/SBUs%20as%20pragmatic%20acts.pdf>
- Marcelo, R 2012, 'Commercials: Visual and Auditory Circumplex Spaces, Product Information and Their Effects on Audience Evaluation', *Journal of Current Issues & Research Advertising*, 27(2). doi.org/10.1080/10641734.2005.10505179
- Marková, I 2008, 'Persuasion and Propaganda', *Diogenes* 217: 37–51. DOI: 10.1177/0392192107087916
- Nølke, H 2017, 'Linguistic Polyphony: The Scandinavian Approach', Brill: Leiden
- Oyeleye, A L & Adeyinka, IA 2014, 'Rhetoric and Lexicalisation as Aspects of Persuasive Strategy in the Language of Insurance Advertising in the Nigerian Print Media', *International Journal of Applied Linguistics & English Literature*, 3(5), 2787-286. doi:10.7575/aiac.ijalel.v.3n.5p.276
- Thomson, D 2011, 'Thinking vs. Feeling: The Psychology of Advertising', *The Atlantic*. Available at: <https://www.theatlantic.com/business/archive/2011/10/thinking-vs-feeling-the-psychology-of-advertising/247466/>
- Zueva, E E 2016, 'Interaction of the English Language and Non-Verbal Semiotic Means in the Business Discourse of Creolized Texts on Financial Organizations Corporate Sites', *Journal of Siberian Federal University, Humanities & Social Sciences*, 12, 3044-3053.



## Noun Phrase Formation in Business Letter Writing in English

Gnanaseelan. J. ;Jeyaseelan, S.

Department of English Language Teaching, Vavuniya Campus  
jeya86@hotmail.com; subi\_08@hotmail.com

### **Abstract**

*The communicative functions and linguistic forms of nouns and noun phrases in letter writing in English reveal the linguistic and non-linguistic implications in the Sri Lankan English Language Teaching and English Language Learning context. This is a case study of the texts produced by the students from Tamil and Sinhala language communities of Vavuniya Campus of the University of Jaffna in Sri Lanka. This research describes the structural and functional types the respondents used, their quantity, quality and their distinct features from the universal types and functions. The analysis is both quantitative and qualitative. The findings distinguish the universal patterns from the local patterns typical of a non-native ESL learning context. It finds out the constitution of the components of the noun phrases, pre- and post-modifiers, the embedded structure of the NPs within other phrases and clauses and vice versa, and, functionally, the themes of the discourse, the subject, object and the predicative complements. The learner competence in the use and types of nouns, nominalization, the distinction between nouns and the rest of the linguistic units, within their types and within their functions, comparative use of abstract ideas over the concrete actions in the NPs are identified and analyzed for logical and pragmatic relations.*

**Keywords:** noun phrase, structure, function, position, discourse theme

### **Introduction**

Nouns (N) and noun phrases (NP) in English are created and used in considerable numbers and functions. Sri Lankan students construct and use NPs in English writing. The genre of letters in business communication in Sri Lankanized context demands contextualized and nativized forms of NPs. The patterns developed and used in the letter of complaint expect the patterns and expressions to be Sri Lankan culturally and linguistically. The texts of the respondents reflect the learned patterns of NPs and distinct localized patterns of NPs. First, the writings of the students show ambiguity in creating and using NPs in the right positions of subject, object, and complement. The implications in creating complex forms of NPs are clearly identifiable in their writing. Pre-modification and post-modification of the head of the NPs need proficiency in phrase and clause construction, especially the types of phrases and clauses to be used as pre-modifiers and post-modifiers. The creation of NPs expressing abstract or conceptual ideas

seems to be comparatively more changing than the NPs expressing concrete actions. Thus, Nouns and noun phrases are formed and in addition, make their establishments in other phrases and clauses such as prepositional phrases (PP), adverbial and adjectival phrases (AdvP and AdjP) and clauses.

There is lack of understanding of the theory and application of complex phrases and clauses structured in layers or embedded nature, for example, the phrase within a clause and the clause within a phrase or noun phrase within a prepositional phrase and vice versa. They convey syntactic, semantic and pragmatic or discourse or ideological functions. Without realizing the inherent distinctions or taxonomic diversification, the learners and users handle nouns and noun phrases which affect the teaching and learning of subjects taught in English medium. If the types and functions are not contrastively understood and applied, they impede competence and performance of the quantitative or qualitative content of an action or idea produced in written texts. Nouns are significant structural and functional elements presented in both concrete and abstract entities and in form and meaning and they are essential discourse devices so complex and diverse in producing written texts.

### **Need for the study**

Sri Lankan students use nouns in English writing without distinguishing different form and functional implications. The need for being proficient is felt in their use in intra-sentential and inter-sentential functions and relations and denotations and connotations. Business communication demands a skillful use of nouns and marketable and attention-catching nominalization. Though the use of nouns in English does not cause serious inhibitions in fluent communication in English by the natives of Sri Lanka, the Sinhalese and Tamil, taking this feature as granted and do have this system in similar forms, they continue to commit deviation structurally and functionally in their English discourse at the higher or complex level of communication in real life. They fail to show the form and functional distinctions in English.

### **Theoretical Background**

Jespersen (1976 [1914]: 15) defines an NP as a combination of words put together in order to form a sense unit. However, Kruisinga (1932 [1909]: 177) says that NPs are —syntactic groups| as a combination of words which are part of a sentence. Hockett (1958: 152-154) states them as composite forms hierarchically organized as endocentric constructions, which is in the Immediate Constituent Analysis, an NP that has a head and an attribute.

Jucker, (1992) has studied at N+N structures and Levi, (1978) thinks of this pattern as morphological compounds. NPs assume the roles of pre-modification (Biber & Clark 2002).

Quirk *et al.* (1985) classify modifiers in terms of their position within the noun phrase. The pre-modifiers precede or the post-modifiers follow the head noun. There are restrictive modifier (e.g. *my **younger** sister*), and non-restrictive modifier (e.g. *my **lovely** dog*). Aarts & Aarts (1988: 10-14) describes the noun phrase as a headed phrase in which the head is the only obligatory constituent. In Generative Grammar, Jackendoff, (1977) discusses X-bar theory in which he says all phrases as the product of syntactic rules which are context-free, using lexical categories such as noun, verb, adjective, and preposition as the starting point of projection paths.

Halliday (1985: 158-159) makes a distinction between a *group* and a *phrase*. The former is —a word complex or a combination of words built upon the basis of a particular logical relation‖ and —an expansion of a word, but the latter is —a contraction of a clause‖ or *nominal groups* (1985: 159). In Cognitive Grammar, Langacker, (1990: 1) considers a different approach. CG gives importance to meaning than form. language is knowledge in the mind. Grammatical structure is the outcome of semantic structure. Grammar is non-generative and non-constructive. Grammaticality is not categorical but gradient. Grammatical structures are symbolic. Lexicon, morphology, and syntax are a continuum of symbolic units. This dual approach creates NPs as categories and functions. Therefore, the NP categories are notional rather than grammatical (ibid: 59).

Taylor (2002: 343) differentiates the lexical category *noun* from the syntactic category *noun phrase*. NPs or nominals are internally complex having grounding, quantification, specification and a type or instantiation, for example, *the ten rupee note*. Raumolin-Brunberg (1991:64) refers NPs possessing constituency (part-whole hierarchical relations), dependency (part-part relations) and linear order.

Beauchamp & Dressler (1984) state that there is a need for cohesion in the language use. It is very essential to language development (Crossley & McNamara, 2009). Arnold (2007) explains about two major cohesions in relation to NPs: grammatical cohesion, (nominal or pronominal reference chain) and lexical cohesion, (the lexeme reference chain). However, the NP patterns do not follow a ‘simple repetition to create cohesion’, but there is ‘a range of discourse factors operating’ on the patterns of noun phrases in English discourse cohesion. (Arnold & Griffin, 2007). Further, this classification of cohesion is originally explained in Halliday and Hasan’s (1976).

The distance between one noun phrase to another create the different discourse patterns of lexical and grammatical NP forms (Chafe, 1985; Givon, 1990). They found that pronouns are prioritized over lexical repetition of an NP. However, the latter is used dominantly in academic writing (Mizapour & Ahmer, 2011). Collins and Hollo (2009) state that genre influences the choice. Business communication in English is a professional language use similar to academic language use so the use of NPs dominates over the pronoun use based on the findings of Mizapour & Ahmer, (2011).

Payne & Huddleston (2002: 326) classify NPs functioning as subject, object or predicative complement. They further state that *nominal* is intermediate between the noun phrase and the noun, filling another syntactic function, that of nominal modifiers. The determiner plays a significant role in the NP and is obligatory in many instances. There is an argument that the head of the NP which has a determiner, the determiner is the real head, not the noun which is the type or instance. They classify determiners as determiner proper (e.g. *this man*, *the son's bed*), predeterminers (e.g. *both these factors*), and central determiners (e.g. *both these factors*) and postdeterminers (e.g. *the many coins you have*) (Quirk *et al.* 1985). They further subclassify premodifiers in terms of proximity: (1) General (*small, big*), (2) Age (*old, young*), (3) Colour (*black, red*), (4) Participle (*disturbing, closed*), (5) Provenance (*Spanish, English*), (6) Noun (*air, Paris*), (7) Denominal (*personal, human*)

One more notable discovery is the declining grades of agency in the English subject roles (Payne, 2011). The object or complement roles of agency are more visible assuming transitive, intransitive and copulative agent roles. However, the third role qualifies its subject, in other words, a cohesive subject (Huddleston & Pullum, 2002). The single word lexical NPs are used more to reduce the information in the repetitive use of the same idea as the NP (Christensen, 2011). On the other hand, the multiple word NPs carry the highest amount of new information. The syntactic role of subject in English is a cohesive NP or a transitive subject (Ashby & Bentivligio, 2003).

Jo-Anne Hutter (2015) talks about 'language socialization' and accepts the previous research establishing the importance of the nouns and noun modification because of their commonness and complexity. She catalogs six types of noun modification: relative clauses, *ing*-clause post-modifiers, *ed*-clause post-modifiers, prepositional post-modifiers, pre-modifying nouns, and attributive adjectives.

In addition to the simple classification of the NPs, De Mönnink (2000) classifies NPs in terms of complex movement and position: NP with a deferred modifier: H + (AP, ADVP, NP), NP with a floating deferred

modifier: a clause or a phrase is outside the NP boundaries, NP with a fronted modifier: a clause precedes the head, NP with a discontinuous modifier: the constituents of an AP do not occur adjacent to each other, NP with a deferred determiner: part of the determiner follows the NP head, NP with floating deferred determiner: the determiner occurs outside the NP boundaries, NP with a discontinuous determiner, NP with a deferred limiter: the limiter occurs after the NP head, and NP with a floating deferred emphaziser: the emphaziser occurs outside NP boundaries

## **Methodology**

This study is based on the texts of business letter writing exercise in English performed by the second-year students of the Bachelor of Business Management program of the Faculty of Business Studies of the Vavuniya Campus of the University of Jaffna, Sri Lanka.

The methodology is qualitative and quantitative. It is a textual analytical approach under applied linguistics. During a Business English examination, as a part of the test, the students were asked to write —a letter of complaint to the Branch Manager of the Ceylon Electricity Board of their district regarding power cuts. As a customer and consumer of electric power supply in their respective area, over the last three months, they have experienced severe, unscheduled, sudden and prolonged power cuts which have caused immense difficulties in managing the day to day life in the area.

This research investigates the quantity of the types of nouns (465) used by the percentage of the respondents (84). They were analyzed for authentic functional and structural patterns and types of NPs and their textual and linguistic relations in the discourse of business letters.

## **Analysis and findings**

### **Noun use and types in the discourse of a letter of complaint**

Noun phrases can function as subject, object and subject or object complements. The noun phrase is used as components like adjectives, adverbs, adjectival and adverbial phrases or clauses, prepositional phrases or parts of these components (Gnanaseelan, 2017). This study derives its data from one-worded NPs to ten-worded NPs used by the respondents. Table 1 illustrates them with the percentage.

Table 1. One worded NPs to 10 worded NPs

S N	Type	No. of wo rds	%	Examples
1	One word	125	27	<i>action, announcement, arrangements, banking, benefit, company, computer, employees, examination, generators, hospitals, inconvenience,</i>
2	Two words	153	33	<i>businessmen, drinking water, early warning, factory owners, good facilities, huge loss, main reason,</i>
3	Three words	85	18	<i>a favorable solution, a big problem, Advanced Level students, every branch manager, most of the customers,</i>
4	Four words	48	10	<i>a villager of the area, any substitute for electricity, consideration about that problem, delay in our work, educational activities of children,</i>
5	Five words	26	6	<i>all of the company's works, all the parents and children, labor of maintaining current life, loudspeakers and vans for announcing,</i>
6	Six words	10	2	<i>big trees near the current line, some arrangements for power cut period,</i>
7	Seven words	08	2	<i>high marks in the advanced level exam, providing light bill service and repairing damages,</i>
8	Eight words	06	1	<i>lot of problems in unstable arrangements of power, our business work, and school children education work, people who live in the Colombo 4 area,</i>
9	Nine words	03	1	<i>the consumer of Colombo 7 areas of your company, the electrical items we use such as refrigerator, television, power cut by the different time of different days</i>
10	Ten words	01	.2	<i>wholesalers, retailers, industries, factories, officers, banks and daily users</i>
		465	%	

Source: Primary Data

Out of the one-worded NPs, 73% (91) is concrete and only 27% (34) is abstract. Flavell (1970) defines concrete noun in terms of its denotation to tangible objects and abstract noun to non-tangible objects in its extension. This balance of presentation of the concrete and abstract nouns is natural as it is a letter of business communication complaining about a concrete event. However, the respondents have developed the competence to relate the concrete experience to abstract ideas. In one of the previous studies on the multi-worded NPs, the use of the single word NP was 63% (Sampson, 1987) but in this study, it is 27%. It is significant to note that the

respondents have used the two-worded NPs at the largest (33%). Even the one-worded NP is next to it (27%). However, both together become the majority of the NPs (60%) used in the whole exercise. The three-worded and four-worded NPs show the next highest level of use (28%). Thereafter, even though the usage becomes insignificant from the five to ten, there is a positive observation that the respondents have tried to create larger NPs. On the other hand, academic or professional writing demands the use of lesser complex, simple NPs for clarity, conciseness, and preciseness. Overall, the table 1 provides the evidence of linearity, reliability, natural progress and increase from simple to complex forms in the use. The lemmatization of the multiword NPs used by the respondents gives some insights into their way of construction of the NPs.

Though table 1 shows the quantitative account of the NPs, it does not explain the qualitative account of the types of the NPs developed by the respondents though it has examples for each NP type from one to ten. The respondents developed 465 NP expressions. The total number of the NP expressions with different content words used correctly is 298 (65%). However, there are 90 expressions linguistically wrong and deviant (19%). The rest of the 77 expressions (17%) were more or less duplicated from the question given to the respondents for writing the letter of complaint.

The respondents developed 59 types of NPs qualitatively. They all are different from each other structurally and sequentially. Table 2 shows the first seven patterns of the types.

The first seven patterns were the most dominant (46%) to have been used. The percentage of the created NPs show a decreasing trend as the quality of the type is an increasing one. On the ascending order from the simple phrases to the complex ones, these seven types are simple and easy to form by the second language learners and users.

Table 2. The first seven patterns of the NP types.

Type	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	Examples	46%
1	Det	N		<i>those things, no action</i>	15%
2	Pron	N		<i>our bills, their clothes,</i>	12%
3	Art	N		<i>a call, a solution, the darkness</i>	9%
4	Adj	N		<i>big problems, difficult situation</i>	6%
5	Art	Adj	N	<i>a big problem, this severe problem</i>	5%
6	N	N		<i>businessmen, electricity service,</i>	5%

7      Art    N      N      *the village people,the electricity facility,*      4%

Source: Primary Data

The determiner, pronoun, article, and adjective, single-worded, pre-modify the single-worded nouns in the first four respectively forming the two-worded NPs. Type 5 is a next significant development consisting of three single words: both the article and adjective in a sequence pre-modify the noun. This creation shows the competence developed for beginning to write complex phrases where two modifiers have to be written in an order of sequence acceptable to the morpho-syntactics and semantics of the English language. In addition, the proficiency in the use of adjectival phrase [article/determiner + adjective] as the pre-modifier of the noun head is seen. However, the type 6 is distinct from all the preceding types. It has two single-worded nouns the former pre-modifying the latter. At this stage, they learn that a noun can function as an adjective or a pre-modifier. Type 7 demands their application knowledge of fronting an article to qualify the succeeding first pre-modifying noun or both the pre-modifying noun and the pre-modified head noun of the NP together. The proficiency in the use of adjectival phrase [article/determiner + noun] as the pre-modifier of the noun head is seen.

Table 3 describes the types of the NPs from 8 to 15.

Type	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	Examples – 23%	23%
8	N	PP		<i>attention to our problems, resident of Kollannawa area, loss of the light,</i>	12
9	Pron	PP		<i>most of the children,some of our families,</i>	
10	Det	N	PP	<i>any plan about power cut,this news for you,</i>	
11	Adj	N	PP	<i>big trees near the current line,educational activities of children,</i>	5
12	Art	N	PP	<i>the people of our area,a villager of the area,</i>	
13	Pron	Det/Adj	N	<i>our basic job, our many foods,</i>	6
14	Pron	N	N	<i>our area people, their self-employment task,</i>	
15	Adv	Det/Adj	N	<i>very difficult problem,so many difficulties,</i>	

Source: Primary Data



Type 8 requires knowledge of applying post-modification. In addition, the post-modifier is a new linguistic component, prepositional phrase. It expects the next level of linguistic awareness of the increasingly complex structure of the noun phrase in the English language. It is noted that instead of using a PP consisting preposition plus single worded Noun, for example, *‘of Kollannawa’*, the respondents have used the two-worded NPs mostly, here, *‘of Kollannawa area.’* Type 9 uses a pronoun as the head of the NP post-modified by a prepositional phrase. Again a PP consisting of a preposition plus two worded NPs is used. The type 10 similar to the type 8 has an additional determiner as pre-modifier. On the other hand, these three types have only 12% of the total number of all the 59 types.

The types 11 and 12 (5%) are further extended in complexity having both the pre- and post-modifiers: an adjective or an article as the pre-modifiers and a prepositional phrase as the post-modifier. However, the percentage of its use is less at this stage. The types 13, 14 and 15 (6%) lack complexity considerably containing a pronoun and a determiner or an adjective in a sequence or a pronoun and a noun in a sequence or an adverb and a determiner or an adjective in a sequence as the pre-modifiers to the last unit, Noun, the head of the NP.

Table 4 explains the extended versions of the Complex NPs used. The proficiency in the use of adjectival phrases [noun + noun], [adjective + noun], [determiner + noun], and [determiner + adjective] as the pre-modifiers of the noun head is seen. The type 16 a triple Noun formation of the NP is normally rare in use. The first two nouns are pre-modifiers to the third noun, the head of the NP. The mother tongues of the students, Tamil and Sinhala, could play a role here to form NPs like these. The ten types given in Table 4 are seen for 10% of the total use.

The Table 4 The extended versions of the Complex NPs used 1

Type	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	Examples - 10%
16	N	N	N	<i>year-end examination, Rambaikulam area people,</i>
17	Adj	N	N	<i>continuous power supply, electric grinder company,</i>
18	D	N	N	<i>every branch manager, some error connection,</i>
19	N	PP	PP	<i>lot of inconveniences of electricity power supply, lot of problems in day to day life,</i>
20	gerund			<i>banking, fishing,</i>
21	Pr PCL	N		<i>Drinking water, working people,</i>

<b>22</b>	Num	N		<i>eight banks,fifteen computers,</i>
<b>23</b>	Pron	N	PP	<i>our problem in your mind,your attention to this cause,</i>
<b>24</b>	D	Adj	N	<i>some illegal event,some small factories,</i>

Source: Primary Data

Type 17 contains an adjective to join the noun as pre-modifiers to the last noun. Type 18 is an extended version of type 01 (see Table 2). With the determiner, a noun joins as pre-modifiers to the last noun. The type 19 is unique because of its embedded double prepositional phrases as the postmodifier of the fronted Noun. Another often used expression is the gerund (the type 20). Type 21 needs a clear understanding of the use of the present participle as a gerund and as an adjective. The type 22 is also a simple NP as the first four types in Table 2 requiring a number as the pre-modifier or qualifier. Type 23 needs a pronoun as the pre-modifier and a prepositional phrase as the postmodifier. It is an extended version of type 9 where the head of the NP becomes a noun causing the pronoun as a qualifier unlike that in type 9 where the pronoun is the head. Type 24 belongs to the group of the types 13 and 15.

Table 5 displays three types of complex NPs. The proficiency in the use of adjectival phrase [article/determiner + past participle] and [determiner + adjective + noun] as the pre-modifiers of the noun head is seen. In type 25, the newly introduced pre-modifier is the past participle which is always preceded by an article or a determiner. In type 26, a four worded NP, a sequence of determiner-adjective-noun pre-modifies the last noun. The type 27, again, a simple NP structure, in which, a conjunction joins two nouns. However, the use is minimal (2%).

Table 5. The Extended Versions of the Complex NPs Used 2

<b>Type</b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>	<b>4<sup>th</sup></b>	<b>Examples – 2%</b>
<b>25</b>	Art/Det	Pst Pcl	(N)	N	these unexpected power cuts, the Advanced Level
<b>26</b>	D	Adj	N	N	some small business owners,any sudden power cut,
<b>27</b>	N	Con	N		fluctuation and cuts,ice-cream and other foods,

Source: Primary Data

Table 5 continues the four worded NP structure in all its 16 types from 28 to 43. The types 28, 29, 30, 35, 39, and 43 mostly contain nouns as pre-modifiers. The types 31 and 32 and the types 44 and 47 in Table 6 do have articles, adjectives, nouns and numbers as pre-modifiers and prepositional

phrases as post-modifiers. The type 33 and 48 in Table 6 are different as they have apostrophes to include possessive nouns as pre-modifiers. Type 34 has numerals as pre-modifiers. Type 36 constitutes a nominal clause as the post-modifier along with other usual forms as the pre-modifiers. The use of this type of clause shows fluency in the use of the NPs in the English language. The types 37 and 40 have embedded doubled or tripled prepositional phrase as the post-modifiers. Type 38 reveals another evidence of mastery in the use of NP as it has a past participle along with an article and a noun as a sequence to pre-modify the last noun. However, this cannot be confirmed as this particular past participle form is so popular because it is part of the Sri Lankan education level called the Advanced level so the respondents might have used it without understanding the function of the past participle used as a modifier or a qualifier in NPs. The types 41 and 42 do not have anything new in their structure except the extension.

Table 5 The Extended Versions of the Complex NPs Used 3

Type	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Examples – 5%
28	N	con	N	N	<i>children and office workers,</i>
29	N	N	N	N	<i>night time power cut,</i>
30	Adj	N	N	N	<i>electric power supply problem</i>
31	Art	Adj	N	PP	<i>an appropriate solution for this problem,</i>
32	Adj	N	N	PP	<i>electricity power cut in the area</i>
33	pron	N	s'	N	<i>our children's education,</i>
34	num	con	num	N	<i>two or three weeks,</i>
35	Art	N	N	N	<i>the light house objective,</i>
36	Art	Adj	N	NomC	<i>the electrical items we use such as refrigerator, television,</i>
37	Art	N	PP	PP	<i>the consumer of Colombo 7 areas of your company,</i>
38	Art	Pst pcl	N	N	<i>the advanced level examination,</i>
39	N	N	N	PP	<i>electricity power cut in the area</i>
40	N	PP	PP	PP	<i>lot of problems in unstable arrangements of power,</i>
41	N	con	N	PP	<i>loudspeakers and vans for announcing,</i>
42	Adj	N	con	N	<i>my customers and I,</i>
43	pron	N	N	N	<i>our lifetime activities,</i>

Source: Primary Data

Table 6 contains new types of NPs which are more or less simple except the types 46 and 53. The former contains a present participle form fronted with an adverb pre-modifies the last noun. The latter has a relative clause as the post-modifier. Type 45 is an indefinite pronoun used as an NP. The type 49, 50 and 51 are re-ordered structures of the already used NPs explained in the previous Tables.

Table 6 The Extended Versions of the Complex NPs Used 4

Type	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	Examples – 3%
44	N	N	PP	<i>power cut of electricity,</i>
45	Pron			<i>anything</i>
46	adv	PrePcl	N	<i>very exciting time,</i>
47	Num	N	PP	<i>two hours per day,</i>
48	N	s'	N	<i>Thieves' activities,</i>
49	D	Num	N	<i>these three months,</i>
50	D	Pron	N	<i>many other issues,</i>
51	Num	Adj	N	<i>one important matter,</i>
52	Pron	N	N	<i>our area electricity problem,</i>
53	N	RelCl		<i>people who live in the Colombo 4 area,</i>

Source: Primary Data

Table 7 contains the five worded NPs. All the types except 58 have a conjunction to join two NPs into one lengthy complex NP. The type 54 is unique in which two present participle forms perform pre-modification. Type 58 has a past participle form as a pre-modifier along with other forms.

Table 7 The Extended Versions of the Complex NPs Used 5

Type	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	Examples – 2%
54	PrePcl	Ns	con	PrePcl	N	<i>providing light bill service and repairing damages,</i>
55	Pron	N	N	con	Ns	<i>our business work and school children education work,</i>
56	Art	N	con	N	N	<i>the industries and household works,</i>
57	Art	Adj	con	Adj	N	<i>the proper or sharp electric power</i>
58	D	N	Pst Pcl	N	N	<i>this year advanced level students,</i>
59	Adj	N	con	Det/Adj	N	<i>ice creams and other foods,</i>

Source: Primary Data

Table 8 shows the percentage of the popular forms used as the first form of the NPs. Though these forms occur within the complex NPs repeatedly or within an NP repeatedly, this finding reveals that the Sri Lankan students use the articles (19%) and determiners (23%) dominantly in a formal letter of communication. Next, they prefer personal pronouns (15%) because the letter is a genre which needs personalization. However, it is notable that they have used other forms of determiner, adjective, noun, and pronoun (38%) which may be or may not be unique to the population it represents.

Table 8 the popular forms used as the first form of the NPs

SN	The first word of the NPs	% (465)
1	the indefinite article, <i>a or an</i>	5
2	the definite article, <i>the</i>	14
3	<i>moremostthat</i> many, any, every, one, these, this, those, some as determiners and pronouns	23
9	my, our, their, your	15
4	<i>lot</i> as noun, pronoun	2
5	<i>very</i> as adverb and adjective	3
6	other forms of determiner, adjective, noun, pronoun,	38

Source: Primary Data

### The Examples for the Sri Lankan localization of the NPs in use

In creating and using the NPs in the letter writing, the students produced some NPs which are typical of Sri Lankanization and localization. Some may be acceptable in informal use and some are deviant.

Table 9. The Examples for the Sri Lankan localization of the NPs in use

<p><b>Nouns as adjectives and modifiers</b></p> <ul style="list-style-type: none"> <li>• Morning food arrangement (N+N+N)</li> <li>• night student lessons (N+N+N)</li> <li>• Please give <i>consisten(t)cy electricity power supply in this area.</i> (N+N+N+N+PP)</li> </ul> <p><b>Nouns as Verbs</b></p> <ul style="list-style-type: none"> <li>• Please <i>concern</i> this letter</li> </ul> <p><b>Verb as Noun</b></p> <ul style="list-style-type: none"> <li>• So it take huge <i>lost</i> to me</li> <li>• Some <i>office organization</i> (are) mostly depend on the electronic method such hospital, banking etc.</li> <li>• We all are expect <i>the proper or sharp electrical power</i> to do our casual work</li> <li>• Women also cannot do <i>the home service.</i></li> <li>• Some time <i>higher power electricity</i> was come and destroyed our electricity equipments</li> </ul>
---

### Clause Structure within NPs

- *The people who do (ing) their self employment work face lot of problems.* (06)  
(Art+N+RelCl/-ingCl)
- *In the Jeyasegara mawatha, there are (a) lot of trees damaging the electricity wires.*(Art+ProN+PP(+ingCl)
- *The school children facing lot of problems for the education.* (08)  
(Art+N+N+-ingCl(+PP)
- *Someone unable to do their small industrial activities.* (ProN+AdjCl)

### ‘to’ infinitive vs ‘to’ preposition

- *I like to explain (complain) (about the) power supply (cut) in our area.*  
NP=PP
- *I hope you will discuss and fulfill our needs with the power board.*  
(13)
- *We need current; I think main reason is labors of maintaining current light.*
- *Majority people have to do their self-employment task*
- *Power cut by different different time of different different days*
- *We can't do our business work and school children education work properly*
- *when the power cut held on days the criminal cases like stealing robbery are increasing in this area*
- *Power cut (is) distorted our all work activity* (61)
- *Night time power cut affect(s) the light house objective so we can't arrive in our port place.*
- *I am doing a food shop in Vavuniya town* (67)
- *Our many foods spoiled*
- *You can use loud speaker and vans for announcing*
- *Every people are going working.*
- *That is one of the reason(s) (for) to (the) power cut.*(N+PP(+PP)

### NP as PP

- *I should be glad if you would give (bring) this matter (to) your consideration*
- *I kindly request please give (the) right solution (for/to) this problem.*

### The omission of ‘the’ in NP

- *Please pay (the) attention about this situation.* (02) (Art+N+PP)
- *I am writing (the) letter regarding (the) power supply in an area.*

Source: Primary Data

## Thematization of the NPs

The discourse of a letter of complaint in business communication generally contains *problem –solution, communication, customer/consumer, trade, commerce and development, cause and effect, and time and duration* as the major themes. The minor themes consist of *person and position, general and indefinite, location and place, positive ideas and action, organic objects, and mechanical objects*. The minor themes buttress the major

themes. The percentage of the expressions used for each aspect of the discourse of complaint is considerably balanced.

Table 10. Themes of the NPs Used

S N	Themes	%	Examples
1	<i>problem -solution</i>	21	<i>an appropriate solution for these problems, labor of maintaining current life, so many difficulties, suitable decision about this</i>
2	<i>communication</i>	5	<i>a call, letter of complaint about power cut, announcement, apology</i>
3	<i>customer/consumer</i>	11	<i>any substitute for electricity, continuous power supply, fluctuation and cuts, your electricity service, most of the customers, the consumer of Ceylon electricity</i>
4	<i>trade, commerce, and development</i>	9	<i>Companies, educational activities of children, restaurants, our business, an internet café,</i>
5	<i>cause and effect</i>	8	<i>inconvenience, a good effect, an action, delay in our work, high marks in the A/L exam, benefits for both parties,</i>
6	<i>time and duration</i>	5	<i>a long year, future, hours, early morning,</i>
7	<i>location and place</i>	4	<i>a rural area, district, home, Kollanwa area, our country, hospitals,</i>
8	<i>person and position</i>	17	<i>businessmen, school students, branch manager, job, their home works, the industries and household works,</i>
9	<i>general and indefinite</i>	11	<i>concerns, matter, day to day life in the area, many other issues, anything</i>
10	<i>organic objects</i>	2	<i>big trees near the current line, drinking water, ice creams and other foods,</i>
11	<i>mechanical objects</i>	2	<i>generators, loudspeakers, and vans for announcing,</i>
12	<i>positive ideas and action</i>	4	<i>hope, immediate decision, kind consideration, consideration, my request, our request,</i>

### The Quantity of the Nouns Used

Table 11 shows a case study of the texts of seven students. There is uniformity between the increase of marks in both the total test and the essay and that of the number of words used. There is a balance in using

prepositional phrases in par with noun phrases (around 10-15 in number) (Gnanaseelan, 2017).

Table 11. The SOC Positions of the NPs used

Code	Marks for the letter	Words	Subject Position	Object Position	Complement Position
83	3	70	5	5	1
31	4	84	3	5	-
2	4	96	7	5	1
18	4	110	12	10	1
41	5	122	9	10	-
37	7	116	8	7	1
79	8	148	8	8	-
Average	5	70-150	7	7	1

(Total: the total marks of the complete test (3 hours testing all the four skills plus grammar); the letter: the marks given for the letter out of 10 marks; words: the number of words in the letter; Av: the average)

Source: Primary Data

The investigation of the seven scripts reveals that there is a balance in using NPs as subject and object positions. However, the respondents have rarely used NPs in Complementary positions. They have rarely used the sentence patterns with complements: SVC and SVOC. It is significant to see that those who have got the average marks (04 or 05 out of 10) have used the NPs in subject and object positions largely.

## Findings

The findings reveal that the respondents are skillful enough to use noun phrases as subject, object and subject or object complements at the moderate level but linguistically they lack the competence to distinguish the different functions of them. They moderately use noun phrase in adjectives, adverbs, adjectival and adverbial phrases or clauses, prepositional phrases or parts of these components. They use multi-word NPs significantly in par with that of one-worded NPs.

However, the usage becomes insignificant beyond five-worded NPs and there is a positive observation that the respondents have tried to create larger NPs but it is unintentional. On the other hand, it is expected that the quantity should balance the quality and diversity of the NPs. Academic or professional writing demands the use of lesser complex, simple NPs for



clarity, conciseness, and preciseness. However, the students should be aware and capable of developing complex NPs where necessary in the writing at the tertiary level. The respondents show the evidence of linearity, reliability, natural progress and increase from simple to complex forms in the use. The respondents lack sufficient competence in developing or using abstract entities as NPs. That is an expected proficiency level in the undergraduate education in English medium. However, the respondents have developed the competence to relate the concrete experience to abstract ideas considerably.

This research primarily gives the quantitative account of the NPs and describes the qualitative nature of the types of the NPs developed by the respondents with the examples. The respondents developed 59 types of NPs. They all are different from each other qualitatively, quantitatively, structurally and sequentially. The first seven patterns are the most dominant to have been used. The percentage of the created NPs show a decreasing trend as the quality of the type is an increasing one. On the ascending order from the simple phrases to the complex ones, these seven types are simple and easy to form by the second language learners and users.

Following the use of a single word NP, an NP in which conjunction joins two nouns. Thereafter the pre-modification takes place. The determiner, pronoun, article, and adjective, single or double-worded, pre-modify the nouns acceptable to the morpho-syntactics and semantics of the English language. A number functions as the pre-modifier. In addition, the proficiency in the use of adjectival phrase [article/determiner + adjective or noun + noun] as the pre-modifier of the noun head is seen. It confirms their skill in using a noun or nouns functioning as an adjectival phrase or a pre-modifier.

Their application knowledge, of fronting an article to qualify the succeeding first pre-modifying noun or both the pre-modifying noun and the pre-modified head noun of the NP together, is visible. The proficiency in the use of adjectival phrase [article/determiner + noun] as the pre-modifier of the noun head is seen. The pre-modifier of [pron+ det or adj] or [pron + noun] or [adv+ det or adj] is developed to the last unit, Noun, the head of the NP at the next level of competence and performance (6%).

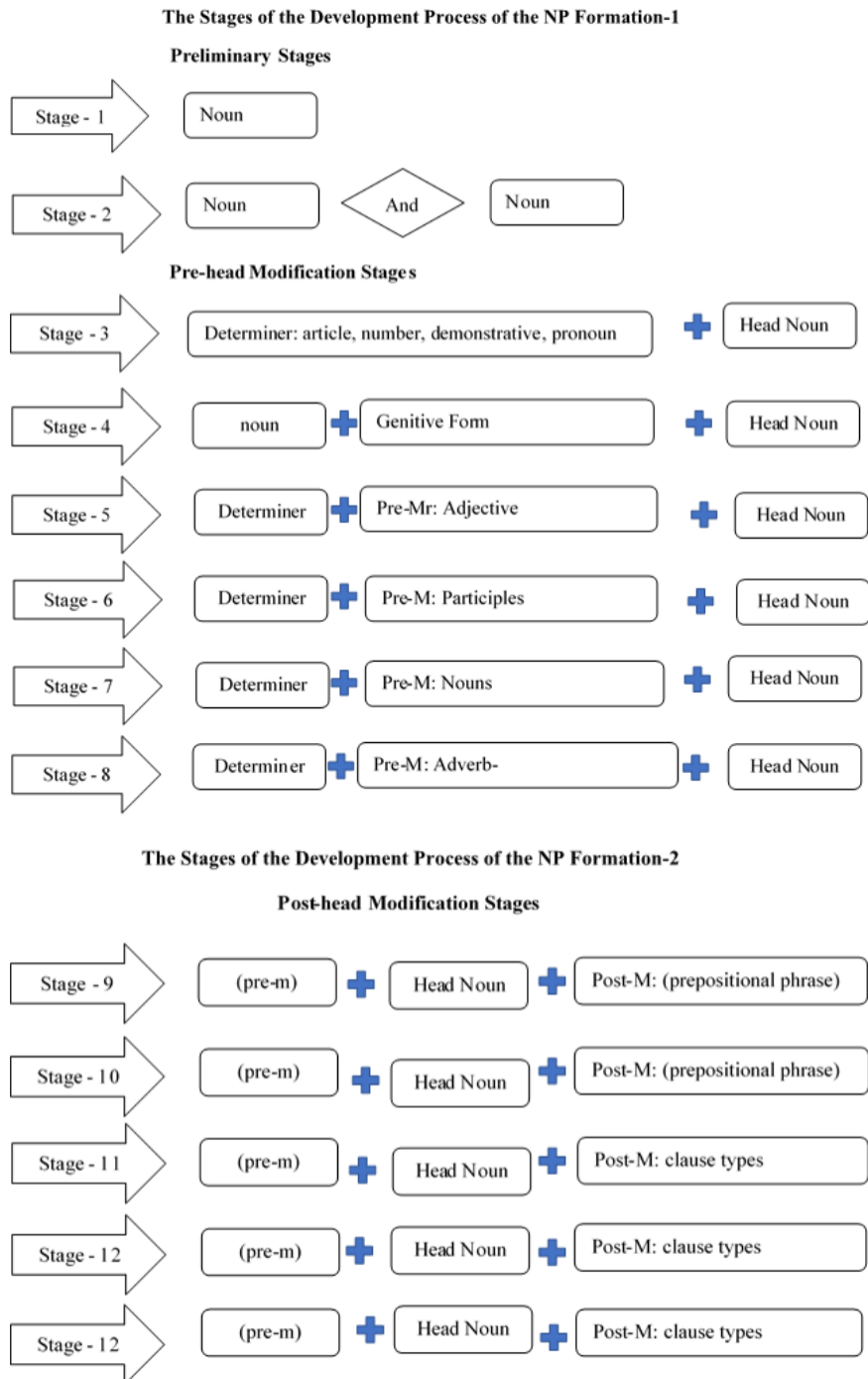


Figure 1 : The Stages of the Development Process of the NP

At the next stage of the development of pre-modifiers, the proficiency in the use of adjectival phrases [noun + noun], [adjective + noun], [determiner + noun], and [determiner + adjective] as the pre-modifiers of the noun head is seen (10%). A triple Noun formation of the NP is normally rare in use. The mother tongues of the students, Tamil and Sinhala, could play a role here to form NPs like these. Using complex NPs, the students show the proficiency in the use of adjectival phrase [article/determiner + past participle] and [determiner + adjective + noun] as the pre-modifiers. It is interesting to see that the students have further expanded the complexity of the NPs (from three worded NPs to four worded NPs) by adding nouns mostly and articles, adjectives, and numbers moderately. The new types of NPs contain a present participle form fronted with an adverb pre-modifies the last noun. One unique form shows that two present participle forms performing pre-modification. Some have a past participle form as a pre-modifier along with other forms. Another distinct application noted is the use of apostrophes to include possessive nouns as pre-modifiers.

Further, they show the potential in the knowledge of applying post-modification. This is the next key stage of development. However, compared to the use of an adjective as the post-modifier, a new linguistic component, prepositional phrase, is dominant in their use. It expects the next level of linguistic awareness of the increasingly complex structure of the noun phrase in the English language. It is noted that instead of using a PP consisting preposition plus single word Noun, the respondents have used the two-worded NPs mostly. The reason for this structure could be that the students might have perceived a two-word construction after a preposition in forming a PP. The use of a pronoun as the head of the NP is the next development. The use of determiner as pre-modifier is followed. However, only 12% of the total number represents these applications.

The next stage of development is observable in using both the pre- and postmodifiers in NPs (5%): an adjective or an article as the pre-modifiers and a prepositional phrase as the post-modifier. The embedded double prepositional phrases functioning as the postmodifier of the fronted Noun is the next stage in post-modification. At the next stage, a pronoun functions as the pre-modifier and a prepositional phrase as the postmodifier. Another development is the use of a nominal clause as the post-modifier along with other usual forms as the pre-modifiers. The use of this type of clause shows fluency in the use of the NPs in the English language. The embedded doubled or tripled prepositional phrase as the post-modifiers are observed. Some have a relative clause as the post-modifier.

Another often used expression is the gerund. The students reach the stage of distinguishing the use of the present participle as a gerund and as an adjective. In the five worded NPs, many have a conjunction to join two NPs

into one lengthy complex NP. In some forms, an indefinite pronoun is used as an NP. The use of fused heads in the formation of the NPs is very rare. The use of the appropriate cases of the pronouns in the NPs is seen as acceptable.

The percentage of the popular forms used as the first form of the NPs occurs within the complex NPs repeatedly or within an NP repeatedly. The Sri Lankan students use the articles and determiners dominantly in a formal letter of communication. Next, they prefer personal pronouns because the letter is a genre which needs personalization. However, it is notable that they have used other forms of determiner, adjective, noun, and pronoun considerably.

In the discourse of a letter of complaint in business communication, the main theme of this type of discourse is *problem–solution* (21%). It is indispensable that the person who complains should describe and explain the problem and seeks a solution. The related theme is the discourse of *customer or consumer* (11%). The writer positions himself or herself as a customer or consumer of the service commercially provided. Therefore, allocating more space and time for developing this theme in this discourse is essential. The theme of *communication* is another crucial need for the genre, the letter. The expressions are needed to send ideas, feelings, facts, and attitudes from the source to the recipient logically, constructively and critically.

The third theme developed for 9% of the total discourse is *trade, commerce, and development*. Since it is a letter of complaint as a customer and consumer of a purchased service, the theme of trade, commerce and development have to be the part of the discourse, especially, the terms and conditions of the service, their benefits and obligations to both the trader and the buyer. Another key theme the writer focuses on is *cause and effect*. This theme is related to the first theme Problem – Solution. The complaint arises due to a bad effect or ill-effect of the poor service. The poor service is the cause. The negative effects can be many. The last major theme is Time and Duration. The problem occurs within a certain time duration and the solution is sought again within the expected time duration.

The minor theme, *person, and position* (14%) elaborates the major theme of customer-consumer. It clarifies and exemplifies the people affected and their disrupted positions or multiple roles in the family, working place and in the society. The minor theme of *general and indefinite* (11%) is indispensable to any discourse or genre as to relate the specific, the power cut, to the general nature, system of the personal, professional and social life and the concrete and abstract words and ideas have to be connected with the words and expressions of general and indefinite nature.

The minor theme of *location and place* (4%) specifies the context or space which has been affected and need to be focused. The theme of *positive ideas and action* (4%) is an expectation in the discourse of complaint which may cause accusation and incrimination. Instead, a refined customer of social morality needs to accommodate the expression of polite requests for constructive action, service appreciation, positive ideas, and hope. The minor themes of *organic objects and mechanical objects* (4%) refer to and complement the two major themes, *problem-solution and cause and effect*.

The analysis shows that the students show moderate competence in creating and using number, countability, definiteness, genericness, definite quantification, distance, and specific selection. In using NPs of number, reference, quantification, they lack experience in using the exact determinatives such as *both, half, either, every*, cardinal and ordinal but the improvement is seen in using the non-exact quantifiers such as *much, some, any, many, more, most, little, few*. The adjectival determinatives are classified in terms of similarity, difference, totality, familiarity, usuality, particularity, and uniqueness. The students generally show their competence in using them. The superlative adjectives play a significant role (Downing and Locke (1992: 440). This use is also quite good in their writings. Quirk *et al.* (1985:253-264) distinguish three types: pre-determiners, central determiners, and post-determiners. The respondents are good at the first two. Further, though the respondents have used the NPs in the Subject and Object positions, their application knowledge in using the NPs in the complement position within the sentence is insufficient, however, within the NPs, considerable.

## 7. Conclusion and suggestions

This paper analyses the functions and linguistic forms of nouns and noun phrases developed by the students from Tamil and Sinhala language communities of Vavuniya Campus of the University of Jaffna in Sri Lanka. The stages of the pre-and post-modification and complementation processes of the NP formation developed from their use reveal the linguistic and non-linguistic implications in the Sri Lankan ELT and ELL context especially in the areas of using the dependent structure, determiners, pre-and post-modifiers, and complements. It makes an assessment of the development of the NPs in their writings in comparison to the established conventional functions and forms of the prototypical NPs in the English Language. The findings distinguish the general patterns and pragmatic uses or localization, typical of a non-native ESL learning context. The students mostly intuitively or without the linguistic competence of the functions and the forms of NPs, use them as subject, object, complement and adjectival functions or positions. It reveals that the students lack of concern for using the sentence patterns of SVC and SVOC. They use the types of determiners

and modifiers before and after the types of NPs. The implications are clearly identifiable. The results show that their creation and use of the NPs do not confirm their competence in NPs but their habitual nature. It affects the teaching and learning of subjects taught in the English medium.

The limitation in methodology is that the data were collected from One batch of students numbering within hundred and the business letter writing genre was chosen. Further the texts were taken from a formal university assessment which conditions the writing process and product within the temporal and special limitations. It is not a letter written for a realistic purpose or in a real situation. It is a simulated situation. Therefore the process and product of the real time use may show significant different results because they may have enough time and the genuine need for the complaint. The limitation in the findings is that the NP formation and function vary L1 to L2, genre to genre, context to context, and purpose to purpose. The results of this research paper have these limitations.

The learners' distinction between nouns and pronouns generally meets the standard of the conventional forms. However, they lack the application knowledge in nominalization, the theoretical and application distinction between nouns and the rest of the linguistic units, within their types and within their functions. Their comparative use of the abstract ideas over the concrete actions in the NPs is smaller and they need to improve in composing complex abstract NPs needed for communicating the advanced business management knowledge and for understanding the logical and pragmatic relations. The ELT and ELL in Sri Lanka should incorporate a step by step approach to cover the stages of the processes of the NPs formation developed in this paper, comparing the counterparts available in Sinhala and Tamil languages.

### **Acknowledgement**

This paper was presented at WinC18, International Conference of Wayamba University of Sri Lanka on 24<sup>th</sup>-25<sup>th</sup> of August 2018.

### **Reference**

- Aarts, J. and Flor Aarts. 1988. *English Syntactic Structures: Functions and Categories in Sentence Analysis*. New York: Prentice Hall.
- Arnold, J., & Griffin, Z. (2007). The effect of additional characters on the choice of referring expression: everyone counts. *Journal of Memory and Language*, 56, 521-556.  
<http://dx.doi.org/10.1016/j.jml.2006.09.007>

- Ashby, W., & Bentivligio, P. (2003). Preferred argument structure across time and space: a comparative analysis of French and Spanish. In J. Du Bois, L. Kumph, & W. Ashby (Eds.), Preferred argument structure: grammar as architecture for function. Amsterdam: John Benjamins.
- Beugrande, R., & Dressler, W. (1984). Introduction to text linguistics. London: Longman.
- Biber, D. and Victoria Clark. 2002. —Historical shifts in modification patterns with complex noun phrase structures. In Teresa Fanego et al. (eds) English Historical Syntax and Morphology. Amsterdam: Benjamins, 43-66.
- Chafe, W. (1985). Linguistic differences produced by differences between speaking and writing. In D. Olson, N.
- Torrance, & A. Hildyard (Eds.), Literacy, language, and learning: the nature and consequences of reading and writing. Cambridge: Cambridge University Press.
- Christiansen, T. (2011). Cohesion: a discourse perspective. Berlin: Peter Lang.
- Collins, P., & Hollo, C. (2009). English grammar: an introduction. Chippenham: Palgrave MacMillan.
- Crossley, S., & McNamara, D. (2009). Computational assessment of lexical differences in L1 and L2 writing. Journal of Second Language Writing, 18, 119-135. <http://dx.doi.org/10.1016/j.jslw.2009.02.002>
- De Mönnink, Inge. 2000. On the Move: the Mobility of Constituents in the English Noun Phrase: a Multi-method Approach. Amsterdam / Atlanta: Rodopi.
- Flavell, J.H. (1970). Concept development. In P.H. Mussen (3rd Ed). Carmichael's manual of child psychology: Vol 1. New York: Wiley.
- Gnanaseelan, J. (September 2016). The taxonomy of the functional and structural uses of adverbs in business letter writing in English. International Journal of Applied Linguistics & English Literature. ISSN 2200-3592 (Print), ISSN 2200-3452 (Online). Vol. 5 No. 5; September 2016. Australian International Academic Centre, Australia. A Peer-Reviewed Refereed and Indexed International Research Journal. pp.39-48.
- Givón, T. (1990). Syntax: a functional-typological introduction. Philadelphia: John Benjamins.
- Halliday, Michael A.K. 1985. An Introduction to Functional Grammar. London: Arnold.
- Hockett, Charles F. 1958. A Course in Modern Linguistics. New York: Macmillan.
- Huddelston, R., & Pullum, G. (2002) Cambridge Grammar of the English Language. Cambridge: Cambridge University Press.
- Jackendoff, Ray. 1977. X Syntax: a Study of Phrase Structure. Cambridge, Mass.: The MIT Press.

- Jespersen, Otto. 1976 [1914]. *A Modern English Grammar on Historical Principles*. London: George Allen.
- Jo-Anne Hutter (2015). *A Corpus-Based Analysis of Noun Modification in Empirical Research Articles in Applied Linguistics*. Dissertations and Theses. PDXScholar: Portland State University.  
[http://pdxscholar.library.pdx.edu/open\\_access\\_etds](http://pdxscholar.library.pdx.edu/open_access_etds)
- Jucker, Andreas H. 1992. *Social Stylistics: Syntactic Variation in British Newspapers*. Berlin: Mouton de Gruyter.
- Kruisinga, Etsko. 1932 [1909]. *A Handbook of Present-Day English*. Groningen: Noordhoff.
- Lakoff, George. 1971. —On generative semantics. In Steinberg, D. and Leon A. Jakobovits (eds) *Semantics*. Cambridge: Cambridge University Press, 232-296.
- Langacker, Ronald W. 1990. *Concept, Image, and Symbol: The Cognitive Basis of Grammar*. Berlin: Walter de Gruyter.
- Levi, Judith N. 1978. *The Syntax and Semantics of Complex Nominals*. New York: Academic Press.
- Mirzapour, F., & Ahmadi, M. (2011). Study on lexical cohesion in English and Persian research articles. *English Language Teaching*, 4(4), 243-255. <http://dx.doi.org/10.5539/elt.v4n4p245>
- Payne, T. (2011). *Understanding English grammar: a linguistic introduction*. New York: Cambridge University Press.
- Payne, J. and Rodney Huddleston. 2002. —Nouns and noun phrases. In Huddleston, R. and Geoffrey K. Pullum (eds) *The Cambridge Grammar of the English Language*. Cambridge: Cambridge University Press, 323-523.
- Quirk, R., Sidney Greenbaum, Geoffrey Leech and Jan Svartvik. 1985. *A Comprehensive The grammar of the English Language*. London: Longman.
- Raumolin-Brunberg, Helena. 1991. *The Noun Phrase in Early Sixteenth-century English: a Study Based on Sir Thomas More's Writings*. Helsinki: Société Neophilologique.
- Sampson, G. 1987a. Evidence against the "grammatical/ungrammatical" distinction. In Meijjs (1987).
- Taylor, John R. 2002. *Cognitive Grammar*. Oxford: Oxford University Press.



## **Role of Rural Development Banks and Its Impact on Paddy Harvest in Puttalam District in Sri Lanka**

Thayaparan, A.; Gunathilaka G.Y.N.; Thennakon, S.N

Department of Economics and Management, Vavuniya Campus of the  
University of Jaffna

*thayakeshi@gmail.com ; yashoda.nirmani@yahoo.com ;  
sudeepanayanajith01@gmail.com*

### ***Abstract***

This paper examines the role of rural development banks and its impact on paddy harvest in Puttalam district in Sri Lanka. To achieve these objectives of the study, the primary data were collected through the questionnaires from the respondents who are cultivating paddy in the study area for the period 2017. Totally fifty samples were selected randomly from two villages and the collected data were analyzed using the paired sample t-test to identify whether there is any difference in average paddy yield pre and post receive the loans. In addition to that, descriptive statistics were used to analyze the socio-economic characteristics of the respondents while multiple regression analysis was used to quantitatively determine the impact of major contributions given by the banks on average paddy yield among small-scale farmers in the study area. Average paddy harvest considered as the dependent variable and the major contributions of rural development banks such as providing the loans benefits from the insurance and frequency of participated the meetings by farmers were used as explanatory variables in the analysis. The findings of the paired sample t-test show that the average yield of paddy has increased significantly due to the loans given by the banks. Results of multiple regression analysis prove that the use of credit in paddy farming has a negative and significant impact on farmers' paddy yield while benefits from insurance have a positive significant impact on average paddy harvest in Puttalam district. However, the impact of given loans by the banks on average paddy yield is negative illustrates that, there is an urgent need for monitoring and supervising the farmers regarding their usage of loans in paddy cultivation to appreciate the real effect of role given by the banks especially providing the loans on average paddy yield income of the farmers in Sri Lanka.

**Keywords:** rural development banks, paddy farmers, insurance benefits, paired

samples t-test, average paddy yield.

### **Introduction**

Sri Lanka is a naturally gifted country for the agricultural development and the agriculture is the cornerstone in the economy with 28.2% (labor force survey, 2017) of the population living in rural areas depending on the agricultural sector for their livelihoods and income generation. The agricultural sector currently contributes 6.9% to the GDP and out of this

0.5% (Central Bank Annual Report, 2017) of the contribution were given by the rice production while 26.1% (labor force survey, 2017) of the population employed in this sector of Sri Lanka. In the agricultural sector, paddy is an important staple food of the people in the country and the government mainly focuses on the paddy to increase its production and income.

The average yield of paddy estimated for 2017 Yala season was 83.2 bushels per net acre (4,291Kg. per net hectare) and it is decreasing 2.4 bushels per net acre (126 kg per net hectare) compared to the 2016 Yala season. The estimated paddy production for 2017 Yala season was 43,580,000 bushels and this is about 40% less compared with the 2016 Yala season. Productions of 8,945,000 bushels, 8,320,000 bushels, and 4,651,000 bushels of paddy were reported from Ampara, Polonnaruwa and Hambantota districts respectively. Paddy production in Ampara district was accounted for about 21% of paddy production of the country. The contribution to the national paddy production from Polonnaruwa and Hambantota districts were recorded as 19% and 11% respectively. But total paddy production in Puttalam district was recorded about 161,000 bushels on 2017 Yala season.

Like many developing countries, several initiatives have been taken and implemented by the Sri Lankan government for the farmers and agricultural entrepreneurs to get credits and other benefits from various institutions especially Regional Development Bank (RDB) which helps in many ways to encourage their cultivation. RDB is a Government bank and as well as a development bank which was started in 1998. There are 17 Regional Rural Development banks were merged into 06 provincial levels, namely, Rajarata, Ruhuna, Wayamba, Uva, Kandurata, and Sabaragamuwa. These banks were further merged in May 2010 as a national level development bank namely Pradeshiya Sanwardhana Bank. RDB was established under the Pradeshiya Sanwardhana Bank Act. No. 41 of 2008, as a fully state-owned national level bank with the long-term objective of improving the living standards of the rural people by providing them accessible and affordable financial services that in turn, would contribute to uplift the rural economy. The RDB continues to implement its vision of providing financial assistance to the rural sector and developing and empowering the people in the country.

The objective of the RDB banks is to facilitate the regional economic development of Sri Lanka by promoting the sectors, such as agriculture and fishing, trade and commerce, industrial, housing and other development. For this purpose, the banks are providing the short term, medium term and long-term loans and other accommodation particularly to farmers and agricultural workers, whether individually or in groups, and to co-operative societies and marketing and processing societies for agricultural operations

or other purposes relating to agriculture and giving insurance facilities. The Bank may promote and sponsor the training of banking and technical personnel, farmers and artisans and other persons engaged in allied activities individually or in groups or through co-operative societies in the subjects of agriculture, industry, commerce, fishing industry, trade and other development activities. For these purposes, the Bank is authorized to defray the costs incurred in that regard.

The growth of the agriculture sector including paddy has to face some problems and challenges, especially financial and credits. The contributions of government sector for providing loans to the farmers also inadequate to improve the agriculture sector and in a certain level private banks and other institutions such as RDB are providing loans.

The objectives of this study are,

To find out whether there is any difference in the average amount of paddy harvest after receiving the loans from RDB in Puttalam district in Sri Lanka

To identify the impact of rural development bank's services such as, providing loans, insurance, arrange the meetings for farmers regarding training and workshops on the amount of paddy harvest in the Puttalam District in Sri Lanka.

## **Literature Review**

Previously, many researchers have done their studies related to the impact of various financial institutions and the services on agricultural production and income in many countries.

Mohan (2006), examined the agricultural credit in India: Status, Issues and future agenda and through the study, he suggested that in the changing scenario strong and viable agricultural financial institutions are needed to requirements of finance for building the necessary institutional and marketing infrastructure in India.

Golait (2007) issues in agricultural credit in India and he identified those crop losses, consecutive failure of monsoon, recurrent drought, mounting debts and land tenancy, as some of the main causes which led many distressed farmers to commit suicide in the country.

Akerele, Ezekiel Olaoluwa (2016), analyzed the Effects of Cooperative Credit on Cassava Production in Yewa Division, Ogun State, and their study concluded that farming experience, credit use, interest rate charged, total expenditure on production, and loan repayment period were the major

significant farm socio-economic variables determining loan repayment in the study area.

Another study has done by Mahoukede, Aliou and Gauthier (2015) in Benin to identify the impact of the use of credit in rice farming on rice productivity and income for rice farmers. Their findings show that the use of credit in rice farming has a positive and significant impact on farmers' rice yield, rice output, rice income, per capita rice income, annual household income and per capita annual household income.

Devi (2012) analyzed the impact of the co-operative loan on the agriculture sector in Andhra Pradesh and the results proved that co-operatives are functioning in the most efficient manner by providing adequate, cheap and timely credit to agriculture and allied sector in the study area.

Shafiwu, Salakpi, and Bonye (2013) have analyzed the role of the agricultural development bank in the development of rural women in agriculture in Wa-West District. According to their study, they have found that loan size, interest rate and mode of payment used by banks are inappropriate and as a result, there is no much improvement in their way of lives and farming practices in the study area.

Obilor (2013) has examined the impact of commercial banks' credit to agriculture on agricultural development in Nigeria and the results from the study revealed that agricultural credit guarantee scheme and government fund allocation to agriculture produced a significant positive effect on agricultural productivity in the country.

### **Method of data collection**

Primary data were collected through the set of questionnaires from the farmers who are engaging in paddy cultivation in Puttalam district. Two villages namely Neelabemma and Puliyanikulam were selected for the study and out of 410 paddy farmers, 25 of them were selected from each village randomly.

### **Analytical framework**

The collected data were analyzed using frequency analysis, descriptive statistics, paired sample t-test and multiple regression analysis described below.

### **Frequency analysis**

Frequency analysis is more useful to explain the main features of the variables related to the farmers, their personal characteristics and profiles related to gender, age and educational levels.

## **Descriptive statistics**

Descriptive statistics is the basic statistical analysis which represents the mean and standard deviation of the variables used in the study. For descriptive statistics, variables such as the amount of paddy harvest, amount of loans received by the farmers from rural development bank, insurance benefits obtained by the farmers and number of meetings attended by them were used in the study.

## **Paired sample t-test**

The paired sample t-test was applied to determine whether there is statistical evidence that the mean difference between paired observations on an outcome is significantly different from before and after the occurrence of an event. This test was used to identify whether an average harvest of paddy is differing before and after a farmer received the loans from the rural development bank.

## **Multiple regression analysis**

In addition to the above analysis, multiple regression analysis was used to find out the impact of explanatory variables on the dependent variable. Amount of paddy harvest considered as the dependent variable and other three explanatory variables such as the amount of loan received by the farmers, amount of insurance benefits and numbers of attending for public meeting were considered as independent variables in the analysis. The following regression model was specified to evaluate the impact of three independent variables on the dependent variable which was used in the study.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where,

$Y$  = Amount of paddy harvest

$X_1$  = Amount of loans received

$X_2$  = Insurance benefits  $X_3$  = Number of meetings attended by the farmers

$\beta_0$  = Constant value

$\beta_1, \beta_2$  and  $\beta_3$  are the coefficients of  
variables

$\varepsilon$  = Error term

each independent

## Results and Discussions

Personal characteristics of the farmers especially, gender, age, and educational levels were explained by frequency analysis and the results are shown as below:

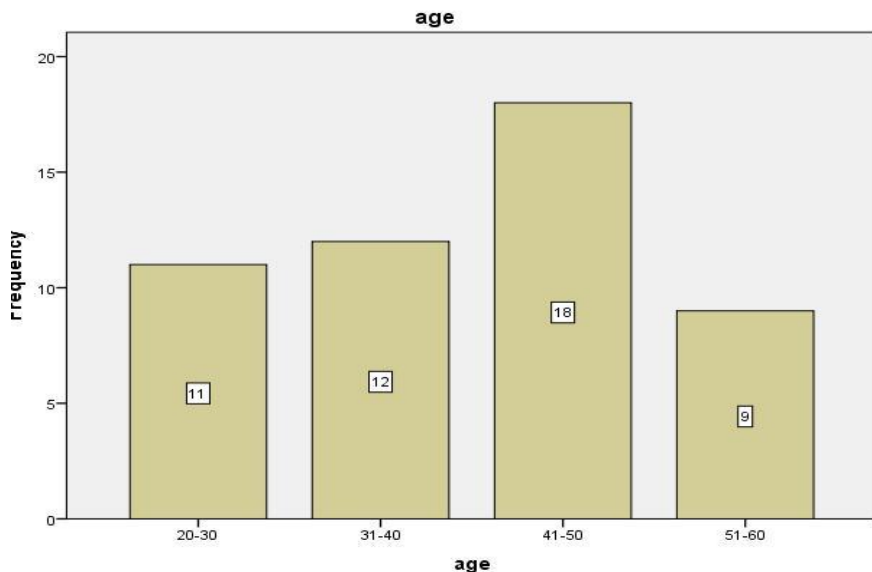
Table1: Gender of the farmers

Variables	Frequency	Percentage
Male	35	70.0
Female	15	30.0
Total	50	100.0

Source: survey data, 2017

According to the above table, 70% of the farmers were males and only 30% of them were females who are engaging in paddy cultivation in the study area.

Figure 1: Age distribution of the farmers



Source: survey data, 2017

According to the above chart, it shows that the age profile of the farmers ranged from 20-60 years and the majority of them (18) belong to the age group between 41-50 old while only 9 of them belong to 51-60 age. A significant amount of the farmers (11) are youngest and 12 of them belong to 31 to 40 years old.

Majority of the farmers were qualified up to primary level (58%) and a minority of them studied up to (16%) the higher educational level in the sample. 26% of farmers are included in secondary education

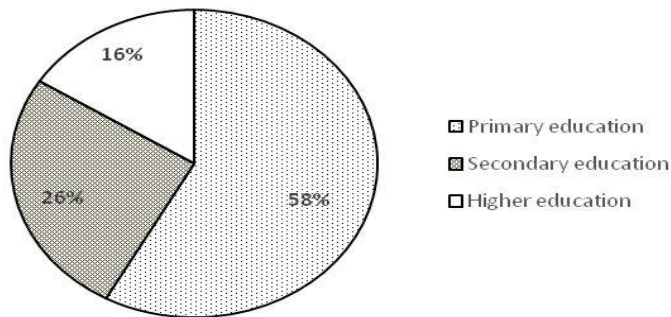


Figure 2: Education profile of the farmers

Source: survey data, 2017

The following table represents the results of descriptive statistics of the variables and according to that maximum amount of paddy harvest is 14300 kg and minimum amount of paddy harvest is 2000 kg derived by the farmers in 2017.

Table 2: Results of descriptive statistics

Variable	N	Minimum	Maximum	Mean	Sd
Amount of paddy harvest	50	2000	14300	5954.00	3268.664
Amount of received loans	50	50000	550000	142500.00	121454.82
Insurance benefits	32	1078	2850	1934.31	585.545
Number of the meeting attended	50	3	12	8.82	2.388

Source: Calculated by researcher, 2017

Similarly, the maximum amount of loan received by the farmers is Rs 550,000/= while minimum loan Rs 50,000/= and mean and standard deviation of other variables also illustrated in the above table.

Table 3: Descriptive statistics of the amount of paddy harvest

Variables	Mean	N	S. D	S. Error
Harvest before receiving loans	5954	50	3268.664	462.259
Harvest after receiving loans	6192	50	3217.797	455.259

*Source:* Calculated by researcher, 2017

Based on the above results, the mean value is differing from before and after receiving the loans from RDB. Before getting the loans from the bank, an average harvest is 5954kg and after getting the loan, the average harvest is 6192kg. Therefore, after getting the loan average paddy harvest has increased by 238kg.

Table 4: Results of the paired sample t-test

Variables	Mean difference	Standard deviation	Standard error	t	df	sig
Amount of harvest before and after receiving loans	-238.00	300.94	42.56	-5.59	49	0.000

*Source:* survey data, 2017

Paired sample t-test was used to identify whether there is any difference in average yield of paddy due to the loans received by the farmers from the bank. The table 4 proved that the mean value is different across the two conditions and it is statistically significant at 1% level indicates that by comparing the average yield of paddy of borrowers in the post- loan with pre-loan periods proved that, there is an improvement in the yield of paddy in the study area.

To identify the impact of services given by rural development bank in terms of providing loans, amount of insurance benefits and conduct the meetings with farmers on the average yield of paddy, multiple regression analysis also applied. The results are shown in the following table.

Table 4: Estimated results of multiple regression analysis

Variables	$\beta$	Std. Error	Standard ized Beta	t	Sig
Constant	714.353	2578.35		0.27	0.78
Amount of loans received	-0.009	0.004	-0.33	-2.22	0.03 **



Insurance benefits (Rs)	3.664	0.84	0.63	4.33	0.00 *
Number of meetings attended	-6.044	204.24	-0.004	-0.03	0.97
Adjusted $-R^2$ = 0.368					

*Source:* survey data, 2017

*Note:* \* and \*\* represents the significant levels of 1% and 5% respectively.

The model is adequate or not can be decided by adjusted  $-R^2$  and its value in this model is 0.368 shows that nearly 37% of the variation in the amount of paddy harvest explained by three explanatory variables namely, amount of received loan, insurance benefit and number of meetings attended by the farmers. Rest of the other 63% represents that the amount of paddy harvest is determined by other factors such as irrigation and water facilities, pesticides and input usages, farmers education and storage facilities etc. All the predictor variables in the model were the statistically significant impact on the average amount of paddy harvest except the number of meetings attended by the farmers.

The coefficient of loans amount has a negative sign represents that, as the number of loans received by the farmers from banks increases it will reduce their average amount of paddy harvest assuming other factors held constant. The number of loans may be used for other purposes such as, build up their houses, personal consumption, buying vehicles, etc and due to these reasons, they were unable to use the loans properly in their cultivation and the average yield may fall.

One of the services given by the banks is the insurance benefits and as the farmers getting more benefits from insurance, it helps them to encourage getting more yields from paddy cultivation. The coefficient of this variable is statistically significant and its standardized beta is 0.63 reveals that 63% of the contribution is given by the insurance benefits to produce more average paddy yield in the district. On the other hand, the number of meetings attended by the farmers at the meeting regarding the programs and advice related to paddy production given by the banks has insignificant indicates that average paddy yield does not depend on those services in Puttalam district.

## Conclusion

Findings of the study concluded that rural development banks are contributing in many ways to raise the amount of paddy harvest in Puttalam district in Sri Lanka. There are three main services given by the banks which were considered as the independent variables in the study. Paired

sample t-test suggested that getting the loans from banks enhance the average amount of paddy harvest significantly. Out of three independent variables, insurance benefits are the major contributor to the production of paddy than other factors and as the farmers receive more benefits from insurance, they are able to raise their paddy harvest in their cultivation.

The banks are providing more loans to the farmers for the cultivation purpose even though they were unable to get more output due to the many reasons such as not using the loans properly in their paddy cultivation and inadequate of the suitable monitoring facilities after given the loans.

### **Recommendation**

When the RDB in Puttalam district provides the loans, it must be investigated and monitored properly. Then only the farmers can encourage and use the loan facilities effectively and efficiently.

### **References**

- Akerele, Olaoluwa, E (2016), Effects of Cooperative Credit on Cassava Production in Yewa Division, Ogun State, Journal of Resources Development and Management, Vol.23.
- Central bank annual report 2017
- Devi, R.U., 2012. Impact of Co-Operative Loan on Agriculture Sector: A Case Study of EG District of Andhra Pradesh. Researchers World, Journal of Arts, Science & Commerce 3(4), pp.74.
- Golait, R., 2007. Current issues in agriculture credit in India: An assessment. Reserve Bank of India Occasional Papers, 28(1), pp.79-99.
- Labour force survey 2017
- Mahoukede, K.M., Aliou, D. and Gauthier, B., 2015. Impact of Use of Credit in rice farming on rice Productivity and Income in Benin. In 2015 Conference, August 9-14, 2015, Milan, Italy (No. 211635). International Association of Agricultural Economists.
- Mohan, R., 2006. Agricultural credit in India: Status, issues, and future agenda. Economic and Political Weekly, pp.1013-1023.
- Obilor, S.I., 2013. The impact of commercial banks' credit to agriculture on agricultural development in Nigeria: An econometric analysis. International Journal of Business, Humanities, and Technology, 3(1), pp.85-94.
- Shafiwu, A.B., Salakpi, A., and Bonye, F., 2013. The role of Agricultural Development Bank in the development of rural women in agriculture: A case study of Wa-West District. Res. J. Fin. Account, 4(12), pp.168-180.

## **Does Central Bank Financial Strength Matter for Inflation in Sri Lanka?**

Perera, G.A.N

*Department of Business Economics, University of Sri Jayewardenepura*

*amanda@sjp.ac.lk*

### ***Abstract***

The importance of financial soundness in the central banking system is an area which was debated over the time. Due to the inherent monetary authority of central banks, it was argued that central banks do not necessarily require an adequate financial position compared to commercial banks. Also, its' costless ability to create domestic fiat money trivializes the need of maintaining a sound financial position. But, recent empirical studies claimed conflicting findings which drew the attention to the importance of financial strength in the context of central banks.

The central bank financial strength was a key factor which determines the effective conduct of monetary policy in terms of achieving policy objectives. Accordingly, linking central bank financial strength with price stability: maintaining a low level of inflation which is a primary objective of the majority of central banks came to the discussion which has been disregarded for a longer period of time.

This study was conducted with the aim of investigating the relationship between central bank financial strength and inflation in Sri Lanka considering the individual country characteristics for the time period ranging from 1980 to 2015. Time series regression was conducted with the basic model where the independent variable is central bank financial strength and the dependent variable is inflation; proxy to price stability.

Empirical result of this study provides a significant negative relationship between central bank financial strength and inflation suggesting a probable impact from central bank financial strength on inflation in Sri Lankan context which is claimed to be true in many empirical studies. Hence, it was concluded that maintaining adequate financial position is crucial even for central banks irrespective of the inherent monetary authority they consume.

***Key Words:*** central bank financial strength, inflation, sri lanka

## Introduction

This empirical study aimed to identify whether there is a relationship between Central Bank Financial Strength and Inflation in Sri Lanka. Empirical studies which have been investigated on this topic remaining scant while findings of those studies offered inconsistent conclusions with contradictory views. A major reason for these contradictory findings is the heterogeneity among central banking systems around the world. Disparities prevailing in the economic systems of different countries also comes as a reason for these contradictory findings on the topic. This study attempts to investigate the relationship between Central Bank Financial Strength and Inflation in Sri Lankan context which will contribute to the remaining limited studies on the field.

The concept of central bank financial strength is disregarded for a longer period of time due to several reasons. It is believed that monetary autonomy in the economy inherent only to the central bank provides no more requirement of a financial strength (Stella 2005). Stella claims that unlimited costless ability of central bank in creating domestic fiat money trivializes the need of a financial strength for a central bank as they can print any quantity of money to repay their obligations as well as to absorb the losses. But it is argued that there can be an adverse economic impact from printing money which could results conflicts in policy objectives especially in terms of price stability. Therefore, it is provided that central banks cannot produce an unlimited quantity of money without affecting their nominal policy objectives (Stella 2005). Hence, the argument of even central banks requires an adequate level of financial strength to pursue their policy objectives freely, comes to the debate.

Several supportive quotes by policymakers can be found, stressing the importance of this concept. Such statement by Francisco de Paula Gutierrez, former President of the Central Bank of Costa Rica is that ‘We, the central bank, have a negative net worth...and this remains our greatest challenge’ (cited in Stella and Lonnberg 2008, p.4).

Another statement by Fukui (2003), the former Governor of the Bank of Japan (BoJ) supported this view on the financial strength of central banks (cited in Benecka et al. 2012, p.3).

The actual behavior of some central banks indicates that central banks' concern with the soundness of their capital base might not be grounded purely in economic theory but may be motivated rather by the political-economic instincts of central bankers

In nature, central banks hardly become illiquid (Benecka et al. 2012). Being the monopoly issuer, the central bank can continue its service even with a

negative equity which is one of the reasons for the negligence of this concept. Further, the formal procedures of standard bankruptcy are not subjected to central banks providing any legal binding constraint even with the zero level of equity (Benecka et al. 2012). Also, the right to collect seigniorage which is the monetary income of central banks make them able to go well beyond the accounting equity. It is mentioned that central bank losses may have long-term fiscal implications and they would try to control losses with improvements of finances by allowing higher inflation. Hence, it can be observed a conflicting situation between their primary goal of price stability and weak financial strength arising through inflationary means of solving financial weaknesses of the central banks.

It is reviewed that even though central banks can always create money to pay its bills and cannot be declared bankrupt by a court, their financial results can be an impact in terms of achieving the policy objectives. Therefore, losses or negative capital may raise doubts in its ability to deliver on policy targets and expose it to political pressure (Archer and Boehm 2013).

It has been pointed out some reasons for the increased attention to central bank financial strength. Accordingly, international financial integration in emergent economies, trends towards increased price stability and financial burden of central banks due to revaluation losses and carrying cost implied by large-scale reserve accumulation are some of the reasons which call upon the requirement of financial strength for central banks. Moreover, it is argued that even mature market central banks can be subjected to potential serious stress tests related to financial crises which would change the risk profile of a central bank's asset-liability mix. Also, adoption of more transparent accounting standards has caused more volatility in equity of central banks which is also an influencing aspect to reconsider this topic (Klüh & Stella 2008).

It is stated that the performance of monetary policy conduct is reflected in macroeconomic outcomes especially in terms of monetary and price stability. It is further explained that the behavior of the central bank cannot be measured explicitly in such outcomes. But central bank preferences, inflation targeting, central bank independence, and transparency are several attributes which can be used in measuring the behavior of the central bank. Hence, central bank ability to achieve its policy objectives can be used to model macroeconomic outcomes with the central bank financial strength particularly in the context of price stability and the financial strength (Perera et al. 2011).

The relationship between central bank financial strength and macroeconomic outcomes including inflation which is a proxy measurement for price stability is subjected to the controversy which requires further investigation. Even though the importance of central bank

financial strength is discussed recently, its relationship with macroeconomic outcomes has not been empirically analyzed to date which remains the lacuna of research on this matter (Klüh and Stella 2008).

Therefore this study is mainly motivated by the prevailing research gap in this area by providing a comprehensive investigation in between central bank financial strength and inflation in Sri Lanka.

## **Problem Statement**

Generally, it is accepted that commercial banks require a substantial financial strength to survive and to conduct their primary responsibilities. But in the context of central banks, the need for financial strength is a controversial area which requires further investigation. Both supportive and against views and findings can be observed giving an insight of prevailing debate on this topic.

Some scholars argue that being the autonomy in the monetary system, the central bank does not necessarily require a financial strength due to its costless ability of printing money (Stella 2008). But recent literature provides some contradictory views claiming that there can be an adverse impact on the macroeconomy from a weak financial position of a central bank. It has been pointed out that printing an endless quantity of money would result in excessive liquidity in the economy which would lead to macroeconomic ailments and it would constrain nominal policy objectives especially in terms of price stability (Sweidan 2011 cited in Perera et al. 2011).

Prevailing limited studies in this field have been focused on the analysis of central bank financial strength and inflation mostly in the context of western countries or as a whole for the world. Investigation on this subject considering individual country setting would give a different insight to the prevailing debate on the topic especially when it has been considered Sri Lanka as a country with lower central bank independence. Hence, investigating whether there could be an impact from the financial strength of central bank on inflation comes as a researchable area which has been disregarded for a longer period of time especially in the South Asian context given the focus to Sri Lanka.

Accordingly, this can be specified into a specific research question as,

*Does central bank financial strength impact on inflation in Sri Lanka during the time period ranging from 1980 to 2015?*

## **Rationalization of the research**

Price stability of the economy is accepted as an important macroeconomic outcome which is desired to achieve by the policymaking authority, particularly by central banks. Several empirical studies attempt to model central bank financial strength with inflation claiming that strong financial strength of central banks may widen the ability of central banks to achieve their policy objectives; price stability; low level of inflation.

According to previous studies it can be observed that most of the studies have been carried out on pooled samples of countries in the context of regional or emergent economies. But the evidence is scant in the context of time series analysis on the individual country profile. Therefore, this study will contribute to the prevailing findings by taking consideration of heterogeneous characteristics in individual country settings. In addition, the findings of the study will draw the attention on the importance of the central bank financial strength in maintaining macroeconomic stability in the terms of maintaining a low level of inflation and will provide a different insight to policymakers with the involvement of the independence of central banks.

## **The objective of the research**

- To identify the impact of Central bank financial strength on Inflation in Sri Lanka.

## **Literature Review**

### **The concept of central bank finance**

It can be observed different terms which have been used in the related literature to refer central bank finances. For instance, Stella and Lonnberg in 2008 refer to the term 'central bank finance' while Ize in 2005 used the term 'central bank financial position' based on the net worth approach.

Some studies adopt the term 'financial strength' (Stella 2005; Cargill 2005; Klüh & Stella 2008). In addition, Perera et al. (2011) point out various terms which refer the same concept such as central bank financial soundness, financial health, central bank ability/inability based on many studies. It is stated that in early literature central bank finance has been discussed in the context of central bank independence (Perera et al. 2011). This study uses the term 'central bank financial strength' (CBFS) following Klüh and Stella (2008) and Perera et al. (2011).

This is a concept which has been neglected previously. According to Stella (2005), there are both historical and theoretical reasons for the negligence

of CBFS. Focusing on historical reasons first, it can be observed that many fiat money central banks including Group of Seven (G-7) countries had been highly profitable over a long period of time. Therefore 'financial difficulties' is much more a remote concept to them. It is stated that the U.S. Federal Reserve System has been making profits since 1915 (Stella 2005). Hence, being profitable ever in the history made the CBFS is rather a remote concept. Then the theoretical reasons provide that due to the unlimited costless ability in creating money, central banks do not require financial strength as commercial banks.

Stella (2008) argues that it cannot be used conventional measures of assessing the financial strength of private enterprise in the context of the central bank since profitability and capital are not the primary consideration of central bank but those are the primary consideration of private enterprise. Further, he suggests that the performance of central banks can be assessed through their policy performance. Accordingly, Stella (2008) demonstrates two specific benchmarks to assess central bank performance; firstly, how well it creates conducive conditions to ensure favorable macroeconomic outcomes such as output growth, price stability, etc. and secondly, how efficiently the central bank achieves such outcomes refers to internal efficiency which minimizes the costs of attaining objectives.

Another mostly discussed concept regarding the central bank financial strength is central bank independence. This is the initial term used by many studies and later it developed to other aspects like financial strength. An index; Central bank independence and governance (CBIG) has been constructed addressing some of the aspects of central bank independence. Accordingly, several sub-indices in separate fields such as legal, political, price stability objective, exchange rate policy, monetary policy, and deficit financing and accountability have been considered with the inclusion of different twenty-six variables in forming the CBIG index which reflects comparative central bank independence in different country context (Ahsan & Skully 2009).

Accordingly, with special reference to South Asia, it has been recorded Sri Lanka, India, and Pakistan as countries maintaining a standard level of CBIG index while Nepal and Pakistan indicate remarkable improvement. Bhutan and Maldives have been classified as low CBIG countries within the region (Ahsan & Skully 2009).

Even though central bank profit and losses are considered as less important measurements of CBFS, it can erode the central bank net worth negatively (Dalton & Dziobek 2005 cited in Perera et al. 2011). Cargill (2006) suggests that if the central bank is able to conduct its operations without incurring operational losses, it can be said that it is a financially strong central bank (Cited in Perera et al. 2011). Therefore, the profit and losses of central banks also come to the consideration as they determine the central



bank net worth level. Hence, profit and losses of central banks help to conceptualize the CBFS.

## **Measuring central bank financial strength**

Literature provides some useful measurements for assessing CBFS. Accordingly, Benecka et al. (2012) provide some measurements of CBFS following Kluh and Stella (2008) in terms of ratios. There they have presented ratios with respect to balance sheets such as Equity to total assets, broadly defined capital to total assets and Net non-interest-bearing liabilities (NNIBL). In the terms of profitability measures, return on average assets (ROAA) and Return on average equity (ROAE) have been used. Especially NNIBL has shown a significant negative coefficient with inflation providing that there is an impact of CBFS on inflation while other measures turned out to be insignificant.

Following Stella (2008), Perera et al. (2011) suggest that 'other item net' (OIN) account comparatively reflect more of central bank balance sheet. According to him, OIN includes the revaluation account, net worth, original capital, reserves, and physical assets. Further, he states that it contains accumulated losses or hidden reserves providing that it is an important figure in assessing the financial strength.

Based on the literature several studies reflect that as the best representative measurement of CBFS is the capital plus OIN as a percentage of total assets. According to Stella (2008), it adopts the stock concept to measure CBFS. Benecka et al. (2012) also suggest that this measurement as a more reliable indicator which is calculated based on the data provided by the International Financial Statistics (IFS). Further, Perera et al. (2011) provide that only this measurement indicates a relationship between economic outcomes after a comprehensive analysis by employing several measurements. Accordingly, this measurement can be depicted as follows.

$$\frac{C + OIN}{TA} \times 100$$

## **Consequences of central bank financial strength**

Stella (2008) shows that weak CBFS can hamper policy capacity and its outcomes. Further, it is stated that weak CBFS can constrain the smooth conduct of monetary policy thereby resulting in a dependency on the support from treasuries. Then it would affect the primary concern on price stability and 'to compromise its operational independence and also to impose inefficient restrictions on the financial system to suppress inflation' (Stella 1997 cited in Perera et al. 2011, p. 16).

Sweidan (2011) argues that central bank losses may influence the central bank to change the operations of central banking to guarantee survival (cited in Perera et al. 2011). Therefore it is appeared to be that CBFS is positively associated with good policy performance which implies that financially weak central banks would undermine the macroeconomic stability (Stella 2008).

According to Sweidan (2011) 'weak central bank finances may have negative implications for economic outcomes' (Perera et al. 2011, p. 16). Stella (2005) states that financial weakness of central bank would lead to financial losses which have to be settled through financial repression, reserve money creation or debt issuance expecting a future money growth. If central bank fails to withstand to potential shocks in their balance sheets due to the weak financial position, it would be difficult to fulfill its policy obligations which would weaken the credibility of central banks.

Another idea developed regarding the CBFS is that it is required to maintain an adequate level of financial strength to absorb losses and to credibly achieve policy objectives. It is argued that treasury support for the central bank is not an appropriate and reliable option and also it cannot be expected such support on a timely basis considering historical occasions. Moreover, it is emphasized that central bank distress and fiscal distress are associated (Stella 2008). Also stabilizing the financial strength with treasury support requires transferring real resources to the central bank. Such options could cause monetary expansion which would erode central bank capital thereby generating higher inflation rates (Stella 1997 cited in Perera et al. 2011). All these findings conclude that to achieve policy objectives as well as to maintain efficiency central bank it is a necessity to have an adequate level of financial strength for central banks. Stella and Lonnberg (2008) show that it would be unable to meet the basic functions of central banks causing financial distress in the economy due to inadequate CBFS.

Another key aspect of CBFS is that it provides central banks to act more credibly. Having an adequate level of financial strength provides central banks to survive in adverse situations without hampering policy objectives. It is stated that if central banks are financially weak one of options available to central banks is relieving some of the policy goals such as price stability or maintaining a fixed exchange rate which constrains macroeconomic stability (Stella 2005).

Finally, it can be concluded that determining the financial strength of a central bank requires a careful analysis both in the balance sheet and economic environment to ensure that the central bank will be able to meet its policy objectives successfully without hampering macroeconomic stability (Stella 2005).

Referring to the findings of similar studies it is evidenced that central banks could experience financial difficulties and weak financial conditions which could have implications for the entire economy. Hence the central bank has to be more responsible when achieving its policy objectives. In other words, the central bank may need to concern on the conducive environment for better economic outcomes such as price stability, interest rate stability, and exchange rate stability (Perera et al. 2011).

### **Linking central bank financial strength and macroeconomic outcomes**

This is an area which is subject to debate. According to the discussion of Klüh and Stella (2008), many scholars argue that the linkage between CBFS and macroeconomic outcomes are unlikely to exist providing that this is an irrelevant idea to investigate. But Klüh and Stella (2008) present two approaches such as pragmatic approach and theoretical consideration to link these two concepts. According to a pragmatic approach, the discussion on CBFS and inflation are carried out. It is stated that the financial difficulties of the central bank would weaken the achievements of anti-inflationary policies resulting transfer of excess liquidity to the financial system. Perera et al. (2011) state that ‘motives such as the self-interested behavior of central bank representatives in terms of reputation, personal prestigious and future employment opportunities and also, intentions to generate stable flow of seignorage revenues can lead to a tendency to factor CBFS in monetary policy decisions’ (p. 13).

In theoretical considerations, it is provided that in circumstances where treasury support is not available for a loss-making central bank, it would tend to lower the cost of monetary operations as the first option adjusting minimum reserve requirements. Klüh and Stella (2008), discuss that such procedures would involve some economic costs such as financial repression affecting the financial development.

Moreover, Perera et al. (2011) argue that if the central bank goes for a reprinting of money based on interest-free liabilities to repay its obligation as the second option, excess liquidity would flow to the economy. If the sterilization process is not conducted to absorb the excess liquidity back, then there could be a possibility of inflationary pressures. On the other hand, if the central bank sterilizes the excess liquidity by issuing debt securities, it would have to be incurred an additional interest cost (Klüh & Stella 2008).

In sum, all these arguments support the view of the existing relationship between CBFS and price stability. Accordingly, this study will attempt to model the relationship in between CBFS and price stability in the South Asian context to fill the prevailing research gap.

## Methodology

### Research Design and Data

The study focuses on Sri Lankan context which is an emergent economy in the South Asian region. Selection of the country was mainly motivated by the convenience of data accessibility.

Accordingly, this study consists of an empirical analysis of macroeconomic data in Sri Lanka over the period of 1980 to 2015 depending on secondary data. The required data have been retrieved from various sources such as International Financial Statistics (IFS) of International Monetary Fund (IMF), Central bank of Sri Lanka (CBSL) and World Development Indicators of World Bank.

### Conceptual Framework

The conceptual framework of the research outlines the independent variable and the dependent variable and their measurements providing the overall picture for the study.

#### Basic Model:

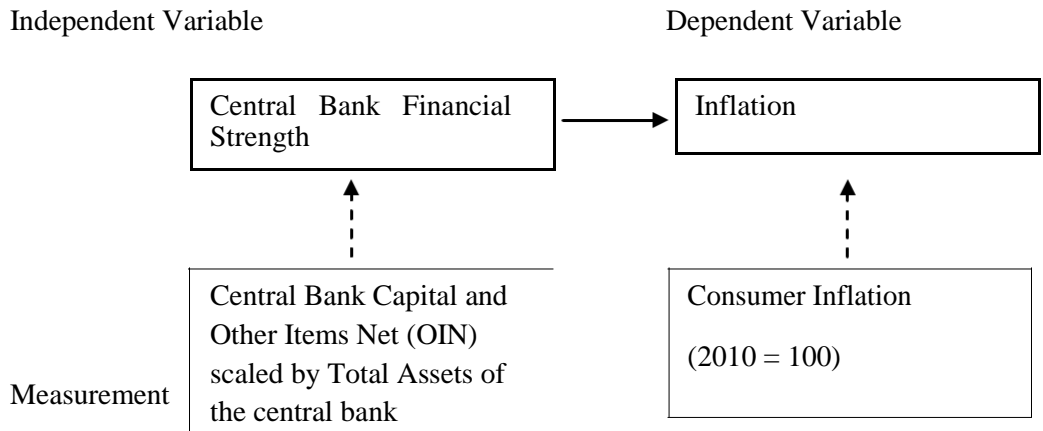


Figure 1: Basic model

### Model Specification for the study

Since there is no particular theoretical model to adopt in this study, the model was specified to best fit to the data set where the researcher was given the freedom to alter the model where needed. Accordingly, the model was constructed following the empirical model by Perera et al. (2011, 2013).

### Basic Model:

$$\pi_t = \alpha + \beta_1 \pi_{t-1} + \beta_2 FS_t + \epsilon_t$$

Where,

$\pi_t$  = Year on year change of consumer price index

$FS_t$  = Central Bank Financial Strength

Accordingly, the basic model can be specified as follows.

### Data Analyzing Procedure

This research is conducted in order to estimate the impact of Central bank financial strength on inflation. In order to meet the aforesaid objective, data were analyzed in the following manner.

Time series unit root test has been conducted first to detect whether the data series indicate any non-stationary characteristics. Accordingly, after correcting for the unit root problem the model was specified. Finally, the validity of the specified model was assessed through conducting different statistical tests addressing the main econometrics problems.

### Results and discussion

#### Time series unit roots results

Following table represents the unit root statistics for the variables following Augmented Dickey Fuller (ADF) test and the decision criteria.

$H_0$ : Series has a unit root problem

$H_1$ : Series has not a unit root problem

Decision Rule: Reject  $H_0$  if the absolute value of test statistic > Absolute value of critical value

Table 1: Unit root test statistics

Variable	Test Statistic	Interpolated Dickey Fuller at 5% Critical Value	Decision	Conclusion
INFLATION	4.012	-2.972	Reject H <sub>0</sub>	No unit root problem
CBFS	-4.767	-2.972	Reject H <sub>0</sub>	No unit root problem

The ADF test concludes that data series is free from the unit root problem where all the variables are stationary. Accordingly, data set has been used in the original form for the model specification.

### Estimation Results

#### Basic Model;

$$= \alpha + \quad +$$

Table 2: Regression of basic model

	Constant	Slope	R <sup>2</sup>	The probability of F statistics
Equation	52.646	-35.41579	0.1342	0.0280
t statistic	7.41	-2.30		
P value	0.0000	0.028		

According to the test results, the basic model can be constructed as follows.

$$= \quad - \quad +$$

To assess the significance of the relationship between the two variables following decision criteria was used.

### Significance of Parameter

H<sub>0</sub>: There is no significant relationship between the two variables

H<sub>1</sub>: There is a significant relationship between the two variables

Decision Rule: Reject H<sub>0</sub> if P-value < 0.05

Table 3: Significance of parameters of the basic model

Variable	P value	Level of Significance	Conclusion
CBFS	0.028	0.05	There is a significant relationship

Following the regression estimates, the sign of the slope coefficient is negative and complies with the empirical relationship. This means that central bank financial strength and inflation are negatively related in Sri Lanka under the period of investigation. Moreover, the probability of the parameter is less than the five percent of the significance level. This implies that a positive change of 1 percent in central bank financial strength, *ceteris paribus*, will result in a 35 percent decrease of inflation level in the country.

The probability of F statistic is also significant at five percent level of significance providing that the model is significant as a whole. But the  $R^2$  value of the model represents a lower level of explanatory power in the model indicating the existence of omitted explanatory variables of the model which is a limitation of this study. Since the primary objective of the study is to investigate the impact of central bank financial strength on inflation, other explanatory variables have not been included in the model.

### Testing the Validity of the Model

#### Autocorrelation

The existence of the correlation between the elements in the same series; Autocorrelation was checked by the Breusch- Godfrey serial correlation LM test.

Breusch- Godfrey serial correlation LM test was conducted based on following decision criteria.

$H_0$ : There is no serial correlation in the residuals

$H_1$ : There is a serial correlation in the residuals

Decision Rule: Reject  $H_0$  if p-value < 0.05

Table 4: Breusch- Godfrey serial correlation test statistic for the basic model

Chi 2	P value	Level of significance	Conclusion
1.1461	0.5638	0.05	There is no correlation in the residuals

## Heteroskedasticity

Heteroskedasticity reflects the systematic pattern in residuals which creates estimators of the model inefficient and incorrect standard errors. Therefore, Heteroskedasticity of the model was checked through the Breusch – Pagan / Cook-Weisberg test based on the following decision criteria.

H<sub>0</sub>: Homoscedasticity in residuals

H<sub>1</sub>: Heteroskedasticity in residuals

Decision Rule: Reject H<sub>0</sub> if p-value < 0.05

Table 5: Breusch – Pagan / Cook-Weisberg test statistic for the basic model

Chi 2	P value	Level of significance	Conclusion
0.14	0.7098	0.05	Homoscedasticity in residuals

## Conclusion and recommendation

The most accepted view is that central banks do not require a financial strength compared to commercial enterprises as they are the monetary autonomy of the economy consuming the unlimited costless ability to issue money. But empirical literature argues that even for a central bank it is needed an adequate level of financial strength to perform the monetary policy conduct effectively. The remaining few empirical studies on the field try to model central bank financial strength with macroeconomic outcomes like price stability stating that financially weak central banks may hamper the attainment of policy objectives due to the financial constraints which will lead ailments of macroeconomic stability focusing more on price stability which is the most prominent policy goal of most of the central banks.

To that end, this study attempts to provide evidence of a probable relationship between central bank financial strength and inflation in Sri Lanka. It is observed that price stability, measured by inflation is broadly related to central bank financial strength. Therefore, it is concluded that in lowering inflation in the economy, central bank financial strength influences favourably where higher financial strength will lower the inflation providing stability in the prices of an economy.

These empirical observations offer several policy implications stressing the need of the financial soundness regardless of the monetary autonomy inherent to central banks. Accordingly, central banks should attempt to avoid losses by implementing appropriate policies in order to maintain



favorable balance sheet position with adequate financial health as there is a significant impact from the financial strength of central banks on inflation which generates a downward bias in inflation.

## Acknowledgment

My sincere gratitude goes to Mrs. W.G.V. Gunasekara, Mrs. Thilini Saparamadu Senior Lecturers of Department of Business Economics and Dr. L. Wijewardene, Senior Lecturer of Business Communication Unit, Faculty of Management Studies and Commerce, the University of Sri Jayewardenepura for the continuous guidance and the assistance has given me to conduct this study. Also, special thanks goes to Dr. Anil Perera, Senior Economist of Central Bank of Sri Lanka for his valuable inspiration and the immense support provided for me to conduct this study. I am thankful to all of my staff members of the Department of Business Economics of the University of Sri Jayewardenepura for their support in making this study a success.

## References

- Adler, G., Castro, P., & Tovar, C. E. (2016). Does Central Bank Capital Matter for Monetary Policy? *Open Economies Review*, 27(1), 183–205. <https://doi.org/10.1007/s11079-015-9360-1>
- Alesina, A., Summers, L. H., Money, J., May, N., & Summers, L. H. (1993). Evidence Central Bank Independence and Macroeconomic Performance : Some Comparative Evidence, 25(2), 151–162.
- Amarasekara, C. (n.d.). Interest Rate Pass-through in Sri Lanka, 1–32.
- Analysis, A. E. (n.d.). Working paper series 3.
- Archer, D., & Moser-boehm, P. (2013). BIS Papers Central bank finances.
- Asia, S., Academy, W., Sciences, S., Academy, W., & Sciences, S. (2009). Central bank independence and governance in the South Asia #.
- Authors, F. (2014). Inflation, inflation uncertainty and output growth : what does the data say for Malaysia ? <https://doi.org/10.1108/JES-05-2012-0073>
- Bearce, D. H. (2008). Not compliments, but substitutes: Fixed exchange rate commitments, central bank independence, and external currency stability. *International Studies Quarterly*, 52(4), 807–824. <https://doi.org/10.1111/j.1468-2478.2008.00527.x>
- Berger, W. (2013). Central Bank Independence and Financial Stability : A Tale of Perfect Harmony ?, 11(482).
- Cargill, T. F. (2005). Is the Bank of Japan's Financial Structure an Obstacle to Policy?, 52(2), 311–334.

- Cecchetti, S. G., & Ehrmann, M. (2002). Does Inflation Targeting Increase Output Volatility ? an International Comparison Of Policymakers ' P References And Outcomes.
- Chen, B. Z., & Feng, Y. (2000). Determinants of economic growth in China: Private enterprise, education, and openness. *China Economic Review*, 11(1), 1–15. [https://doi.org/10.1016/s1043-951x\(99\)00014-0](https://doi.org/10.1016/s1043-951x(99)00014-0)
- Choice, P. (2016). *Central Bank Independence and Inflation : Corporatism, Partisanship, and Alternative Indices of Central Bank Independence* Author ( s ): Thomas Oatley Published by Springer Stable URL : <http://www.jstor.org/stable/30024494> Accessed : 28-05-2016 04 : 30, 98(3), 399–413.
- Chrigui, Z., Boujelbene, Y., & Mhamdi, G. (2016). Central Bank independence and inflation : Evidence from emerging countries Central Bank independence and inflation : Evidence from emerging countries, (September). <https://doi.org/10.1016/j.jpolmod.2010.06.002>
- Colombage, S. (n.d.). Determinants of Inflation in Sri Lanka : An Econometric Analysis, 3, 49–60.
- Cukierman, A. (2006a). *Central Bank Independence and Monetary Policymaking Institutions - Past Present and Future \**.
- Cukierman, A. (2006b). *Central Bank Independence and Policy Results : Theory and Evidence*, 1–17.
- Cukierman, A., Webb, S. B., & Neyapti, B. (2016). *Measuring the Independence of Central Banks and Its Effect on Policy Outcomes* Author ( s ): Alex Cukierman, Steven B. Webb and Bilin Neyapti Source : *The World Bank Economic Review*, Vol. 6, No . 3 ( Sep ., 1992 ), pp. 353-398 Published by Oxford U, 6(3), 353–398.
- Daunfeldt, S. O., & De Luna, X. (2008). Central bank independence and price stability: Evidence from OECD-countries. *Oxford Economic Papers*, 60(3), 410–422. <https://doi.org/10.1093/oep/gpn004>
- Dreher, A., Nunnenkamp, P., & Thiele, R. (2008). Does aid for education educate children? Evidence from panel data. *World Bank Economic Review*, 22(2), 291–314. <https://doi.org/10.1093/wber/lhn003>
- Fiscal Requirements for Price Stability Author ( s ): Michael Woodford Source : *Journal of Money, Credit, and Banking*, Vol. 33, No . 3 ( Aug ., 2001 ), pp. 669-728 Published by Ohio State University Press Stable URL : <http://www.jstor.org/stable/267>. (2016), 33(3), 669–728.
- Fiscal Seigniorage — Laffer-curve effect I on Central Bank Autonomy in India Lekha Chakraborty Working Paper No . 2015-156 September 2015 National Institute of Public Finance and Policy New Delhi EFFECT I ON CENTRAL BANK AUTONOMY IN. (2015), 1–20.
- Furceri, D., & Borelli, S. (2008). Foreign Direct Investments and Exchange Rate Volatility in the EMU Neighbourhood Countries, 1(June), 42–59.

- Gregorio, J. D. E. (2016). Price and Financial Stability in Modern Central Banking Price and Financial Stability in Modern Central Banking Although years ago was not until the that central, 13(1), 1–11.
- Gutierrez, P., Bank, C., & Rica, C. (2008). In nature, central banks hardly become illiquid (Benecka et al. 2012). Being the monopoly issuer, the central bank can continue its service even with a negative equity which is one of the reasons for them, (2003).
- Hashim, M. J., Osman, I., & Elias, N. L. (2014). The Determinants of Inflation in Malaysia. International Conference on Accounting, Business and Economics, 3(August), 1–9.  
<https://doi.org/10.1355/ae29-la>
- Hayat, M. A. (2001). Which crises drive central bank reforms ?, (2007), 1–2.
- Hughes, M. (2002). Referencing Guide, (January).  
[https://doi.org/10.1016/S0045-8732\(03\)90048-9](https://doi.org/10.1016/S0045-8732(03)90048-9)
- Journal, T. S., & Journal, T. S. (2016). On Central Bank Independence and the Stability of Policy Targets Author ( s ): Francesco Lippi Source : The Scandinavian Journal of Economics, Vol. 100, No . 2 ( Jun ., 1998 ), pp. 495-512 Published by Wiley on behalf of The Scandinavian Journal of, 100(2), 495–512.
- Kesavarajah, M. (n.d.). A Multivariate Cointegration Analysis of Inflation in Sri Lanka.
- Klomp, J., & Haan, J. De. (2010). Central bank independence and inflation revisited, (July), 445–457. <https://doi.org/10.1007/s11127-010-9672-z>
- Lassiter, J., Bisping, T. O., & Horton, J. (2010). Central banking in transition economies: Estonia and Belarus. International Journal of Commerce and Management, 20(4), 331–338.  
<https://doi.org/10.1108/10569211011094640>
- Lim, Y. C., & Sek, S. K. (2015). An Examination of the Determinants of Inflation. Journal of Economics, Business and Management, 3(7), 678–682. <https://doi.org/10.7763/JOEBM.2015.V3.265>
- Moser, G. G. (1995). The main determinants of inflation in Nigeria. IMF Staff Papers, 42(2), 270.
- Nyu, S. S. (2004). What Determines Long-Run Macroeconomic Stability ? Democratic Institutions December 2004 Abstract.
- Of, a N. K. (2009). C Entral B Ank of B Elize O October 2009. October, 1–58.
- Patra, S. (n.d.). INFLATION IN SOUTH ASIA AND IT ‘ S, 3(3), 10–15.
- Perera, A., Ralston, D., & Wickramanayake, J. (2013). Central bank financial strength and inflation: Is there a robust link? Journal of Financial Stability, 9(3), 399–414.  
<https://doi.org/10.1016/j.jfs.2013.06.005>
- Pproach, B. O. T. E. A. (2015). THE RELATIONSHIP BETWEEN CENTRAL BANK INDEPENDENCE, F FINANCIAL

FREEDOM, AND ECONOMIC GROWTH : A PANEL ARDL,  
15(September), 1–14.

- Price Stability : Introduction Author ( s ): William T. Gavin Source : Journal of Money, Credit and Banking, Vol. 23, No . 3, Part 2 : Price Stability ( Aug ., Published by Ohio State University Press Stable URL : <http://www.jstor.org/stable/19926>. (2016), 23(3), 433–438.
- Ratnasiri, H. (2009). The Main Determinants of Inflation in Sri Lanka: A VAR based Analysis. Staff Studies. <https://doi.org/10.4038/ss.v39i1.3151>
- Rbi. (2013). Reserve Bank of India Annual Report 2012-13, 53(2), 1–201. Retrieved from <http://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/01FLAR22082013.pdf>
- Sims, C. A. (n.d.). Fiscal aspects of central bank independence, 1–13.
- Stability, M., Zhu, F., Humphrey, T., Goodfriend, M., Rotemberg, J., Svensson, L., & Wol-, A. (2004). Central Bank Balance Sheet Concerns, Monetary and Fiscal Rules, and, (0).
- Stella, P. (n.d.-a). Central Bank Financial Strength, Policy Constraints and Inflation.
- Stella, P. (n.d.-b). Central Bank Financial Strength and Policy Performance: An Econometric Evaluation.
- Stella, P. (n.d.-c). Issues in Central Bank Finance and Independence.
- Stella, P. (n.d.-d). The Federal Reserve System Balance Sheet : What Happened and Why it Matters.
- Stella, P. (2010). Minimising monetary policy, (330).
- Stella, P. (2016). Central Bank Financial Strength, Transparency, and Policy Credibility Author ( s ): Peter Stella Published by Palgrave Macmillan Journals on behalf of the International Monetary Fund Stable URL : <http://www.jstor.org/stable/30035902> Central Bank Finan, 52(2), 335–365.
- Svensson, L. E. O. (2007). Credible Commitment to Optimal Escape from a Liquidity Trap : The Role of the Balance Sheet of an Independent Central Bank, 97, 474–490.
- Swiston, A., Frantischek, F., Gajdeczka, P., & Herman, A. (n.d.). Central Bank Financial Strength in Central America and the Dominican Republic.
- The International Bank for Reconstruction and Development / The World Bank. (2005). Macroeconomic stability: the More the Better? Economic Growth in the 1990s: Learning from a Decade of Reform, 95–120. Retrieved from <http://www1.worldbank.org/prem/lessons1990s/>

## **Disclosure Practices of Intellectual Capital in Sri Lankan Context**

Larojan, C.<sup>a</sup>; Fernando, A J<sup>b</sup>

<sup>a</sup>Department of Finance and Accountancy, Vavuniya Campus <sup>b</sup>Department of Accounting, University of Sri Jayewardenepura *lrojan@vau.jfn.ac.lk ; p.anil.jayantha@gmail.com*

### ***Abstract***

In the today's Knowledge-Based Economy (KBE), Intellectual Capital (IC) is considered as a strategic asset which determines the value of the company. Different practices of disclosing the IC information in annual reports do not result in the real value of the financial position of the company, is the main problem in Sri Lankan companies. The objectives of this study are to examine the nature of disclosing the IC information based on the content analysis of annual reports and to reveal the significant findings of past Sri Lankan Intellectual Capital Disclosure (ICD) research studies. Most of the Sri Lankan listed companies are now being disclosed ICD in the text, sentences, pictures, tables and graphs with the core discipline of Global Reporting Initiative [GRI] guidelines in their annual reports. The study offers an insight into the corporate and business level managers, policy makers and potential investors.

### **Keywords:**

global reporting initiative [GRI] guidelines, intellectual capital (IC), intellectual capital disclosure (ICD) and knowledge-based Economy (KBE)

### **Introduction**

At present, the world economy is transiting from an industrial economy to a Knowledge-Based Economy (KBE) in order to enhance the wealth creation (Abhayawansa 2013). As per this transition, to be sustaining the competitive advantage, the economy has to depend on the knowledge-based capital so called the Intellectual Capital (IC), such as knowledge workers, employee-related measurements, patents, trademarks, organizational systems and business strategies (Rashid 2010).

As far as stakeholders of the companies are concerned, the annual report is one of the primary methods used to communicate the companies' response

to stakeholder concerns. It is the right of all stakeholders to obtain all the information about the company, including IC information. Sri Lanka Accounting Standard for intangible assets - LKAS 38 sets out the accounting treatment, recognition and measurement of intangible assets of the companies' financial statements. As per this Standard, the term intangible assets are defined as an identifiable non-monetary asset that is not physical and owned to be used in generating or handling over goods and services.

The LKAS 38 (para. 68) describes the recognition of an expense of Intangible Assets as:

[e]xpenditure on an intangible item shall be recognized as an expense when it is incurred unless: it forms part of the cost of an intangible asset that meets the recognition criteria or the item is acquired in a business combination and cannot be recognized as an intangible asset.

If this is the case, it forms part of the amount recognized as goodwill at the acquisition date in a Business Combination as per SLFRS 3 (LKAS 38, para. 68). As Brännström and Giuliani (2009, p. 22) suggest, 'IFRS 3 can be seen for the financial accounting issue as a possibility to disentangle the black-box of purchased goodwill and to adhere to some of the critique emanating from the IC debate'. The IAS and LKAS do not have the criteria for the firms to disclose their IC. Most of these information lies outside of the financial statements. As a result, stakeholders are not receiving the full picture of a company's value from the financial statements alone.

Intangible assets are complicated to be recognized in companies' statement of financial position under the current accounting and reporting framework. Therefore, companies tend to report these resources voluntarily in their annual reports (or on websites) (Yi & Davey 2010). As far as IC is concerned, the disclosures of IC are generally related to those in the guidelines of G3.1 or G4 as per Global Reporting Initiative (GRI) (Senaratne, Ajward & Liyanapathirana 2015). These guidelines are generally considered as representing current best practice reporting on sustainability.

## **Problem identification**

As per the annual report of Board of Investment [BOI] of Sri Lanka (2000) and the Intellectual Property Act 1979 and No. 40, 2000, Sri Lanka is now moving towards a KBE. Still, there is no legislative guideline provided for ICD in Sri Lanka (Kehelwalatenna & Gunaratne 2010).

It is often argued that firms' spending on their employees is recognized as an expense in the statement of comprehensive income in the current financial accounting and reporting. Various accounting researchers are debating this accounting treatment by arguing employees are claimed as the real value creators of IC in firms (Vithana 2014).

In Sri Lanka, companies are investing considerable amounts in training its employees. These substantial investments to train and retrain quality staff are not reflected in the statement of financial position of these companies in various industries. It is also due to strict recognition criteria for IAs that do not allow human capital to be shown as an asset in the statement of financial position (Abeysekera & Guthrie 2005, Agne & Maria 2014, Abhayawansa & Guthrie 2014). Jayasooriya, Gunawardana and Weerakoon Banda (2015) state that

'[t]he different practices of disclosing the IC in annual reports do not result in the real financial position of the firm, is a key problem in Sri Lankan business organizations.'

### **Research question**

In order to address the problem identification, the following research question needs to be answered.  
How public listed companies disclose IC information in annual reports?

### **Objectives of the study**

Based on the literature review, this paper sets out to achieve the following objectives:

- to examine the nature of disclosing the IC information based on the companies' annual reports
- to reveal the significant findings of past Sri Lankan ICD research studies.

This research contributes to limited research in the context of Sri Lanka since past research repeatedly concerning on developed economies. The remainder of this paper is structured as follows. First, the literature on ICD is reviewed. Next, research methods are detailed. The following section discussed the findings of the study. Finally, conclusions are given.

### **Review of literature**

#### **The relationship between IC and Integrated Reporting (IR)**

From the stand of literature, it has been acknowledged that capital market actors consider IC information is essential and useful for making an investment, stock recommendation and portfolio selection decisions

(Abhayawansa & Guthrie 2010). Previous studies state that companies typically disclose little information of IC, and express that companies' reports contain ICD of poor quality (Guthrie & Petty 2000) that were inadequate to satisfy the stakeholders' needs (Guthrie & Petty 2000, Abhayawansa & Guthrie 2010).

Some initiatives have been developed in the most recent years to improve current reporting on IC, though, none of them stresses the importance to provide IC in an integrated way with financial information. A prominent exception is an effort initiated by the International Integrated Reporting Council (IIRC)<sup>1</sup> In developing its framework (Abhayawansa 2013). The IIRC aims at overcoming the limitations of annual reporting and sustainability reporting to enable companies to the real picture of value creation with a core emphasis on IC. On the contrary with other forms of corporate IC Reporting (ICR), the prime objective of IR is to supplement information embedded in conventional financial statements with IC information to shed light on the value creation processes by the companies (Dumay & Cai 2014). According to Abhayawansa (2013), the ICR frameworks were driven by an assumed demand for IC information from capital market actors. Thus, they were designed to address the information needs of users of corporate information that were not met by traditional financial statements.

The International Integrated Reporting Framework (IIRF) (2013) defines, IR as 'a clear and concise representation of how a company creates value over time aiming to provide insights about the resources and relationships used and affected by a company.' The IIRF categorizes six types of capital, such as financial, manufactured, intellectual, human, social and relationship and natural. The IIRF covers three categories of IC in terms of structural capital, relational capital and human capital. IIRC (2013, p. 4) clearly states that when these types of capital were material to the company's ability to create value for itself, they should be included in the IR.

---

<sup>1</sup>The IR framework was issued by IIRC to explain the fundamental concepts, principles and content requirements underlying an IR which is considered as a new evolution of corporate reporting. In 2011, IIRC published IR discussion titled 'Towards Integrated Reporting: Communicating Value in the 21<sup>st</sup> Century' and IIRC Pilot Programme for IR is launched. In 2012, the development of the framework draft was released. In 2013, a Consultation Draft of the Framework was released.



## **Definitions and elements of IC**

The term intangible asset is used in accounting literature, knowledge asset is used in the economics literature, and the term IC seems to have originated from human resource literature (Lev 2001). According to the available literature on IC, some different definitions of IC can be seen. For example, Sveiby's definition of IC in 1997b refers that it consists of invisible assets of a company, which include: internal structure, external structure, and employee competence. Sullivan's definition in 1999 (cited in Yi 2012, p. 20) refers that IC is the knowledge that can be converted into profits. It consists of two elements: human capital and intellectual assets. Similarly, Sharma et al. in 2007 (cited in Yi 2012, p. 20) IC refers to the knowledge, skills, and technologies applied to create a competitive edge for a company. According to Sveiby (1997b), employee competence represents the employees' capacity to act in different situations, the internal structure represents everything created by employees that is generally owned by the company, and external structure represents a company's relationship with external parties like customers and suppliers.

Few significant studies on IC have adopted Sveiby's three categorizations of employee, internal, and external capital, with different ways of interpreting each of the categories (Choong 2008). With reference to Guthrie and Petty (2000), IC was one of the most prominent that has adopted Sveiby's framework. However, Guthrie and Petty (2000) modify Sveiby's framework from a structure based IC into capital based IC, which means all IC items were classified into three groups of capital, namely internal capital (instead of internal structure), external capital (instead of external structure), and human capital (instead of employee competence). This framework was then adopted by more recent IC studies like Guthrie, Petty, and Ricceri (2006), Abeysekera (2007) and Yi and Davey (2010). Choong (2008) stated that IC could be described as the difference between a company's market value and its book value. The gap between market value and book value has been studied by various researchers as the hidden value that was ignored by conventional financial reporting (for example, Guthrie & Petty 2000, Abeysekera & Guthrie 2005, Yi 2012). Market value is calculated based on an estimation of what the buyer would pay to a seller for any piece of property, while book value is the shareholders' equity shown in the statement of financial position, which is a reflection of the company's assets, less liabilities (Cheng et al. 2008).

It has been argued, though, that if IC was considered to be the unaccounted capital that influences companies' market values, then if a company's market share decreases, the company's IC should reduce (Abeysekera 2008b). It describes that IC does not essentially increase a company's value, whereas any company's asset was expected to bring future economic benefits to the company. Consequently, it could be arguable whether or not

to include the term value creation in the definition of IC, as it does not meet the definition of IC value creation as provided (Mouritsen, Larsen & Bukh 2001).

In an accounting perspective, as per the standard of LKAS 38, it can be considered as the components of IC, there are ongoing debates, with the aim of arriving at the exact definition for IC. As it is difficult to come up with an exact definition on IC, which everyone will agree, the literature on the categorization of IC. Mention and Bontis (2013) classified knowledge, skills, experiences, and abilities of the members of a company as human capital. The infrastructure that encourages the human resource to create and leverage its knowledge is as structural capital. It has the ability of a company to interact with a wide range of external stakeholders (such as customers, suppliers, competitors, trade and industry associations) as well as the knowledge embedded in these relationships as relational capital.

As far as the ICD is concerned, from the available literature, internal capital disclosure refers to the disclosure of knowledge embedded in organizational structures and processes, and included patents, research and development, and systems in the companies' annual reports. External capital disclosure refers to the disclosure of knowledge embedded in the organizational relationship with customers, suppliers, stakeholders, and strategic alliance partners in the companies' annual reports. Human capital disclosure refers to the disclosure of knowledge employees take with upon leaving a company, such as knowledge, skills, experiences, abilities, motivation, and tasks in the companies' annual reports (Abeysekera & Guthrie 2005, Abeysekera 2007, Malwara Arachchi & Kehelwalatenna 2011). The literature focusing on elements of IC has been in the increasing trend (Abeysekera & Guthrie 2005, Abeysekera 2007, Yi & Davey 2010, Malwara Arachchi & Kehelwalatenna 2011). Unfortunately, the literature was yet to develop a universally accepted definition of IC (Choong 2008) or even its elements (Husin, Hooper & Olesen 2012).

Recently, Jayasooriya, Gunawardana and Weerakoon Banda (2015) analyzed the current practices of IC among listed companies on CSE over the period of three years from 2012 to 2014 based on the content analysis of 270 annual reports of 30 companies. Sample companies were selected based on a stratified random sampling method. The authors found that in terms of HCD, most of the companies have not touched the HC information in their annual reports. Only the salaries and provision for gratuity were taken into account. Bank, finance, and insurance sector companies and the plantation sector companies disclosed the HC information in their annual reports. Out of the sample companies, only 22 companies reported the HC information. In terms of organizational capital, they found that most of the companies disclosed the information concerning the organizational system under the

sections of management discussion and analysis and organizational risk management. Bank, finance, and insurance sector companies and the diversified holdings companies have reported the information about their organizational capital. Out of the sample companies, only 12 companies reported the organizational capital. In terms of social capital, they found that the companies have discussed customer details, goodwill of the company and other variables. Out of the sample companies, only 13 companies reported the social capital.

### **Status of the Disclosure of IC information in the companies' annual reports in Sri Lanka**

Sampath Bank PLC disclosed employee related measurements as:

‘Profit per employee LKR 1.2 million, employee retention 97% in 2014’ (Sampath Bank PLC 2014, p. 34).

Dialog Axiata PLC 2014 disclosed employee welfare as:

‘The BOD of the bank at its meeting held on February 23, 2015, approved a proposal to introduce an ESOP for the benefit of all Executive Officers in grade 1 A and above. It happened by creating up to 2% of the ordinary voting shares at the rates specified in the proposed ESOP in 2016, 2017, 2018, upon the bank achieving specified performance target set for the years 2015, 2016 and 2017 respectively in the proposed ESOP. P.405 88,649,900 options were granted in June 2005 under Tranche 0 to eligible employees at Rs.12 each. Up to 25 October 2014, out of the total number of share options granted under Tranche 0, a total of 51,330,499 options had been exercised, and a total of 11,562,301 options had been forfeited. The employees exercised 226,800 options during the financial year’ (Dialog Axiata PLC 2014, p. 110).

Union Assurance PLC disclosed training and development as:

‘Investment in training and development LKR million 49’ (Union Assurance PLC, 2014, p. 9).

Hatton National Bank PLC reported its systems in detail in the following manner.

‘Over the past few years, the Bank has recognized technology as the key driver in implementing some of its strategies, and accordingly, has invested over LKR 1 billion to upgrade the Bank's IT platforms’ (Hatton National Bank PLC 2014, p. 39).

Cargills (Ceylon) PLC disclosed customers and their relationship in the following manner:

‘This customer-centric focus has been further strengthened through the Cargills Member Loyalty programme which reached over

340000 customers. In the year ahead the Cargills Member Loyalty card will play an important part in providing a differentiated, personalized offering which is relevant and tailored to individual customers and their lifestyles' (Cargills (Ceylon) PLC 2014, p. 26).

Sampath Bank PLC disclosed employee related measurements as:

‘Profit per employee LKR 1.2 million, employee retention 97% in 2014’ (Sampath Bank PLC 2014, p. 34).

Nestle Lanka PLC disclosed employee relations as:

‘One of our greatest assets is our employees. It is critical to our success to attract, retain, develop and motivate the best people with the right capabilities at all levels of operations. We review our employee policies regularly and are committed to investing in training and development. We also carry out succession planning to ensure that the future needs of the business are considered and provided. There are clear processes for understanding and responding to employees' needs through Human Resource initiatives, staff surveys and regular communication of business developments’ (Nestle Lanka PLC 2014, p. 22).

## **Methodology**

IC information in terms of internal capital disclosure, external capital disclosure, and human capital disclosure was adopted as an instrument to examine the nature of ICD information by Sri Lankan listed companies. This study is employed in the content analysis of the annual reports as a qualitative research method. Companies with higher market capitalization are most likely to disclose IC information from 2011 onwards incorporating G3.1 guidelines. For instance, Union Assurance PLC has been preparing its annual reports in accordance with Integrated Reporting (IR) and GRI guidelines since 2011. Three years’ annual reports from 2013 to 2015 of the top 30 companies in terms of highest market capitalization as of 10<sup>th</sup> of June 2015 were screened in terms of words, sentences, pictures, tables, and graphs. For this study, a list of ICD items has been developed by Malawara Arachchi, and the authors modified Kehelwatenna in 2011 and used in this study. This list was classified under the category of internal capital disclosure, external capital disclosure, and human capital disclosure to analyze the nature of ICD through content analysis of the annual reports of companies.

## **Discussions**

Content analysis of companies' annual reports was almost invariably used to measure the level of ICD. Content analysis involves codifying qualitative

and quantified information into predefined categories in order to derive patterns in the presentation and reporting of information (Guthrie & Petty 2000, p. 244). An interesting point to note from the usage of content analysis is that only very few studies (Vandemaele, Vergauwen & Smith 2005) have included the graphical information in their study. All of the other studies failed to include the images (for example, Schneider & Samkin 2008, Yi & Davey 2010). Guthrie et al. (2004) argued that applying content analysis to visual images possesses its challenge, possibly more significant than when analyzing numbers.

Most of the companies are preparing their annual reports in the following headings, such as group highlights, governance, sustainability integration, and risk management, management discussion and analysis, financial statements and supplementary information. These sections generally cover the IC related information in terms of quantitative and qualitative as well.

In the context of Sri Lankan companies, in terms of ICD, there are limited numbers of research studies have been undertaken. When comparing with the previous Sri Lankan studies (for example, Abeysekara & Guthrie 2005, Abeysekara 2007, 2008, 2011a, 2011b, 2014, Kehelwalatenna & Gunaratne 2010, Jayasooriya, Malwara Arachchi & Kehelwalatenna 2011, Gunawardana and Weerakoon Banda 2015), it is acknowledged that findings of these studies provide some insights related with IC and ICD in the context of Sri Lanka. Abeysekara, who is a pioneer in the accounting research of IC and ICD in Sri Lanka, used the old dataset. There were some practical problems to use findings from these studies to generalize the ICD practices of listed companies on CSE in the current scenario. Given the weaknesses above, more comprehensive accounting research into ICD practices in listed companies on CSE is essential.

Abeysekera (2007, p. 66), highlights the differing results obtained by using a frequency count and a line count in the same annual reports of the sample companies of his study that based on a frequency count, ECD had most reported category while based on line count, HCD had a most reported category. Further, he states that the danger here is that choosing one unit over another may result in different interpretations. Malawaraarachchi and Kehelwalatenna (2014) found that IC of Commercial Bank of Ceylon PLC revealed that the component of InCD reported a higher level than HCD and ECD. It has been determined by the reporting of processes, philosophy systems, new products, and financial relations of the company. The component of HC, employee-related measurements, entrepreneurial skills and employee relations come out averagely in the annual report. Abeysekera and Guthrie (2005) found that the most frequently disclosed category was ECD, and brands and corporate image were the items of ECD. Interestingly, they found an increase in the frequency of ICD over the two-year period that they investigated. Most of the companies were qualitatively

disclosed the items of internal, external and human capitals in their annual reports.

By analyzing the three-year annual reports from 2011 to 2013, Jayasooriya, Gunawardana and Weerakoon Banda (2015) found that among the 90 companies listed on CSE, 25% of companies reported HCD. Bank, finance, and insurance sector companies and the plantation sector companies disclosed the HC information. 13% of companies reported organizational capital. Bank, finance, and insurance sector companies and the diversified holdings companies have reported the information about their organizational capital. 15% of companies reported social capital. Plantation sector and diversified holdings have reported the information about their social capital.

It was found in this study that some companies were very reluctant to disclose some elements of IC in their annual reports, such as trademark, number of employees, employee equity issues, training and development, employee relation and entrepreneurial skills. Firstly, some companies might consider that the preparation of IC information would be a cost for them and consequently they would not like to disclose these elements of IC information. Also, some disclosure items of IC such as intellectual property, and the disclosure of them might be speedily imitated by competitors. It will impair the company's interests. Therefore, it is not likely for some companies to disclose on such items (Abeysekara 2007 & 2011b, Yi & Davey 2010, Yi 2012). Moreover, the dominant role of the conventional financial reporting and the lack of generally accepted ICD frameworks might also be factors discouraging some companies from disclosing the IC information in their annual reports (Abeysekara 2007, 2011a & 2011b, Malwara Arachchi & Kehelwalatenna 2011, Yi & Davey 2010).

## **Conclusions**

Investments on staff are not reflected in the statement of financial position of the companies in various industries due to strict recognition criteria for Intangible Assets that do not allow human capital to be shown as an asset. Different practices of disclosing the IC information in annual reports do not result in the real value of the financial position of the company, is a central problem in Sri Lankan companies. Present KBE, IC has been regarded as a critical value driver for companies in achieving and sustaining a competitive edge. Because of the importance of IC, many companies, especially those publicly listed companies, have attempted to report their IC in their annual reports in order to signal their superior quality to the market as well as attract potential investors. In this study, the authors conducted a comprehensive literature review concerning ICD, especially in Sri Lanka. The findings show that there was a generally increasing trend of ICD in the

Sri Lankan listed companies. Most of the Sri Lankan listed companies are now being disclosed the IC information in their annual reports in terms of words, sentences, pictures, tables and graphs with the core discipline of GRI4 guidelines. Most of the companies were qualitatively disclosed the items of internal, external and human capitals in their annual reports. As compared from 2013 to 2015, there was generally an upward trend of the disclosure of IC items of the sample companies.

## References

- Abeysekera, I 2007, 'Intellectual capital reporting between a developing and developed nation,' *Journal of Intellectual Capital*, vol. 8, no. 2, pp. 329-345, (<http://dx.doi.org/10.1108/14691930710742871>).
- Abeysekera, I 2008, 'Intellectual capital disclosure trends: Singapore and Sri Lanka', *Journal of Intellectual capital*, vol. 9, no. 4, pp. 723-737, (<http://dx.doi.org/10.1108/14691930810913249>).
- Abeysekera, I 2011a, 'The relation of intellectual capital disclosure strategies and market value in two political settings,' *Journal of Intellectual Capital*, vol. 12, pp. 319-338, viewed 11 February 2015, <http://www.ro.uow.edu.au/commpapers/784>.
- Abeysekera, I 2011b, 'Civil war, stock return, and intellectual capital disclosure in Sri Lanka', *Advances in Accounting*, vol. 27, no. 2, pp. 331-337, viewed 11 February 2015, <http://www.ro.uow.edu.au/commpapers/1551>.
- Abeysekera, I 2014, 'Signaling external capital disclosure in annual reports, corporate governance, and control,' *Faculty of Business – Papers*, University of Wollongong vol. 11, no. 4, pp. 193-202, <http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1496&context=buspapers>.
- Abeysekera, I & Guthrie, J 2005, 'An empirical investigation of annual reporting trends of intellectual capital in Sri Lanka,' *Critical Perspectives on Accounting*, vol. 16, no. 3, pp. 151-163, ([http://dx.doi.org/10.1016/S1045-2354\(03\)00059-5](http://dx.doi.org/10.1016/S1045-2354(03)00059-5)).
- Abhayawansa, SA 2013, 'A review of guidelines and frameworks on external reporting of intellectual capital,' *Journal of Intellectual Capital*, vol. 15, no. 1, pp. 100-141, (<http://dx.doi.org/10.1108/JIC-04-2013-0046>).
- Abhayawansa, SA & Guthrie, J 2010, 'Intellectual capital and the capital market: a review and synthesis,' *Journal of Human Resources Costing and Accounting*, vol. 14, no. 3, pp.196-226, (<http://dx.doi.org/10.1108/14013381011095472>).
- Abhayawansa, SA & Guthrie, J 2014, 'Importance of intellectual capital information: a study of Australian analyst reports,' *Australian Accounting Review*, vol. 24, no. 1, pp. 66-83, (<http://dx.doi.org/10.1111/auar.12012>).
- Agne, R & Maria RL 2014, 'Disclosure on intellectual capital in annual reports of NASDAQ OMX Baltic-listed companies', *Ekonomika*,

- vol. 93, no. 5, pp. 135-156. Viewed 12 March 2015, <http://www.vu.lt/leidyba/dokumentai/zurnalai/EKONOMIKA/Ekonomika%202014%2093%204/135-156.pdf>.
- Brännström, D & Giuliani, M 2009, 'Accounting for intellectual capital: a comparative analysis', *VINE*, vol. 39, no. 1, pp. 20-79, (<http://dx.doi.org/10.1108/03055720910962452>).
- Cheng, MY, Lin, JY, Hsiao, TY & Lin, TW 2008, 'Invested resource, competitive intellectual capital, and corporate performance,' *Journal of Intellectual Capital*, vol. 11, pp. 433-450, (<http://dx.doi.org/10.1108/14691931011085623>).
- Choong, KK 2008, 'Intellectual capital: definitions, categorization and reporting models,' *Journal of Intellectual Capital*, vol. 9, no. 4, pp. 609-638, (<http://dx.doi.org/10.1108/14691930810913186>).
- Dumay, J & Cai, L 2015, 'Using content analysis as a research methodology for investigating intellectual capital disclosure', *Journal of Intellectual Capital*, vol. 16, no. 1, pp. 121-155, (<http://dx.doi.org/10.1108/JIC-04-2014-0043>).
- Husin, NM, Hooper, K & Olesen, K 2012, 'Analysis of intellectual capital disclosure: an illustrative example,' *Journal of Intellectual Capital*, vol. 13, no. 2, pp. 196-220, (<http://dx.doi.org/10.1108/14691931211225030>).
- Guthrie, J & Petty, R 2000, 'Intellectual capital: Australian annual reporting practices,' *Journal of Intellectual Capital*, vol. 1, no. 3, pp. 241-251, (<http://dx.doi.org/10.1108/14691930010350800>).
- Guthrie, J, Petty, R & Ricceri, F 2006, 'The voluntary reporting of intellectual capital: comparing evidence from Hong Kong and Australia', *Journal of Intellectual Capital*, vol. 7, no. 2, pp. 254-271, (<http://dx.doi.org/10.1108/14691930610661890>).
- Jayasooriya, SD, Gunawardana, KD & Weerakoon Banda, YK 2015, 'Analysis of intellectual capital disclosure practices of the annual reports of listed companies in Sri Lanka,' *Proceedings of 12th International Conference on Business Management*, 7 & 8 December 2015, Colombo, Sri Lanka, viewed 3 January 2016, <http://ssrn.com/link/12th-ICBM-2015.html>.
- Kehelwalatenna, S & Gunaratne, PSM 2010, 'The impact of intellectual capital on the firm performance and investor response: an empirical study of selected sectors in Colombo Stock Exchange,' *Proceedings of the 1st International Conference on Business and Information*, University of Kelaniya, (<http://www.kln.ac.lk/uokr/ICBI%202010.pdf>).
- Lev, B 2001, 'Intangibles: management, measurement, and reporting,' Washington DC: Brookings Institution press, viewed 24 April 2015, [http://www.sbr-online.de/pdfarchive/einzelne\\_pdf/sbr\\_2001\\_oct-351-352.pdf](http://www.sbr-online.de/pdfarchive/einzelne_pdf/sbr_2001_oct-351-352.pdf).
- Malwara Arachchi, IU & Kehelwalatenna, KGSJ 2011, 'Intellectual capital reporting: evidence from the banking industry in Sri Lanka',



- International Research Conference on Management and Finance*, University of Colombo, pp. 92-98, viewed 5 March 2015, <http://archive.cmb.ac.lk/research/handle/70130/1624>.
- Mention, A.L & Bontis, N 2013, 'Intellectual capital and performance within the banking sector of Luxembourg and Belgium,' *Journal of Intellectual Capital*, vol. 14, no. 2, pp. 286-309, (<http://dx.doi.org/10.1108/14691931311323896>).
- Mouritsen, J, Larsen, HT & Bukh PN 2001, 'Valuing the future: intellectual capital supplements at Skandia', *Accounting, Auditing, and Accountability Journal*, vol. 14, no. 4, pp. 399-422, (<http://dx.doi.org/10.1108/09513570110403434>).
- Rashid, A 2010, 'Corporate intellectual capital disclosure in a non-mandatory disclosure regime,' *Sixth Asia Pacific Interdisciplinary Research Accounting Conference*, July 2010, Sidney, Australia, viewed 7 March 2015, [http://apira2010.econ.usyd.edu.au/conference\\_proce...](http://apira2010.econ.usyd.edu.au/conference_proce...)
- Senaratne, DSNP, Ajward, AR & Liyanapathirana, NS 2015, Advanced Accounting Theory, Department of Accounting, University of Sri Jayewardenepura, Sri Lanka.
- Sveiby, KE 1997, 'Intangible assets monitor,' *Journal of Human Resources Costing and Accounting*, vol. 2, no. 1, pp. 73-97, (<http://dx.doi.org/10.1108/eb029036>).
- Vithana, VKG 2014, 'Reporting recognition of firms' human capital investment: an empirical investigation of firms in the FTSE 100 listing of the London Stock Exchange, *Ph.D. thesis*, Durham University, viewed 3 March 2015, <http://etheses.dur.ac.uk/10880/>.
- Yi, A 2012, 'Voluntary disclosure of intellectual capital in Chinese (mainland) companies, Ph.D. Thesis, University of Waikato, viewed 30 November 2014, <http://hdl.handle.net/10289/6581>.
- Yi, A & Davey, H 2010, 'Intellectual capital disclosure in Chinese (mainland) companies', *Journal of Intellectual Capital*, vol. 11, no. 3, pp. 326-347, (<http://dx.doi.org/10.1108/14691931011064572>).

# **Influence of Credit Rationing on Child Labour in Poor Household in Sri Lanka**

## **(Special Reference to Hulandawa Estate in Matara District)**

Priyadharsan, S.; Channa, A.M.

Department of Business and Management Studies, Trincomalee Campus  
*ssubathini@yahoo.com.au, channamadura24@gmail.com*

### ***Abstract***

Children's participation in the labor force is endlessly varied and infinitely volatile, responding to changing market and social conditions. Credit rationing and child labor which are common to the poor community, this study is conducted influence of credit rationing on child labor in poor Household in Sri Lanka in case of the laborer community in Hulandawa estate. Objectives of the study are to identify the factors influencing the credit rationing, to identify the factors influencing the financial difficulties in Hulandawa Estate and to provide the suggestions to reduce the child labor working in Hulandawa Estate. Fifty households selected as the convenient sampling method. Independent variables are the attitude of parents, student education and the influence of the credit market and the dependent variable is the impact of child labor. Based on the descriptive analysis results revealed that all the variables moderately support the system. People access to credit via both formal and informal financial market. The rural bank is the formal lender in the estate while, the informal sector refers to the non-institutional or unorganized financial sources, which consists mainly of moneylenders, traders, pawnbrokers, and landlords. The survey results revealed that financial difficulties are the main reason for not attending school. Normally, female children engage in state work especially picking tea leaves and male children engage in work collecting Katupol.

***Key Words:*** child labour, credit market, poverty

### **Introduction**

Sri Lanka's life expectancy and literacy rate are nearly on par with those of developed countries, and even top the rankings for the South Asian region. The data released by the Department of Census and Statics (DCS) for 2012/13 indicated that the poverty headcount ratio (6.7%) which is the percent of population earning below US \$1.25 a day (PPP) in Sri Lanka declined from a 14% in 2002 to a 7% in 2007 and increased 8.9% in 2009/10 and decreased 6.7% to 2012/13 in all the sectors such as urban,

rural and estate. Among those sectors, a higher poverty headcount ratio can be observed in the estate population.

## **Literature Review**

According to the author Cader, 2009 studied an overview of child poverty issues in Sri Lanka within varied themes. Poverty makes children vulnerable to entering the labor force and the informal nature of the work that children engage in making it easier for them to be exploited. Child laborers suffer multiple deprivations; they are overworked, have little leisure, are denied education, suffered by bad working conditions, subjected to cruel treatment by employers and sexual harassment and underpaid.

Both poverty constraints and income opportunities play important roles in the decision to send children to school or to work (Cockburn, 2001). Cockburn finds that work and school conflict largely but not entirely. Expected returns to schooling are greater than to child work. Income may also encourage schooling and reduce child work by reducing household credit constraints. Moreover, returns to schooling may also increase with household income, through social capital or other employment advantages (Cockburn, 2001). Level of education and unemployment of Parents is the most important factors in determining children's education (Bastos and Machado). According to their study, children whose parents have low levels of education and children whose parents are both unemployed can be affected by their educational level also.

Poverty has been identified as a situation with a potential to create a child labor problem in the country (Rena, 2009). Wherever poverty exists, child labor there prevails and it is one of the most striking issues in the developing countries. It can be defined as an activity with a negative impact on the child (Rena, 2009). Rena said child labor limits the growth of human resources and it is common in households where poverty is inherited from one generation to another. It does not only reduce the individual's education achievements but also reduces the effect and quality of the education system and child labor has redistribution effects on the labor market (Rena, 2009). According to Rena, parents should be aware of the importance of child education and the negative effects of child labor and that they send their children to work for the survival of their families and their children.

Most of these working children help their families at home, on family farms or in family businesses (Edmonds, 2007). This works depend on age, household size, number of siblings and in general, poverty (Ilahi, 2001). According to Ilahi the costs of schooling can influence not just the demand for children's education, but also the time children allocate to housework and outside labor. This study has shown that consumption poverty is the

main cause of child work and that when the inability of the labor market to provide jobs when the child labor needs emerge in the household, land availability generates the work opportunities. Sickness and disease of adults also cause child labor (Ilahi, 2001).

Credit is an essential instrument for improving the welfare of the poor directly and for enhancing productive capacity through financing investment by the poor in their human and physical capital (Okurut et al., 2004; Ghosh et al., 1999). According to Okurut et al. (2004) as a result of constrained access to formal credit, the poor rely almost exclusively on the informal financial sector. Although households apply for credit lenders determine how much credit is allocated to them, based on their perception of the household's creditworthiness. This often results in credit rationing that occurs when loan demand exceeds supply, and some borrowers receive no loans or less than the amount applied for at the prevailing market interest rates (Okurut et al., 2004). Under credit rationing situation where the poor community is unable to find a way to escape from their financial difficulties, a tendency of using the child labor can be expected (Jafarey, S., & Lahiri, S. 2002)

People access to credit via both formal and informal financial market. Commercial banks and other formal financial institutions constitute the formal lenders in Sri Lanka while, the informal sector refers to the non-institutional or unorganized financial sources, which consist mainly of friends and relatives, moneylenders, traders, pawnbrokers, and landlords. Access to the formal financial sector is restricted to a small proportion of the population who can meet their stringent requirements, which include high minimum balances for account opening collateral requirements for loans, and long and costly bureaucratic processes.

Failure of the formal financial sector to serve the poor has forced them to rely on informal finance, as is often the case in developing countries (Okurut et al., 2004). Informal lenders innovatively seek to solve the problems of high risk, high cost and low returns that banks face when serving the poor, e.g. by locating close to their clients, and by speedier loan approvals.

The expected return on the borrower's proposed investment project plays a key role in influencing the lender's credit rationing behavior. If the expected return is less than the principal loan amount plus interest, then the probability of default will be high. In such a situation, the lender's decision will be either to ration the borrower by granting a smaller amount than originally applied for or to completely reject the loan application. In this kind of situation where the poor community is unable to find a way to escape from their poorness, a tendency of using the child labor can be expected. Households do not have access to capital markets, might be

resource constrained and tend to invest the human capital of their children (Guarcello et al., 2003).

Guarcello et al. (2003) studied Household Vulnerability and Child Labor: The effect of shocks, credit rationing, and insurance. Their main results indicate that credit rationing is extremely important in determining the household's decision to invest in the human capital of children. Further, they said that even if it does not directly affect children's labor supply, credit rationing appears to be a very important determinant of children's vulnerability as —idle children are particularly at risk of becoming workers and often face circumstances that are even harder than those of working children.

## **Problem Statement**

The Child Activity Survey (CAS) (2008/09) reveals that 12.9 % of the child population in Sri Lanka is engaged in some form of work like, buying and selling business, production of goods & Services, self-employment activities that could be termed economic activity. It includes children who are involved in some form of economic activity while also attending school or not. This study is conducted influence of credit rationing on child labor in poor Household in Sri Lanka in case of the laborer community in Hulandawa estate.

## **Objectives**

This study addresses the following specific objectives.

- To identify the factors influencing the credit rationing on the Hulandawa Estate in Matara District.
- To identify the factors influencing the financial difficulties on the Hulandawa Estate in Matara District.
- To provide the suggestions to reduce the child labor working in Hulandawa Estate in Matara District.

## **Research Questions**

- What are the significant causes behind the Credit Rationing on the Hulandawa Estate in Matara District?
- What are factors influence on the financial difficulties on the Hulandawa Estate in Matara District?
- What are the suggestions to reduce the child labor working in the Hulandawa Estate in Matara District?

## **Limitation of the study**

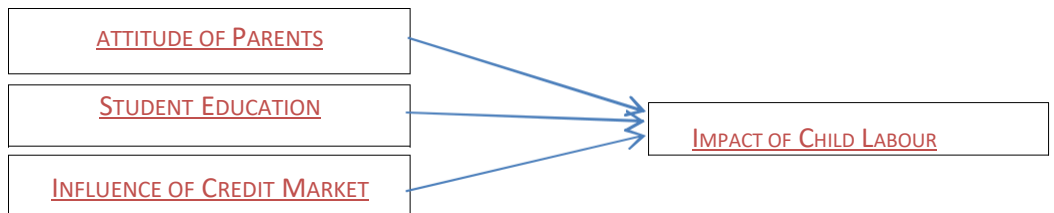
- Many factors cause child labor, only credit rationing were considered for this study.
- The sample selected for 50 households.

## Sample

Considering the populations, around 70 households living in this estate, among them 50 households selected as a convenient sampling method.

## Conceptual Frame Work

Based on the problem statement, the researcher has formulated the following conceptual framework.



Source-Literature survey

Figure-1 Conceptual Framework

## Operationalization

Table-1 Operationalization

Dimensions	Indicators	Measurement
Attitude of Parents	Family status Household's income Employment opportunities	Questionnaire
Student Education	School Attendance Level of Education Activity Status	Questionnaire
Influence of Credit Market	Formal Credit Market Informal Credit Market	Questionnaire

Source: Develop for research purpose

## Data Collection Method

This study was carried out based on the primary data, collected through a survey which was conducted in Estate of Hulandawa. Primary data would be gathered using a questionnaire with convenient sampling method. The questionnaire would be distributed among the selected sample of the estate. The sample represents laborers working in Hulandawa estate. This

method was used for collecting laborers' demographic data (age, education level, type of work, income level, etc.) and the research data explains their children school attendance, income sources, financial difficulties and credit demand too.

## Methods of Data Analysis

In this research process to analyze the collected data the researcher uses the Statistical Package for Social Science (SPSS). The data were analyzed by the univariate method, the research questions design and taking in to account the variable that was measured Likert scale rating (1-5). Indicators of five-point Likert Scale as Follows.

Strongly Disagree	1
Disagree	2
Neutral	3
Strongly Agree	4
Agree	5

## Method of data evaluation

Finally, data evaluation part is described based on following structure.

## Method of data evaluation

Decision rule describes the evaluation part of the data.

Table-2 Decision rule

Range	Decisional rule
$1 \leq X < 2.5$	Low level
$2.5 \leq X < 3.5$	Moderate Level
$3.5 \leq X \leq 5.0$	High Level

## Data Analysis

## Descriptive analysis

Table: 3 Summary of research variables

Variable	Mean	Standard Deviation
Attitude of Parents	3.00	0.35
Student Education	2.70	0.36
Influence of Credit Market	3.56	0.97

Source: Survey data

All the variables moderately support the system. Attitudes of parents,

parent's educations were limited to primary education. They earn their main income by working as laborers in the estate [picking tea leaves, cropping rubber, plucking and collecting —katupoll. Most of the households include income category Rs.10001-15000, as a percentage of 50% and 28% households include income category Rs.15001-20000. That household's children also earn a considerable amount of income from engaging economic activities while attending or not attending school and that cause to the increase in income of that households. Children are engaged in some form of economic activities because of their household's financial difficulties. Apart from their estate work, their children have used to do some other labor jobs as well. That includes working in shops, Boutiques, markets, construction site. Some of them work as cashiers in shops and boutiques.

Considering the students' education also moderately support Estimated child populations, 90% are in the 6-18 age level. Out of total child population, most of the children are not attending school based on the following reasons such as financial difficulties (70%), they are unwilling to study/ weakness in education (12%) and disability or illness (14%) as the main causes for not attending school. The Survey results disclosed that a higher proportion of children in the age group 15-18 of the Hulandawa Estate have reported "financial difficulties" (62%) as the main reason for not attending school. Because financial difficulties arise due to the low-income level of household and their income is not enough to spend their children education and also to save the life or build the well-being of the children. And some of the members of the household have ability and knowledge to engage in self-employment activities. Financial difficulties are a problem for them also. According to the survey findings, these estate children attending MR/Tamil Vidyalaya. It is the only school situated near to this estate for Tamil students. But children are not attending school regularly due to some reasons, financial difficulties, and weak in education or Illness because some of the children have the mental disability. This particular community considers the school education as invaluable and as of no use. They are thinking even spending time on the education they can earn some income from working. This statement agreed with some parents also. Parent's education also low level and they do not know the importance of the education. Along with the maturity and being the elders in a family some children tend to carry a part of the financial burden with their parents. Finding of the survey data, children have the attitude; money makes the success of life.



Influence of credit market variable moderately supports to the system. People in this community have a tendency to obtain credit when their income is not enough for their expenditure. They access to credit via both formal and informal financial market for their consumption purpose. Considering the usage of the credit market, the less amount of household used formal credit market for their credit needs. They consider it a costly and troublesome process. Collateral requirements, certification of proper income source and payment installments on time highly affect when they obtaining credit from formal credit markets. According to the survey findings, households do not receive the full amount of credit which they apply from both formal and informal credit market because of their lack of qualification to obtain the loan. They are haven't collateral to obtain a loan and also they are haven't proper income sources to certify their income, because if they engaging work only they can earn only. Due to the monetary settlement, most of the children are working for the estate. Normally female children engage in state work picking tea leaves and male children engage in work collecting "Katupoll".

## **Conclusion**

Children are the future of a nation. Skills and knowledge of them affect the economy of the country in long terms. Child labor deprives their childhood, their dignity, and that is harmful to physical and mental development. The lack of education because of child labor for children is part of what allows for the vicious cycle of poverty to continue, since in the future those children become unskilled workers (Edmonds, 2007).

Fifty laborer households were used as the sample of this research and among them either one member or work as a laborer in Hulandawa estate. All households engaged in some form of labor activities in the estate. Apart from that, in front of the financial difficulties, they try to engage in labor activities outside of the estate to earn some extra money income. Although these people have an ability to access credit market via formal market or informal market, sometimes they had totally or partially credit rationing. Majority of household in this estate used both formal and informal credit market for their credit needs. Finally, because of their difficulties, they have to limit their expenditures to escape from poverty. This situation severely impacts on their children.

## **Recommendations**

Financial market can support by providing credit facility with considering

minimum requirements and under fewer interest rates. Education is a crucial component of any effective effort to eliminate child labor.

Provide awareness programs for children on health, education, etc. Education has to be aimed at the overall development of a child. Rural areas have been the major victim of lack of educational facilities, that where most of the children are deprived of even the basic education. And coming to the urban life it is totally insane. The only way to do it is to change the education system for such children. Let them should have a separate educational system where they are given vocational training in parallel with the basic education. The training will help them earn their livelihood in the future and also education. And there must be a certain age limit after which the person/child will be allowed to carry on his/her independent work in the area in which he/she has been trained until then he/she will have to be under the inspection of the institute providing training.

According to the law in Sri Lanka, providing education up to 14 years that is the junior level of the secondary education is compulsory. Initiative to increase the age of compulsory education to 18 years (at least up to complete secondary education level). Increase the enrolment of estate children in Ordinary Level (O/L) classes and introducing Advance Level (A/L) teaching in schools and upgrading facilities to increase O/L and A/L pass rates. Implementation of social development of the laborer Community. It helps raise the living standards of the community and promote their children's education and wellbeing and create opportunities for formal employment of young adults.

## References

- Bastos, A., & Machado, C. (2009). Child poverty: a multidimensional measurement. *International Journal of Social Economics*, 36(3), 237-251.
- Beegle, K., Dehejia, R. H., & Gatti, R. (2003). Child Labor, Income shocks, and Access to Credit. *World Bank Policy Research Working Paper*.
- Cockburn, J. (2001). *Child Labour Versus Education: Poverty Constraints or Income Opportunities*.
- Department of Census and Statistics (2013). Retrieved from <http://www.statistics.gov.lk>
- Department of Census and Statistics (2012/13), *Household Income and Expenditure Survey*. Ministry of Finance and Planning.

- Edmonds, E. V. (2005). Child Labor and Schooling Responses to Anticipated Income in South Africa. *Journal of Development Economics*.
- Edmonds, E. V. (2007). Child Labor. Discussion Paper No. 2606.
- Elijah, O. A., & Okoruwa, V. (2004). Analysis of Child Labour and School attendance in Nigeria: The present and future implications.
- Farias, G., & Farias, C. (2010). Cycles of poverty and consumption: the sustainability dilemma. *An International Business Journal incorporating Journal of global competitiveness*.
- Ghatak, M., Morelli, M., & Sjöström, T. (2002). Credit Rationing, Wealth Inequality, and Allocation of Talent.
- Ghosh, P., Mookherjee, D., & Ray, D. (1999). Credit Rationing in Developing Countries: An Overview of the Theory.
- Guarcello, L., Mealli, F., & Rosati, F. C. (2003). Household Vulnerability and Child Labor: the effect of shocks, credit rationing, and insurance.
- International Labor Organization (2013). Retrieved from <http://www.ilo.org>
- Ilahi, N. (2001). Children's work and schooling: does gender matter? Evidence from the Peru LSMS. The World Bank.
- Jafarey, S., & Lahiri, S. (2002). Will trade sanctions reduce child labor?: The role of credit markets. *Journal of Development Economics*, 68(1), 137-156.
- Kannangara, N., de Silva, H., & Parndigamage, N. (2003). Sri Lanka Child Domestic Labour: A Rapid Assessment.
- Okurut, N., Schoombee, A., & Berg, S. v. (2004). Credit Demand and Credit Rationing in the Informal Financial Sector in Uganda.
- Piketty, T. (1997). The Dynamics of the Wealth Distribution and the Interest rate with Credit Rationing. *Review of Economic Studies* (1997) 64, 173-189.
- Rena, R. (2009). The Child Labor in Developing Countries: A Challenge to Millennium Development Goals. *Indus Journal of Management & Social Sciences*, 3(1):1-8 (Spring 2009).
- Sakamoto, S. (2006). Parental Attitudes toward Children and Child Labor: Evidence from Rural India.
- Sen, G. (2009). Considering the Effects of Poverty and Schooling Returns on Child Labour in Vietnam.
- Swain, R. B. (2002). Credit Rationing in rural India. *Journal of Economic Development*.

## **The Impact of Human Resource Management Practices on Employees' Performance: The Evidence from Selected Commercial Banks in Jaffna District.**

Vivek, R.

Dept of Economics and management, Vavuniya Campus, University of Jaffna.

*arvivek46@gmail.com*

### **Abstract**

In the current scenario, Human Resource Management Practises play an important Role in Organization to increase the Employees' Performance. The purpose of this paper is to examine the impact of human resource management (HRM) practices on Employees' performance. If it Managed efficiently and effectively, Human Resource can play an important role in realizing the objectives of the organization, as an integral source. For the purpose of this study data collection was done through the questionnaire and reliability of the items were confirmed further 184 respondents were selected based on convenient sampling method from managerial and non-managerial staffs from selected most leading Commercial banks in Jaffna District. Statistical Package for Social Sciences (SPSS) was used to analyze the data and statistical tools such as correlation and regression the related variables. The results indicate that HRM practices Recruitment and selection, Training and Development, Compensation and Performance Appraisal have a positive impact on employee's performance. Hence that independent variables contribute positively towards change in the dependent variable.

**Keywords:** hrm practices recruitment and selection, training and development compensation, performance appraisal and employees' performance.

### **Introduction**

In any organization, employees are considered the essential strategic asset. Therefore, employees could be a competitive advantage if their organization provides more attention and invest in developing employees' skills at the workplace (Danish and Usman, 2010; Zaharie and Osoian, 2013). A number of researchers have reported that HR practices are positively linked with organizational and employee performance (e.g. Guest, 2002; Harley, 2002; Gould-Williams, 2003; Park et al., 2003; Wright et al., 2003; Tessema and Soeters, 2006). The focus and thrust of these studies have been towards developed countries. Little research has been done to test the HR-performance link in developing countries like Sri Lanka. The present study is an attempt to test the relationship between HR

practices and employee performance in a developing country i.e. Sri Lanka among Bank Staffs.

The most relevant HRM practices (training and development, performance appraisal, Recruitment and selection, and compensation system) have been selected for the study. Correlation and Regression technique was used to analyze the data. As human resources are the most important asset of an organization and being the base of achieving competitive advantage, managing HR is extremely challenging when compared to managing technology and/or capital for its effective management. It goes without saying that an effective organization requires an effective system of HRM. Human Resource Management system should be supported by sound HRM practices. These HRM practices denote organizational activities aimed at managing the collection/team of human resources and ensuring that resources are utilized towards the accomplishment of organizational goals.

The assumption supporting the practice of HRM is that people are the organization's major resource and organizational performance mostly depends on the employees. If, as a result, a suitable range of HR policies and processes are developed and carried out efficiently, then HR will make a significant impact on firm performance (Armstrong (2006). In the words of (Bernardin and Russell, (1998) companies now becoming more aware that it employees could be its greatest strength. They went on by saying that for a company to achieve this, it must have a team of HR and line management who are very knowledgeable and have accepted the fact that the practice of HR will lead to a competitive advantage in the organization.

Human resource management (HRM) is the policies, practices, and systems that influence employees' behavior, attitudes, and performance. Many companies refer to HRM as involving "people practices". There are several important HRM practices that should support the organization's business strategy: analyzing work and designing jobs, determining how many employees with specific knowledge and skills are needed (human resource planning), attracting potential employees (recruiting), choosing employees (selection), teaching employees how to perform their jobs and preparing them for the future (training and development), evaluating their performance (performance management), rewarding employees (compensation), and creating a positive work environment (employee relations). An organization performs best when all of these practices are managed well. At companies with effective HRM, employees, and customers tend to be more satisfied, and the companies tend to be more innovative, have greater productivity, and develop a more favorable reputation in the community (Raymond Noe, 2011).

The main aim of this study is to explore the relationship between HRM practices and Employees' performance of selected commercial banks in

Jaffna district. as well as examining whether there is a positive impact of HRM practices on Employees' performance.

## **Literature Review**

This chapter reviews previous works done by researchers in the field of HRM. What is known as literature review in research does not only provide knowledge on what has been done on an area of study but the strengths and weaknesses that could propel a meaningful and insightful study? This chapter casts light on the concepts of HRM, various bundles of HR practices, contentions surrounding theories, models, and previous findings. It ends with the HR practices that have been found to impact greatly on the organizational performance of especially the Banking Sector.

The term Human Resource Management (HRM) is a strategic, integrated and coherent approach to the employment, development, and well-being of the people working in organizations. To Boxall et al, (2007), it is the management of work and people towards desired ends. Som, (2008) described HRM as carefully designed combinations of such practices geared towards improving organizational effectiveness and hence better performance outcomes.

There is a number of HR practices that could be tested in connection with employee performance. Teseema&Soeters (2006) have studied eight HR practices and their relationship with perceived employee performance. These eight practices include recruitment and selection practices, placement practices, training practices, compensation practices, employee performance evaluation practices, promotion practices, grievance procedure and pension or social security. Huselid (1995) used eleven HRM practices in his study which are personnel selection, performance appraisal, incentive compensation, job design, grievance procedures, information sharing, attitude assessment, labor management participation, recruitment efforts, employee training and promotion criteria. This study examines the relationship between four HR practices i.e. Recruitment & selection, Training & Development, Compensation and Performance Appraisal. the organization (Schuler and Jackson, 1987). HRM practices are designed and implemented in such a way that human capital plays a significant role in achieving the goals of the organization (Delery and Doty, 1996). The appropriate use of HRM practices positively influences the level of employer and employee commitment (Purcell, 2003). HRM practices such as training and development, performance appraisal encourage the employees to work better in order to increase the organizational performance (Snell and Dean, 1992; Pfeffer, 1998). The practices selected for this study are based on its importance in relation to the industry selected for the analysis.

Human Resource Management Practises are essential for ideal integration for success in the global business environment. The challenges and trends of Human Resource Management Practises have been revolutionized over the years. Thus, HRMPs is vital for successful implementation of HR policies effectively and efficiently to achieve the organizational goals (Mathis and Jackson, 2008). Likewise, practices of HRM are valuable for the organization to take practical measures for improving the efficiency of the workers and enhancing commitment among them (Deb, 2006). Moreover, implementing Human Resource Management Practises effectively leads to attract motivate, retain employees in order to enhance individual and organizational level performance (Pablos and Lytras, 2008). There is a growing concern based on the belief that human resource should be valued as essential assets rather than a cost for the organization and as a strategic factor which supports and source of sustained competitive advantage (Delaney and Huselid, 1996; Wright et al., 2001; Sun et al., 2007). In addition, successful Human Resource Management Practises lead to an improved level of individual and organizational performance (Chang and Huang, 2005).

Recruitment and selection are one of the most important functions in Human Resource Management. It is a process of finding, assessing, and having the right people in the right job. A positive relationship has been reported among recruitment, selection, and other procedures that are used for selection of the applicants effectively which have a significant effect on the firms' profits (Hausdorf and Duncan, 2004). In addition, it is the process of searching the applicants for employment and encouraging potential candidates to apply for jobs (Jain and Saakshi, 2005).

Marques (2007) involvement of HR department in hiring process helps to enhance knowledge of the workforce and required skills. It is also helpful for the identification of upgrading skills requirement of the employees. By such involvement, good communication seems to have a synergy effect and helps to unify the workforce.

Recruitment and selection are one of the most important HRMPs. It is a process of finding, assessing, and having the right people in the right job. A positive relationship has been reported among recruitment, selection, and other procedures that are used for selection of the applicants effectively which have a significant effect on the firms' profits (Hausdorf and Duncan, 2004). In addition, it is the process of searching the applicants for employment and encouraging potential candidates to apply for jobs (Jain and Saakshi, 2005). For recruiting managerial/senior applicants, the internet is considered the most popular and effective advertising medium, used by 76% of the organization surveyed (Rioux et al., 2006). Accordingly, ensuring good and effective recruitment and selection process by the organization leads to improved employee performance.

Hence, Gomez-Mejia et al. (2010) argue that firms can only outperform others when they have a successful business strategy and good compensation system that helps and gets support from the highest-paid executives and down to the lowest-paid employee. The primary objective of a performance appraisal is to ensure the maximum utilization of every employee's skills, knowledge, and interests (Arthur, 2008). Measuring and fostering employee's performance is a key determinant of organizational success and competitive advantage (Ployhart et al., 2006). In addition, selection and training practices might be changed based on the appraisal information with the desired behaviors and attitudes. Nevertheless, professional employees without being motivated to achieve their tasks, their efficiency will be imperfect (Sani, 2012).

## **Research methodology**

This study is aimed at examining the HRM practices of Six Selected Commercial banks and the impact of such practices on the Employees' performance of these banks. A conceptual framework provides an outline to understand the impact of Human Resource Management practices on employees' Performance. Based on relevant literature the Human resource management practices include Recruitment & selection, Training & Development, compensation and Performance Appraisal. This research study has four independent variables includes recruitment and selection, training and development, compensation and performance appraisal and one dependent variable i.e., Employees' performance.

H<sub>1</sub>: HR Practices have Significant Relationship with Employees' Performance.

H<sub>1a</sub>: Recruitment and selection have Positively Related with Employees' Performance.

H<sub>1b</sub>: The Training & development have positively related to employees' performance.

H<sub>1c</sub>: The Compensation & Reward have positively related to employees' performance.

H<sub>1d</sub>: The Performance appraisal has positively related to employees' performance.

H<sub>2</sub>: HR Practices have a significant impact on Employees' Performance.

## **Data Analysis**

Data analysis would consist of two major components. The first part of the analysis presents the background information of the research sample and the second one identifies the relationships conceptualized in the Study. More specifically, it used descriptive statistics, reliability analyses, and correlation analyses. Descriptive statistics (means, standard deviations, and frequencies) were used to describe characteristics of the sample such as age,



gender, marital status, experience, educational level, possession, and income. t-test, one-way ANOVA, bivariate correlation and regression analysis were used in the cases. All hypothesized bivariate relationships were tested at the 5 level of significance. For this purpose, the researcher used the Statistical Package for Social Sciences (SPSS).

It includes correlation analysis & multiple regression analysis which are used to find out relationship and the significant impact of Human Resource Management Practices and Employee's Performance.

#### Descriptive Statistics

<b>Dimensions</b>	<b>Range</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Variance</b>
<b>Recruitment &amp; Selection</b>	2.25	4.13	0.52	0.27
<b>Training &amp; Development</b>	2.80	4.28	0.49	0.24
<b>Compensation &amp; Reward</b>	3.00	4.10	0.57	0.33
<b>Performance Appraisal</b>	3.33	3.70	0.46	0.21
<b>Employees' Performance</b>	2.00	4.18	0.49	0.24

Source: Survey Data, 2017.

According to Table, Training & Development has the highest mean of 4.28 whereas Performance Appraisal has the lowest mean of 3.70. Even though mean & standard deviation is in the same level among all the constructs approximately. Base on the mean value all the respondents perceived the HRM Practices and Employees' Performance favorable.

#### Pearson Correlation Analysis

The Pearson correlation coefficients are presented to illustrate the relationship as well as the statistical significance between independent variables and dependent variables. In addition, Pearson's correlation analysis method is chosen because the correlation can be compared without regard to the amount of variation exhibited by each variable separately. Purpose of the correlation analysis in this study is to find out the significant relationship between HRM Practices and Employees' Performance. Further,

it is utilized to find out the relationship between the dimensions or factors influencing on HRM Practices as Recruitment & Selection, Training & Development, Compensation & Reward, Performance Appraisal and Employees' Performance.

Pearson Correlation Analysis

Variables	R & S	T & D	C & R	PA	EP
<b>Recruitment &amp; Selection</b>	1				
<b>Training &amp; Development</b>	0.35**	1			
<b>Compensation &amp; Reward</b>	0.56**	0.45**	1		
<b>Performance Appraisal</b>	0.40**	0.15*	0.40**	1	
<b>Employees' Performance</b>	0.17*	0.38**	0.35*	0.16*	1

Correlation is significant at the 0.01 level (2-tailed).\*\*

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

Source: Survey Data, 2017.

Pearson correlation was applied on the data to check the relationship between HRM practices. Pearson correlation for the Employee Performance with Recruitment & Selection ( $r=0.17$ ), Training & Development ( $r=0.38$ ), Performance Appraisal ( $r=.16$ ), and Compensation & Reward ( $r=0.35$ ) show a positive relationship. All correlations were significant at 0.01 levels and had the Weak positive relationship with employee performance.

Thus, the result has shown that there is a significant positive relationship between independent variables (Training & Development, Recruitment & Selection, Compensation & reward and Performance Appraisal), and the dependent variable (Employees' Performance).

### Multiple Regression Analysis

The objective of multiple regression analysis is to predict the single dependent variable by a set of independent variables (Heppner and Heppner, 2004). Regression analysis determines the nature of the relationship. When choose to analyze data using linear regression, part of the process involves checking to make sure that the data want to analyze can actually be analyzed using linear regression. The purpose of regression analysis is to find out the significant impact or influence of the independent

variable on the dependent variable (Ndubisi, 2006). In this study, HRM Practices Are considered as the independent variable or predictor variable, and the Employees' Performance is considered as the dependent variable.

Model Summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate	Durbin-Watson
1	0.44 <sup>a</sup>	0.19	0.18	0.44	1.72

Predictors: (Constant), Performance Appraisal, Training & Development, Recruitment & Selection, Compensation & Reward  
 Dependent Variable: Employee Performance  
 Source: Survey Data, 2017

From the Table Model Summary, the value of the adjusted R Square is 0.18. It revealed that there is a 19.8% of the impact of the independent variable on the dependent variable. Hence there is 19.8% of the impact of the HRM Practises on employees' Performance. Furthermore, the other 44.9% of the model is explained by other factors which are able to influence the Employees' Performance.

Coefficients table in the Regression analysis

Model	Unstandardize	Standardi	t	Sig.
	B	Std. Error	Beta	
(Constant)	2.18	0.37		0.00
Recruitment & Selection	0.16	0.07	0.17	0.01
Training & Development	0.38	0.06	0.38	0.00
Compensation & Reward	0.30	0.05	0.35	0.00
Performance Appraisal	0.17	0.07	0.16	0.02

Dependent Variable: Employee Performance.

Source: Survey Data, 2017

According to the equation above, the regression coefficient for Recruitment & Selection is 0.16. It means that the employee performance will increase by 0.16 units when Recruitment & Selection increased 1 unit while others remain. Furthermore, the regression coefficient for Training & development is 0.38. It means that Employee Performance will increase 0.38 units when Training & Development increased 1 unit while others remain the same. In addition, the regression coefficient of Compensation & reward is 0.30. It means that the Employee Performance will increase 0.30 when Compensation & Reward increased 1 unit while others remain the same. As well, the regression coefficient of Performance Appraisal is 0.17. It means that the Employee Performance will increase 0.17 when Performance Appraisal increased 1 unit while others remain the same. Among the four independent sub-variables, Training & Development has the strongest influence on employees' performance where standardized beta equal to 0.38. Thus, compensation & Reward is the most important predictor of Employees performance and followed by Recruitment & Selection 0.16, and 0.17.

In addition, From the Table: Coefficients table in the Regression analysis, Beta value between employee performance and other predictor variables as Recruitment & Selection, Training and Development, Compensation and reward and performance Appraisal is 0.16, 0.38, 0.30 and 0.17 respectively. These are insignificant at 0.05 levels ( $P < 0.05$ ). all the predictor variables have a positive trend towards the dependent variable.

Finally, in terms of the Multiple Regression analysis, the researcher can come to the conclusion that the predictor power of the employee performance is at the moderate level. The results of the regression analysis summarized in the above tables show that HRM Practices contribute significantly to Employees performance ( $F = 11.06$ ;  $P < 0.05$ ) and predicts 19.8 percent of the variation found. Recruitment & Selection, Training & Development Compensation and Reward and performance Appraisal contribute significantly to employee's performance.

## **Hypotheses Testing**

Summary of the data analysis is given below through the hypotheses testing.

## Hypotheses Testing

Hypotheses	Values scored	Result	Tools
<b>H<sub>1</sub>: HR Practices have Significant Relationship with Employees' Performance.</b>	<b>0.37</b>	<b>Supported</b>	<b>Correlation</b>
H <sub>1a</sub> : Recruitment and selection Positively Related with Employees' Performance.	0.17	Supported	Correlation
H <sub>1b</sub> : The Training & development have positively related to employees' performance.	0.38	Supported	Correlation
H <sub>1c</sub> : The Compensation & Reward have positively related to employees' performance.	0.35	Supported	Correlation
H <sub>1d</sub> : The Performance appraisal has positively related to employees' performance.	0.16	Supported	Correlation
<b>H<sub>2</sub>: HR Practices have a significant impact on Employees' Performance.</b>	<b>0.18</b>	<b>Supported</b>	<b>Regression</b>

## Discussions of findings

The main purpose of this research study focuses on the relationship & the impact between the determinants of HRM Practices and employee's Performance.

This study was carried out to understand the role of Recruitment & Selection, Training & Development, Compensation & Reward and Performance Appraisal on employees' performance. Researcher circulated questionnaires in selected commercial banks and got the responses, the researcher found out that a larger number of respondents' were female and the percentage of the male was relatively by less i.e. female 50.5% and male 49.5%.

In my questionnaire, the Likert scale was used to measure the degree to which people agree or disagree to the HR Practices. The employees gave their opinion about How far they have understood the role of the practice in

employees' performance. Most of the employees strongly agreed with the employee's performance in the organization. They were totally satisfied with the HR practices and had no problem and confusion about the HR practices. Our first independent variable of the research is recruitment and selection which effect on the employees' performance is determined? The finding suggests that the value of correlation analysis of recruitment and selection practices over employees' performance is 0.175\* (Significant at 0.05) which shows that the values are highly significant and the employees are satisfied with the relationship between the recruitment and selection practices and employees' performance. Training and Development, Compensation & reward and performance Appraisal also the independent variables of the research also show that the employees are satisfied with this practice.

## **Conclusion**

The purpose of this study is to explore the impact of Human Resource Management Practices on employee performance at selected commercial Banks in Jaffna and to suggest recommendations for its improvement. The findings of the current research study illustrate that the Human Resource Management Practices (recruitment and selection, training and development, compensation and Reward, performance appraisal) are positively related to employees' performance. Employees are one of the critical strategic assets for any organization. Likewise, Banks should strive to attract the talent, well trained and enthusiastic employees and improve their performance. Successful and good effective implementation of Human Resource Management Practices empowers Bank employees and improves their performance positively. Therefore, best practices of HRM stimulate Bank employee's performance which in turn improves Bank performance. So, Banks realize the importance of stimulating Bank employee's performance; many Banks are giving more attention to the top management of Human Resource Management Practices.

## **Recommendations**

It is clear from the findings that Human Resource Management (HRM) practices (recruitment and selection, training and development, compensation and Reward, performance appraisal) have a positive role in increasing the employee's performance, so the organizations should implement these practices to achieve the desired goals. The organizations should utilize a variety of reward and recognition programs to drive behavior that promotes high performance. The organization conducts an extensive training program for its employees relevant to the changing needs of jobs and business.

Job performance should be considered an important factor to determine the compensation of employee's performance. Management should value the

contribution and ideas shared by employees and empower employees to maximize their individual talent in order to make effective decisions. Human Resource Management practices (recruitment and selection, training and development, compensation and Reward, performance appraisal) play a crucial role in increasing employee performance so the organizations should revise their HR policies by keeping in view the above factors in order to attain the targeted goals.

Human resources, which are considered the greatest asset of an organization, refer to people whose knowledge, skills, and abilities are utilized to create and to deliver effective services. Effective recruitment and selection attracts the right quality and quantity of people, develops the knowledge, skills, and abilities of employees, and retains employees within the organization. The Banks need to have an effective recruitment policy to promote scientific selection of prospective employees. The departments should participate in the selection process as they have different preferences in the candidates. Candidates need to be selected based on requisite skills knowledge, attitude, and qualification using appropriate selection techniques. Besides, an appropriate training program for both academicians and support staff should be organized to continuously improve the skills of employees.

## Reference

- Aguta, U. I., &Hasret, B. (2015). The Impact of Human Resource Management Practices on Organizational Performance: A Case of Private Banks in North Cyprus. *International Journal of Business and Social Science*, 6(6), 251-268.
- Alewell, D., & Hansen, N. K. (2012). Human resource management systems—a structured review of research contributions and open questions. *Industrielle Beziehungen/The German Journal of Industrial Relations*, 90-123.
- Armstrong, M. (2011). *Armstrong's Handbook of strategic human resource management*. Kogan Page Publishers.
- Beardwell, J., & Claydon, T. (2007). *Human resource management: a contemporary approach*. Pearson Education.
- Huselid, M.A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of management journal*, 38(3), 635-672.
- Gould-Williams, J. (2003). The importance of HR practices and workplace trust in achieving superior performance: a study of public-sector organizations. *International journal of human resource management*, 14(1), 28-54.

- Guest, D. (2002). Human resource management, corporate performance, and employee wellbeing: Building the worker into HRM. *The journal of industrial relations*, 44(3), 335-358.
- Jackson, S.E. and Schuler, R.S. (2000). *Managing Human Resources: A Partnership Perspective*. Ohio, South-Western College Publishing
- Jouda, A. A., Ahmad, U. N. U., & Dahleez, K. A. (2016). The Impact of HRM Practices on Employees Performance: The Case of the Islamic University of Gaza (IUG) in Palestine. *International Review of Management and Marketing*, 6(4).
- Oladipo Jimoh, A., & Abdulkadir Danlami, S. (2011). Strategic human resource management and organizational performance in the Nigerian manufacturing sector: An empirical investigation. *International Journal of Business and Management*, 6(9).
- Wright, P. M., Dunford, B. B., & Snell, S. A. (2001). Human resources and the resource-based view of the firm. *Journal of management*, 27(6), 701-721.



## **Working Capital Management and Financial Performance of Manufacturing Sector in Sri Lanka**

Rodrigo W.S.L.; Chandima S.H.I

Department of Finance & Accountancy, Vavuniya Campus of the  
University of Jaffna

*sajinirodrigo92@gmail.com; iroshanish@gmail.com*

### ***Abstract***

Working Capital Management provides critical insight into the performance of the organizations and it plays an important role in any kind of industry, especially in the manufacturing sector. As an important indicator for measure the performance and viability of the organization, many managers involved considering the efficient management of Working Capital in the organization. Accordingly, the main purpose of this study is to identify the relationship between Working Capital Management and Financial Performance of the manufacturing sector in Sri Lanka. In Sri Lanka manufacturing sector is the second largest segment of the economy contributing significantly to the Gross Domestic Product of the country. For this study, data was collected from the manufacturing firms quoted on the Colombo Stock Exchange (CSE). As a sample size, this study used 30 manufacturing firms while the sample period of the study is five years from 2013 to 2017. The data was collected through the published annual reports of the respective companies. To examine the effect of WCM on performance, this study applied Return on Assets(ROA) and Return on Equity(ROE) as outcome variables whereas Cash Conversion Cycle (CCC), Current Financial Assets Ratio (CFAR) and Current Financial Debt Ratio (FDR) were used as explanatory variables. Since the study involves panel data, pooled OLS analysis has been carried out to arrive at the findings of the study. There is no significant relationship between CCC, CFAR, FDR, and outcome named ROA while CCC, CFAR, FDR, and ROE have a significant relationship, the findings reveal. The study also concludes that manufacturing firms in Sri Lanka need to concentrate on conservative Working Capital Management policy and improve their collection and payment policy.

**Keywords:** working capital management, colombo stock exchange, cash conversion cycle, current financial assets ratio, current financial debt ratio

### **Introduction**

Working Capital Management is considered to be crucial as it affects the survival of an organization. This concept is vital, especially for manufacturing firms. In Sri Lanka, the Manufacturing sector is the second leading sector of the economy and it accounts for 25% of GDP in 2017 (Central Bank of Sri Lanka). As an essential sector in the overall economic growth, the manufacturing sector requires an in-depth analysis to evaluate

the performance of its activities. Working capital management efficiency is vital especially for manufacturing firms, where a major part of assets is composed of current assets (Horne and Wachowitz, 2000).

Nowadays top-level managers spend more time to solve the problem related to the working capital management. Company profitability and liquidity highly depend on the efficient management of working capital. Every organization needs to maintain adequate liquidity in day to day routines to ensure the smooth functioning of the firm. For that, companies need to give priority to investing in current assets rather than investing in fixed assets. In addition to that companies need to concern about the profitability also. Since firms' decisions about current assets are linked with the trade-off between risk and return. Efficient working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet a due short-term obligation on the one hand and avoid excessive investment in these assets on the other hand (Eljelly, 2004).

By referring to the above elaborations, it is obvious that efficient management of working capital is essential for any organization to keep their business viable for long. In the present study, the association between WCM and Financial Performance is examined. Therefore, this study collected data through the annual reports of each manufacturing organizations and analyzed the performance using the different methods like Cash Conversion Cycle (CCC), Net Trade Cycle (NTC), Receivable Turnover in Days (RTD), Number of Days in Inventory, Number of Days in Payable. Considering the input variables as above mentioned, this paper used Return on Asset (ROA) and Return on Equity (ROE) as outcome variables. The study consists of manufacturing firms that covered the five years from 2013 to 2017.

This study is directed towards analyzing the working capital management affection and application in the manufacturing sector by using different measurement tools. Further, this study is a focus to find out the impact of variables of working capital management on firm profitability and identify the nature and extent of the relationship between working capital management and performance.

## **Literature Review**

The main concern of this study is to find out the relationship between working capital management and performance of the selected manufacturing organizations. There are different studies related to working capital management and its consequences for company profitability and liquidity.

Simon et al. (2017) found that working capital management is vital to provide liquidity and enhance the performance of the firm. Also, researchers examined the quadratic relationship between working capital management and firms' performance. The results of the study indicate that deviation from the optimal level of investment in working capital management affects the performance of firms'. Finally, researchers recommend that firms should promote best practices for maintaining optimal working capital investment level enhance firms' performance and sustain growth.

Tariq et al. (2013) analyzed the effect of the proper management of working capital on the financial performance of the cement sector in Pakistan. The dependent variable of the study is Return on Assets which is used as a proxy for financial performance. There are independent variables like accounts receivable in days, inventory turnover in days, (CCC) and payable turnover in days. In this study, researchers used panel data methodology to analyze the impact of Working Capital Management on the performance of the Cement sector.

Niresh (2012) emphasized that Working capital management is considered to be a crucial element in determining the financial performance of an organization. The primary purpose of this paper is to investigate the relationship between working capital management and financial performance of listed manufacturing firms in Sri Lanka. In this study, researcher measured performance in terms of return on assets and return on equity while cash conversion cycle, current assets to total assets and current liabilities to total assets were used as measures of working capital management. Further, Correlation and regression analysis were used in this study. In conclusion, this research paper revealed that there is no significant relationship between cash conversion cycle and performance measures and also manufacturing firms in Sri Lanka follow conservative working capital management policy.

Rahemen et al. (2010) found that working capital management plays a significant role in the better performance of manufacturing firms. Researchers analyzed the impact of working capital management on firms' performance in Pakistan. The results of the study indicate that the cash conversion cycle, net trade cycle and inventory turnover in days are significantly affecting the performance of the firms. This paper also found that manufacturing firms are in general facing problems with their collection and payment policies. Further, the author came to know that financial leverage, sales growth, and firm size have a significant effect on the firms' profitability. Finally, researchers suggested that specialized persons in the field of finance should be hired by the firms for expert advice on working capital management in the manufacturing sector so as to manage the working capital in the more robust way.

Gill et al. (2010) revealed that as working capital management plays a significant part in the better performance of manufacturing firms. The researchers attempt to analyze the relationship between Working Capital Management and profitability in a study titled "The impact of working capital management on the corporate performance of Listed Manufacturing Companies in Sri Lanka". In this study, the authors mainly concerned about the nature and extent of the relationship between working capital management and profitability. For that, researchers used the cash conversion cycle as a comprehensive measure of working capital management and net operating profitability as a measure of profitability. Multiple linear regression tools were used to find out the relationship between the independent and dependent variable in this research. The result of regression analysis found a significant positive relationship between Cash Conversion Cycle and Net Operating Profitability.

Shin and Soenen (1998) emphasized that efficient working capital management is very important for creating value for the shareholders. In this research paper, they found out that way of management of working capital had a significant impact on both profitability and liquidity. Further, the relationship between the length of the net trading cycle, corporate profitability and risk-adjusted stock return is analyzed using correlation and regression analysis. The finding of research indicates that there is a strong negative relationship between lengths of the firms' net trading cycle and profitability.

## **Methodology**

### **Data Source and Sampling**

The relationship between working capital management and performance of manufacturing firms were tested by using panel data methodology. The data used for this study was acquired from the comprehensive income statement and financial position of the sample manufacturing firms, listed on the Colombo Stock Exchange(CSE). This study used 30 manufacturing firms as a sample size out of 42 listed manufacturing companies in the CSE. Most recent five years information was included in the study as the basis for calculation. Accordingly, this research study extends to five years starting from 2013 to 2017. The reason for selecting this period was the latest data for investigating the nexus between working capital management and performance of the quoted manufacturing firms.

### **Variables**

This research undertakes the quantitative approach to identify the link between working capital management and performance of the

manufacturing firms. Table 1 shows independent and dependent variables and measurement pertinent to the variables used in the study.

Table 1: Measurement of Variables

Variables	Measurement
<b>Predictors</b> <ul style="list-style-type: none"> <li>• Average Collection Period (ACP)</li> <li>• Average Payment Period (APP)</li> <li>• Inventory Turnover in Days (ITD)</li> <li>• Cash Conversion Cycle (CCC)</li> <li>• Current Financial Assets Ratio (CFAR)</li> <li>• Current Financial Debt Ratio (FDR)</li> </ul> <b>Outcome Variables</b> <ul style="list-style-type: none"> <li>• Return on Assets (ROA)</li> <li>• Return on Equity (ROE)</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts Receivable/ Net Sales *365</li> <li>• Accounts Payable/Cost of Goods Sold *365</li> <li>• Inventory/Cost of Goods Sold * 365</li> <li>• Average Collection Period +Inventory Turnover in Days- Average Payment Period</li> <li>• Current Assets/Total Assets</li> <li>• Current Liability/Total Assets</li> <li>• Net Income/Total Assets</li> <li>• Net Income/Shareholders Equity</li> </ul>

## Research model

Multiple linear regression model is formed to discover the nexus between working capital management and performance of listed manufacturing firms.

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \epsilon$$

Where,

Y = Dependent variable

$\alpha$  = intercept

$\beta$  = co-efficient

$x_1$  = CCC

$x_2$  = CFAR

$x_3$  = FDR

$\epsilon$  = Error term

Based on the variables used in the study the regression model can be depicted as follow.

$$ROA = \alpha + \beta_1 CCC + \beta_2 CFAR + \beta_3 FDR + \epsilon \longrightarrow \text{Model 1}$$

$$ROE = \alpha + \beta_1 CCC + \beta_2 CFAR + \beta_3 FDR + \epsilon \longrightarrow \text{Model 2}$$

Where,

ROA= Return on Assets

ROE=Return on Equity

CCC=Cash Conversion Cycle

CFAR= Current Assets/Total Assets

FDR= Current Liability/Total Assets

## Results and Discussion

### Multiple Regression Analysis

#### Predictors of Performance – Model Summary I

Table 2: Results of pooled OLS using ROA as the outcome variable

```
. regress ROA CCC CFAR FDR
```

Source	SS	df	MS	Number of obs	=	150
Model	176.362381	3	58.7874603	F(3, 146)	=	1.14
Residual	7558.32553	146	51.7693529	Prob > F	=	0.3368
				R-squared	=	0.0228
				Adj R-squared	=	0.0027
Total	7734.68791	149	51.9106571	Root MSE	=	7.1951

By referring to the table 2, it is obvious that the  $R^2$  value for the impact of working capital management on ROA is found to be 0.02. It implies that only 2% of the variations in ROA is explained by the variations in predictors named CCC, CFAR, FDR. Further, the F value is revealed to be statistically insignificant at  $P > 0.1$ . Hence it can be inferred that working capital management has no profound impact on the outcome variable name ROA. Further, the  $R^2$  value indicates that only 2% of the variations in ROA is explained by the predictors. The rest of 98% of the variations is simply because of the factors that have not been considered in the study. Hence other factors are probably found to be better prognosticators of ROA.

Table 3: Results of pooled OLS using ROA as the outcome variable

ROA	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
CCC	.0029176	.0033261	0.88	0.382	-.0036559	.009491
CFAR	-2.324523	1.639134	-1.42	0.158	-5.564018	.9149716
FDR	7.641873	4.276294	1.79	0.076	-.8095631	16.09331
_cons	-.5500389	1.261365	-0.44	0.663	-3.042931	1.942853

By referring to the table 3, the multiple regression equation can be derived as follows,

$$\text{ROA} = -0.55 + 7.64\text{FDR} - 2.33\text{CFAR} + 0.003\text{CCC} + \epsilon$$

It is apparent from the coefficient as tabulated in table 3 that only FDR exhibits a significant association with ROA at  $P < 0.1$ . All other predictors namely CCC, CFAR exhibit a statistically insignificant association with the outcome variable named ROA as it was evidenced from the P values.

### Predictors of Performance – Model Summary II

**Table 4: Results of pooled OLS using ROE as the outcome variable**

regress ROE CCC CFAR FDR

Source	SS	df	MS	Number of obs	=	150
Model	591.205417	3	197.068472	F(3, 146)	=	2.48
Residual	11621.9257	146	79.6022306	Prob > F	=	0.0638
				R-squared	=	0.0484
				Adj R-squared	=	0.0289
Total	12213.1311	149	81.9673227	Root MSE	=	8.922

As it can be seen from the table 4 that the  $R^2$  value for the impact of working capital management on ROE is discovered to be 0.048. It means that only 4.8% of the variations in ROE is explained by the variations in predictors named CCC, CFAR, FDR. Moreover,  $R^2$  value indicates that only 4.8% of the variations in ROE is defined by explanatory variables. The rest of 95.2% of variables in ROE is simply because of the factors that have not been the depicted in the model.

Furthermore, the F value is discovered to be statistically significant at  $P < 0.1$ . It is an indication that working capital management has a profound impact on the ROE.

Table 5: Results of pooled OLS using ROE as the outcome variable

ROE	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
CCC	-.0025795	.0041244	-0.63	0.533	-.0107307	.0055717
CFAR	3.918999	2.032547	1.93	0.056	-.0980163	7.936015
FDR	-14.42291	5.302661	-2.72	0.007	-24.9028	-3.943017
_cons	2.491044	1.564108	1.59	0.113	-.6001752	5.582263

According to the table 5, the regression of the following form,

$$\text{ROE} = 2.49 - 14.42\text{FDR} + 3.92\text{CFAR} - 0.0026\text{CCC} + \epsilon$$

It is apparent from the table 5, the P values indicate a statistically significant association between CFAR and ROE; and FDR and ROE at  $P < 0.1$  and  $P < 0.01$  respectively. Another predictor namely CCC shows a statistically insignificant association with ROE.

### Testing for Multicollinearity

The Present study employed the Variance Inflation Factor (VIF) test in order to identify whether the problem of multicollinearity exists in the ideal models used in the study. The VIF indicates whether a predictor has a strong linear relationship with other predictors. Related to the VIF is the tolerance statistics, which is its reciprocal ( $1/\text{VIF}$ ). There are no hard and fast rules about what value of the VIF should be the cause for concern, but generally, a VIF value of greater than 10 indicates a serious problem (Bowerman and O'Connell, 1990; Myers, 1990). Further, if the average VIF is substantially greater than one then the regression may be biased. As far as the value of tolerance is concerned, tolerance below 0.1 indicates a serious problem (Menard, 1995).

The study involved 2 models as model I and model II to assess the connectivity between WCM and financial performance using ROA and ROE.

Table 6 shows the tolerance values derived by employing the VIF test,



Table 6: Collinearity Statistics

Variable	VIF	1/VIF
FDR	1.93	0.517171
CFAR	1.89	0.528303
CCC	1.09	0.917752
Mean VIF	1.64	

By referring to the table 6, it is apparent that there is no strong evidence of multicollinearity in the models 1 and 2 used for the study. The VIF values are less than 10 and the mean VIF is not substantially deviating from one. Therefore, it can be concluded that there is no multicollinearity problem exist among the predictors used in this study.

### Conclusion and Recommendation

The main objective of this study is to analyze the relationship between working capital management and the performance of the manufacturing firms listed on the Colombo Stock Exchange. To this end, a sample of 30 manufacturing firms was used to conduct the study covering the period from 2013 to 2017.

Return on assets and Return on Equity were used as dependent variables. Independent variables were the Cash Conversion Cycle (CCC), Current Financial Assets Ratio (CFAR) and Current Financial Debt Ratio (CFDR). Panel Data analysis especially the pooled is used to study the relationship between Working Capital Management and manufacturing sector performance.

The findings of this study revealed that there is no significant relationship between CCC, CFAR, FDR with outcome variable of ROA while CCC, CFAR, FDR, and ROE have a significant relationship. The study also concludes that manufacturing firms in Sri Lanka need to concentrate on conservative Working Capital Management policy and improve their collection and payment policy. Considering the above findings this research paper is important for policymakers and regulators to make decisions and encourage managers and shareholders to pay more attention to effective working capital management in the organization.

## **Limitations**

This study is limited to the sample of manufacturing firms in Sri Lanka for the period of five years from 2013 to 2017. Hence, the findings of this study could only be generalized to manufacturing firms which are included in this research. In addition to that this study was used Cash Conversion Cycle (CCC), Current Financial Assets Ratio (CFAR) and Current Financial Debt Ratio (CFDR) as independent variables to find out the impact on Return on Assets and Return on Equity. But this research did not take into consideration firm size, credit policy, sales growth, technological changes to study the influence on performance.

## **Future Research Directions**

Future researchers should consider extending the sample size beyond the Sri Lankan manufacturing sector. In addition to that researchers can also focus on carrying out an analysis at different business cycle like a case study approach for selected companies. Further studies also can be considered about the different measures of firm performance such as Gross Operating Profit, Earning per Share and Dividend per Share rather than limiting the performance measures merely to accounting-based measures.

## **References**

- Bowerman, BL, and O'Connell, RT 1990, Linear statistical models: An applied approach, 2nd Edition, Belmont, CA: Duxbury.
- Eljelly, A 2004, Liquidity – Profitability trade-off: An Empirical investigation in an Emerging market, International Journal of Commerce and Management, vol.14, No.2, pp 48 – 61.
- Gill, A, Berger, N and Mathur, N 2010, The Relationship Between Working Capital Management And Profitability: Evidence From The United States, Business and Economics Journal, vol 2010: BEJ-10.
- Horne, VJC and Wachowicz, JM 2000, Fundamentals of Financial Management, New Jersey: Prentice Hall Inc, 11th Ed.
- [ ] Menard, S 1995, 'Applied logistics regression analysis, Sage University Paper Series on Quantitative Applications in the Social Sciences', Thousand Oaks, CA: Sage.
- Myers, RH 1990, Classical and modern regression application, 2nd Edition, CA: Duxbury.
- Niresh, JA 2012, Working Capital Management & Financial Performance of Sri Lanka, European Journal of Business and Management, vol 4, No.15, pp 23-30.
- [ ] Rahemen, A, Afza, T, Qayyum, A and Bodla, MA 2010, Working Capital Management and Corporate Performance of Manufacturing Sector

- in Pakistan, International Research Journal of Finance and Economics, 47, pp 152-163.
- ]Simon, S, Sawandi, N and Abdul-Hamid, MA 2017, The Quadratic Relationship between Working Capital Management and Firm Performance: Evidence from the Nigerian Economy, Journal of Business and Retail Management Research, vol. 12, pp 94-108.
- Shin, HH and Soenen, L 1998, Efficiency of working capital management and corporate profitability, Financial Practice and Education, vol. 8, pp 37-45.
- Tariq, H, Mumtaz, R and Rehan, MF 2013, Working Capital Management and Firm Performance: Evidence from Pakistan, European Journal of Business and Management, Vol.5, No.20, pp 86-91.