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Regulating Micro-Finance Institutions in Sri Lanka; Recommendations for Law Makers

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ABSTRACT

Microfinancing plays a vital role in the financial systems of most of the jurisdictions around the world. It provides the financial services which have been aiming and providing to the clients who are excepted from the conventional financial systems. In the existing system, Microfinance Institutions have provided financial service to the number of citizens who were once considered as 'Un-bankable' by way of a tradition, because of their lack of credit history and the surety. But in contrary, it is doubt whether the ultimate objective of Microfinancing is achieved or not due to the conduct of the Microfinance Institutions. Some argued that there is a regulation lapse when compared to other financial institutions such as Commercial Banks and Non-Bank Financial Institutions. In Sri Lanka, the main legislation which governs the Microfinance sector is Microfinance Act No. 6 of 2016. This paper mainly focuses on the salient features of the Act. Further, the laws of several peer countries have been studied and the views of the general public on regulating Microfinance Institutions have been obtained. By analyzing the primary and secondary data the authors have come-up with several recommendations for law makers, which can be incorporated in Microfinance regulation targeting a proper and strengthened regulatory process, which safeguards the stakeholders.

Keywords: *Microfinance Institution, Microfinance, Microfinance Regulations Financial Sector Regulations*

1. INTRODUCTION

1.1 Background

Microfinance Alliance identified that Microfinance (MF) as the financial services which have been aiming and providing to the clients who are excepted from the conventional financial systems. In the existing system Microfinance Institutions (MFIs) have provided financial service to the number of citizens who were once considered as 'Un-bankable' by way of a tradition, because of their lack of credit history and the surety. Therefore, this has become an effective topic which should be discussed since it will help to develop the economy of the country.

Hence, in this research paper, it is discussed both analysis and the development of the micro financial institutions in Sri Lanka while identifying the necessary regulatory changes which should be introduced.

In 2016, Sri Lanka enacted the MF Act, No. 6 of 2016 to provide provisions to licensing, regulating, and supervising of companies carrying on business, the registration of non-governmental organizations (NGOs) accepting limited savings deposits as MF NGOs, for the setting up of standards for the regulation and supervision of MF NGOs and micro credit NGOs and to provide for matters connected therewith or incidental thereto (Preamble of the MF Act, 2016). Accordingly, this Act can be considered as the foundation for a well-developed supervision mechanism of the MF sector of Sri Lanka.

The Central Bank of Sri Lanka (CBSL) is considered as the Regulator and the Supervisor of the banking sector which such framework is specified in the enactments including Banking Act No. 30 of 1988, Monetary Law Act No. 58 of 1949 and Finance Business Act No. 42 of 2011. Further, the institutions such as Securities and Exchange Commission of Sri Lanka and Insurance Regulatory Commission which was earlier named as Insurance Board of Sri Lanka are also supervising and regulating some segments of the financial system which are not within the scope of the CBSL.

According to the Annual Report for 2019/2020 of Lanka Microfinance Practitioners' Association (2020) 63 MFIs have been taken their membership and there are 973,344 Active borrowers in MF sector of Sri Lanka as at year 2020 and the total loan portfolio is 56.96 billion rupees. Accordingly, the average loan value per borrower is around Rs. 60,000. Though, the average loan value per borrower is lower compared to other sectors such as commercial banking or leasing industry, considering the number of borrowers and depositors, the MF industry is playing a vital role in the financial sector of Sri Lanka.

1.2 Problem Statement

Although the MF Act was enacted in 2016 and the CBSL was identified as the regulating authority of the MFI in Sri Lanka, the regulatory framework is not currently functioning into the levels of the Licensed Commercial Banks and the Non-Bank financial Institutions. The Supervision of Microfinance Institution Department, which was instituted in the CBSL in 2016, in terms of the provision of the Monetary Law Act No 58 of 1949 was also currently closed and the duties have been allocated to the Department of Supervision of Non-Bank Financial Institutions of the CBSL. However, there are only 04 MFIs which have been registered in the CBSL under the Act, although there are over 10,000 institutions are functioning in the country as mentioned by Lalith P Samarakoon, the Secretary General and Chief Economist of the National Economic Council (2019). He further mentioned that the MFIs borrow from commercial banks in low rates and lend them for high rates. Therefore, the borrowers have to pay Rs. 250 billion for Rs. 160 billion they borrowed from the MFIs.

Further, the unregulated financial Activities will lead several issues such as illegal deposit mobilization, exploitation of customers, unethical recovery methods, poor corporate governance methods, weak systems and controls, low repayment rates and distress in the

institutions (CBSL, 2016). Accordingly, a proper mechanism to regulate the MF Activities is essential to the smooth functioning of not only the micro financing sector but also the financial sector of the country.

According to CBSL (2020), “unregulated MF Activities may lead to illegal deposit mobilization, exploitation of customers through excessive interest rates and unethical recovery methods”. Such institutions do not follow proper corporate governance mechanism and such poor mechanisms will lead to poor repayment rates, high transaction costs and recurring losses. Ultimately the institutions will lead to distress which make the depositors and other stakeholders into the distress. When the deposit-taking institutions are not properly regulated or supervised the mobilized deposits are in risk and the financial system stability also will adversely affected.

Gant, de Silva, Atapattu and Durrent, (2002) has found several issues related to the micro financing sector in Sri Lanka. The main concern is the sustainability and lack of effective indicators, performance management and sufficient managerial expertise were highlighted.

Further, insufficiency of good and best practice standards, cumbersome and incapable financial management systems, rarely monitored risk are taking the sector to less sustainability. Further, highly politicized institutions not only in the North and East provinces but also in other provinces had led to debt forgiveness for political purposes, nepotism, overstaffing, favoritism, and financing of politically favored projects. In addition, the lack of monitoring and evaluation is also a major issue in the microfinancing sector. The systems were not developed according to the best standards, lack of management information other than mere customer reporting information, non-usage of recognized financial ratios, follow-ups, risk measurement, lack of training, lax standards, mismanagement, and corruption are major issues in terms of monitoring and evaluation. Most of these issues are still within the MF business in Sri Lanka even after a decade.

According to Chinthaka Rajapakse, Convener of the Movement for Land and Agricultural Reform (MONLAR) has mentioned that “about 200 people in Sri Lanka had committed suicide, during the last three years or so, as they were unable to pay back the micro-credit loans and many of those organizations had obtained the services of village thugs to recover money” (MONLAR, 2019). Most of the times the earning ability of the families will totally loss due to the losses of such people. Anything is less valuable than a life of an individual. If the people lost their lives due to the issues of the MF related matters it is required to identify the inherent issue which the customers face.

On the International Women day i.e 8th of March 2021, “collective of women victims of micro loans” organized a protest and a sathyagraha in Hingurakgoda, demanding that all MF debt be abolished, all MF debt collection be immediately ceased until a debt audit is conducted, all legal Action against MF borrowers be stopped, de-list all MF borrowers from Credit Information Bureau and establish an autonomous and socially emancipatory credit mechanism, collectively owned by women (CADTM, 2021). They also claimed that 200 people were forced to commit suicide due to victimization of MF. Further, not only in Sri Lanka, but also in India,

in 2010, more than 200 poor people killed themselves due to these types of issues. (Wall Street Journal, 2012).

Accordingly, the research problem of this study is to find, what are the reasons for the failure in safeguarding the stakeholders of the MF even after incorporating the MF Act No 6 of 2016 for the purpose of licensing, regulation and supervision of companies carrying on MF business.

1.3 Research Objectives

- To examine and identify the regulatory mechanism introduced under the MF Act, No 6 of 2016
- To explore the regulatory mechanisms used by the other countries to regulate the MFIs.
- To provide observations and recommendations to the law makers to enhance the regulatory mechanism to regulate micro financing in Sri Lanka.
- To contribute to the literature related to the micro financing industry of Sri Lanka.

1.4 Research Questions

- What is the regulatory mechanism introduced and currently practiced in Sri Lanka to regulate MFIs under the MF Act, No 6 of 2016?
- Whether the provisions introduced by MF Act, No 6 of 2016 adequate to ensure proper supervisory mechanism for MFIs in Sri Lanka?
- What are the regulatory mechanisms used by peer countries to regulate the MFIs?
- What are the observations and recommendations to the law makers to enhance the regulatory mechanism to regulate micro financing in Sri Lanka?

2. LITERATURE REVIEW

2.1. Microfinance Definition

As per the Investopedia dictionary, MF is also called microcredit. The microfinancing is referred to banking services obtained by the low income generated segment of an economy, unemployed people or the segments which do not have access to financial services. Further, it provides reasonable business loans safely and usually carries ethical lending practices.

In 2016, Sri Lanka enacted the MF Act, No. 6 of 2016 to provide provisions related to MFIs.

2.2. History of Microfinancing

The history of the MF differs from one country to another. However, different scholars have studies about the history of the microfinancing in the world. According to the working paper done by Hans Dieter (2003) it is suggested that every newly developed country has their own

history of microfinancing. It is believed that micro financing was introduced in Bangladesh few decades back. The MF in Europe begins with informal, small scale and savings clubs. Box clubs in England is identified as such example for MF in Europe. Hans Dieter in his paper mentioned that the loan funds in Ireland started in 1720s. Enacting special laws in 1823 allowing charities to Act as financial intermediaries and establishment of Loan Fund Board in 1836 are key milestones in the MF history in Ireland. The first thrift society in Germany was established in 1778 and first communal service center established in 1801. Community based savings funds, rural and urban savings/credit cooperatives and community owned financial institutions are considered as the early methods of microfinancing in Germany.

2.3. Need of Microfinance

World Economic Forum (2015) has identified five reasons why the poor needs the financial services. According to them, MF is a proven part of the formula for beating extreme poverty and it can boost agriculture and promote food security. Further, microfinancing offers access to healthcare where other options are simply not available while promoting gender equality and empowers women and girls and inclusive economic growth and stimulates productive employment for the poor.

Teeboom (2019) identified the several benefits of microfinancing. Allowing poor to provide for their families, allowing the access to credit, serving overlooked category of the society, possible future investments, sustainability, creating job opportunities, encouraging the people to save, economic gains even if income levels are not growing, better loan repayment rates and extending education are the benefits identified by him according to the finding of Vitanna Organization and Plan International.

2.4. Grameen Concept

Grameen Bank concept which was found by Dr. Yunus in Bangladesh is considered as the first formal microfinancing concept used in developing countries. According to Rahman and Nie (2011), Grameen bank always gives priority to poor, rootless, landless, and vulnerable groups. Dr. Yunus says, “Less you have, more attractive you are, if you have nothing you will get the highest priority”, which is the opposite of trending concept of “the more you have, the more you can get.” Because of this popular belief, more than half of the population of the world do not have access to credit facilities. The Grameen banks find the vulnerable even such as beggars and provide access to credit and hence they can start a SME. This is also the opposite of profit maximization which is used by the traditional financial service providers.

Meyer (2002) has stated the importance of the structure and the institutional framework of the MFIs. As per the first step of creating MFI, there should be a motivation regarding that everyone could do and receive. Subsequently, it is required to build the society and should arrange several training programs by educating the importance of the establishment of MFIs. After that should state the proposal of the credit while distributing the funds for the personal investments. After that slowly comes the followings

- Collection of funds

- Returns
- Operation and credit lost.

2.5. Microfinance in Sri Lanka

As discussed earlier, historical evidence is found to say that Sri Lanka also has several forms of microfinancing such as “Cheettu”. According to Atapattu (2009), there were co-operatives, village societies, village societies called as community-based organizations, village revolving funds till 1990. Mostly NGOs involved in such Activities which there was less involvement of government. Atapattu identified that village banking which treats the whole community as one unit, Grameen type group collateral lending which considered 15 to 22 villagers as one group, individual lending using group as a focal point, individual lending, self-help groups, credit unions, seettu as such common MF models in Sri Lanka. While some of those models are somewhat uniformed and standardized there are several models which is not uniformed therefore diverse across the country.

According to Atapattu (2009) there are number of models which have been regulated by the MFIs in Sri Lanka. In 1990s credit Co-operatives, Village Societies which is also known as community-based organization and Village Revolving Funds were the most common micro financial institutions in Sri Lanka. When considering to the Credit co-operatives, that was instituted in the early period of the century, and this was used by most of the middle-class salaried employees. On the other hand, when considering to the Village society model it was implemented by the SEEDS in early 1986. And this led to adopt the guidance to the Samurdhi banks to function their duties and the responsibilities. When considering to the common MF models followings can be identified.

- Village banking
- Grameen Type Group Collateral Lending
- Individual lending using group as a focal point.
- Individual lending
- Self Help Groups (SHG's)
- Credit Unions /Cooperatives
- ROSCA's (Seettu)

The MF Direction No 2 of 2019, defines MF Loans as “Loans granted to individuals/individuals under group lending system for income generating Activities, which include loans for establishing and managing Micro Enterprises, but excluding all lending facilities granted against the security of movable or immovable properties including gold articles, government securities and time deposits in a licensed bank or a licensed finance company. Further, Micro Enterprises has defined as enterprises in the manufacturing and the service sector with an annual turnover of less than Rs. 15 million and employees less than 10.

As per stated those above stated MFIs will lead the functions of the MFIs. But the problem is since there is no any exact implementation method to develop the MFIs in Sri Lanka, there have been arise several problematic situations as well. For an example as per not functioning the MFIs in Sri Lanka it will lead negative impacts to the economic development of the country.

2.6. Regulating Microfinance in Sri Lanka

The Micro Financing sector is a substantial segment of this financial markets and smooth functioning of financial sector is essential to establish a secured economic environment. Sri Lanka enacted the MF Act in Sri Lanka, and it is still in the initial stages of regulating MFIs. The CBSL as the regulating authority, is in the process of making regulations under the Act. Therefore, the outcome of this research will be significant with regarding to the development of the regulatory mechanism and will guide the regulations and the law makers to enhance the mechanism in favorable manner to all the stake holders. Based on to the above stated factors in here researchers have intended to identify the needful means and methods to regulate the above stated legislation as an effective manner for the purpose of developing the MFIs in Sri Lanka.

Until the enactment of the MF Act in 2016, there were not any specific regulatory framework other than number of Acts and regulations which are not specifically introduces for the MFIs. Although there were number of laws, as per the study conducted by Institute of Microfinance in 2009, none of the top 20 MFIs which they included in the study were not regulated. They have identified several laws and regulations which are applicable depend on the nature of the MFI.

However, with the need of protecting the depositors and ensuring the stability and the confidence of the financial system of the country the MF Act was enacted in Sri Lanka (Premaratne, 2017) to protect the mostly informal sector of Micro Financing which were governed by several enactments as mentioned above. However, as identified by Premaratne (2017), there are several advantages and disadvantages of regulating MFIs. The regulations ensure the financial soundness and the sustainability of the institutions, minimize the bankruptcies of such institutions, protect the borrowers, maintain capital adequacy requirements, reserve requirements and provisions for loan losses which are beneficial for the protection of both depositors and the institutions and develop the MF business as an industry. However, the regulations increase the cost of the business to the institutions while becoming a cost to the government or the regulators. According to the MF Act the institutions must pay fees for supervision, licensing and annual fees, auditing fees, other administrative fees, cost incurred to develop the infrastructure such as computer systems. In such a situation, regulating the institutions is not an easy task in both regulator's point of view and institutions' point of view.

According to Sanderatne (2002) it has stated about the importance of the regulations relating to the MFIs in Sri Lanka while identifying the means and methods which can be used to develop the MF in Sri Lanka. Through the MF it helps to improve the following factors

- Improve the income of the poor.

- Develop the employment chances.
- Enhance the national income.
- Improving the self-reliance

However, still there are still several lapses in regulations relating to the governing of the MFIs in Sri Lanka. Therefore, it is necessary to establish prudential regulatory agency for each region where the MFIs are exists. And the other problem which can be discussed is nowadays since the MF sector is not a large entity there were several issues have been arisen in the banking field and the economy as well. Therefore, in order to overcome those matters, there should be a proper regulatory system in order to govern and regulate the MFIs in Sri Lanka. Hence, in this research paper researchers have intended to emphasize the importance and the effectiveness of the prudential regulations while mentioning the implementations of the rules and the regulations to govern the MFIs in Sri Lanka.

3. METHODOLOGY

3.1. Research Approach

In this research the researchers targeted to observe the current legal situation prevailing in the country and the peer countries by analyzing the prevailing legislations on MF regulations and develop a specific recommendation to the lawmakers for the improvements of the regulatory framework related to Micro Financing. Hence, the inductive research approach is the most suitable research approach for this kind of a research.

3.2. Data Collection

The researchers conducted this research as an empirical qualitative analysis which includes the analysis of prevailing legislations and also some quantitative analysis by conducting an online survey.

3.2.1 Analyzing Legislation

The main objective of the research is to analyze the MF Act No. 6 of 2016 and the regulation related to regulating micro-financing in Sri Lanka in order to propose recommendations to the law makers to strengthen the regulatory framework. Hence, the relevant Act and regulations which were introduced in line with the said act were deeply analyzed to identify the salient features of the laws. Further, the regulations related to the Micro-financing sector in the countries such as India, Bangladesh, Malaysia, and Philippines were studied in order to identify the key features and the best practices of regulating Micro-financing across the world which can be adopted in Sri Lanka.

3.2.2 Questionnaire

Further, an online survey was conducted among the general public by distributing a questionnaire in order to collect their views and understanding on regulating the Micro-financing in Sri Lanka. Due to the prevailed Covid 19 Pandemic the researcher was not able to

reach the victims of the MF. Therefore, the online questionnaire was distributed randomly using online means through google forms. The researchers developed the questionnaire as for their intentional requirement consisting of mainly Likert Scale questions including few demographic questions such as age and sexuality and one open ended question encouraging the respondents to provide their views and recommendations. In order to be easily answered, Likert Scale questions included the responses of strongly agree, agree, neutral, disagree and strongly disagree to collect the views of the respondents. In addition, one open ended question was added to get their views and suggestions towards the MF regulations in Sri Lanka.

3.2.3 Other Sources

In addition, secondary data were also collected from books, journals, magazines, newspapers, internet, etc. on the practices and trends in regulating MFI as such qualitative data is considered as detail explanations on the subject area.

3.3. Analysis

The collected information was analyzed in order to identify the key features of the Sri Lankan Act and the Acts and regulations of peer countries. Accordingly, the salient features of the legislations of each jurisdiction were discussed. The results of the qualitative analysis were further used to propose recommendations to the law makers of Sri Lanka to regulate the Microfinancing sector of the country.

4. DISCUSSION

4.1. Regulations in Sri Lanka

As per the preamble of the Act, the MF Act, which was enacted in 2016, is an Act to provide for the licensing, regulation and supervision of companies carrying on MF business; the registration of NGOs accepting limited savings deposits as MF NGOs; for the setting up of standards for the regulation and supervision of MF NGOs and micro credit NGOs and to provide for matters connected therewith or incidental thereto.

Accordingly, the Act provides provisions for licensing, allowed businesses, board of directors, issuing directions, guidelines and rules, auditing, examining and supervision, cancelation and winding up, MF NGOs, immunity for the regulator and general rules and interpretations in its parts. Accordingly, the salient feature of the Act is identified as permitting the regulator to issue the directions and rules regarding the MF business according to the Section 11 of the MF Act.

Accordingly, CBSL as the regulator the directions regarding minimum core capital, statutory reserves, minimum liquid asset ratio, total average liquid assets, supervisory intervention to secure such requirements, regulatory reporting, shareholding, fitness and propriety of senior officials, accommodation, reporting requirements, business places, making structural changes, directions for holding and keeping deposits, maximum interest rates. up to date there 12 such directions had been issued. Further, 3 rules regarding criteria for licensing, license fees and renewal of license had also been issued.

4.2. Regulations in Peer Countries

At this part the regulations related to MF in few countries are explored in order to get the idea of the regulatory patterns of the world. The selected countries are India, Bangladesh, Malaysia, and Philippines. The countries were selected on the basis of being developing countries in Asian region. India is the neighboring country which Sri Lanka takes guidance for most of the legal enactments. Further, even the financial system of the country is much expanded, the MF regulation legal regime for India is also new. Secondly, Bangladesh is selected, as it is the best country which practice the Microfinancing and It has well developed regulatory mechanism. Malaysia and Philippines also selected as peer countries from out of the South Asian region who practices the Microfinancing, and Sri Lanka usually takes guidance from such countries in policy formulations related to financial sector.

Following to the Andhra Pradesh crisis happened in October 2010, which series of suicides happens due to MF loans, criticism towards MFIs in India increased. Accordingly, Andhra Pradesh government enacted Andhra Pradesh Microfinance Ordinance 2010. In the circumstance, the Central Government introduced the Micro Finance Institutions (Development and Regulation) Bill in 2012. Accordingly, the Regulatory Authority is the Reserve Bank of India (RBI) and Societies registered under the Societies Registration Act of 1860, companies registered under section 3 of the Companies Act of 1956, trusts established under any law for the time being in force, bodies corporate or any other organization, which may be specified by the RBI if the object of the institution is the provision of MF services are the entities which include in the Bill. Priority sector lending and self-regulation mechanism are main highlights in Indian regulatory mechanism.

Microcredit Regulatory Authority Act, 2006 is the main enactment in Bangladesh and the Microcredit Regulatory Authority is established under the Act. Depositor security fund, reserve requirements, punishments for specific offences, authority to issuing rules, maximum and minimum rates for lending and deposits are main features of the legislation while specifically mentioning the rights of the clients.

The MF industry in Malaysia mainly consist of NGOs, Development Financial Institutions, Cooperative and Credit Unions and Government institutions and agencies. Their services are micro credit, loans and savings which were funded by different sources of funds. In Malaysia, a clear set of rules are not existing for establishment of MF NGOs. However, the Development Financial Institutions Act, 2002 (Act 618) covers the provisions in providing the MF facilities by the Government and the Bank Negara, Malaysia, which is the Central Bank of Malaysia is responsible for such regulatory part. The mains reasons identified for this non-availability, are unavailability of critical mass Micro Financing sector in Malaysia and they do not mobilize deposits from general public (APO, 2006). As those institutions do not mobilize deposits, mainly donor grants and commercial borrowings are the sources of their loan capital. So, the main reason of a regulation, which is safeguarding the depositors, does not arise in these instances in Malaysia.

In the Philippines, institutions are regulated by the Banko Sentral ng Pilipinas which is the Central Bank of Philippines. Capital adequacy requirement, solvency standards, reserve requirements, and provisioning for non-performing loans are there to safeguard the clients.

By examining the legislations of the peer countries, several good features, and practices can be identified, such as priority sector lending, self-regulation mechanism, separate authorities, punishments, interest rate caps and floors, capital adequacy requirements, reserve requirements, solvency standards and provisions for non-performing loans. These will be used and analyzed when suggesting recommendations to Sri Lanka to strengthen the legal framework related to MF.

4.3.Outcome of the Online Survey

The researchers conducted an online survey to identify the understanding and the views of the general public regarding regulating MFIs. Accordingly, 192 responses were received representing all the provinces. Out of the total 192 respondents, 75 respondents (39.1%) were female while other 117 respondents (60.9%) were male. Most of the respondents (52.6%) were within 31 – 40 age group. Further, 28.1% were in the 21-30 age category, 17.2% in the 40 and above category and only 2.1% belonged to below 20 age group. Further, 38% were passed GCE A/L, 35.9% were graduated, 24.5% has post graduate qualifications and 1.6% has studied up to GCE O/L. The survey outcome is given below.

Table 1 Outcome of the Online Survey Conducted to get an idea on the understanding/views of the General Public on MF regulations.

Question	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
I am aware of the normal lending rates of the Country	19.8%	54.7%	14.1%	8.9%	2.6%
I always do research on the lending rates when I need a loan	37.5%	46.4%	9.9%	5.2%	1%
I am focusing mainly on the convenience of obtaining the loan when selecting the institution	33.3%	50.5%	10.9%	4.2%	1%
Obtaining a loan from a Banking Institution in Sri Lanka is not easy	26%	45.3%	15.6%	11.5%	1.6%
Micro-finance institutions are a good option for the public to obtain loans	7.8%	31.3%	28.1%	24%	8.9%

The interest rates which are charged by the Micro-Finance Institutions for the loans are reasonable	0.5%	17.2%	27.6%	35.4%	19.3%
I am satisfied with the methods which the Micro Finance Institutions are using to recover the loans	0.5%	19.8%	27.1%	39.6%	13%
The Micro Finance Institutions in the country are adequately regulated	-	20.8%	28.1%	38%	13%
I believe that most of the Micro Finance Institutions are registered under the Regulatory Authority	2.1%	35.9%	27.1%	28.6%	6.3%

Source: Authors Developed based on the outcome of the questionnaire (2021)

The responses for the open-ended question mainly focused on several key areas. The main view of the respondents is the requirement of Registration, Monitoring and Auditing for MFIs. In addition, the other key area is the interest rate. Minimum Interest Rates to be paid for deposits and Interest Rate Cap for loans were suggested. To fruitful the effort, it is required to introduce laws and regulation to safeguard the borrowers. Further, several respondents have highlighted that the law should be enhanced for the actions such as illicit methods for recovery. Those actions should be highly monitored. In addition, after disbursing the loans, the institution should clearly monitor the projects. Regular visits to the customers and projects will be added benefit. Such will prevent the institution failures.

5. RECOMMENDATIONS AND CONCLUSION

Considering the above discussion and the research findings followings are recommended to the law makers in order to establish a firm regulatory framework to regulate the MFIs of the country.

5.1. An Authority

In Sri Lanka, the regulation part is done by the Supervision of Non-Bank Financial Institutions of the CBSL. However, the CBSL still could supervise only four institutions out of thousands of micro-finance institutions functioning in different scales and under different entities and regulations in Sri Lanka. In that sense, it is suggested to establish a separate regulatory authority as established in several other peer countries. Even the founder of the Bangladesh Grameen concept, Dr. Yunus mentioned that the MF can be regulated and developed well be identifying and establishing separate entity which can be more focused on the sector. As the Central Banks are usually too busy with their main objectives such as economic and price stability and financial system stability with large scale institutions such as commercial banks and non-bank financial institutions.

Even, most of the stakeholders of the Microfinancing in Sri Lanka also not happy with the regulation effort done by the regulator and they also wish to have a strengthened regulatory framework for the regulation of the MF institutions. The clients think that the institutions are not fair for the customers as such institutions are not properly supervised by the supervisory institution. Further, the some of the respondents are happy to supervise the MFIs by the CBSL. But considering the responses, it was revealed that a considerable amount of the people believes that most of the MFIs are regulated, but actually not. In the circumstance, it is suggested to have a separate, Special Supervisory Authority (SSA) to regulate MFIs.

5.2. Applicability of Regulation

As discussed, there are thousands of formal and informal financiers are currently functioning in Sri Lanka in the MF sector. Although the section 2 of the Act mentioned on the institutions which the act is not applicable, it does not clearly mention the institutions which the act is applicable. In the circumstances, it is required to identify the applicable parties of the regulations to be introduced as in the first instance it is impossible to attract all the MF businesses in all scales to be regulated. However, the scope must be extended in due course.

5.3. Provisions for Minimum Capital Requirements

As per the MF Direction No 1 of 2016, the minimum core capital which should be maintained by the companies applying for the license before 2018 at all times was Rupees One Hundred Million and they should maintain a core capital at a level not less than Rupees One Hundred and fifty million from January 2019. Further, for the companies applying for the license after 2018, the minimum core capital should be at a level not less than Rupees One Hundred and fifty million.

However, it is evident that only few institutions have been registered under the CBSL and hence the minimum capital requirement is not practically maintained by the institutions which are maintained with in the country. Inability to maintain such an amount of minimum core capital is also a reason for the companies to discourage registration. Hence, it is suggested to introduce maintaining the minimum core capital of not less than ten percent of the deposit liabilities of the institution and the total risk adjusted assets and off-balance sheet items as may be determined by the SSA. Further, the maximum core capital should be limited to Rupees Hundred Million. This recommendation will reduce the minimum core capital that should be maintained by the small-scale institution and hence will motivate them to be registered under the SSA.

5.4. Minimum Liquid Assets or Statutory Reserve Requirement

MFIs are dealing with the depositors' money. Hence, there is a possibility of the depositors requesting their money to withdraw. In such instance, if the institution does not possess adequate reserves/liquid assets to pay such money, that may lead to a bank run. Therefore, liquid assets or statutory reserves are required as a regulatory requirement.

While keeping such statutory reserve requirement as per the above directions, it is suggested to prescribe minimum holding of liquid assets such as currency notes and coins, government treasury bills, balance held at other banking institutions and any other liquid instruments as approved by the SSA.

In this instance, it is suggested to maintain the statutory reserves with the CBSL, even the regularity part is assigned to SSA, as the CBSL has the ability and expertise of maintain such reserves on behalf of the SSA.

5.5. Limits

Considering the nature of the lending, which is mostly in very minimum amounts, and different sizes of the institutions, it is suggested to specify the limit as maximum 5 percent of the capital funds of the institution. However, it should not exceed minimum amounts of accommodation stipulated already. Further, considering the facts the SSA can further limit this ceiling for the specific financial institutions if they think that it is prudent to do so, for the safeguard of the institution and for the safeguard of the customers, institution, and the financial system as a whole.

In addition, the requirement of limitation of insider dealing to its directors, associates, shareholders, and employees should be introduced. It is not recommended to prohibit such lending. However, such lending should be thoroughly monitored and reported to SSA and limited to several specific reasons such as lending for housing purposed for its employees.

In the other hand, to avoid the control of the institution by single person or single shareholder, it is recommended to impose a maximum limit of shareholding of the institution. In the Commercial Banking sector in Sri Lanka, the maximum shareholding limit increases from 10 percent to 15 percent in 2019, to boost the confidence of the investors (Daily FT, 2019). In the microfinancing sector, there is no such limitation imposed by the regulations. Accordingly, it is recommended to limit the maximum single shareholding limit of 10 percent for the safety of the institution and the customers.

5.6. Reporting to Financial Intelligence Unit (FIU)

Financial institutions are highly targeted by the money launders. The financial institutions which are registered under the CBSL are required to report the financial transactions to the FIU as per the provisions of Financial Transactions Reporting Act No. 06 of 2006. Accordingly, the provisions should be introduced to the registered MFIs to report the FIU in the forms of Cash Transactions Reports, Electronic Transactions Reports and Suspicious Transactions Reports. Although, they are not permitted to do offshore transactions and foreign currency transactions, the institutions can be used to launder the money within the country and transactions related to several illicit activities such as drug trafficking, human trafficking, terrorist financing, and human organs trafficking.

Since, the FIU is well established for these activities and it is the institution which represents the country in several other international institutions and it has signed several memoranda of understanding with government institutions which are related to these types of activities, it is

not recommended to introduce a separate entity for MFIs. The provisions should be strengthened to cover the MF sector to the scope of the Financial Transactions Reporting Act.

5.7. Deposit Insurance

In order to encourage the registration with the SSA, there should be benefits for the institutions and for their customers. A deposit insurance scheme will be such encouraging factor which the customers/depositors of the institutions are mainly benefited.

Introducing a deposit insurance scheme for the MFIs will increase the confidence of the depositors on the institutions and the institutions will also be encouraged as they can reach more clientele when they are eligible for such compensation scheme. Further, to avail such facility, the institutions will take necessary steps to register under SSA and comply with the regulatory requirements. A percentage from the fees obtained by the institutions can be allocated to a fund and definitely, the support of the government must be obtained to implement such compensation scheme.

5.8. Conclusion

In this paper the researchers have analyzed the prevailing laws and regulations in Sri Lanka and several peer countries, with the views of the general public. With such, the researchers propose several recommendations for the future law reforms in Sri Lanka in view of minimizing the issues in the Microfinance sector and to safeguard the stakeholders and maximize the benefits to the financial system of the country.

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Impact of Microfinance on Rural Empowerment in Anuradhapura District

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ABSTRACT

Microfinance is the provision of a broad range of financial services such as deposits, credits, and payment services in order to empower the poor and low-income households and their microenterprises. This study examines the impact of microfinance on rural empowerment in the Anuradhapura district. The study is mainly based on the field survey conducted by the researcher. Both participants and non-participants with microfinance services are taken into consideration for a better understanding of the impact of microfinance. A structured questionnaire based on a five-point Likert Scale was used and it was able to collect data from 300 microfinance beneficiaries and another 200 people who are not engaged with microfinance services in the Anuradhapura district according to the convenience sampling method. As the sample of the study, the researcher gathered data from rural people who are living in the Divisional Secretariats; Nuwara Gampalatha East, Kahatagasdigiliya, Thirappane, Galenbindunuwewa, Horowpothana, Mihinthale, Ipalogama, and Kebithigollewa in the same district. The study measures the impact of microfinance on rural empowerment by using five determinants: micro-enterprises, education, health condition, decision making, and common welfare. Statistical Package of Social Science (SPSS) was used to analyze and interpret the data for the research findings. The study results indicated a positive significant impact of microfinance on rural empowerment. Furthermore, the study emphasizes that there is a significant role of microfinance in the empowerment of poor people.

Keywords: Anuradhapura District, Microfinance, Rural Empowerment, Sri Lanka

1. INTRODUCTION

1.1 Background of the Study

Microfinance is an innovation in the field of finance to reduce the poverty and improve rural empowerment all over the world. Micro financing first started in Bangladesh in the 1970s and it rapidly evolved in other developing countries. Microfinance promotes economic development, growth, and empowerment through the support of micro-enterprises and small businesses. Microfinance institutions provide a vital role in a number of countries such as Sri Lanka, India, and Nepal. Today, microfinance institutions contribute to the alleviation of poverty, increase the education level and standard of living of poor people, provide health care, provide instruction services and conduct awareness programs. These institutions support people by providing financial services such as deposits, loans, payment services, and insurance

to poor and low-income householders and their micro-enterprises. Microfinance institutions use innovative methods of providing credit for the poor to the mobilization of savings from the poor, a social mobilization process that involves awareness building.

The Microfinance Regulatory Act (MFRA) was established in the Sri Lankan parliament in 2015, allowing private sector institutions to participate in the government development process by providing microfinance services to poor people's needs with simple regulations. As a result, microfinance institutions established around the country within the last four years. This was an opportunity for Anuradhapura district poor people. Many microfinance institutions are operating in the Anuradhapura district. Those institutes provide different kinds of services to the rural people to improve their quality of living standard.

Presently microfinance is a more extensive economic and social welfare scenario in Sri Lanka with incorporates rural empowerment and development. In addition, the Government of Sri Lanka pays very much attention and performs a major role by providing infrastructures for microcredit under the Samurdhi Development Program which was introduced in 1995 (replaced the previous Janasaviya Program). There is a large number of public and public institutions that provide microfinance services to low-income families such as corporative societies, development banks, and commercial banks, local and international non-government organizations in Sri Lanka. In due course, the field of microfinance has been an utmost familiarized economic and social enlargement that affects the rural development in the nation (Central Bank of Sri Lanka, 2018).

In recent years, large numbers of studies have been involved on the only impact of microfinance on poverty alleviation and women empowerment. This study goes beyond that and includes the impact of microfinance on rural empowerment in the Anuradhapura District. Also, there are very few studies available in general on the area of microfinance in the district as well as those revealed only the importance and women empowerment in particular areas, not in all-district. Therefore, the Anuradhapura district as its location is selected (Biggest District in Sri Lanka as per the geographical existence) is selected and it has many rural areas with limited development infrastructure facilities. Furthermore, the researcher is of the view that the Anuradhapura district is an ideal area to be conducted this research as concerned. Therefore, this study attempts to fill the requirements and study findings as formulated and related to microfinance by analyzing its impact on rural empowerment in Anuradhapura District.

Rural areas mostly suffer from poverty in many developing countries. Sri Lanka is one of the developing countries; the case is the coming up issue in our country. In 1985, Muhammad Yunus offered microcredit to provide credit facilities to poor people and small businesses through Grameen Bank in Bangladesh. Microfinance institutions network showed that the Asia countries such as Bangladesh, Indonesia, India, and the Philippines are mature for microfinance. But the countries such as China, Russia, and Laos still establishing microfinance themselves.

Considering the history of microfinance institutions in Sri Lanka in 1906s, the Thrift and Credit Co-operative Societies were first established as the first co-operative in Sri Lanka. But in the 1970s, the network of Thrift and Credit Co-operative Societies was declined due to the

economic crisis in time. After that 17 Regional Rural Development Banks were established under the Act of Parliament with the purpose of reaching the remote rural areas and smallholders who lacked access to financial services from commercial banks. Sri Lanka microfinance industry has several ranges of institutions such as; Regional Development Banks and other Licensed Specialized Banks, Thrift and Credit co-operative Societies, Samurdhi Bank Societies, Co-operative Rural Banks and other co-operatives, NGO Microfinance Institutions, Commercial Banks and Registered Financial Companies.

North central province is one of the provinces of Sri Lanka which is necessary to improve rural areas by providing different kinds of financial services. This province includes two districts Anuradhapura and Polonnaruwa. But, this study considers only in Anuradhapura District. Anuradhapura District is popular for agriculture products in Sri Lanka. They grow paddy, maize, ragi, etc. The majority of people don't have any stable income for their households. Therefore the loan facilities are required to uplift their livelihood activities. Micro-enterprises in rural areas can help to reduce their poverty. Micro-enterprises not only enhance national productivity, and generate employment but also help to develop economic independence, social, and personal capabilities among rural people. Microfinance institutions help poor people in lots of ways and microcredit are one of the major instruments in empowering the rural people. On the other hand, they provide health care, social services, educational support services, instruction services, etc. However, most of the research has been done regarding women's empowerment worldwide. Actually, rural entrepreneurs are an essential part of the society and they contribute to the national income of the country and maintain the sustainable livelihood of the family and communities. But they face lots of barriers when they run their day-to-day life. Then they want some kind of empowerment.

In this case, except for a few public banks and credit-providing institutions, there are many private institutions operating in microfinance institutions in the district and this study is to reveal how such microfinance operating by the institutions affects the empowerment of rural people in the particular district. In view of this background, this study is supposed to emphasize the role of microfinance in creating employment and income opportunities as well as provide good knowledge and self-confidence to rural people and subsequently empowering them to play an active role in the economic, socio-cultural, and political sphere in the Anuradhapura area.

1.2 Significance of the Study

In the light of the emphasis of having microfinance in the economic development of the country, real rural community expectations are to be achieved and their empowerment is to be sustained in an idealistic nature. The study findings would especially be to support the achievement of Millennium Development Goals (MDGs) in Sri Lanka such as eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality and empowering women, improving mental health, etc. Microfinance institutions contribute to these goals by providing loans with low-interest rates, providing scholarships to the A/L and O/L students, seminar programs and additional classes conducted for the grade 5 students, repairs Montessori, etc. As well as they provide a financial management training program and

soft skill enhancement program for women. On the other hand, they provide water filters, spectacles, and provide adult allowances for 60+ people in rural areas. This study actually describes the importance of having poor people acquire these kinds of benefits through the microfinance institution in the Anuradhapura district. And also most microfinance institutions face huge competition in the current business environment in Sri Lanka. So this study helps them to face their competition with a clear understanding and they help to understand what are the changes expected by clients of their financial services.

As well as rural people can get an idea about what are the benefit can get by microfinance institutions and what institutions provide more beneficial services to them. The outcome of the study is to prescribe new relating to microfinance which is influenced to increase rural empowerment in the Anuradhapura district. According to that, this study provides the framework and guideline for new entrants to the microfinance industry. Therefore, this study will emphasize the impact of microfinance on rural empowerment as it would be an aid for further reviewing the economic stance of the rural people. As well as finds of this study would be realistic in-depth on how the government can assess the level of the economic development in the Anuradhapura district in addition, through the findings of the study the government may consider in their policy formulation on economic development of the country and determine how proportionally support the microfinance to achieve the millennium development goals in Sri Lanka. Further, the future researchers will use this study report and findings for their research purposes and other data collection and analysis purposes, etc.

1.3 Problem Statement

The aim of microfinance institutions is to assist and encourage poor people to empower their lives by obtaining benefits through the offering of different kinds of microfinance services. Then the people can survive their lives in parallel to maintain the existence of those institutions. In addition, people would receive the benefits according to their economic requirements in the society and it would be a benefit to maintain a balanced economic and social stance necessary to the society.

Rural empowerment considers as improving poor people's income, health, education level, and ability to get logical decisions about their household. Rural empowerment cannot be measured in a simple way. It is complex and methodically challenging to analyze. Because the goals of empowerment differ according to regional, cultural, social, and political contexts. Anuradhapura district has Sinhalese, Tamils, and Muslims. They have different economic, cultural, and social preferences and expectations. Hence rural empowerment concept must be looked at according to their point of view. National and international experts have kept their much attention to microcredit as a strategy capable of reaching rural people and involving them in the development process in the country.

There are many more previous researchers attempting to find out the impacts of microcredit on women's empowerment in Sri Lanka. However, this research does not much to concentrate much on the overall impact of microfinance in the area in district-wide. Because those

researchers only consider women and microcredit. Microcredit is the only part of microfinance services. Other than microcredit, there are large numbers of services wanted to improve rural empowerment in society. Presently there is a few research available to show the contribution of microfinance to rural empowerment in some areas in Sri Lanka. And also previous researchers consider the present situation of microfinance in Sri Lanka. Even though, except for a few studies, there is no extensive research available on the rural empowerment through microfinance the rural people are highly empowered or not through the microfinance in Anuradhapura District. As well as according to this study consider the People have benefited from microfinance for over a decade in the Anuradhapura district and microfinance is further needed or not to empower rural people in the Anuradhapura district.

As the main research question, the researcher identified,

What is the impact of microfinance on rural empowerment in the Anuradhapura district?

1.4 Research Questions

According to the above research question, the researcher intends to find the solution for the following specific questions.

1. How does microfinance affect micro-enterprises of the rural poor people in Anuradhapura district, Sri Lanka?
2. How does microfinance affect the education of the rural poor people in Anuradhapura district, Sri Lanka?
3. How does microfinance affect the decision-making of the rural poor people in Anuradhapura district, Sri Lanka?
4. How does microfinance affect the education of poor people in Anuradhapura district, Sri Lanka?
5. How does microfinance affect the common welfare of the rural poor people in Anuradhapura district, Sri Lanka?

1.5 Research Objectives

The main objective of this study is to assess the impact of microfinance on empowering rural people in Anuradhapura district, Sri Lanka.

The specific objectives include:

- To assess the impact of microfinance on empowering micro-enterprises of the rural poor people in Anuradhapura district, Sri Lanka.
- To assess the impact of microfinance on empowering education of the rural poor people in Anuradhapura district, Sri Lanka.
- To assess the impact of microfinance on the health condition of the rural poor people in Anuradhapura district, Sri Lanka.
- To assess the impact of microfinance on the decision-making of the rural poor people in Anuradhapura district, Sri Lanka.

- To assess the impact of microfinance on the common welfare of the rural poor people in Anuradhapura district, Sri Lanka.

2. LITERATURE REVIEW

The microfinance concept was introduced by Muhammad Yunus through Grameen Bank in Bangladesh in the 1970s. After introducing it, the non-government institution started to provide different kinds of services to poor people in the rural areas. Microfinance is an important source of financing for poor, lower-income people in developing countries (Nawaz, 2010; Thilakarathne, Wickramasinghe & Kumara, 2005). There are lots of effective fundamental aspects of microfinance services. These are objectives of alleviation of poverty, simple methods, immediately providing services, protection of clients, improvement of clients, and sustainability (finance, social, and environmental). Nowadays most poor people are not satisfied with banking financial services because they take more time to issue loans, provide small loan amounts, have high transaction costs, and want more than one guarantor. Therefore most poor people move to microfinance institutions. Because under the term of microfinance various lending methods introduce to poor people to satisfy their lending requirements. The terms microfinance and microcredit are very similar concepts. But both microfinance and microcredit concepts have a conceptual difference. Microfinance is a broader concept than microcredit. Microcredit is only one part of microfinance as a credit methodology that employs effective collateral substitutes to deliver and recover short-term working capital loans to micro-enterprises. Thus microfinance plays a very important role in the poverty alleviation and it had a great impact in the following ways; financial self-sustainability, fostering credit culture, promoting income-generating activities, empowerment of women, promoting entrepreneurial skills, increased well-being, lessening of social evils, and improves health facilities as well.

Empowerment is the management style that helps managers to share the decision-making process which influences the organizational members concerning the collaboration in the decision-making process is not limited to those options with formal power, certain characteristics as information systems, training, power-sharing, leadership style, and organizational culture (Val & Lloyd, 2003). The outcomes of empowerment depend on the choice of the individual. According to Webster's New World Dictionary (1982), the word "empower" means to make or cause power. Empowerment is an active, multi-dimensional process that enables women to realize their potential and powers in all spheres of life. Power is not needed to be exercised, sustained, or preserved. (Pillai, 1995).

Due to the promulgated motion in the rural context of microfinance, rural empowerment means improving rural people's income, health and nutrition, education and employment, saving and investment, and ability to participate in the decision-making process in households and within the community. Two different mechanisms can result in various effects of credit program participation by genders such as empowerment effects and standard income and substitution effects. Household decision-making produces one way of understanding empowerment. Women empowerment is also included in this concept. Women's empowerment means improving women's income, health & nutrition, education and employment, savings and

investment, and ability to participate in decision-making processes at household and community levels. (Hassan, 2011). Women's absolute well-being and women's relative well-being is the dimension of women's empowerment. For absolute well-being, women's empowerment is defined as the process of improving the welfare of women which is indicated by outcomes that measure current status regarding literacy, health, and nutrition, labor force participation, and mobility.

Idowu, Ablola, and Salami (2011) declared microfinance institutions are always expected to help small entrepreneurs whose income is not enough for the minimum stage, not stable employment and between 18-60 years. Leikem (2012) defined microfinance as an inspiring story that started by the poorest region person to poor people who always try to alleviate poverty by themselves. Ifelunini and Wosowei (2012) examined the role of microfinance services on poverty alleviation among women entrepreneurs in South Nigeria. This study carried out Bayelsa and Delta states which were randomly selected. As a data collection method, this study used a multiple random sampling technique and included 200 beneficiaries and 200 non-beneficiaries of microfinance services. The data used for the study were formed through primary sources. For gathering information from respondents were used structured questionnaires. Regression analysis techniques have been used for the data analysis of this study. The study found a positive impact on the per capita expenditure of women entrepreneurs. Also, places of residence, as well as the size of households, have negative impacts on per capita expenditure while education level has a positive impact on per capita expenditure.

Ayuub (2013) indicated microfinance services related to poor people who are neglected by a commercial bank and it helps to smooth their business work and make their own assets. And also Abel, Grace, and Willie (2014) investigated factors influencing poverty reduction among microfinance adopting households in Zambia. The study findings indicated that the majority of respondents could improve their social development through microfinance initiatives. Oqueiofor and Uzoamaka (2014) performed a study and identified the small size of loans, interest rate, short loan payment cycles, and very frequent group meetings as the enabling and disabling factors that affect the successful graduation of microfinance clients from microfinance programs in the Philippines.

Haneef, Amin, and Muhammad (2015) examined the impact of Islamic microfinance on poverty alleviation in Bangladesh. This study mentioned that Islam have been engage a huge number of small businesses or self-employments. This study has used a survey questionnaire for data collection and the survey included 381 respondents while the sample has been selected according to the non-probability sampling techniques. Islamic microfinance activities have been considered independent variables and gender, age, marital status, family size, and education level consider depending on variables of the study.

Thilakaratna, Wickramasinghe, and Kumara (2005) examined that participation in microfinance programs can help households to better integrate with the larger community and increase their social recognition. Another result of that study was that the way in which microfinance affects different income groups differs substantially. From the Sri Lankan perspective, Semasinghe (2015) examined the impacts of microcredit facilities on women's

empowerment in the context of the great importance given to entrepreneurs. The study has been the primary objective to identify the impact of microcredit on empowerment and the sub to assess the relationship between them. The study has adopted a causal survey research design through which 337 members of microfinance institutions in the Northern Province. The researcher has used stratified random sampling and structured questionnaires for data collection. Correlation and regression analysis has been used to find the impact of microcredit facilities on the empowerment of women in rural areas. The study concludes that microcredit facilities alone do not support the entrepreneurs to enhance them. Herath (2015) investigated the impact of microfinance on income poverty, at two leading microfinance institutions in the Kandy district. Kaluarachchi and Jahfer (2016) examined microfinance and poverty reduction in the Polonnaruwa district by using structured questionnaires. The sample was considered 300 microfinance beneficiaries while data analysis was carried out through correlation analysis and descriptive statistics. The finding of this study mentioned that there was a significant relationship between microfinance and poverty alleviation at large. Kumari (2016), investigated that the Samurdhi credit scheme seems to assist people mainly in sustaining their current survives, majority of clients have graduated to higher loans for the development of their projects, saving habits developed by the bank, improved the living conditions as well. Rathnayake (2017) investigated the impact of microcredit facilities on the empowerment of women entrepreneurs in rural areas. In this study, 37 women were selected randomly from the Teldeniya area for the sample. In this study, both primary and secondary data are used. The study found that the amount of loans, level of education, and rate of interest are the important actors which determine women's entrepreneurship development. Thilakaratna, Wickramasinghe, and Kumara (2005) examined that participation in microfinance programs can help households to better integrate with the larger community and increase their social recognition. Another result of that study was that the way in which microfinance affects different income groups differs substantially.

There are many more previous researchers attempting to find out the impacts of microcredit on women's empowerment in Sri Lanka. However, this research does not much to concentrate much on the overall impact of microfinance in the areas in district-wide. Because those researchers only consider women and microcredit. Microcredit is the only part of microfinance institutions. Other than microcredit, there are large numbers of services wanted to improve rural empowerment in society. Presently there is little research available to show the contribution of microfinance to rural empowerment in some areas in Sri Lanka. And also previous researchers consider the present situation of microfinance in Sri Lanka. Even though, except for a few studies, there is no extensive research available on the rural empowerment through microfinance the rural people are highly empowered or not through the microfinance in Anuradhapura District. As well as according to this study consider the People have benefited from microfinance for over a decade in the Anuradhapura district and microfinance is further needed or not to empower rural people in the Anuradhapura district. On the other hand, no previous researcher performed their studies by collecting data from the main three ethnic groups of people in Sri Lanka. This study mainly considered that reason.

Therefore, this study would fulfill this gap and validate to present evidence of the important contribution made by microfinance to the rural empowerment in the Anuradhapura district.

3. METHODOLOGY

The main objective of this study was to examine the impact of microfinance on rural empowerment in the Anuradhapura district. This kind of study is done in order to describe the characteristics of a certain phenomenon. Therefore this study is considered a descriptive study. The survey was carried out among a sample of 500 rural people from 9,630,000 of the total population. These 500 samples are divided into two groups one group who are really involved with microfinance Non-Government Organizations and another 200 people who are not engaged with microfinance NGOs in the Anuradhapura district. The microfinance NGOs were selected to do this study because a previous researcher (Lakmali, 2019) gave an idea to the future researchers to get microfinance NGOs, and another reason to select that, there are much more microfinance NGOs established in the particular area.

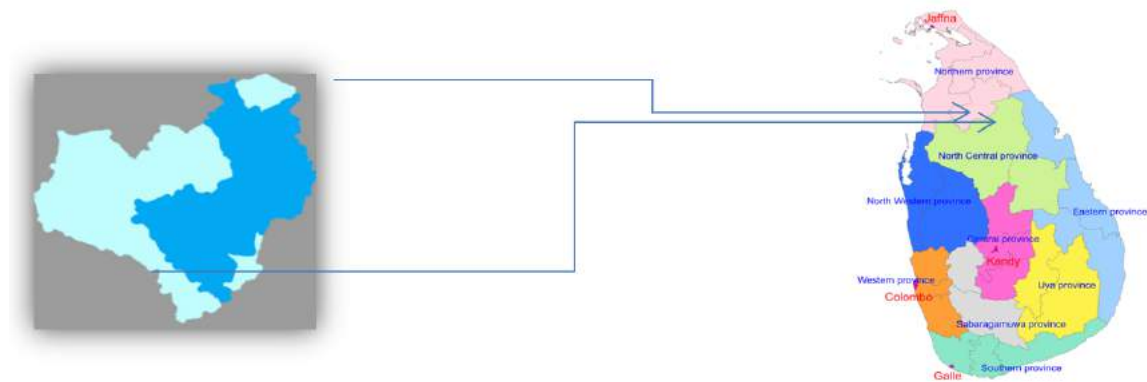
The type of this study was a quantitative study that generates statistics through the use of large-scale survey research. This study has three distinctive features such as no time dimension, reliance on existing rather than change following the intervention, and groups selected based on existing differences than random allocation. Therefore, this study considers a cross-sectional type of study. A deductive approach was used here as the research approach.

3.1 Population and sample

3.1.1. Geographical location

Anuradhapura district is located in the North Central Province of Sri Lanka. It is divided in to 23 divisions and has 860,575 people and urban sector has 50,595 and rural sector has 809,980 (Census of Population and Holding of Sri Lanka, 2012). Anuradhapura district has semi-arid vegetation and low and erratic rainfall. The main livelihood of the people is agriculture, of which 47% is rain fed and about 53% with irrigation. Elder population do most of the agriculture activities. Youngers are largely involved in other income generating activities out of the area. The researcher mentioned the research area from royal blue colour as follows,

Figure 1: Map of the study area



3.1.1. Population

The population refers to the entire group of people, events or things of interest that the researcher wishes to investigate (Sekaran & Bougie, 2010). According to this study the researcher considered all rural people under the two groups. As one group selected people who are really engaged with microfinance NGOs in Anuradhapura district and as another group the researcher selected the people who are not engaged with any microfinance NGOs in particular area as the population. Many previous researchers do their studies only considering microfinance institution which are include under Non-Government Organizations. As well as majority of Anuradhapura district people actively participate with microfinance NGO's institution. Then this research also selected only microfinance NGO's which are situated in that particular area. According to the Department of Census and Statistic data there are thirteen microfinance NGO's actively perform their operations in Anuradhapura district. Nearly there are 36000 Clients actively participate with the microfinance services.

Table 1: Population

No	Name of the Organizations
1	Berendina Micro Investment Company
2	South Asia Partnership Sri Lanka (SAPSRI)
3	SAFE Foundation
4	Jana Sahana Development Foundation
5	Rajarata Participatory Development Foundation
6	Rajarata Gami Pahana
7	Sri Lanka Gramashakthi Foundation
8	Rajarata Gamishakthi Nirmana Kawya (RGNK)
9	Sivumaga Community Organization
10	Abimani Community Development Center
11	Kebitigollewa Intergrated Rural Development Organization (KIDO)
12	Pragathi Sewa Foundation
13	Vision Fund Lanka

Source: Based on MF NGOs data

3.1.2. Sample

North Central Province selected to do the study by the researcher. There was a main reason to select that particular province, because this province has higher percentage of indebted households (Department of Census and Statistics, 2019). This study is limited to Anuradhapura district because Anuradhapura district has higher number of households which lending money from finance companies or leasing companies than Polonnaruwa district. The researcher selected 500 people from eight divisional secretarial divisions as the sample size of the study. Those areas are Nuwara Gampalatha East, Kahatagasdigiliya, Horowpothana, Galenbindunuwewa, Mihinthale, Ipalogama, Thirappane and Kebithigollewa. Berendina Micro Investments Company selected for data collection purpose for the study. There was a special reason for select this company among 13 microfinance NGO's which are situated in Anuradhapura district. Because, in 2019 Berendina Micro Investments Company Ltd became the first microfinance institution to receive the license from the Central Bank of Sri Lanka. As well as particular company has higher amount of loan portfolio than other companies. Among people who are engaged with microfinance NGOs the researcher selected 300 households to research purpose another 200 respondents are selected based on non-participant with any microfinance services.

Table 2: Sample Size

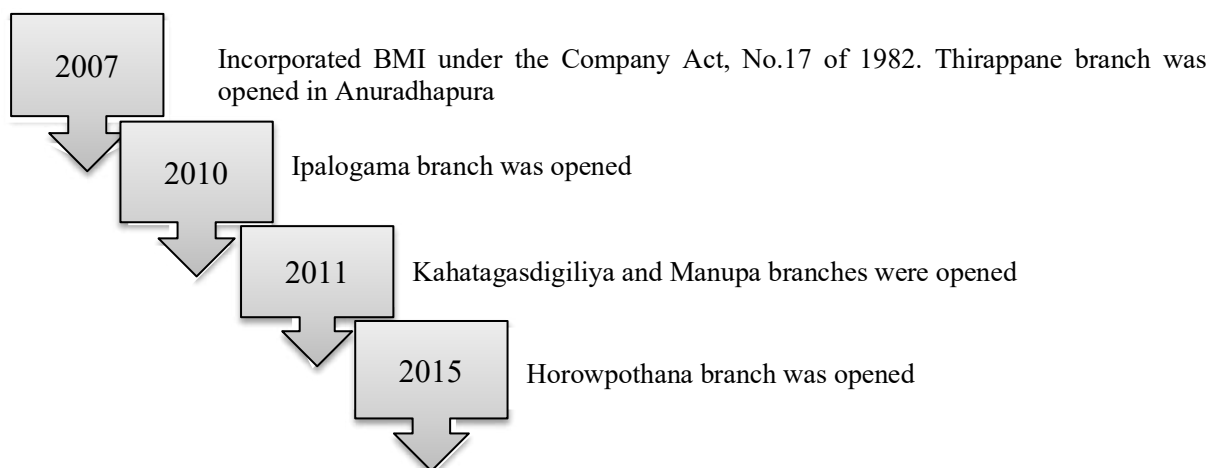
Group	Number of Respondents
Participant with Microfinance	300
Non-Participant with Microfinance	200

Source: Survey Data, 2020

Berendina Micro Investments Company Ltd

Berendina Micro Investments Company Ltd started in 1992 at Yatiyanthota with the vision of “create and empowered, equitable society where poverty does not exist” and it is a licenced microfinance company established under the Microfinance Act No.6 of 2016 to provide Microfinance services to poor people in Sri Lanka. Berendina Micro Investment Company Ltd started with the name of Berendina Micro Institution and then it transferred completely to Berendina Micro Investment Company Ltd in 2017 in preparation of BMIC for the application of microfinance license from the Central Bank of Sri Lanka. Currently there are 30 branches concerned in 11 districts. Further, microfinance operations are also carried out through 55 plantation estates in 3 districts. The following figure showed that the evolution of Berendina Micro Investment Company Ltd in Anuradhapura district.

Figure 2: Evolution of BMIC in Anuradhapura district



Source: BMIC Annual Report, 2018

3.2. Data collection

There are two sources of data; primary data and secondary data.

Primary data

Primary sources of data mean individuals collect information when interviewed, administered questionnaires or observed. In this study primary data collected through distributing questionnaires to rural people who really engaged with Berendina Micro Investment Company Ltd and another 200 people not engaged with any microfinance NGOs in Anuradhapura district. As well as collected data from branches, managers and field officers by conducting direct interviews in this particular company.

Secondary data

The secondary sources of data means purpose of this researcher publish data findings. The secondary data to the study obtained by text books, web sites. In addition to that annual report of the Berendina Micro Investment Company Ltd also used to collected some data for the research purpose.

Questionnaires development

Survey method was used to collect data from larger number of client base. The questionnaires consist of three parts .Part one, part two and part three as well. The questionnaires are prepared by using Sinhala and English languages.

- **Part one- Demographic Information**

Within part one was collected personal details of the rural people's by using close ended questions. In this part the researcher aims to find out the rural people's personal details and family background. In here researcher used nominal scale. The reason is used nominal scale is

personal data should be gathered with due regard to the sensitivity of the respondent's feelings and with respect for privacy. In this part included ten questions.

- **Part two- Independent Variables**

Part two was included the independent variable of the study. Microfinance identifies as the independent variable of the study and it include three dimensions on the study such as microcredit, personal assets and personal skills. Questions are presented in a Likert Scale with strongly disagree forming the one end of the continuum and strongly agree the other end. Respondents are required to put tick for variety of alternatives presented in the dimensions such as strongly disagree, disagree, neutral, agree and strongly agree respectively.

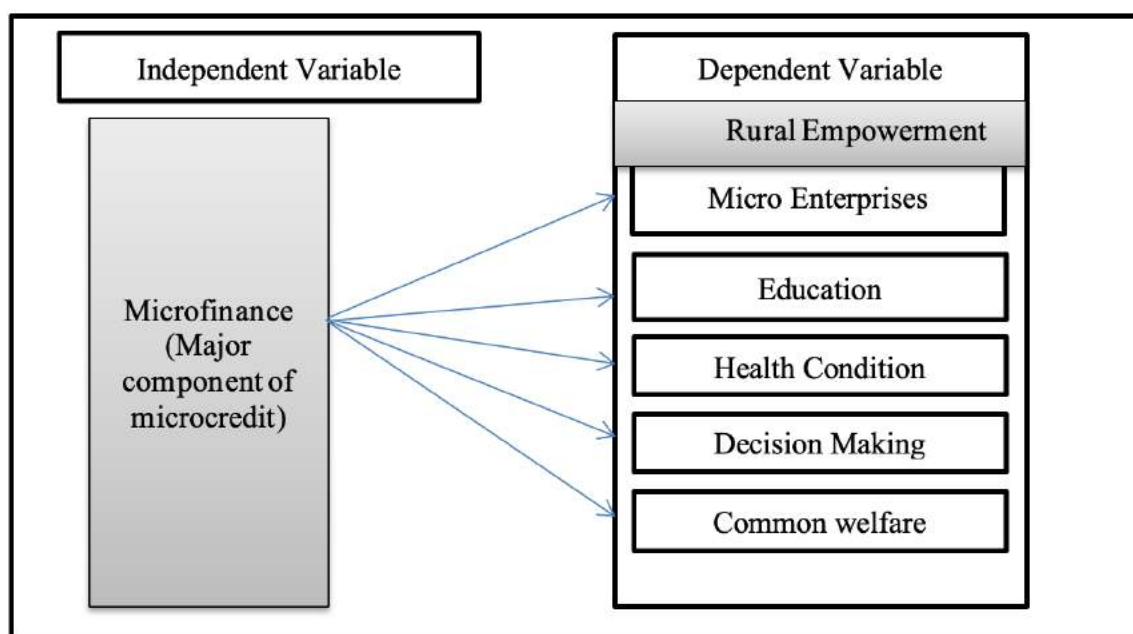
- **Part three- Dependent Variable**

Part three was consisted key sections which are empowered by microfinance. The study presented five variables such as micro enterprises and income, education, health condition, decision making and common welfare. Those questions also presented in Likert Scale with strongly disagree forming the one end of the continuum and strongly agree the other end. Respondents are required to put tick 01, 02, 03, 04 and 05 for strongly disagree, disagree, neutral, agree and strongly agree respectively for the variety of alternatives presented in the determinants. And finally, it endowed to open ended questions about rural empowerment with microfinance.

3.3. Conceptual model

The researcher developed the conceptual framework as follows. According to the framework microfinance considered as the independent variable and micro enterprises, education, health condition, decision making process and common welfare worked as the dependent variables of this study.

Figure 3: Conceptual Framework



Source: Developed by the researchers, 2020

3.4. Description of variables

Microfinance

Microfinance is an important source of financing for poor, lower-income people in developing countries. (Nawaz, 2010). Microfinance is more generally defined as the provision of financial services to those excluded from the formal financial system (UNCDE, 2002). According to the ADB (2002) microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfer and insurance to poor and low-income households and their micro-enterprises. According to this study the researcher show that how microfinance affected on rural empowerment on poor people in Anuradhapura district.

Microcredit

Microcredit means small loans for people who need money for self-employment projects to generate income or for family needs; face many problems, education and health like wise. It helps to forward people's quality of life by lending them a small amount of money for a short period of time. As well as it is the main component of microfinance. (Zoynul & Fahmida, 2013). Microfinance is a wider concept than microcredit. The researcher considered microcredit under microfinance.

Rural Empowerment

Rural empowerment is improve the ability of individuals, organizations, businesses and government in their community to come together, learn and decisions making about the community's present and future, and to work together to carry out those decisions (Ferguson & Green, 2000). The researcher considered the rural empowerment as the dependent variable of the study.

Micro-Enterprises

Microfinance was also associated with the development of small businesses, which in turn, increase income and consumption of the beneficiaries (Chowdhury & Mukhopadhaya 2012). Micro-enterprises refer to a small business that employs a small number of people. A micro-enterprise usually operates with fewer than 10 people and is started with a small amount of capital. Most micro-enterprises start with supporting of microcredit facilities.

Education

The concept education can be illustrated as collection of three elements such as knowledge, skills, and attitudes. Those three elements helped to make our position higher level among others. It is the process by participation of the individuals in the social consciousness of the race. The process being at birth and is continually shaping the individual's powers, saturating consciousness, forming habit, training ideas and arousing feelings and emotions. Through the education the individual gradually comes to share in the moral resources which humanity has

succeeded in getting together. The two forms of education such as formal and technical education can-not safely depart from the general process of education.(Dewey,1897).

Health Condition

Health can be simply defined as healthiness of body, healthiness of mind and healthiness of social. Therefore, to be a health person there should be important to keep those three elements together. As well as world health organization defined health as the theme of the body's ability function and health was seen as a state of normal function that could be disrupted from time by disease.

Decision Making

The household decision making can be understood as who decides the issue of borrowing and spending money, repair of house, sale or purchase of livestock, sale or purchase household equipment (Pitt, Khandker & Cartwright, 2003).

Common welfare

Common welfare has a boarder meaning and encompasses social work, public welfare and other related programs and activities. This concept is described as the organized system of social services and institutions, designated to aid individuals and group to attain satisfying standards of life and health, (Friedlander, 1980).

3.5. Operationalization of variables

Table 3: Operationalization of Variables

Variable	Dimension	Item	Question
Microfinance is more generally defined as the provision of financial services to those excluded from the formal financial system (UNCDE, 2002).	Microcredit	• Purpose of the credit	Q11
		• Adequacy of loan amount to satisfy the relevant needs	Q12
		• Knowledge about interest rate	Q13
	Savings and develop assets	• Received loan within few days	Q14
		• Repayment period of loan	Q15
		• Concessionary methods based on fair reasons	Q16
		• Increase saving	Q17
		• Settlement of issues about assets	Q18
	Instruction services	• Increase assets	Q19
		• Develop personal skills	Q20
		• Increase stimulus	Q21

Micro-enterprises: A small business which sells goods and services to a local area or a local market (Eric Lewis, 2019).	Business opportunity	<ul style="list-style-type: none"> • Support to identify new opportunity 	Q22
	Business skills	<ul style="list-style-type: none"> • Improve existing business • Support to book keeping, identify new issues regarding business 	Q23 Q24
	Construction services to business	<ul style="list-style-type: none"> • Support to success business by construction services 	Q25
Education: The process of facilitating learning or the acquisition of knowledge, skills, values, beliefs, discussion, teaching, training and directed research (Hoshiarpur, 2018).	Children's education	<ul style="list-style-type: none"> • Scholarships 	Q26
		<ul style="list-style-type: none"> • Opportunity to follow diplomas 	Q27
		<ul style="list-style-type: none"> • Personality development programs 	Q28
	Personal and Social education	<ul style="list-style-type: none"> • Use of new technology • Opportunity to follow professional diplomas 	Q29 Q30
		<ul style="list-style-type: none"> • Opportunity to learn new things 	Q31
		<ul style="list-style-type: none"> • Improve leadership skills 	Q32
Health condition: A state of complete physical, mental, and social well-being and not merely the absence of disease or infirmity (World Health Organization, 1948).	Healthy food	<ul style="list-style-type: none"> • Orientation for Macrobiotic food pattern 	Q33
	Medical treatment	<ul style="list-style-type: none"> • Help to disable person 	Q34
	Mental health	<ul style="list-style-type: none"> • Special services for mental health 	Q35

Decision making: The household decision making can be understood as who decides the issue of borrowing and spending money, repair of house, sale or purchase of livestock, sale or purchase household equipment (Pitt, Khandker & Cartwright, 2003).	Borrowing money	<ul style="list-style-type: none"> • Credit amount use in suitable way • Amount of money want to get satisfy relevant needs and wants 	Q36 Q37
	House repair	<ul style="list-style-type: none"> • Allocate money for house repair 	Q38
	Spending money and Self confidence	<ul style="list-style-type: none"> • Children's education and additional another important things • Self-confidence about their decision 	Q39 Q40
Common welfare: The organize system of social services and institutions, designed to aid individuals and groups to attain satisfying standards of life and health (Friedlander, 1980).	Agriculture	<ul style="list-style-type: none"> • Provide agricultural infrastructures 	Q41
	Industrial	<ul style="list-style-type: none"> • Provide industrial equipment 	Q42
	services	<ul style="list-style-type: none"> • Facilitate for pure drinking water 	Q43

Source: Deduced from literature and survey Data, 2020

3.6. Hypotheses development

Relationship between microfinance on micro-enterprises of the rural people.

Micro-enterprises promote income-generating activities thus promoting repayment. Being able to repay microfinance loans by income generated from micro-enterprises enables microfinance to be sustainable. Microfinance is specifically designed to offer financial services to micro-enterprises. Microfinance enables micro-enterprises to expand and run their business. Microfinance empowers the entrepreneurial spirits that exist among small-scale enterprises worldwide (Olu, 2009). The foregoing shows that microfinance and micro enterprises are mutually beneficial to each other.

Microfinance serves as a means of empowering the poor and is considered a valuable means of enhancing the economic development process. Despite the importance of microfinance on development, it has been argued that microfinance entrepreneurship and sustainability tend not

to have a great effect on the alleviation of poverty in less developed countries. Accordingly, microfinance they say can only successfully empower rural people if it is combined with entrepreneurial skills. This means that one should expect a positive link between microfinance and micro-enterprises (Rodrigo,2016). According to the above findings from previous studies, the researcher developed the first hypothesis for the study as follows;

H₁: There is a positive impact of microfinance on micro enterprises of the rural people in Anuradhapura district.

Relationship between microfinance and education of the rural people

Education and microfinance have been combined because education alone as an empowerment tool has failed in some areas to support the country's effort to the empowerment of rural people (Rulistia 2009). Education is a crucial component in the success of microfinance borrowers. Studies from Sri Lanka show that financial education can lead to positive behavior change and entrepreneurial success. Microfinance can directly support education by providing families with income stability, enabling them to afford schooling suggests the effect of microfinance on access to education, and support positive associations to Bangladesh. Research from Uganda also suggests that participation in microfinance programs correlates with increased investment in children's education. There is a strong trend to innovations that have led to a combination of microfinance with non-financial services, including business training (Dunfor, 2002; Valdivia et al.2008) which is an educational aspect. According to the above findings, the researcher developed the third hypothesis for the study as follows;

H₂: There is a positive impact of microfinance on education of the rural people in Anuradhapura district.

Relationship between microfinance and health condition of the rural people

There are potential health benefits associated with microfinance initiatives, as low interest loans make healthcare services more available for the poor people. Microfinance institution conduct medical clinics provide spectacles without any charges etc. for disable person in rural areas. Lots of researchers examine the impact of microfinance activities on health care services use of the household in several countries. Health seeking behavior and health services of the households have improved significantly after joining with the microfinance program (Rasheda Khanam, 2018). According to above finding the researcher developed the fourth hypothesis for the study as follows;

H₃: There is a positive impact of microfinance on health condition of the rural people in Anuradhapura district.

Relationship between microfinance and decision-making process of the rural people

Decision making behaviour of the actively participant of the microfinance services may have undergone changes after the participants of the particular services are exposed to the microfinance activities. Empirical finding suggests that participation and decision making by members is positively influenced by family size, income of the members, whereas amount of loan granted, and total household assets are found to effect the decision making adversely (Vachya Lavoori & Rajendra Narayan Paramanik, 2014). According to above finding the researcher developed the fifth hypothesis for the study as follows.

H4: There is a positive impact of microfinance on decision making process of the rural people in Anuradhapura district.

Relationship between microfinance and common welfare of the rural people

Drinking water, toilet condition, reconstruction of canal etc. include in the common welfare which are conducted by microfinance institutions. The study shows that participation in the microfinance program significantly increase the probability of improved sources of drinking water. As well as shows the member have been enjoying the improved toilet facilities before joining the microfinance due to government and non-government initiatives that have already been implemented in those village (Rasheda Khanam, 2018). According to above finding the researcher developed the fifth hypothesis for the study as follows.

H5: There is a positive impact of microfinance on common welfare of the rural people in Anuradhapura district.

3.7. Methods of Data Presentation and Analysis

Methods of Data Presentation

There are number of methods was used to present data such as tables, graphs, charts etc. As well as results are presented by pictures also.

Methods of Analysis

The Statistical Package for Social Science (SPSS) was used to statistical analysis of the data collection through the questionnaires. Following tests were applied to analyse the data in the study.

3.8. Descriptive statistics

This is the first level of analysis. It helps researchers summarize the date and find patterns. The researcher also used this statistics.

Mean, Minimum, Maximum and Standard Deviation values.

3.9. Validity and Reliability

Validity is the most important issue in selecting a test. Validity refers to what characteristic the test measures and how well the test measures that characteristic. Reliability test measures the

accuracy of the measuring the instrument, in extend to which the respondents can give the same answer to the same question each time. It refers to the extent to which your data collection techniques or analysis procedures will yield consistent findings. The most common reliability tests that research used Cornbrash's coefficient alpha.

Table 4: General guidelines of Cornbrash's Coefficient alpha

Reliability coefficient value	Interpretation
.90 and up	excellent
.80-.89	good
.70-.79	adequate
Below .70	May have limited applicability

Source: Bright Mahembe. (2010)

3.10. Correlation Test

Correlation coefficient is a statistical measure of the strength of the relationship between the relative movements of two variables. The absolute value of a correlation coefficient described the direction and the magnitude of the relationship between two variables. The value of a correlation coefficient ranges between -1 to +1. The stronger linear relationship is indicated by a correlation coefficient of -1 to +1. A calculate number greater than +1 or less than -1. It means that, there was an error in the correlation measurement. The correlation coefficient value is -1 it shows a perfect negative correlation, while the correlation value is +1 it shows the perfect positive correlation. On the other hand the correlation value get 0 value it shows no linear relationship between the movements of the two variables. In this study correlation analysis was used to establish the existence of relationship between rural empowerment of poor people and microfinance services provide supporting to micro-enterprises, education, health condition, decision making and common welfare.

3.11. Linear Regression

To test the hypothesis o the study the researcher was used linear regression analysis. For this purpose, average of all items of each dimension as computed and finally this average was used in linear regression to test the hypothesis regarding microfinance and empowerment of rural people regarding different dimensions of empowerment including micro-enterprises, education, health condition, decision making and common welfare.

3.12. Independent Sample T-test

The independent sample t-test assesses whether the means of two groups are statistically difference from each other. This analysis is appropriate whenever you want to compare the means of two groups. The t-test with two samples is commonly used with the small sample sizes, testing the differences between the samples when the variances of two nominal

distributions are not known. T-test was conducted to analyse statistically difference between both two groups such as participants group and non-participants group with microfinance. According to that to measure the independent sample t-test, following equations are used.

$$t = \frac{m^A - m^B}{\sqrt{\frac{S^2}{n_A} + \frac{S^2}{n_B}}}$$

$$S^2 = \frac{\sum(x - m_A)^2 + \sum(x - m_B)^2}{n_A + n_B - 2}$$

- A and B represented two groups.
- m_A and m_B represented the means of groups A and B respectively.
- n_A and n_B represented the sizes of groups A and B respectively.
-

4. DATA ANALYSIS

The information as gathered from two categories. Those were microfinance beneficiaries who are engaged with microfinance institution in the Anuradhapura district. 300 questionnaires were issued among the microfinance beneficiaries and as another group the researcher selected people who are not engaged with microfinance institution in Anuradhapura district and 200 questionnaires were issued among that group. Data were analysed by using SPSS software.

Table 5: Demographic Information analysis

		Participants		Non-Participants	
		Frequency	Percent	Frequency	Percent
Sex	Male	66	22.0	21	10.5
	Female	234	78.0	179	89.5
	Total	300	100.0	200	100.0
Age	18-25	54	18.0	29	14.5
	26-35	65	21.7	71	35.5
	36-50	129	43.0	67	33.5
	Above 50	52	17.3	33	16.5
	Total	300	100.0	200	100.0
Marital Status	Single	10	3.3	6	3.0
	Married	271	90.3	185	92.5
	Divorced	11	3.7	4	2.0
	Widowed	8	2.7	5	2.5
	Total	300	100.0	200	100.0
Level of Education	Illiterate	7	2.3	1	0.5
	Primary	15	5.0	6	3.0

	Grade 8	73	24.3	46	23.0
	Ordinary level	164	54.7	103	51.5
	Advanced level	37	12.3	39	19.5
	Degree level	4	1.3	5	2.5
	Total	300	100.0	200	100.0
Family Members	1-3	72	24.0	34	17.0
	4-6	217	72.3	160	80.0
	above 6	11	3.7	6	3.0
	Total	300	100.0	200	100.0
Nature of Occupation	No any job	6	2.0	7	3.5
	Farmer	186	62.0	135	67.5
	Businessmen	10	3.3	13	6.5
	Service provider	83	27.7	39	19.5
	Other	15	5.0	6	3.0
	Total	300	100.0	200	100.0
Sources of Income	Agriculture	182	60.7	135	67.5
	Business	14	4.7	13	6.5
	Service	85	28.3	39	19.5
	Remittance	1	.3	.4	2.0
	Other	18	6.0	9	4.5
	Total	300	100.0	200	100.0
Income Generating Members	1 member	204	68.0	109	54.5
	2 member	84	28.0	82	41.0
	3 or above	12	4.0	9	4.5
	Total	300	100.0	200	100.0
Monthly Expenses	Below Rs.10,000	1	.3	0	.0
	Rs.10,000-Rs.20,000	199	66.3	142	71.0
	Rs.20,000-Rs.30,000	93	31.0	58	29.0
	Rs.30,000-Rs.40,000	7	2.3	0	0.0
	Total	300	100.0	200	100.0
Monthly Income	Below Rs.10,000	0	0.0	1	0.5
	Rs.10,000-Rs.20,000	17	5.7	114	57.0
	Rs.20,000-Rs.30,000	192	64.0	62	31.0
	Rs.30,000-Rs.40,000	56	18.7	19	9.5
	Above Rs.40,000	35	11.7	4	2.0
	Total	300	100.0	200	10

Source: Survey data, 2020

The researcher collected data from two groups. Totally, 500 questionnaires were brought forward for final analysis in this study and among these questionnaires 300 data collected from clients who are already engaged with microfinance institution and another 200 data collected from people who are not engaged with any microfinance institution in Nuara Gampalatha East,

Kahatagasdigiliya, Horowpothana, Galenbindunuwewa, Mihinthale, Ipalogama, Thirappane and Kebithigollewa divisional secretariat divisions in Anuradhapura district. All demographic factors of the respondents were divided into two main groups such as participants and non-participants with microfinance. Allowing the questionnaire there are ten demographic factors were considered such as sex, age, marital status, level of education, family members, nature of occupation, source of income, income generating members, monthly expenses and monthly income. Further clarifications of respondents' background are shown below.

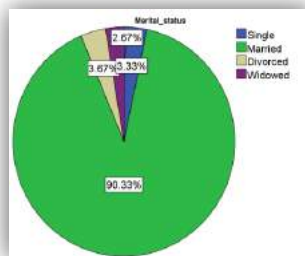
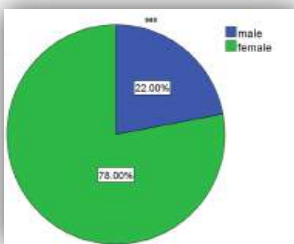
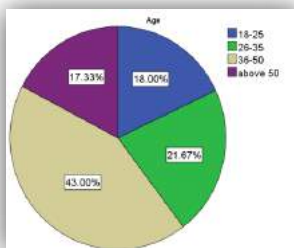


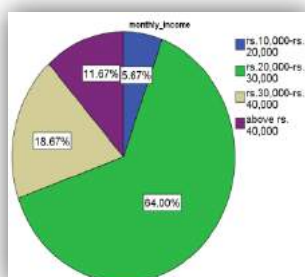
Table 5 shows all demographic factors of respondents, which were divided into two groups such as participants group and non-participant group with microfinance. Participant group is the main party of the study. Therefore the researcher highlights their demographic information by using the following figures.



In this study, seventy eight percent (78%) of the convenient sample of all participants was female while 22% was male. Table 5 presents the demographic information which is gathered by survey. Pie-Chart - Sex presents to get clear idea about how people participate with micro finance services by gender wise. In this figure clearly mentioned majority of female were engaged with microfinance services than male.



According to Table 5 and Pie-Chart - Age presented age of the beneficiaries all age people were engaged with microfinance. In the figure 43% were between 36 and 50. It seemed that middle age people are mostly engaged in getting beneficiaries from microfinance NGO's compare to other aged groups.



In the above Table 4.1 presents marital statuses of respondents into four categories and majority of respondents (90.33%) of the both participants and non-participants groups are married and few are divorced (3.67%), single (3.33%), and widowed (2.67%). Figure 4.3 presents only participant's group marital status to get clear idea about the main group in this study.

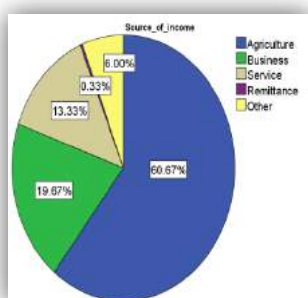
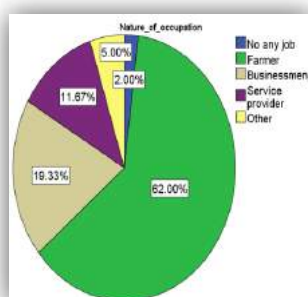
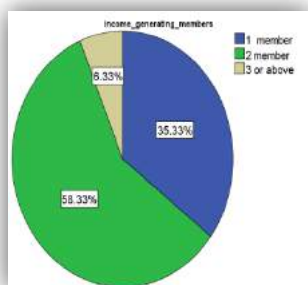
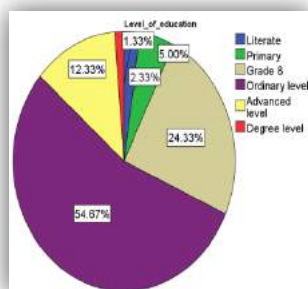


Table 4.1 and Figure 4.4 show the level of education of individual members of the sample. Total 300 respondents from the participant with MFI, about 54.67% have received education until ordinary level and 24.33% have received education only grade eight. From the non-participants 51.5% have received education ordinary level and 23% have received education grade eight. When comparing the participants and non-participants' data, and non-participants passed the advanced level than participants. Because, the researcher gathered majority of data from age range 18-35, from non-participants group. This is the main reason on behind that. There are few respondents indicated literate, primary and degree level in both participants and non-participants groups.

Above Table 4.1 presents data about the number of family members of the respondent's households into four categories and majority of 4 to 6 members in both participant group and non-participant group's households. As shown in Figure 4.5 the largest group of participant group has between 4-6 members in their families (n=217:72.33%) and few households of participant group have above 6 members.

According to the survey data the major occupation of the household presented that many of these two groups do their occupation as a farmer for their livelihood. Because of Anuradhapura is one of the main agricultural areas in Sri Lanka. Participants group conduct their own business than non-participant group. Because, MFI provided more benefit to starting businesses and improving existing businesses.

Of the participant with MFI, many of households earned income from cultivating paddy or something. As shown in Figure 4.7, respondents earned income from conducting business than non-participant group.. It means participants with MFI mainly earned income from cultivating and conducting their own businesses.

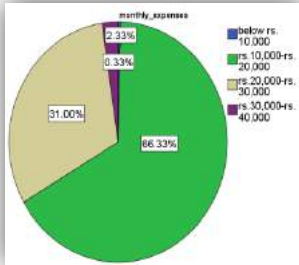
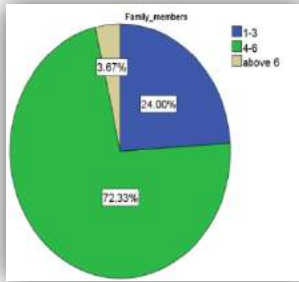


Figure 4.8 shows income generating members from the participants with MFI's households, 64.67% generating income by participating more than one member for income generating activities. It was the evidence to prove that the microfinance services help to generate opportunities to participant's households to generating income than non-participant group.

According to the survey data above Table 4.1 shows that monthly expenses of both participant and non-participant group. Majority of households' (142) in non-participant group's monthly expenses has between Rs.10,000 - Rs20,000. While majority of participant group's monthly expenses were more than that. Anyone can assume that non-participant group gets limited benefits from additional parties. Therefore, this group tries to satisfy their fundamental needs by using their limited resources. Then they spent little money towards their necessary things. But participant group has huge opportunity to get various kinds of benefits from

MF NGOs. Then this group has lot of money in their hand than other group. Therefore, this group allures to satisfy several additional wants by spending more money. On the other hand anyone can assume that participant group receive loan from the institution. Therefore, particular group households must pay installment and its interest as well. Then their expenditure will be high. The Figure 4.9 shows that the participant group's monthly expenses and most of respondents (n=192; 66.33%) monthly average expenditure in between Rs.10,000-Rs20,000. 31% respondents of the participant group spend money in between Rs30,000-Rs40,000. Few respondents of the participant group spend more than Rs30,000 for monthly income. While no any respondent of non-participant group spend more than Rs.30,000.

The monthly average household's income of the participants varies from house to house. According to the survey data the majority of participant group households (n=192, 64%) earn between Rs20,000- Rs30,000 as average income per month. But majority of non-participant group (n=114, 57%) earn between Rs10,000- Rs20,000 as average income per month. No any household in the participant group earn below Rs10,000 per month. Rather than 30% of participant group households earn more Rs 30,000 per month as the average income. It value of the non-participant group is less than 12%. Figure 4.10 presents that 5.67% households have monthly income as Rs. 10,000-Rs.20,000 of the participant group with MF. Majority of households (64%) earned a monthly income between Rs.20,000-Rs.30,000 and 18.67% have between Rs.30,000-Rs.40,000. And also 11.67% of the total 300 respondents earned more than Rs.40,000 as their income per month. According to that can be summarize that participant group earn more income than non-participant group by getting additional benefits and opportunities by joining with MF NGOs.

4.1. Reliability Analysis

Reliability analysis represents the internal consistency of the item which is used to measure respective variables. Consistency explain how well the items measuring a concept together as a set (Sekaran & Bougie, 2010). In this analysis Cronbach's alpha in SPSS is use to assess the reliability and internal consistency of the constructs. The results represent as follows;

Table 6 : Reliability Analysis

	Number of items	Corrected Correlation	Item-Total Cronbach's Alpha
Microfinance	11	.782	.861
Micro-enterprises	4	.570	.892
Education	7	.807	.856
Health Condition	3	.815	.854
Decision Making	5	.674	.879
Common Welfare	3	.635	.883

Source: SPSS output from Survey data, 2020

According to results the Cronbach's alpha values of micro finance, micro enterprises, education, health condition, decision making, and common welfare are greater than 0.8. it represents good reliability. Agreeing to that reliability tested results reveals that each variable are positively correlates with one another and the internal consistency reliability is satisfactory. Alpha values between 0.8 and 0.9 are usually preferred. But some time when not a better instrument have can accept correct lower values of Cronbach's alpha that is questionable. Normally this value should be greater than 0.40. This study corrected item total correlation values are greater than 0.40. Therefore, the correlations of each item with all other items are combining.

4.2. Descriptive Analysis

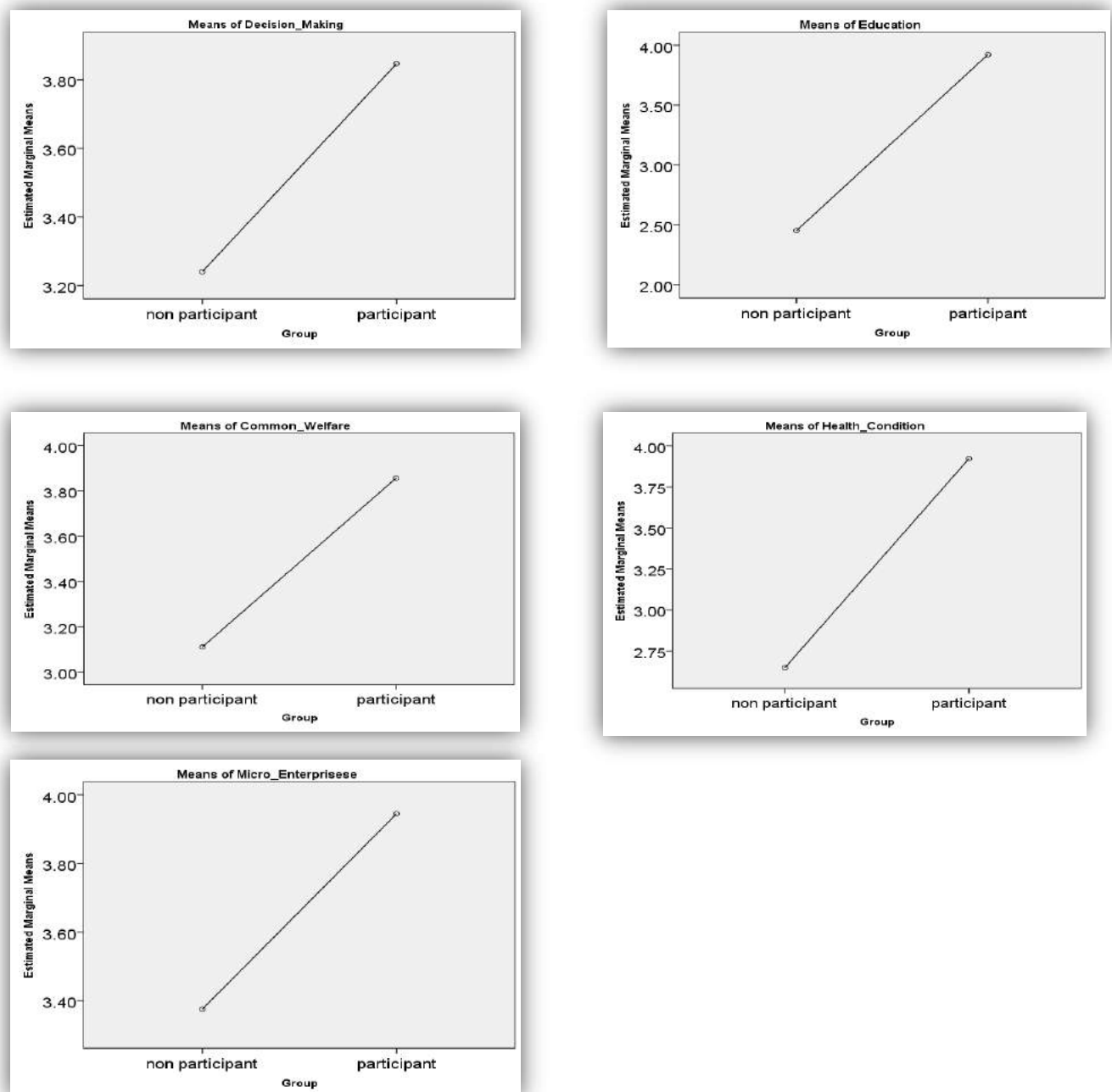
Descriptive statistics present the normality of the data. Mean, maximum, minimum and standard deviation are used to examine the data.

Table 7: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Microfinance	500	1.64	5.00	3.1944	.75075
Micro-enterprises	500	1.00	5.00	3.7170	.71480
Education	500	1.43	5.00	3.3349	.90601
Health Condition	500	1.33	5.00	3.4120	.87242
Decision Making	500	2.00	5.00	3.6040	.62914
Common Welfare	500	1.33	5.00	3.5580	.76727

According to the survey data of the both participant and non-participant group mean values presents of microfinance, education and health condition, decision making and common welfare were 3.19, 3.72, 3.33, 3.41, 3.60 and 3.56 respectively. It represents that rural people having relatively high involvement on those components which are indicate that selected respondents.

Figure 5: Means of Dependent Variable



Source: SPSS output based on survey data, 2020

According to the collected data by the survey the researcher shows differences of mean value between two groups, and it indicated separately as micro-enterprises, education, health condition, decision making and common welfare. The researcher used following figures to clearly identify which the respondents' answering questionnaires based on their personal ideas. Participant group has taken higher mean value than non-participant group. It means that participant group's more empower with the factors in terms of micro-enterprises, education health condition, decision making, and common welfare than non-participant group.

4.3. Correlation Analysis

The association between independent and dependent variable were measured through the correlation analysis. Therefore, person correlation analysis was used and its results are presented in table.

Table 8: Correlations

	MF	ME	ED	HC	DM	CW
	1					
Microfinance						
		1				
Micro-enterprises	.496**					
	.000					
	.781**	.502**	1			
Education	.000	.000				
	.731**	.484**	.771**	1		
Health Condition	.000	.000	.000			
	.555**	.493**	.563**	.653**	1	
Decision Making	.000	.000	.000	.000		
	.532**	.425**	.576**	.589**	.494**	1
Common Welfare	.000	.000	.000	.000	.000	

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

Source: SPSS output based on survey data, 2020

Table 8 shows the correlation coefficients for the relationships among; microfinance and micro-enterprises, microfinance and education, microfinance and health condition, microfinance and decision making, and microfinance and common welfare. The correlation coefficients for those relationships are 0.496, 0.781, 0.731, 0.555 and 0.532 respectively and those are significant at 0.01 ($p < 0.01$) level. Therefore it can be concluded that there are positive

significant relationships between microfinance and micro-enterprises, microfinance and education, microfinance and health condition, microfinance and decision making and microfinance and common welfare.

4.4. Linear Regression

Linear regression is a linear approach to modelling the relationship between a dependent variable and one or more independent variables. Linear regression used to test the hypothesis of the study. The researcher used the linear regression to test the hypothesis regarding microfinance and rural empowerment regarding different dimensions of rural empowerment including micro-enterprises, education, health condition, decision making and common welfare.

4.4.1. Micro-enterprises

In order to check the impact of microfinance on micro enterprises as follow.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.496 ^a	.246	.244	.62143

a. Predictors: (Constant), Microfinance

Source: SPSS output based on survey data, 2020

The model summary table provides detail about the characteristics of the model.

Table 9 indicates that the correlation coefficient (R), using overall Microfinance is 0.496 ($R^2 = 0.246$) and the adjusted R^2 is 0.244, it means that 24.4 % variance in dependent variable that is Micro-enterprises can be explained through the independent variable that is Microfinance. It means 24.4% change in micro-enterprises come through Microfinance. As it is evidence and can see from the coefficient table, Microfinance is significant. The ANOVA table determines whether the model is significant enough to determine the outcome. It shows below.

Table 10: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	62.638	1	62.638	162.201	.000 ^b
	Residual	192.317	498	.386		
	Total	254.955	499			

a. Dependent Variable: Micro-enterprises

b. Predictors: (Constant), Microfinance

Source: SPSS output from Survey data, 2020

Table 10 shows that $F=162.201$ and is also significant. This shows that Microfinance as a predictor significantly predict micro-enterprises. Below table shows the strength of the relationship the significant of the variable in the model and magnitude with which it impacts the micro enterprises. This analysis helps in performing the hypothesis testing for the study.

Table 11: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.210	.122		18.172	.000
	Microfinance	.472	.037	.496	12.736	.000

a. Dependent Variable: Micro-enterprises

Source: SPSS output based on survey data, 2020

In Table 11, only one value is used in interpretation: sig value. The value should be below the tolerable level of significant for the study below 0.05 confidence level in the study. According to above table it presents 0.000 value as the sig value. It means there is a significant relationship between microfinance and micro enterprises. These results support H1 and reject H0. According to above results shows that the microfinance can put positive impact on micro-enterprises of rural people can be fulfill by obtaining the microfinance services from the MFIs.

Education

Table 12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.781 ^a	.610	.609	.56645

a. Predictors: (Constant), Microfinance

Source: SPSS output based on survey data, 2020

Above Table (Table 12) indicates that the correlation coefficient (R), using overall Microfinance is 0.781 ($R^2 = 0.610$) and the adjusted R^2 is 0.609, it means that 60.9 % variance in dependent variable that is education can be explained through the independent variable that is Microfinance. It means 60.9% change in education come through Microfinance. As it is evidence and can see from the coefficient table, Microfinance is significant.

Table 13: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	249.816	1	249.816	778.561	.000 ^b
	Residual	159.793	498	.321		
	Total	409.609	499			

a. Dependent Variable: Education

b. Predictors: (Constant), Microfinance

Source: SPSS output based on survey data, 2020

Table 13 shows that $F=778.561$ and is also significant. This shows that Microfinance as a predictor significantly predict education. Below table shows the strength of the relationship the significant of the variable in the model and magnitude with which it impact the education. This analysis helps in performing the hypothesis testing for the study.

Table 14: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	.324	.111		2.926	.004
	Microfinance	.942	.034	.781	27.903	.000

a. Dependent Variable: Education

Source: SPSS output based on survey data, 2020

According to Table 14 0.000 value as the sig value. It means there is a significant relationship between microfinance and education of the rural people. These results support to H1 and reject H0. According to above results shows that the microfinance can put positive impact on education of rural people can be fulfill by obtaining the microfinance services from the MFIs.

Health Condition

Table 15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.731 ^a	.535	.534	.59552

a. Predictors: (Constant), Microfinance

Source: SPSS output based on survey data, 2020

Table 15 indicates that the correlation coefficient (R), using overall Microfinance is 0.731 ($R^2 = 0.535$) and the adjusted R^2 is 0.534, it means that 53.4 % variance in dependent variable that

is health condition can be explained through the independent variable that is Microfinance. It means 53.4% change in health condition come through Microfinance. As it is evidence and can see from the coefficient table, Microfinance is significant.

Table 16: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	203.184	1	203.184	572.930	.000 ^b
	Residual	176.611	498	.355		
	Total	379.795	499			

a. Dependent Variable: Health Condition

b. Predictors: (Constant), Microfinance

Source: SPSS output based on survey data, 2020

Table 16 shows that F=572.930 and is also significant. This shows that Microfinance as a predictor significantly predict health condition.

Below table shows the strength of the relationship the significant of the variable in the model and magnitude with which it impacts the health condition. This analysis helps in performing the hypothesis testing for the study.

Table 17: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.697	.117		5.981	.000
	Microfinance	.850	.036	.731	23.936	.000

a. Dependent Variable: Health_Condition

Source: SPSS output based on survey data, 2020

According to above results of the table presents 0.000 value as the sig value. It means there is a significant relationship between microfinance and health condition of the rural people. These results support to H1 and reject H0. According to above results shows that the microfinance can put positive impact on health condition of rural people can be fulfill by obtaining the microfinance services from the MFIs.

Decision Making

Table 18: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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1	.555 ^a	.308	.307	.52384
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a. Predictors: (Constant), Microfinance

Source: SPSS output from Survey data, 2020

Table 18 indicates that the correlation coefficient (R), using overall Microfinance is 0.555 ($R^2 = 0.305$) and the adjusted R^2 is 0.307, it means that 30.7 % variance in dependent variable that is decision making can be explained through the independent variable that is Microfinance. It means 30.7% change in decision making come through Microfinance. As it is evidence and can see from the coefficient table, Microfinance is significant.

Table 19: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.858	1	60.858	221.780	.000 ^b
	Residual	136.654	498	.274		
	Total	197.512	499			

a. Dependent Variable: Decision_Making

b. Predictors: (Constant), Microfinance

Source: SPSS output based on survey data, 2020

Table 19 shows that $F=221.780$ and is also significant. This shows that Microfinance as a predictor significantly predict decision making. Below table (Table 20) shows the strength of the relationship the significant of the variable in the model and magnitude with which it impact the decision making. This analysis helps in performing the hypothesis testing for the study.

Table 20: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.118	.102		20.666	.000
	Micro_Finance	.465	.031	.555	14.892	.000

a. Dependent Variable: Decision_Making

Source: SPSS output based on survey data, 2020

According to above table, it presents 0.000 values as the sig value. It means there is a significant relationship between microfinance and decision making of the rural people. These results support to H_1 and reject H_0 . According to above results shows that the microfinance can put positive impact on decision making of rural people can be fulfill by obtaining the microfinance services from the MFIs.

Common Welfare

Table 21: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.532 ^a	.283	.281	.65042

a. Predictors: (Constant), Microfinance

Source: SPSS output based on survey data, 2020

Table 21 indicates that the correlation coefficient (R), using overall Microfinance is 0.532 ($R^2 = 0.283$) and the adjusted R^2 is 0.281, it means that 28.1 % variance in dependent variable that is common welfare can be explained through the independent variable that is Microfinance. It means 28.1% change in common welfare come through Microfinance. As it is evidence and can see from the coefficient table, Microfinance is significant.

The ANOVA table determines whether the model is significant enough to determine the outcome. It shows below.

Table 22: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	83.083	1	83.083	196.390	.000 ^b
	Residual	210.679	498	.423		
	Total	293.762	499			

a. Dependent Variable: Common_Welfare

b. Predictors: (Constant), Microfinance

Source: SPSS output based on survey data, 2020

Table 23 shows the strength of the relationship the significant of the variable in the model and magnitude with which it impacts the common welfare. This analysis helps in performing the hypothesis testing for the study.

Table 23: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.822	.127		14.316	.000
	Micro_Finance	.544	.039	.532	14.014	.000

a. Dependent Variable: Common_Welfare

Source: SPSS output based on survey data, 2020

According to Table 23 presents 0.000 values as the sig value. It means there is a significant relationship between microfinance and common welfare of the rural people. These results

support to H_1 and reject H_0 . According to above results shows that the microfinance can put positive impact on common welfare of rural people can be fulfill by obtaining the microfinance services from the MFIs.

Independent Sample T-Test

The independent sample t- test used to evaluate whether there is a significant difference between participant and non-participant groups with microfinance and dependent variable

Table 24: Independent Sample T-Test

		Mean	Std. Deviation	Sig.(2- tailed)	t
Microfinance	Participant	3.7282	.39661	.000	39.700
	Non Participant	2.3936	.32094	.000	41.395
Microenterprises	Participant	3.9450	.54701	.000	9.482
	Non participant	3.3750	.79729	.000	8.821
Education	Participant	3.9229	.62780	.000	29.312
	Non participant	2.4529	.40384	.000	31.857
Health Condition	Participant	3.9211	.63708	.000	22.851
	Non participant	2.6483	.56730	.000	23.386
Decision-making	Participant	3.8467	.57270	.000	11.976
	Non participant	3.2400	.52706	.000	12.3177
Common Welfare	Participant	3.8556	.68309	.000	12.060
	Non participant	3.1117	.66438	.000	12.128

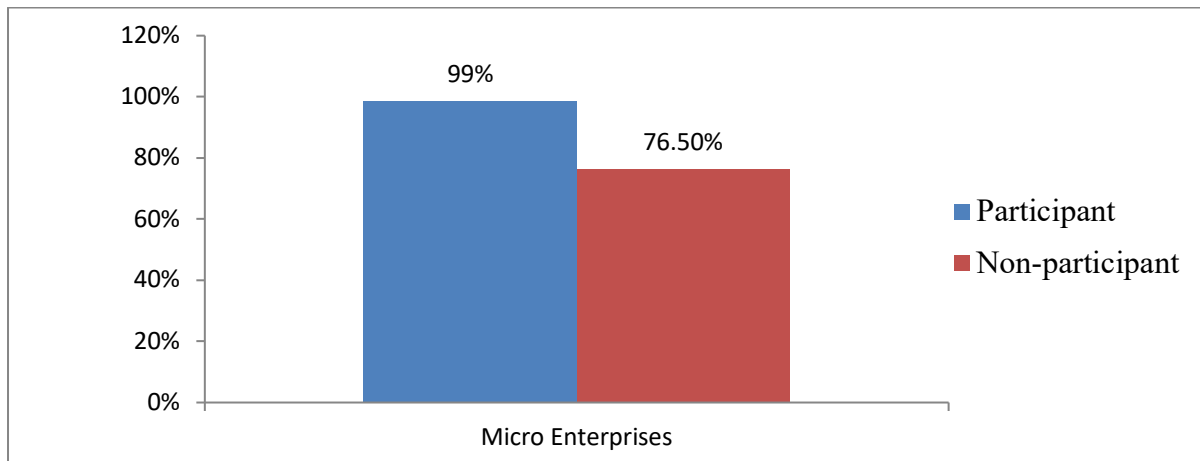
Source: SPSS output from Survey data, 2020

According to the above table the participants group with microfinance have taken higher mean value than non-participant group with microfinance group for all variables. Further classification about t-test reveals that there is a significant difference between these two groups on micro enterprises, education, health condition, decision making and common welfare. ($p < 0.01$) the evidence suggests that microfinance positively impact on micro enterprises, education, health condition, decision making and common welfare of participant group with microfinance.

Difference of Impact between two groups

Impact of Microfinance on Micro Enterprises

Figure 6: Impact of microfinance on micro-enterprises

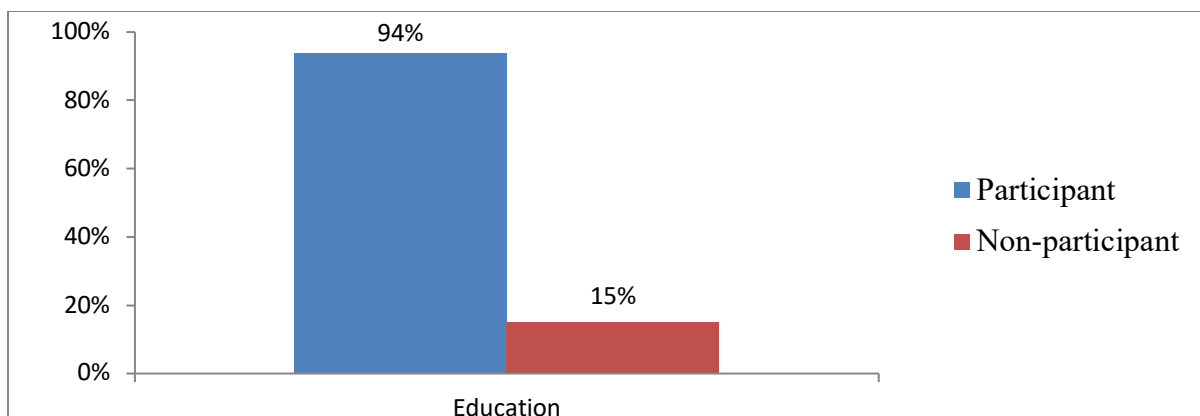


Source: Graphical representation based on survey data, 2020

When consider the data in the Figure 4.16, the participant group had improved micro enterprises better than the non-participant group with microfinance. Although 99% respondents of the participants group empowered on this matter by getting special benefits from MFIs, only 76.5% respondents of non-participant group empowered with micro enterprises not getting any additional benefits from any institution. According to the finding of the study, participant group's households improved personal development through micro enterprises by using microfinance services over a decade.

Impact of Microfinance on Education

Figure 7: Impact of microfinance on education



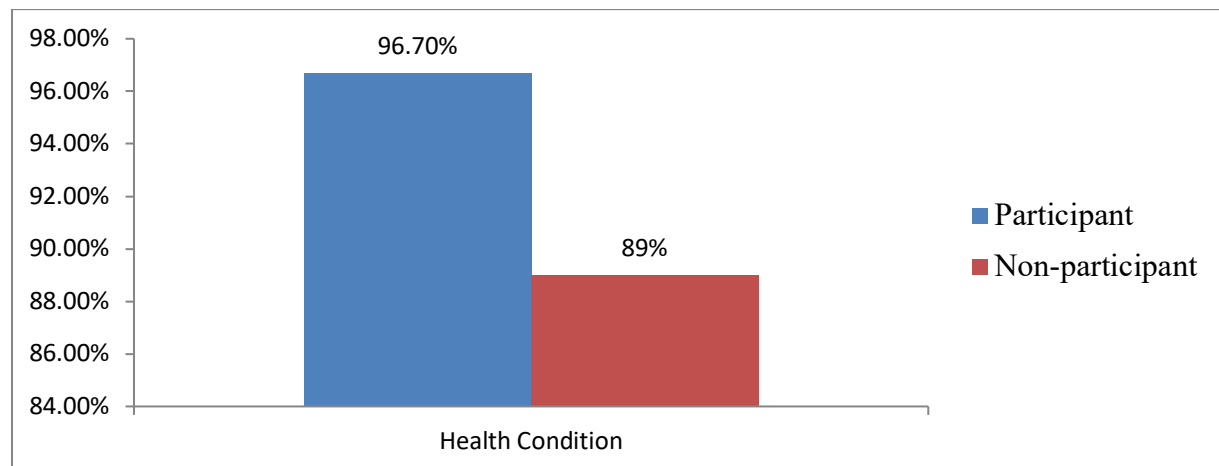
Source: Graphical representation based on survey data, 2020

Bestowing to the data depicts in the Figure 4.17, the participants group has good education batter than the non-participant group with MFIs. Although 94% respondents of the participant group empowered with education by getting additional benefits by MFIs , there are 15% of the

respondents of the non-participant group empowered with education. Therefore, the participant group has been improving their education level by using microfinance services over a decade.

Impact of Microfinance on Health Condition

Figure 8: Impact of microfinance on health condition

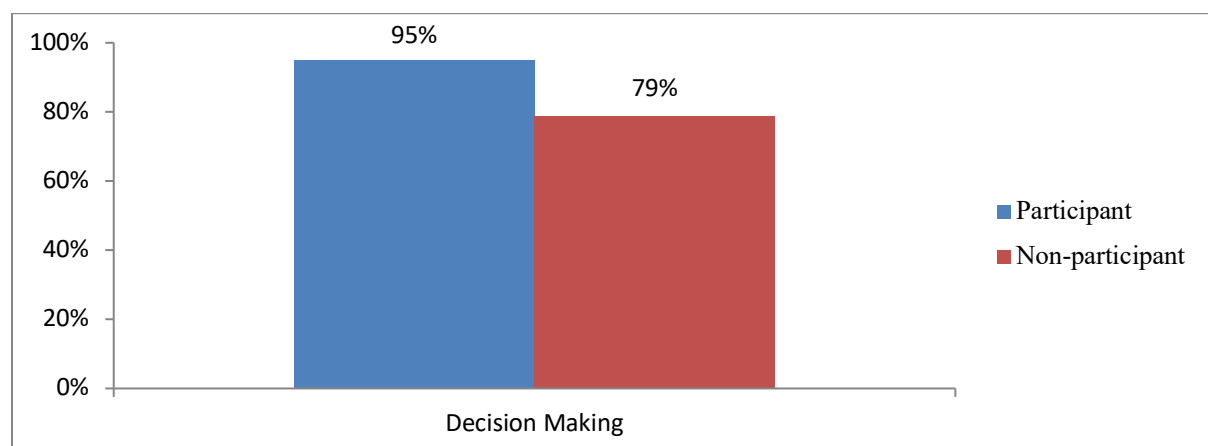


Source: Based on Survey data, 2020

According to the data depicts in the Figure 4.18, the participant group has health condition better than the nonparticipant group with MFIs because of microfinance services provide more benefit for their clients such as provide spectacles, wheel chairs, and procure instructions for timely health issues etc. although 96.7% respondents of the participant group empowered on this matter by getting necessary services with MFIs, 89% respondents of non-participant group empowered on this. According to the survey data, the participant group has been improving their good health with microfinance services.

Impact of Microfinance on Decision Making

Figure 9: Impact of microfinance on decision making

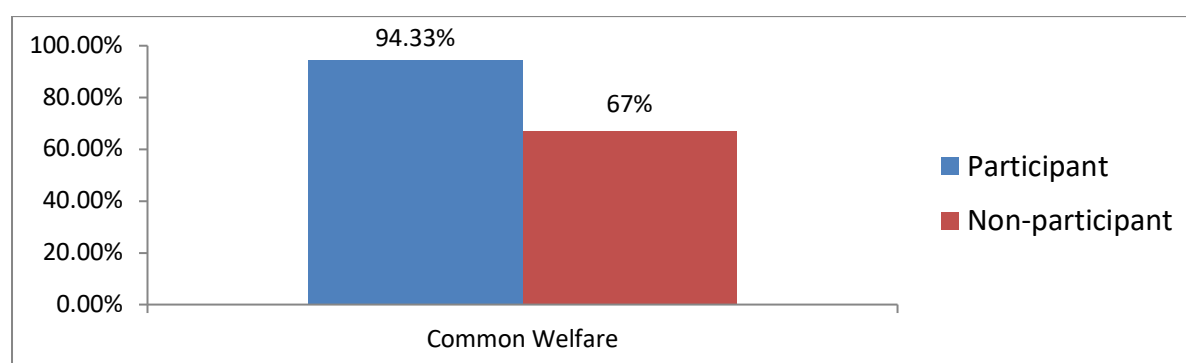


Source: Based on Survey data, 2020

When consider the data depicts in the Figure 9, the participant group has good decision making process better than the non-participant group because of microfinance institutions provide important services about decision making process within clients' households. Although 95% respondents of the participants group empowered with decision making, only 79% respondents o the non-participant group empowered on this matter. According to gathered data by the researcher, the participant group have been improved their decision making process across the microfinance services.

Impact of Microfinance on Common Welfare

Figure 10: Impact of microfinance on common welfare



Source: Based on Survey data, 2020

According to the survey data in Figure 10, the participant group has received more benefit from the common welfare better than the non-participant group because o microfinance institutions help to conventional industry from the particular area and set water filter, reconstruction canal etc. Although 94.33% respondents of the participant group empowered with on this matter by getting above benefits, only 67% respondents of the non-participant group empowered on this. According to the collected data by the researcher, the participant group has been improving common welfare also by getting benefits from MF NGOs.

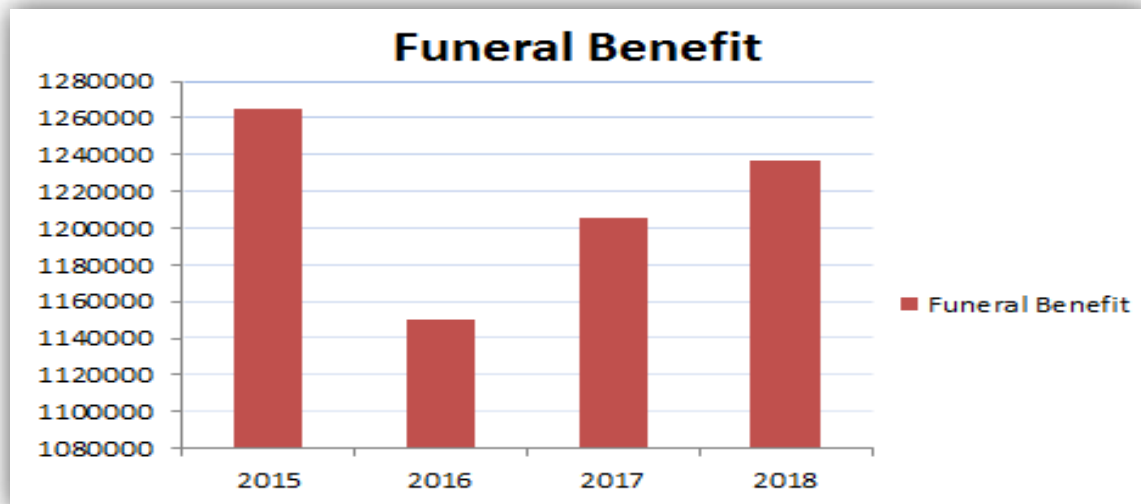
Microfinance has a long history in Anuradhapura district. Ti means that microfinance concept has over a decade in this area. According to the above findings of the survey data which are collected from eight divisions in Anuradhapura district, rural people improved their personal development by joining with microfinance. The participant group's households empowered by various sections such as microenterprises, education, health condition, decision making and common welfare.

BMICs' data

In addition to the gathered data from the survey, the researcher proved the impact of microfinance on rural empowerment in Anuradhapura district by using following data, which are collected through the particular microfinance NGO in that area.

The researcher gathered data from Berendina Micro Investment Company Ltd in Anuradhapura division. Under the Suwa Sahana Programme the company provides special monetary benefits in the event of funeral and hospitalization. According to that data, Figure 11 presented funeral benefits which are provided by particular microfinance institution since 2015 to 2018 for their clients. During this time period under review, LKR.48.58 Million was distributed among 253, 230, 229, and 209 clients respectively

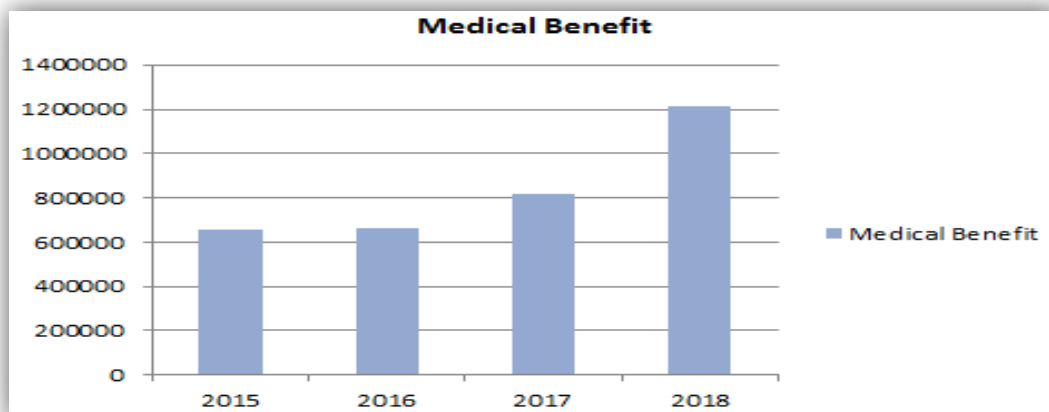
Figure 11: Funeral Benefits provided by BMIC



Source: Progress Report, Berendina Foundation, Regional Office, Anuradhapura, 2019

Figure 12 shows that the medical benefits which are provided by BMIC for their clients. According to that data Figure 4.22 presents medical benefits which are provided by particular microfinance institution since 2015 to 2018 for their clients. During this time period under review, LKR.3,347,950 was distributed among 422, 411, 492 and 664 clients respectively.

Figure 12: Medical Benefits provided by BMIC

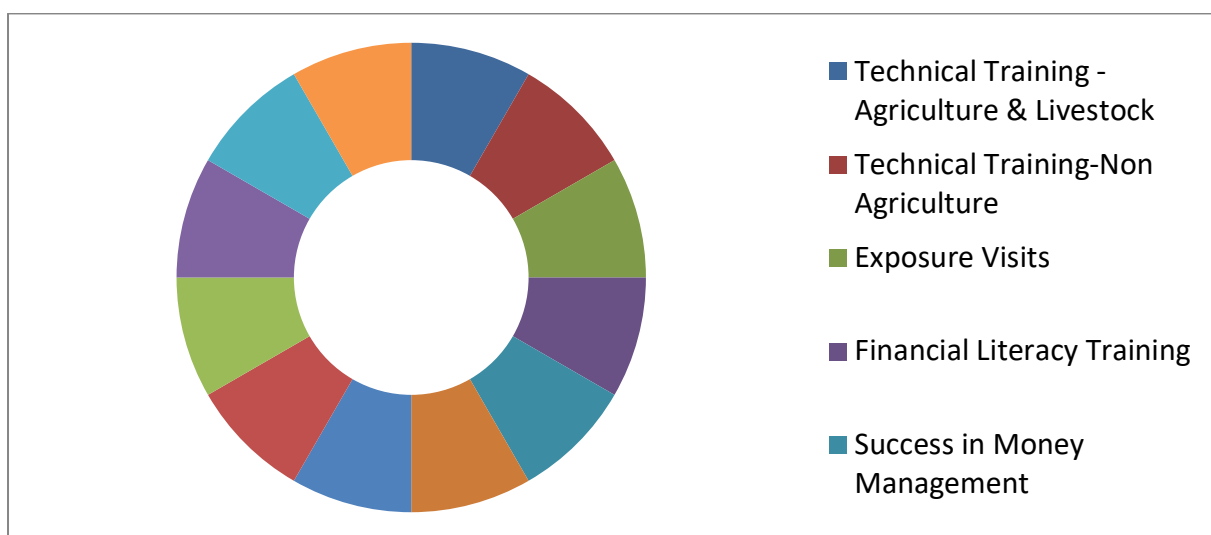


Source: Progress Report, Berendina Foundation, Regional Office, Anuradhapura, 2019

These kinds of benefits provide by institution for their clients. Then the participant group can reduce their necessary expenditure by helping of the microfinance services. In addition to that there are lot of services provide by microfinance NGO for their client. NGO is a non-profit organization. Therefore, this kind of organization always tries to support economic development of the country by targeting certain group. Microfinance NGOs also like that. Their target group is rural client.

According to the data which are collected through the annual report of that particular company, Figure 13 presents that services provide by particular company to empower the rural people. These services support to people empower their education, micro enterprises and decision making process as well.

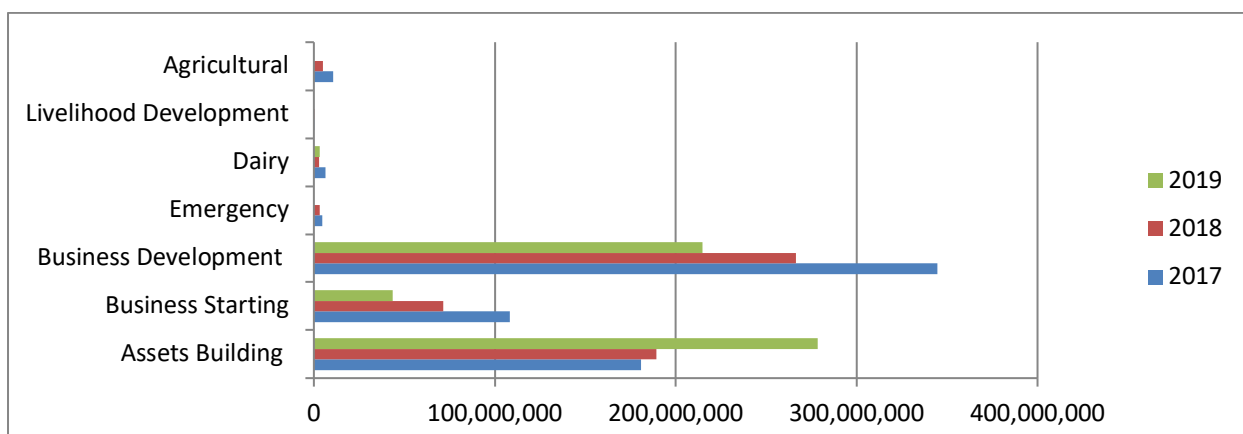
Figure 13: Type of services provide to empower the rural people by BMIC



Source: Progress Report, Berendina Foundation, Regional Office, Anuradhapura, 2019

Figure 14 shows BMIC has disbursed loans since 2017 to 2019. In 2017 company issue many loans to development of businesses it changed in 2019 as issue many loans to assets building.

Figure 14: Loan Disbursement of BMIC

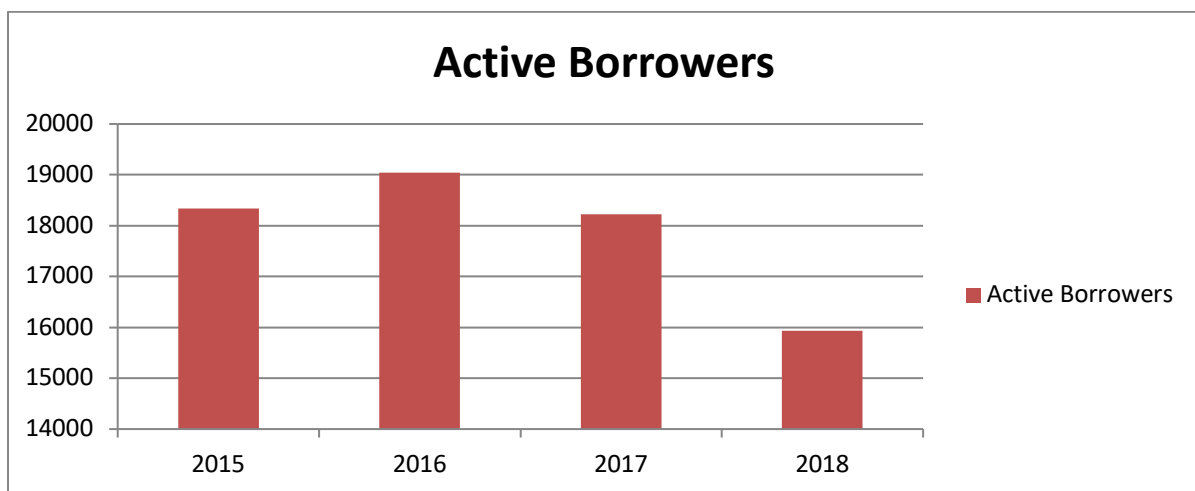


Source: Progress Report, Berendina Foundation, Regional Office, Anuradhapura, 2019

According above figure, in 2017 majority of loan amounts issued for development purpose of the business. When 2019, it was change and majority of clients received loans for assets building purpose.

Figure 15 presents number of active borrowers of BMIC since 2015 to 2018 years. BMIC had to curtail loan disbursement to minimize the negative effects of government program or writing of microfinance loans. As the result of this matter active borrowers also decreased than 2016 year.

Figure 15: Active Borrowers of BMIC



Source: Progress Report, Berendina Foundation, Regional Office, Anuradhapura, 2019

Roles of Microfinance Institutions

According to the findings of the survey data the researcher identified some specific roles of microfinance institution.

- Microfinance institution provides micro credit services to clients to establish new business ventures and support existing businesses to expand and diversify and build up family asset base.
- Enterprise Development Services conduct towards providing technical skills, business management skills, financial literacy and leadership training.
- Institution provides educational support for bright and support to the unemployed youth through the provision of soft and hard skill training and supporting to follow additional diplomas.
- Company following Green Microfinance concept by conducting tree planting programmes, environmental awareness programmes and training programmes on health and safety for piggery and poultry enterprises.
- Institution help to decision making process by conducting money management training to enhance clients' understanding on different aspects such as interest rate, family budgeting and saving.

- Institution provides pure water facility.
- Institution arranges necessary background to increase living standards of the poor people.
- According to the above findings the researcher builds summary results of the study as follows.

Summary of the results from hypotheses test

Table 25: Hypotheses Testing Results

No	Hypothesis	Sig.	Decision
H ₁	There is a positive impact of microfinance on rural people's micro enterprises in Anuradhapura district.	.000	Supported
H ₂	There is a positive impact of microfinance on rural people's education in Anuradhapura district.	.000	Supported
H ₃	There is a positive impact of microfinance on rural people's health condition in Anuradhapura district.	.000	Supported
H ₄	There is a positive impact of microfinance on rural people's decision making process in Anuradhapura district.	.000	Supported
H ₅	There is a positive impact of microfinance on rural people's common welfare in Anuradhapura district.	.000	Supported

Source: Authors determinations based on the survey outputs, 2020

Agreeing to the summary of the results of hypothesis test, the entire hypotheses are significant at 0.01 levels. Therefore all hypotheses are significantly supported for this study. It can be concluded that microfinance positively impact on rural empowerment in Anuradhapura district.

Summary of Findings

Based on the hypotheses tested, the summary of study findings is presented as follows;

1. The study was done by the researcher to examine the impact of microfinance on rural empowerment in Anuradhapura district. When consider about demographic factors crosstab results were show that majority of respondents in both group represented female and it value is more than 50%. Further, a large number of respondents in both participant and non-participant groups is represented in the age limit between 36- 50.
2. Most respondents in the sample were married respondents and most of the respondents passed the Ordinary Level. As well as most of the respondents' occupation was a farmer. Both group average monthly expenditure as Rs10,000 Rs20,000.

3. Reliability test revealed that all the variables were considered as reliable since the Cronbach's Coefficient alpha value of all variable fall between the range of 0.8- 0.9. Hence all the variables positively correlated with one another and reliability was satisfactory.
4. According to the results of the correlation test, microfinance has statistically significant association with micro enterprises, education, health condition, decision making and common welfare. And using linear regression analysis, the researcher explained that microfinance has positive impact on micro enterprises, education, health condition, decision making and common welfare and it revealed that all the hypothesis are significantly supported to the study.
5. Based on the results from statistical data analysis, the results of the correlation test revealed that the microfinance has a statistically significant association with micro-enterprises, education, health condition, decision-making, and common welfare. And the linear regression analysis revealed that the microfinance has a positive impact on micro-enterprises, education, health condition, decision making, and common welfare. Therefore, this study shows that all the hypotheses formulated are significantly supported by the study.

Finally, the emphasis on this study was reiterated that Microfinance is a most influential economic factor to empower the rural community with sustaining their livelihood in the forms of agriculture, self-employment, and other income generation. Further, the findings of the study revealed that microfinance activities were having significant impact on all five dependent variables namely micro enterprises, education, health condition, decision making and common welfare which have been used to measure the impact of rural empowerment in complying with the research / study findings by the researches (Tasos, Ahmed, Awan, & Waqas, 2020; Mecha, 2017; Akhter, & Islam, 2016; . Bhuiya et al., 2015; Goel, 2015; Herath, 2015; Zahid Iqbal, Shahid Iqbal and Mushtaq, 2015; Lavoori & Paramanik, 2014).

Conclusion, Recommendations, and Suggestions for Future Research

Sri Lanka has a long history of microfinance spanning for over several decades. Sri Lanka started microfinance as a key instrument to alleviation of poverty. The government of Sri Lanka a number of NGOs provides financial services to the rural poor through a number of schemes and mechanisms. Despite the long history and the large number of MFIs in Sri Lanka, the real impact of microfinance at households and society is still unclear. The study examined the real impact of microfinance of participant with microfinance NGOs in Anuradhapura district by covered 300 household level surveys compared with another 200 non-participant households from eight divisional secretariat divisions in Anuradhapura district. The study used Statistical Package for Social Sciences (SPSS) to analyze the data and prove impact of microfinance at the household-level. Microcredit is the major component of the microfinance, but other than microcredit there are lot of services are necessary to empower the rural poor people. The study found that there is significantly a greater impact of microfinance among the participants compared with non-participants with microfinance. Mean households' health condition, decision making is higher among the participant group compared with non-participants and the difference is statistically significant. The participant households are better equipped with

educational achievement as well. Monitoring of the group activities and providing suitable training is critical to materialize the benefits of microfinance. According to the findings of the study the result of correlation test microfinance has statistically significant association with micro-enterprises, education, health condition, decision making and common welfare of the rural people who are engaged with microfinance NGOs. And using linear regression analysis the researcher investigated that microfinance has significant relationship with micro-enterprises, education, health condition, decision making and common welfare of the rural people in Anuradhapura district and it reveal that all the hypothesis are significantly supported to the study. The independent sample t-test identified that there is significant difference between participant groups and non-participant groups with microfinance services and it explained that microfinance favourably impact on participant group with microfinance NGOs. According to the gathered data from the Berendina Micro Investment Company Ltd, the researcher explained that what the things are done by them to empower the rural people by year wise. Finally, the study summarized that microfinance positively and significantly impacts on rural empowerment.

When conducting the survey, the researcher can be clear that some time small loan amount is not enough to satisfy relevant needs and wants to their client. Therefore, the researcher recommended that microfinance NGO s must increase this credit amount. According to the gathered data from the survey the researcher recommends that to improve educational opportunities, social services, home finance skills, new technologies, entrepreneurial skills, training programs and ne job opportunities. Because the participants with MF believe that have been any improvement after getting their services and they hope to get more and more benefits by continually joint with particular institutions. And also, social and political awareness of the rural people must be raised because; those are the major factors which involve improving rural empowerment in current situation. According to the gathered data from the survey the researcher recommends that support to improve the conventional industry of that particular area. Because some rural people contract with their traditional industry and they don't satisfy to select another career rather than their own habitual industry.

In Anuradhapura district majority of families' occupation is agriculture. Therefore, provide knowledge about organic cultivation and encourage organic fertilizer can be improved to people's health condition. As well as encourage gardening and afford pure drinking water facilities must be done. Because in Anuradhapura district most people suffering from kidney problems. The researcher recommended that provide individual huge loans (about rs.500,000) to their client because, client facing various issue by getting group loans with another party and small loan amount not enough to pay other creditors also. And also reduce interest rate and extend the loan repayment period. Finally, findings of the study explained that provide facility to deposit money with higher interest rate in particular microfinance NGO.

The researcher was found some limitations when conducting the research as presented through the limitations of the study section in the first chapter. Therefore, the researcher proposed some recommendations for future researchers who are interests in this area, for the purpose of making some improvement as follows. First, the researcher gathered data only from one microfinance NGO. Therefore, the results of the study may not reflex truly for the overall microfinance NGO

s in Anuradhapura district. Hence the future researchers who are interested with this area suggested that to include all type of microfinance institutions in particular area. Another one, the survey was limited to 300 respondents who are really engaged with microfinance NGOs because of time constraint. Therefore, future researchers should increase the number of participants with microfinance that could improve the quality of the research. In addition, there are many determinants that effect to rural empowerment. But this study investigates about five dimensions such as, micro enterprises, education, health condition, decision making and common welfare. Therefore, strongly recommended that, the future researchers have to add more dependent variables.

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Determinants of Social Entrepreneurial Orientations of Non-Profit Organization and the Moderating Role of Government Support: Evidence from the Ampara District of Sri Lanka

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Abstract

In the face of expanding globalization, social entrepreneurship and social entrepreneurial orientation (SEO) are regarded as the key economic development strategies to advance an organization's performance and, eventually, a country's economic growth and sustain its competitiveness. This study aimed to explore the factors that affect the SEO of non-profit organizations (NPOs), as well as the moderating effects of government support in enhancing the SEO of NPOs. To meet the study's objectives, the two-step cluster analysis and structural equation modelling (SEM) were utilized. The moderator of the study was classified into three clusters; access to both government financial and non-financial support, access to higher government non-financial support only and access to lesser government non-financial support only. The study was conducted among one hundred and ten NPOs in the Ampara district of Sri Lanka, where data was collected from owners or managers of the organizations. The findings of this study noted a significant positive relationship between organic organizational structure and organization size with SEO. Organizations that engage in earning activities, receiving other organizations' financial support and individual donations show comparatively higher SEO. Organizations with male owners/managers have higher SEO than organizations with female owners/managers. In terms of the moderating effects of government support, findings revealed significant moderation characteristics of government support, most of the direct relationships are moderated when both government's financial and non-financial support is available to the NPOs. Government support accelerates the association of organic organisational structure and social networking with SEO. Organisations involved in earning activities, organisations receiving other organisations' financial support and individual donations show a higher SEO when the moderating effect of government support is present. The findings of this study provide a clear indication to researchers and policymakers about the effectiveness of the current government support designed and implemented to support NPOs in Sri Lanka.

Keywords: *social entrepreneurship, social entrepreneurial orientation, non-profit organization, government support*

1. INTRODUCTION

In today's society, non-profit organisations (NPOs) play an important role as they attempt to satisfy human necessities in an alternative way to profit-seeking firms and the government. In this sense, they are active in different areas (Soriano & Galindo, 2012). In many nations, there

has been a surge in the number of NPOs and the extent and breadth of their activities in the recent past (Kusa, 2016). NPOs heavily rely on donations and government subsidies to stay afloat (Chen & Hsu, 2011).

Increased competition for public funds or donations as a result of the economic recession (Dees, 1998; Haugh, 2006; Weerawardena & Mort, 2006) and a changed role of governments in social service provision (Haugh, 2006) have put increasing environmental pressure on NPOs. Therefore, NPOs are being forced to embrace a more innovative and entrepreneurial approach in order to survive (Dart, 2004a; Dees, 1998; Dover & Lawrence, 2012; Gras & Mendoza-Abarca, 2014).

The majority of non-profits that engage in entrepreneurial behaviour do so for reasons such as the need to generate revenue or increase internal efficiency in order to maintain financial viability, state of mind about how demands and social needs exceed the organization's capacity to respond and changes in the surrounding environment that provide opportunities for generating social value (Dees, 2001; Morris et al., 2011; Pearce et al., 2010; Zahra et al., 2009).

Other motivators for entrepreneurial behaviour include the desire to achieve more, satisfy the most pressing social needs, and do everything possible with the available organizational resources. Social entrepreneurial orientation refers to an entrepreneurial orientation in the non-profit sector (Morris et al., 2011). Organizations with a higher social entrepreneurial orientation and a social entrepreneurship perspective are believed to be more sustainable and able to thrive in competitive contexts while having a greater social impact (Dart, 2004a, 2004b; Eikenberry, 2009; Hu & Pang, 2013).

Although non-profit social service organizations in Sri Lanka play a vital role, their existence is precarious, and many tend to disappear or become inactive (National NGO secretariat data: Sri Lanka, 2020). Government policies and support also determine the sustainability of NPOs. If the government support is favourable NPOs tend to perform effectively (Tan, 2010). From a government policy perspective, a better understanding of social entrepreneurship in a non-profit context could aid in the development of local public policies to finance and support organizations interested in meeting societies' needs (Brown & Moore, 2001).

Despite the importance of NPOs and the role of social entrepreneurial orientation (SEO) in sustaining an NPO, research on this area in Sri Lanka appears to be lacking in the literature. Thus, to provide more targeted insights for these organizations, it is vital to look into the factors that drive NPOs' SEO adoption. Therefore, the study aimed to identify factors that influence the SEO of non-governmental, non-profit social service organizations and to investigate the role of government support on SEO. Social entrepreneurship theory was adopted to understand SEO in a non-profit organizational context.

In order to explore the intended objectives, the study was carried out in the Ampara district of Sri Lanka, which was severely affected by the Tsunami in 2004 and the 30-year civil war. Thus, the involvement of several NPOs is needed, but the active engagement of social services has started to diminish in this area. Consequently, this context creates the necessity for this study.

This study contributes to the existing body of knowledge with a special focus on the SEO of NPOs by uncovering how social entrepreneurial behaviour is influenced by other specific behaviours adapted by NPOs and thus fosters their organizational viability and development.

2. LITERATURE REVIEW

A NPO is a legally constituted organization whose objective is to support or engage in activities of public or private interest and identified as the “third sector” (Enjolras & Sivesind, 2018). NPOs are active in areas such as environment, humanitarian aid, animal welfare, education, arts, social concerns, charities, health care, politics, religion, etc. NPOs are more likely to develop activities that do not generate a monetary profit but produce social profits or social benefits (Knox & Gruar, 2007; Mas-Verdu et al., 2009).

In the non-profit sector, entrepreneurship has become increasingly diffused. Entrepreneurship in non-profit is triggered by the simultaneous rise of financial challenges (Gras & Mendoza-Abarca, 2014) and the complexity of the societal problems that NPOs aim to tackle (Lumpkin et al., 2013). Roberts & Woods (2005) refer to social entrepreneurship as the application of entrepreneurship in the social sphere or non-profit sector. Social entrepreneurship develops innovative business models for providing products and services that directly address unmet basic human needs that are not met by present economic and social structures (Seelos & Mair, 2005). As a result, social entrepreneurship revolves around creating social value through social entrepreneurship and developing strategies (Choi & Majumdar, 2014).

SEO refers to an entrepreneurial orientation (EO) in the context of social entrepreneurship (Alarifi et al., 2019). EO is considered a strategic orientation that captures specifically entrepreneurial aspects of organizations’ strategy for better preparing them in adjusting their operations in dynamic competitive environmental contexts (Lumpkin & Dess, 1996). Morris et al. (2011) argues that innovativeness, proactiveness, and risk taking are more complex and multifaceted in the non-profit context.

Social aspects should be considered while evaluating EO in the non-profit sector (Kusa, 2016; Morris et al., 2011). Therefore, Kraus et al., (2017) proposed a construct which captures EO more accurately in a non-profit context; this proposed SEO construct consists of four dimensions: social innovativeness, social proactiveness, social risk-taking and socialness.

According to Svensson et al. (2019), social innovation (SI) is defined as “practices or initiatives undertaken by the community that produce solutions and provide a better response, in an alternative and creative manner, to social problems or needs. SEO may be beneficial to such organizations, given how social innovation is closely linked with a strong organizational commitment that favours creative ideas and processes that may result in new products, services, or technological advances (Beekman et al., 2012; Tan & Yoo, 2015). Therefore, innovation can be considered as another aspect that may help NPOs provide better services to their communities (Beekman et al., 2012). On the other hand, academics agree that innovation aids in enhancing the efficiency and performance of non-profits, allowing them to provide higher-quality services to their users (Suh et al., 2018; Nuez-Pomar et al., 2020). Given the preceding,

innovation plays a vital role for non-profits under pressure to embrace approaches applied primarily to the profit-making sector (Dover & Lawrence, 2012) due to a downturn in state funding (Suh et al., 2018).

Consequently, proactivity relates to the active pursuit of opportunities, anticipating demand, being the first to adopt a position, and contrasting from innovation in the manner in which the latter adds something new, such as an invention (Pearce et al., 2010). Proactivity is defined as implementing new measures that are, imitations and replications in their overwhelming majority (Alarifi et al., 2019; Pearce et al., 2010). Lumpkin and Dees (2001) and Rauch et al. (2009) state that proactive organizations generally deploy information and knowledge to identify the opportunities arising and gain competitive advantages over their peers. Rauch et al. (2009) found a positive correlation between proactiveness and the performance of an organization.

Risk-taking denotes an organization's willingness to invest considerable resources in new or uncertain markets while ignoring the potential consequences (Alarifi et al., 2019; Chen & Hsu, 2013). Accepting risks necessitates the ability to act outside of established conventions and procedures norms (Pearce et al., 2010). In the non-profit sector, common risks can be related to non-financial rather than financial (Alarifi et al., 2019) because of that, social risk-taking is more problematic than the risk in the for-profit sector (Tan & Yoo, 2015). This has been evidenced by issues of reputation when granting or refusing support to interested parties (clients, communities, etc.) and holding repercussions for compliance with the social mission. Similarly, adhering to the social mission may result in significant financial losses (Alarifi et al., 2019). But, NPOs that exhibit a SEO have evidenced improved levels of performance while contributing value to the society (Martinez-Climent et al., 2019).

Socialness investigates the extent to which an organization focuses on creating social value and entrepreneurial solutions for social problems (Kraus et al., 2017; Hu & Pang, 2013; Satar & Natasha, 2019). In the measurement scale developed by Kraus et al. (2017) the magnitude of socialness possessed by the organization was measured using three items: "the objective to accomplish our social mission precedes the objective to generate a profit, our organization places a strong focus on partnerships with other organizations and/or governments in order to ensure a greater and accelerated accomplishment of the social mission, and we set ourselves ambitious goals in regard to sustainability and incorporate them in all". Therefore, Kraus et al. (2017) argue that the scale proposed to measure SEO by their study provides a deeper understanding of the entrepreneurial behaviour of NPOs.

The SEO of an organization is influenced by many factors. An organization's EO is influenced by organizational characteristics and the manager's or owner's personal factors. Considering organizational factors, older organizations demonstrate a stronger tendency to introduce innovation, act proactively, and take risks (Gelan & Wedajo, 2013). Larger organizations are more likely to participate in innovative activities (Jelenc et al., 2006; Gelan & Wedajo, 2013; Stam & Elfring, 2008). The structure of the social network can be examined in terms of information acquisition, opportunity enabling, weak-tie resource mobilization and strong-tie

resource mobilization. Research indicates that compared to other aspects, having a strong-tie resource mobilization is important for EO (Thornton et al., 2013).

In addition, the organizational structure has been associated with EO, where organic structures have shown comparatively higher EO than mechanical structures (Shoghi & Safieepoor, 2013). The mechanical structure is generally suited for stable and predictable environments and organic structures for turbulent and unstable environments (Gresov & Drazin, 2007). Another finding related to NPOs has shown that involvement in commercial activities significantly influences EO (Do Adro et al., 2021). An organization can receive financial assistance from a variety of sources, including internal funds, angel investors, banks and financial institutions which also influence their EO (Songling et al., 2018). Based above literatures following hypothesis was generated,

H1: Organizational characteristics have a significant effect on social entrepreneurial orientation such as organization size, social network structure, organizational structure and source of funding/ income

When considering the manager's or owner's personal characteristics, an owner's or manager's methods and practices of operation and decision-making style determine entrepreneurial actions (Lumpkin and Dess, 1996). Specifically, their level of education, prior experience, religion, gender, age, education, previous employment and ethnicity have been found to be related to SEO (Gelan and Wedajo, 2013; Jalenc et al., 2016).

According to Gelan and Wedajo (2013), the owner's age has been linked to a negative association with social entrepreneurial orientation, implying that older owners or managers are less likely to innovate, act proactively, and take risks. Manager's/owner's level of education and prior experience are both linked to individual as well as organizational entrepreneurial orientation. Managers/owners/employees in organizations who possess greater job experience, market understanding, business practice expertise, and a higher level of education, are more likely to display entrepreneurial orientation qualities (De-Wit & Van-Winden, 1989). Quaye et al. (2015) assert that men are found to be more entrepreneurial oriented than women. Further, Shivani et al. (2006) state that people from religions show different entrepreneurial orientation levels. Therefore, following hypothesis was generated,

H2: Respondent personal characteristics have a significant effect on social entrepreneurial orientation such as gender, religions, education level and business experience.

The government provides both financial and non-financial support to organizations. Non-financial government support refers to resources other than money that are available to help an organization flourish (Songling et al., 2018). Local government support primarily through funding programs, training programs, and/or social procurement policies and initiatives local government support may also involve raising community awareness. Government support for NPOs varies across environmental contexts and countries (Duniam & Eversole, 2013).

Further, government financial support significantly influences the EO and SEO of organizations and NPOs (Shu et al., 2018; Tan, 2010). It has also been found to have a

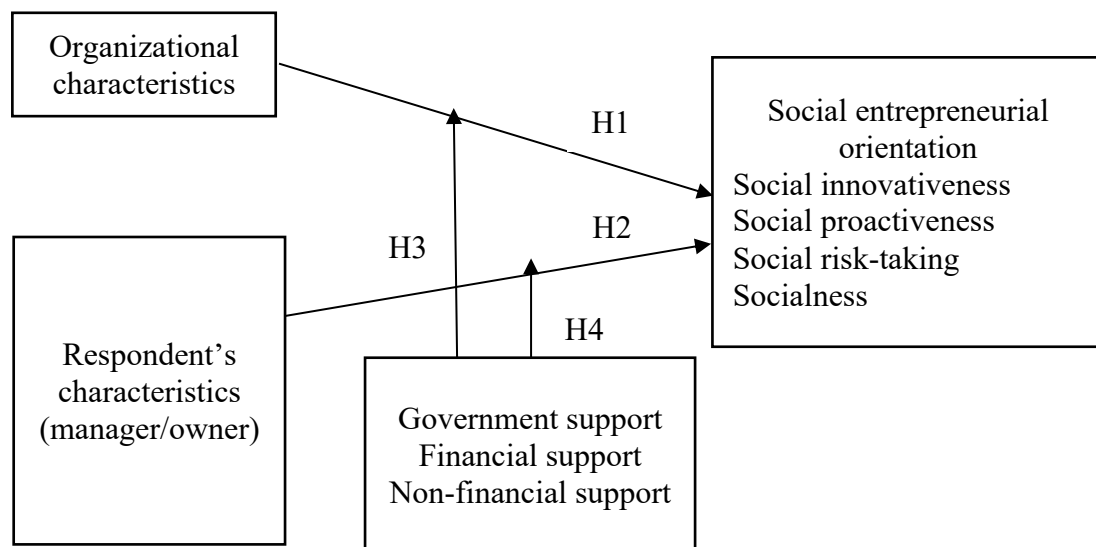
positive impact on organizational performance (Pergelova & Angulo-Ruiz, 2014; Songling et al., 2018). In accordance with above theoretical rationale following hypotheses were generated,

H3: Government support plays a moderating role in the relationship between organizational characteristics and social entrepreneurial orientation.

H4: Government support plays a moderating role in the relationship between respondent's characteristics and social entrepreneurial orientation.

Based on the review of the literature, the study proposes the following conceptual framework given in Figure 1.

Figure 1: Conceptual Framework



In this study, NPO's social entrepreneurial orientation was considered as a dependent variable and organizational characteristics such as type of organization (organization size, social network structure (strong-tie resource mobilization, weak-tie resource mobilization, information acquisition & opportunity enabling), organizational structure (organic organizational structure and mechanistic organizational structure) and source of funding/income (government financial support, other organization financial support, individual donations, members' subscription and organization involves in earning activities) and respondent (the person holding higher position (owner/manager)) personal characteristics such as gender, religions, education level and business experience were considered as independent variables. The perceived support from the government (financial support and non-financial support) was considered as the moderating variable.

3. RESEARCH METHODOLOGY

This study used a cross-sectional study design, which means that data from several variables were collected at the same time, as well as a quantitative approach to assess the objectives. In order to obtain data, a self-administrated questionnaire survey was used. The study sample consisted of non-governmental NPOs that were formally registered and operating (at the time

of data collection) in the Ampara area. Individual NPOs served as the study's unit of analysis, and the census method was employed to identify participating organizations. The Ampara district NGO secretariat provided information on the list of NPOs operating in the Ampara district. According to the information provided, there were 756 registered NPOs. The contact information for 155 of the 756 organizations was not available. The remaining 601 NPOs were approached either by person, by phone or by email. Of those contacted, 285 organizations were inactive, while the contact details of another 114 were incorrect. In addition, another 34 were unresponsive, and 58 refused to participate in the study. Thus, the study collected data from 110 organizations. The hypothesized relationships were tested with data collected through pre-tested structured questionnaires.

Validated measurement scales were adopted from prior studies with minor modifications where needed. The five-point Likert scale of 1 to 5 points (strongly disagree, disagree, neutral, agree, and strongly agree) was used to measure SEO. Items for measuring SEO were adapted from Kraus et al. (2017), consisting of four dimensions' social innovativeness, social risk-taking, social proactiveness and socialness, social network structure measures were adapted from Thornton et al. (2013). For the measurement of government financial support binary scale was utilized (whether organizations receive financial assistance or not and non-financial support was measured using a scale adapted from Korosec & Berman (2006) and organizational structure was measured using a scale by Jewczyn (2010).

3.2 DATA ANALYSIS

Data analysis was done using Structural Equation Modelling (SEM) in SPSS Amos version 26. SEM is a multivariate statistical analysis technique and was preferred over regression as it allows assessment of the pathways through which the relationships among the dependent and independent variables are significant (Nachtigall et al., 2003). SEM is a combination of factor analysis and multiple regression analysis used to analyse the structural relationship between measured and latent variables. In Social Science, the use of SEM is commonly justified due to its ability to impute relationships between unobserved (latent) constructs from observed (measured) variables. In the analysis, the Maximum Likelihood estimation method is used. Suppose the random sample is X_1, X_2, \dots, X_n , for which the probability density (or mass) function of each X_i is $f(x_i; \theta)$. Here, this likelihood function is treated as a function of θ by AMOS and finds the value of θ that maximizes it. Then, the joint probability mass (or density) function of X_1, X_2, \dots, X_n , which can be called $L(\theta)$ is given below.

$$L(\theta) = P(X_1 = x_1, X_2 = x_2, \dots, X_n = x_n) = f(x_1; \theta) \cdot f(x_2; \theta) \dots f(x_n; \theta) = \prod f(x_i; \theta)$$

4. RESULTS AND DISCUSSION

Based on preliminary analysis, services provided by non-governmental NPOs in Ampara district were categorized into seventeen categories by area of focus, such as poverty alleviation education, health, development, sports, environment, women empowerment, entrepreneurship, human rights, child & women protection, relief work, credit & saving mobilization,

rehabilitation reconstruction, disaster management, peace & harmony, agriculture, disabled and orphan. A graphical representation of the subject area/areas covered by organizations is shown in Figure 2. Accordingly, the majority of organizations focus on education (68), followed by development (61), poverty alleviation (61), and women empowerment (57). Also, most of the organizations focused on health (53), and very few organizations focused on agriculture (8).

Figure 2: Subject area/areas covered by organisations

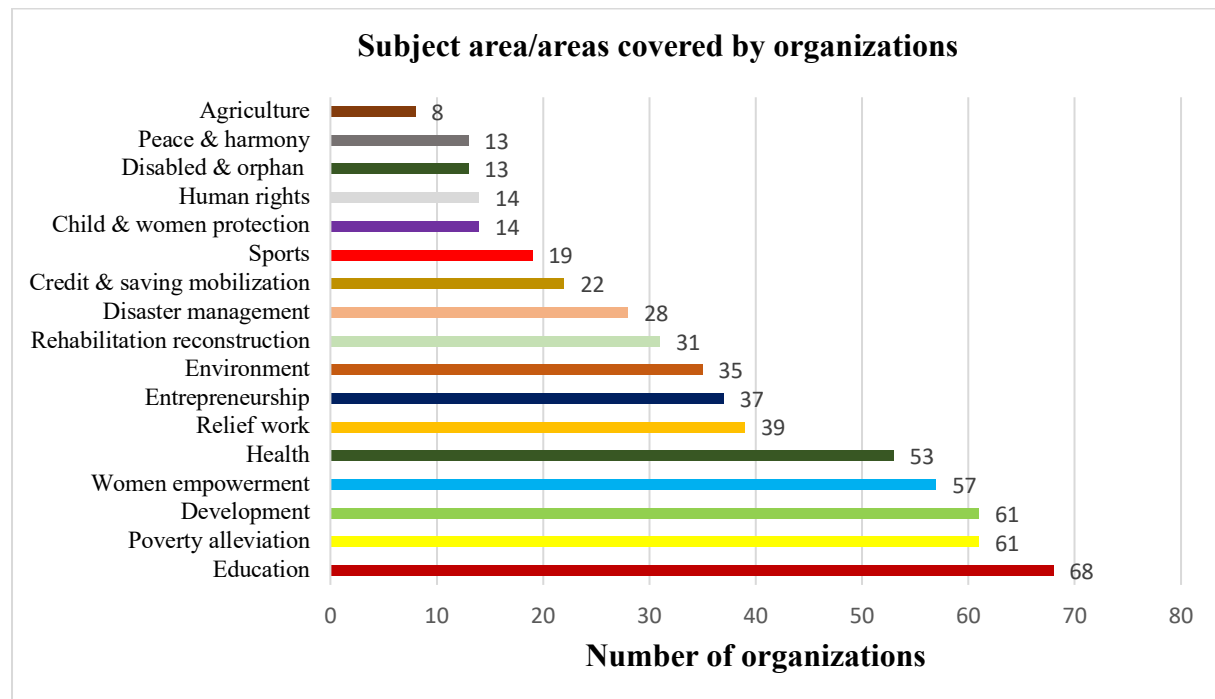


Table 1 shows the demographic characteristics of the organization. Most organizations (89.09%) started within the last 30 years. Considering the number of employees in the organizations, the majority have employees between 1 – 5. All the participants who participated in this study were above 24 years. From 110 participants in the sample majority of participants (70%) were male. Most of the participants (41.82%) were Muslims. With respect to education, the majority of participants have qualifications up to the graduate level. Out of the respondents, 46.36% indicated prior business experience.

Table 1: Descriptive statistics of the demographic characteristics of the sample

Personal/ Demographic	No of organizations	Percentage (%)
Demographic characteristics of organisation		
Organisation's age		
0 – 10	27	24.55
11 – 20	41	37.27
21 – 30	30	27.27
31 – 40	7	6.36

> 41	5	4.55
<hr/>		
Number of employees in the organisation		
1 – 5	53	48.18
6 – 10	17	15.45
11 – 15	30	27.27
16 -20	3	2.73
> 21	7	6.36
<hr/>		
Demographic & personal characteristics of owner/ manager of organization		
<hr/>		
Age of respondent		
25 – 35	21	19.09
36 – 45	36	32.73
46 – 55	33	30.00
56 – 65	17	15.45
> 66	3	2.73
<hr/>		
Gender		
Female	33	30.00
Male	77	70.00
<hr/>		
Ethnicity or Race		
Sinhalese	29	26.36
Tamil	35	31.82
Muslim	46	41.82
<hr/>		
Religion		
Christianity or Roman Catholic	23	20.91
Buddhism	19	17.27
Hinduism	22	20.00
Islam	46	41.82
<hr/>		
Education level		
Primary	2	1.82
Secondary	21	19.09
High school	19	17.27
Graduate	41	37.27
Post graduate	21	19.09
Doctoral	6	5.45
<hr/>		
Business experience		
Yes	51	46.36
No	59	53.64
<hr/>		

Note: INGO-International non-governmental organisation, LNGO-Local non-governmental organisation, CBO-Community based organisation, SSO-Social service organisations

NPOs would be far more effective if they are given appropriate funding because resources play a role in those organizations to flourish (Anheier, 2005). In this study NPOs' income sourcing is categorized into five such as government financial support, other organizations' financial

support, individual donation, member's subscription and by involving in kind of earning activities. The graphical representation of sources of income/ funding is depicted in Figure 3. As depicted in the figure, only very few organizations received government financial support. The majority of the NPOs received members' subscription fees as a source of income. Here NPOs are not depending on one source of income, they are sourcing income/funding in several ways. Even some non-profits are involving some kind of earning activities.

Figure 3: Source of funding/income

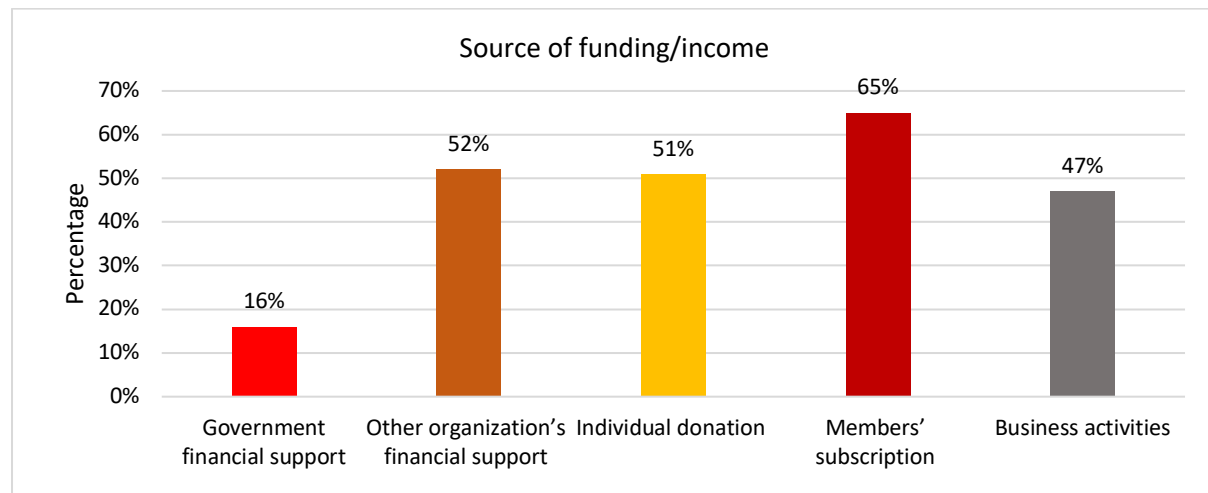


Table 2 shows the results of reliability and validity analysis of the variables in this study. Summarily all the Cronbach's Alpha values for all the variables indicated adequate reliability as all the values were more than 0.70 as referred to Sekaran and Bougie (2016). The validity of the measurement model was assessed through confirmatory factor analysis and indicates adequate validity. The fitness conditions of the model: the significant level obtained from the chi-square test (p-value) is higher than 0.05; the value of the statistic of Root Mean Square Error of Approximation (RMSEA) is less than 0.05; the value of comparative fitness index (CFI), general fitness index (GFI), adjusted general fitness index (AGFI), and non-norm fitness index (NNFI) or Tucker-Lewis Index (TLI) is higher than 0.9 (Joreskog & Sorbom, 1996; Shoghi & Safieepoor, 2013). Steiger. (2007) suggested that RMSEA values less than 0.05 are good, values between 0.05 and 0.08 are acceptable, values between 0.08 and 0.1 are marginal, and values greater than 0.1 are poor. Here all RMSEA values are in the range of good and acceptable categories. Moreover, the acceptable level of SRMR is less than 0.08 (Hooper et al., 2008), which establishes the reliability and validity of the items used in the study.

Table 2. Reliability and validity analysis

Variables	Cronbach alpha	RMSEA	CFI	TLI	SRMR	Variance explained
Social entrepreneurial orientation	0.788	0.051	0.996	0.992	0.031	90.28%
Social network structure	0.883	0.037	0.996	0.992	0.029	93.09 %

Government non-financial support	0.789	0.061	0.989	0.978	0.034	98.77 %
Organic organisational structure	0.793	0.050	0.993	0.985	0.031	99.27 %
Mechanistic organisational structure	0.872	0.065	0.987	0.975	0.034	99.77 %

4.1 Determinants of Social Entrepreneurial Orientation

Organizational as well as respondent factors influencing SEO of NPOs which are hypothesis H1 and hypothesis H2 were assessed by performing SEM analysis. Several models were run in order to select a good-fitting model. The measurement model was first specified using confirmatory factor analysis (CFA) to obtain insights on the hypothesized direction of effects; CMIN/DF = 1.231, GFI = 0.938, NFI = 0.909, IFI = 0.952, CFI = 0.945, RMSEA = 0.038. It consists of latent variables and their respective observed indicator variables. The Maximum Likelihood method was used in estimating CFA. The path diagram in figure 4 shows the identified CFA model. According to the coefficient estimates and the model fit indices; it is evident that the hypothesized direction of effects between the constructs is supported by the data. Figure 4 depicts the path co-efficient values of the finalized model, the arrows directed from independent variables to the dependent variables. The path coefficient values are usually considered as regression weights/co-efficient values in multiple regression models.

The estimated path-coefficient values of the structural model are given below in Table 3. Organic organizational structure, earning activities of the organization, owner's/manager's religion, other organization's financial support, individual donation, social network and organization size with SEO were statistically significant at the chosen 5% level of significance. The organic organizational structure and organization size showed a significant positive relationship with SEO, indicating that NPOs tend to show higher SEO with the increasing organic structure adaptation and organization size which is also consistent with the findings of Gresov & Drazin (2007) with a stronger organic organizational structure, SEOs are likely to exhibit higher EO. Shoghi & Safieepoor (2013) also found the EO orientation of an organization depends on whether the organization's environment flexibility.

Likewise, with increasing organization size, NPOs tend to show higher SEO, and this complies with the previous findings of Jelenc et al. (2016) and Gelan & Wedajo (2013) where an organization with a large size incline to have a higher EO compared to smaller size organizations.

The organizations not involved in earning activities showed less SEO than those organizations involved in earning activities. This is supported by the findings of Alarif et al. (2019) that the organizations which diversify their ways of income tend to adopt higher SEO.

Compared to Islamic manager/owner managing organizations all other managers/owners from other religions showed less SEO. SEO adaptation level in NPOs was higher in Christianity/

Roman Catholic than both Buddhism and Hinduism. Hindu owner's/manager's managing NPOs showed the least SEO. Compared to male manager/owner NPOs, female manager/owner NPOs showed less tendency to adopt SEO. Previous studies have also found that gender and family background have a correlation with EO (Canizares & Garcia, 2010; Goktan & Gupta, 2015; Kuratko et al., 2018; Wilson et al., 2007; Zeffane, 2013). Shane & Venkataraman (2000) and Marques et al. (2017) also state that the willingness to adapt EO is a function of individual differences.

The organization receiving other organizations' financial support shows comparatively higher SEO than the organization without such support. The organization with individual donation NPOs also showed higher SEO comparatively than the NPOs without receiving individual donations.

Similarly, the social network also showed a negative association with SEO, meaning that with decreasing social network NPOs show high SEO. This is consistent with the findings of Ofem (2014) network size and tie heterogeneity moderate the effect of EO, such that organizations with smaller and less heterogeneous sets of collaborative ties reap higher gains from EO than those with larger and more heterogeneous sets. But this is against the finding of Shoghi & Safieepoor (2013) that social network structure is generally positively associated with an organization's EO, with increasing social networking organization's EO also tend to increase.

Figure 4: Path diagram

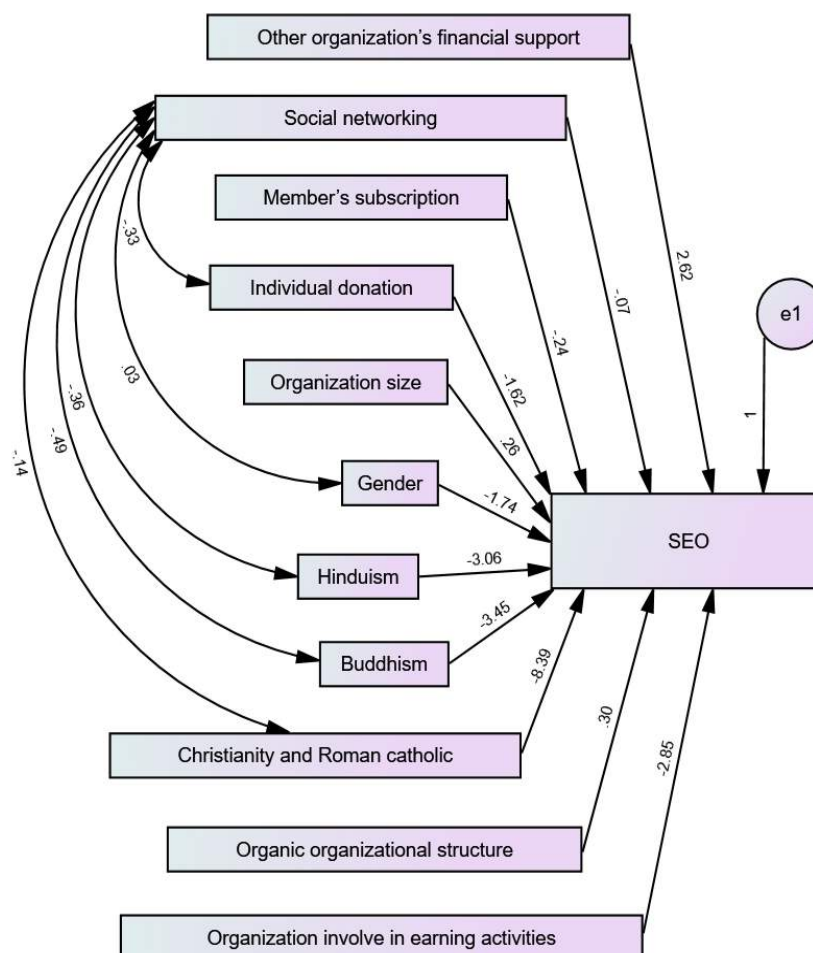


Table 3: Path coefficients

		Variables	Estimate	P
SEO	<---	Organic organisational structure	0.30	0.000**
SEO	<---	Organisation involved in earning activities	-2.85	0.001**
SEO	<---	Gender	-1.74	0.069*
SEO	<---	Hinduism	-3.06	0.011**
SEO	<---	Christianity/Roman catholic	-8.39	0.000**
SEO	<---	Buddhism	-3.45	0.002**
SEO	<---	Other organisation's financial support	2.62	0.003**
SEO	<---	Social networking	-0.07	0.098*
SEO	<---	Individual donation	-1.62	0.071*
SEO	<---	Organisation size	0.26	0.000**

**Statistically significant at 95%, *Statistically significant at 90%.

5.2 Moderating Role of Government Support

Here government financial and non-financial support were considered to measure perceived government support, and two-step clustering was done to create clusters of different levels of government financial support and government non-financial support. Here, the predictor importance of government financial support was 0.84, and government non-financial support was 1.00, according to the Silhouette measure of cohesion and separation, the cluster quality is good. Forty-four per cent (44%) of NPOs are coming under cluster 1, 43.6% of NPOs are coming under cluster 2 and 16.4% of NPOs are coming under cluster 3. Thus, cluster 1 consists of NPOs that are getting only less non- financial government support, cluster 2 consists of NPOs receiving only high-level non-financial government support, and cluster 3 NPOs are getting both government financial support and government non-financial support.

Figure 4: Silhouette measure of cohesion and separation the cluster quality

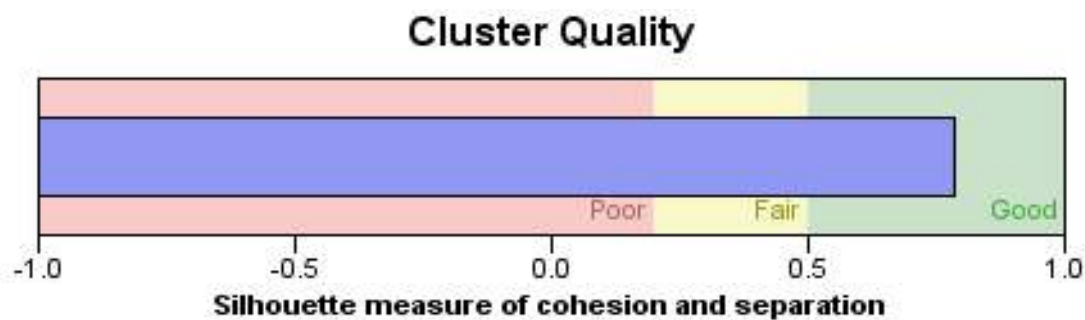
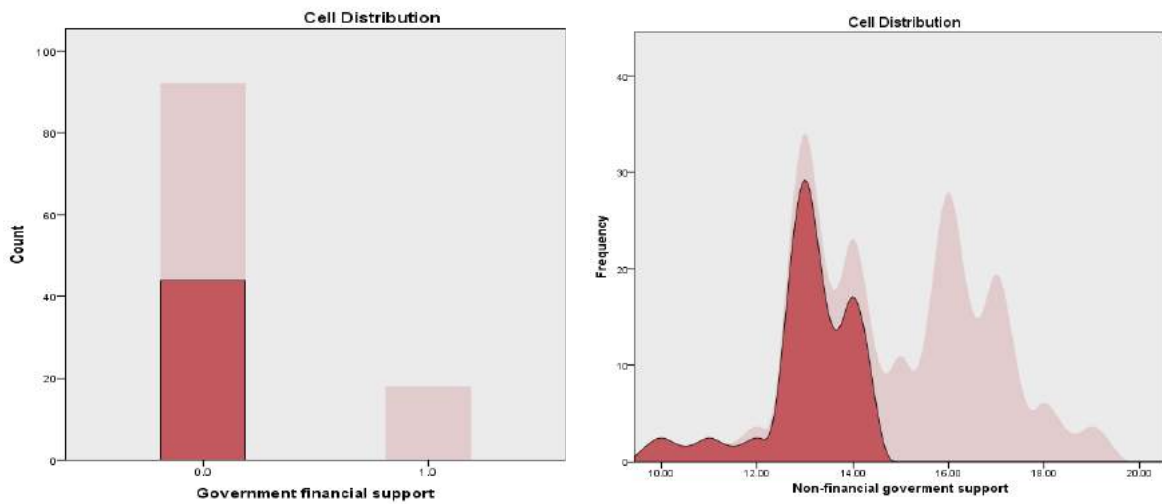
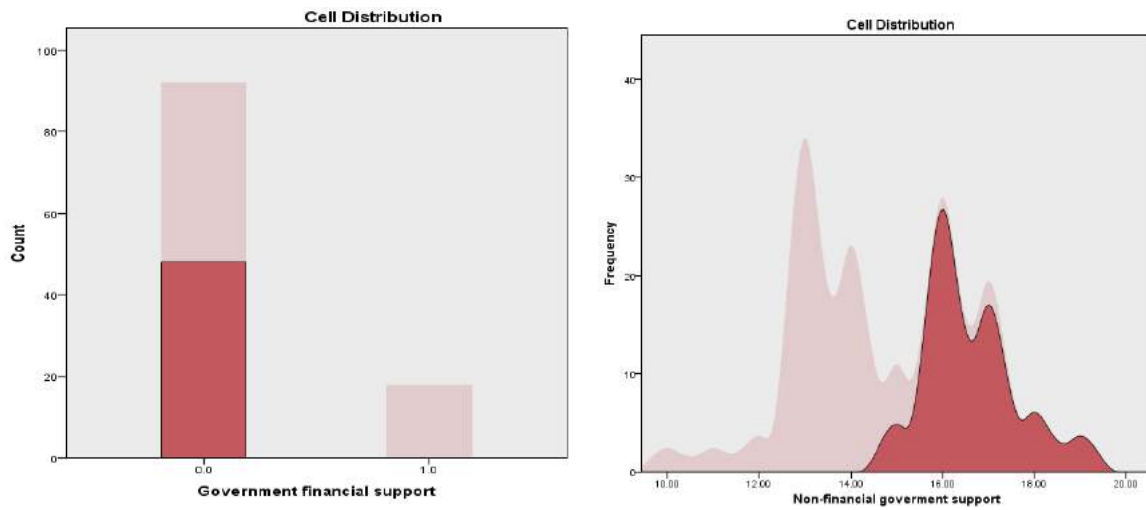


Figure 5: Cluster classifications

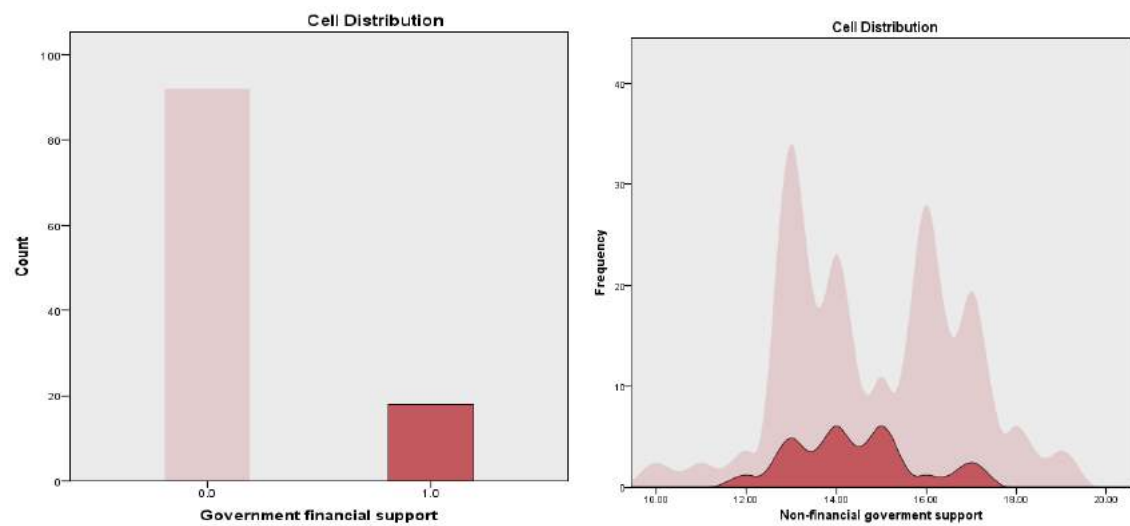
Cluster 1



Cluster 2



Cluster 3



In order to study hypothesis H3 and hypothesis H4, which moderates the effect of perceived government support between organizational or respondent characteristics and SEO, the SEM with moderator variable was used. Table 4, Table 5 and Table 6 present cluster 1 (lower level of government non-financial support only), cluster 2 (higher level of government non-financial support only) and cluster 3 (both government financial and non-financial support results of the moderating effect of perceived government support accordingly. On the whole, the goodness-of-fit indices met the recommended level (CMIN/DF = 1.716, GFI = 0.928, NFI = 0.902, IFI = 0.906, CFI = 0.916, RMSEA = 0.049).

In accordance with this study the moderating effect of perceived government support is significantly moderating some independent variables in each cluster (See Table 4, Table 5 and Table 6). If a NPO receives both government financial and non-financial support the independent variables tend to be moderated higher than NPOs receiving government non-financial support only. Also, if NPOs receiving higher levels of non-financial government support only the independent variables tend to be moderated higher than NPOs receiving less non-financial government support only.

Organization size is significantly moderated by the government support in cluster 3. When considering the organization size, the coefficients are given followingly; for NPOs, if there is no moderating effect of government support (0.26) and both government financial and non-financial support (0.31). In that case, with increasing organization size, NPOs tend to show higher SEO than without no moderating effect. Suppose NPOs are supported by both government financial and non-financial support with increasing organization size SEO tends to increase.

Social networking structure is significantly moderated by the government support in all three clusters. When considering the social network, the coefficients are given followingly; for NPOs if there is no moderating effect of government (-0.07), if the organisations are receiving less government non-financial support only (0.09), receiving higher level of non-financial support only (0.11) and both government financial and non-financial support (0.12). Therefore, with increasing social networks, they tend to show higher SEO than without moderating effect. SEO increases comparatively higher with social networking when receiving both government's financial and non-financial support than receiving government non-financial support only. Social networking association is higher when NPOs receive higher government non-financial support than the less government non-financial support. This is consistent with the findings of Alkahtani et al. (2020) that support from the government also tends to strengthen the relationship between entrepreneurial strength and social networking structures.

Organic organisational structure also significantly moderated in all three clusters at a 5% significance level. When considering the organic organizational structure, the coefficients are given followingly; for NPOs if there is no moderating effect of government (0.30), if the organisations are receiving less government non-financial support only (0.31), receiving higher level of non-financial support only (0.33) and receiving both government financial and non-financial support (0.35). If organisations receive government non-financial support only or both government financial and non-financial support with increasing organic organisational

structure, they tend to show higher SEO than without moderating effect. SEO increases comparatively higher with organic organisational structure when receiving both government's financial and non-financial support than receiving government non-financial support only. Organic organisational structure association is higher when NPOs receive higher government non-financial support than the less government non-financial support.

Other organizations' financial support is also moderated by government support in all 3 clusters. In all 3, When considering other organizations' financial support, the coefficients; for NPOs if there is no moderating effect of government (2.62), if the organisations are receiving less government non-financial support only (2.68), receiving a higher level of non-financial support only (2.80) and both government financial and non-financial support (3.01). NPOs receiving other organizations' financial support showed higher SEO than NPOs without receiving other organizations' financial support. NPOs receiving other organizations' financial support and both government financial and non-financial or non-financial government support only tend to show high SEO compared to NPOs getting other organisations' financial support and no moderating effect. NPOs receiving both government financial and non-financial support show higher SEO than NPOs receiving other organizations' financial support and government non-financial support only. NPOs receiving higher government non-financial support and receiving other organisations' financial support tend to show higher SEO than the NPOs receiving other organisations' financial support and receiving less government non-financial support.

Association between individual donation and SEO is moderated by government support in clusters 1 and 2. When considering the coefficients; for NPOs if there is no moderating effect of government (-1.62), if the organisations are receiving less government non-financial support only (-1.64) and receiving higher level of non-financial support only (-1.72). NPOs with individual donations show comparatively higher SEO if they are supported by non-financial support and the association is high compared to when the moderating effect is absent. Also, NPOs receiving both individual donations and government non-financial support showed comparatively higher SEO than the NPOs, which are not receiving individual donations but receiving the government's non-financial support. NPOs receiving both individual donations and government's higher level of non-financial support show comparatively higher SEO than the NPOs receiving both individual donations and government's less non-financial support.

The moderating effect on organization involvement in earning activities is significantly moderated in all 3 clusters. When considering the coefficients; for NPOs if there is no moderating effect of government (-2.85), if the organizations are receiving less government non-financial support only (-2.89), NPOs receiving higher level of non-financial support only (-3.05), and both government financial and non-financial support (-3.61). If the NPO is involved in earning activities and receiving both government's financial and non-financial support, or government non-financial support only, they show higher SEO than the organizations which are not involved in earning activities and receiving both government financial and non-financial support or government non-financial support only. The SEO level is higher in organizations involved in earning activities and receiving both government's

financial and non-financial support than the NPOs receiving government non-financial support only. Further, NPOs involved in earning activities and receiving higher government non-financial support only show higher SEO than the organizations involved in earning activities and receiving less government non-financial support only.

When considering the owner/manager religion, the coefficients are as follow; for Christianity/Roman catholic owner/manager managing NPOs if there is no moderating effect of government (-8.39), if the organisations are receiving less government non-financial support only (-8.83) and both government financial and non-financial support (-9.25), for Buddhist owner/manager managing NPOs if there is no moderating effect of government (-3.45) and NPOs receiving higher level of non-financial support only (-3.75) and for Hindu owner/manager managing NPOs if there is no moderating effect of government (-3.06) and NPOs receiving higher level of non-financial support only (-3.65) and if the organisations are receiving less government non-financial support only (-3.54). If Islamic owner/manager-managed NPOs are supported by both government's financial and non-financial support or less government non-financial support they tend to show higher SEO than Christianity/Roman catholic owner/manager managing NPOs. The NPOs with Islamic owner/manager and both government financial and non-financial support also tend to show higher SEO compared to Christianity/Roman catholic and without moderating effect. If Christianity/Roman catholic NPOs received less government non-financial support, they showed less SEO than Islamic and both government financial and non-financial support but higher than Christianity/Roman catholic no moderating effect. If Buddhist owner/manager-managed NPOs are supported by both government financial and non-financial support they tend to show less SEO than Islamic owner/manager managing and receiving both government financial and non-financial support NPOs. Buddhism and both government financial and non-financial support tend to show higher SEO compared to Buddhism and no moderating effect. If Hinduism owner/manager managing NPOs are supported by lower government non-financial support they tend to show less SEO than Islamic owner/manager managing NPOs and receiving lower government non-financial support. Hinduism and lower government non-financial support showed higher SEO than Hinduism and no moderating effect.

Similarly, considering the gender, the coefficients are given followingly; for NPOs if there is no moderating effect of government (-1.74) and if the organizations are receiving less government non-financial support only (-2.11). If the owner/manager is female and receives both governments' financial and non-financial support they tend to show higher SEO than male and receive both government financial and non-financial support. NPOs with male and receiving higher government non-financial support only tend to show higher SEO than the NPOs with female and receiving only higher government non-financial support. NPOs with females receiving less government non-financial support only tend to show higher SEO than the NPOs with males receiving less governments' non-financial support only. Based on the study of Lim & Enrick (2013) in conjunction with government assistance measures, it was discovered that EO differs greatly by gender, which is consistent with this study's findings.

The study findings supported by the findings of Anwar & Ali Shah, 2020; Shu et al., 2018 that government financial and non-financial support significantly influences the EO of organizations, thereby, their performance.

Table 4: Regression weights for less government non-financial support

		Cluster 1	Estimate	P
SEO	<---	Organic organizational structure	0.31	0.000**
SEO	<---	Organization involved in earning activities	-2.89	0.232
SEO	<---	Gender	-2.11	0.003**
SEO	<---	Hinduism	-3.54	0.000**
SEO	<---	Christianity/Roman catholic	-8.83	0.000**
SEO	<---	Buddhism	1.27	0.100
SEO	<---	Other organization's financial support	2.68	0.000**
SEO	<---	Social networking	0.09	0.000**
SEO	<---	Individual donation	-1.64	0.000**
SEO	<---	Organization size	-0.08	0.204

***Statistically significant at 95%, *Statistically significant at 90%.*

Table 5: Regression weights for higher level of government non-financial support

		Cluster 2	Estimate	P
SEO	<---	Organic organizational structure	0.33	0.038**
SEO	<---	Organization involved in earning activities	-3.05	0.093*
SEO	<---	Gender	-0.57	0.585
SEO	<---	Hinduism	-3.65	0.041**
SEO	<---	Christianity/Roman catholic	0.89	0.554
SEO	<---	Buddhism	-3.75	0.076*
SEO	<---	Other organization's financial support	2.80	0.064*
SEO	<---	Social networking	0.11	0.000**
SEO	<---	Individual donation	-1.72	0.022**
SEO	<---	Organization size	.05	0.343

***Statistically significant at 95%, *Statistically significant at 90%.*

Table 6: Regression weights for both government financial and non-financial support

		Cluster 3	Estimate	P
SEO	<---	Organic organizational structure	0.35	0.000**
SEO	<---	Organization involved in earning activities	-3.61	0.004**
SEO	<---	Gender	2.44	0.101
SEO	<---	Hinduism	2.53	0.089*
SEO	<---	Christianity/Roman catholic	-9.25	0.000**
SEO	<---	Buddhism	-3.70	0.012**
SEO	<---	Other organization's financial support	3.01	0.003**
SEO	<---	Social networking	0.12	0.040**
SEO	<---	Individual donation	1.37	0.144
SEO	<---	Organization size	0.31	0.000**

**Statistically significant at 95%, *Statistically significant at 90%.

5. CONCLUSIONS

Overall, this study has provided empirical evidence on the factors that influence SEO among NPOs. This study also examined the moderating role of government support in enhancing SEO. Based on the results, it can be concluded that the explored factors influence the SEO of NPOs. However, government support plays a significant role in enhancing SEO. The government support enhances the relationship between social network structure, organic organizational structure, and SEO. If NPO receive both government financial and nonfinancial support they are more likely to benefit through social network structure and organic organizational structure. Further, when organizations receive government support and additional individual donations and other organization's financial support those NPOs also tend to adopt more SEO. If organizations receive government support in addition to involvement in earning activities, they also tend to adopt more SEO.

These findings have important policy and management implications for government and non-profits. The findings imply that policies aimed at developing social entrepreneurial organizations should be sensitive to organizational characteristics such as organization's size, organizational structure, social network structure, source of funding and owner's/manager's gender and religion because government support is significantly moderating the relationship between above mentioned factors and SEO. On the other hand, government support provided to non-profit organizations by the Sri Lanka government still requires some improvements. Therefore, it is important for the government to join hands in making sure that NPOs are aware of the institutional support such as funding and other programs that are provided by the government in order to enhance NPOs.

Findings of the study advance the social entrepreneurship field by shifting the conversation to intervening mechanisms in the relationship between the social entrepreneurial orientation of the NPOs and the organizational factors. This study is one of the few studies that investigated the effect of SEO and its moderating pathway to SEO in a non-profit context. Furthermore, most studies concentrate on the relationship between SEO and NPOs' performance; factors influencing SEO in the social entrepreneurship field are rare, yet it is important to understand the intermediate circumstances through which factors influence SEO of NPOs since SEO of NPOs is related to its performance. Future research should discuss other possible factors that are less explored such as social networking and organisational structure and culture in helping NPOs to provide better socially entrepreneurially oriented services to the society so that SEO in NPOs would be able to attain a completely new level of success in meeting society's needs.

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The Mediation Effect of Entrepreneurial Self-Efficacy in the Relation of Entrepreneurial Passion on Entrepreneurial Intention of Final Year Entrepreneurial Undergraduates in Sri Lanka

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Abstract

Entrepreneurial intention is considered to be the most accurate predictor of entrepreneurial behavior. Understanding entrepreneurial intent will allow researchers to explore the dynamics of the venture creation process. However, the controversial findings regarding the determinants of entrepreneurial intention have triggered this study to question what antecedents would predict undergraduate entrepreneurial intention. Entrepreneurial passion has been identified as a key attribute of entrepreneurs, and it will impact entrepreneurial behavior. Entrepreneurial passion is considered an important aspect that drives entrepreneurial careers. However, it has been noted that there is a lack of empirical research on this phenomenon in the context of Sri Lanka. The major contribution of this research is to expand the knowledge and examine the relationship between entrepreneurial passion on entrepreneurial intention under the mediation role of entrepreneurial self-efficacy. Data were collected through self-administered questionnaires and distributed among 135 undergraduates who study entrepreneurship degree programs in 5 state universities in Sri Lanka using the convenience sampling technique. Data analysis was performed using correlation analysis, regression analysis Baron and Kenny mediator analysis method, and finally Sobel test. The results of the study indicate the indirect effect of entrepreneurial passion on entrepreneurial intention through entrepreneurial self-efficacy was significant and positive. The results of this research provide insights for improving available research entrepreneurial passion in the entrepreneurship field and strengthen its role as a factor to be considered and ultimately have a practical impact on educators and policymakers in Sri Lanka.

Keywords: *Entrepreneurial Intention, Entrepreneurial passion, Entrepreneurial Self-efficacy, Undergraduates*

1. Introduction

The initiation of new businesses occurs during this time, and for this process, the initial step would be to formulate entrepreneurial intentions (De Clercq et al., 2013). In entrepreneurship research, the factors that motivate people to pursue a career as an entrepreneur have been a focus of attention (Neneh, 2020). Entrepreneurial Intentions (EI) indicate a person's desire to start a new business and pursue a different career path rather than working in common

employment (Fitzsimmons and Douglas, 2011, Schjoedt and Shaver, 2007). As intentions of an individual are assumed to be the best predictor of behavior (Ajzen, 1991), in evaluating a single individual's entrepreneurial behavior, a comprehensive and full understanding of the characteristics that determine the EI would be quite important and beneficial (Shane and Venkataraman, 2000, De Clercq et al., 2013). Several external factors can influence EI, such as the presence of an unfavorable economic climate for the person or the lack of common employment options (Ghatak et al., 2007), however, not everyone would react or think in the same way in these circumstances. Individual characteristics play a critical role in this circumstance, such as education (Autio and Acs, 2010), personality (Karimi et al., 2017), labor experience (Cooper and Park, 2008), cognitive parameters (Baron, 2004), and demographic characteristics including age and gender, and, considerably, beliefs that following the path of an entrepreneur is desirable and feasible (De Clercq et al., 2013).

The number of researchers shows that the passion of a person is a key aspect of entrepreneurship and it has a significant role in the formation of a new business process and its outcomes (Smilor, 1997, Erdogan and Bauer, 2005, Cardon et al., 2005, Huyghe et al., 2016). Cardon et al. (2009) defined entrepreneurial passions 'consciously accessible intense positive feelings experienced by engagement in entrepreneurial activities associated with roles that are meaningful for the self-identity of the entrepreneur'. There is an increasing tendency in research aimed at uncovering the processes by which Entrepreneurial Passion (EP) affects EI (Biraglia and Kadile, 2017, Syed et al., 2020). First, in despite of important advancements made in understanding the nature and effect of EP, however, one of the important questions unanswered is how and to what extent EP is related to willingness to start a new business. Furthermore, earlier research has primarily focused on industries (home brewers and academic potential entrepreneurs) (Neneh, 2020). Only recently have research studies such as (Syed et al., 2020) focused on student entrepreneurship, given that most of the EI literature has been built and validated on student samples (Neneh, 2020). Secondly, how and to what extent EP influence EI in those who are not yet formally and actively running their own businesses. As Setiawan (2014) suggests compared to those who did not major in entrepreneurship, those who major in entrepreneurship showed higher self-efficacy in performing business-related tasks. Therefore, this study was conducted for final year undergraduates who study entrepreneurship degree program in government universities of Sri Lanka. According to McGee et al. (2009), university students who are enrolled in entrepreneurship-related courses typically exhibit characteristics of nascent entrepreneurial behavior through engaging in coursework within the university that will prepare them for future entrepreneurial careers.

Many previous studies have supported the idea that EP influences EI through the intermediary role of entrepreneurial self-efficacy (ESE) (Huyghe et al., 2016, Biraglia and Kadile, 2017). ESE refers 'strength of a person's belief that he or she is capable of successfully performing the various roles and tasks of entrepreneurship' (Boyd and Vozikis, 1994). Previous research has shown that EP can boost confidence and enhance EI in those who aren't yet formally or actively seeking an entrepreneurial career (Cardon et al., 2013, Biraglia and Kadile, 2017). Notwithstanding the significance of ESE in the development of EI and empirical data supporting the EP-ESE-EI link (Biraglia and Kadile 2017; Huyghe, Knockaertb, and

Obschonka 2016), there are opposing viewpoints. According to scholars, there is growing evidence that the ESE and EI association does not always hold under certain circumstances (Hsu et al. 2018; Tsai, Chang, and Peng 2014), and that some people may develop a high level of EI even if their ESE level is low (Hsu et al. 2018; Neneh 2020). Third, a comprehensive understanding of this relationship is essential the contexts of previous studies are also relatively limited, as they all focus on developed countries (i.e. Europe and the United States), with little evidence from developing countries (Neneh, 2020). The goal of this study was to see if these relationships can be universally applied in a developing world context employing a population (i.e., undergraduates) in a country like Sri Lanka with the use of entrepreneurial self-efficacy as a mediator. This is significant because, unlike in developed countries, people in developing countries with high unemployment are more inclined to engage in entrepreneurship out of need, regardless of whether they are enthusiastic about it (Amorós et al., 2019). Furthermore, EP is considered to be a strong positive feeling that is strongly influenced by culture (Tsai et al., 2006, Karimi, 2020) a positive emotion in one national culture may have distinct effects in another.

In light of the preceding discussion, this work makes significant contributions. To begin with, it proves the EP and mediatory role of ESE in EP and EI links in a developing country setting using an undergraduate sample, thus extending the applicability of these associations in the field of entrepreneurship. The current study focused on three objectives as to identify the relationship among entrepreneurial passion, entrepreneurial intention, and entrepreneurial self-efficacy, to analyze the impact of entrepreneurial passion on entrepreneurial intention, to analyze the mediatory role of entrepreneurial self-efficacy on the relationship between entrepreneurial passion and entrepreneurial Intention.

The authors clarify essential concepts and theoretical background of the research in the parts that follow, as well as the relationships between entrepreneurial passion, entrepreneurial self-efficacy, and entrepreneurial intention. Hypotheses are then developed and incorporated into a conceptual framework. Finally, the outcome of the suggested model is presented, followed by a discussion of the findings and implications.

1.1. Theory and research hypotheses

According to the theory of planned behavior (TPB), planned behaviors like beginning and growing a business are deliberate and best predicted by the intentions toward the behavior (Ajzen 1991). As a result, starting a business will be deemed a consciously planned behavior, with intention being considered a cognitive function. Moreover, passion is a crucial driving element in the new venture creation process and expected to have a positive link with EI (Neneh 2020). In addition, the social cognitive theory (SCT) is used to explain ESE in this study.

Entrepreneurial passion is defined as “consciously accessible intense positive feelings experienced by engagement in entrepreneurial activities associated with roles that are meaningful for the self-identity of the entrepreneur” (Cardon et al., 2009). On distinct parts of the entrepreneurial process, Cardon et al. (2009) established three role identities (inventor identity, founder identity, and developer identity) that correspond to different forms of EP. An

entrepreneur with an inventor identity is enthusiastic about tasks that revolve around identifying, inventing, and exploring new prospects. The entrepreneur's passion for activities that focus on developing a firm for marketing and exploiting chances is referred to as a founding identity, the entrepreneur's love for actions related to nurturing, growing, and expanding the firm once it has been established is reflected in their developer identity (Cardon et al., 2009). While all of these role identities differ from the others, some entrepreneurs may be enthusiastic about all of them, while others may value one identity over the others (Neneh, 2020). Because our research is limited to those who are considering becoming (but have not yet become) entrepreneurs, it focuses primarily on the founding role of passion identification and its application to the contexts of business goals. Entrepreneurial intentions refer to “the specific target behavior of starting a business” (Krueger, 1993). Intentions aid in the prediction of actual behavior and demonstrate commitment to future actions. While EP is a broadly favorable emotion or feeling toward starting a business, entrepreneurial intents are more action-oriented and related to particular venture formation or acquisition goals (Krueger, 1993, Cardon et al., 2009). As a result, the two terms pertain to two distinct concepts. Individuals who are interested in entrepreneurship may or may not develop the desire to establish a firm, based on a number of facilitating or obstructing variables. This research also adds to the body of knowledge in the sector by demonstrating how ESE enhances the connection between people's enthusiasm for entrepreneurship and their intents to start a firm.

1.2. Entrepreneurial Passion and Entrepreneurial Intention

EP is a particular common emotion experienced by many entrepreneurs (Cardon et al., 2013). Individuals who have EP, according to Cardon et al. (2009), have positive intense feelings about the entrepreneurial activities they are participating in and a powerful normative drive to follow such feelings. The increasing number of research indicates that EP contributes to a pivotal role in new business establishment processes (Murnieks et al., 2014, Cardon and Kirk, 2015, Syed et al., 2020) and outcomes (Baum and Locke, 2004). The desire to add value and make a difference is intrinsic to the entrepreneur's personality (Ma and Tan, 2006). As a result, during the establishment of entrepreneurial intentions, the desire to engage in entrepreneurial activities may lead to the planning of a real business enterprise (Biraglia and Kadile, 2017). According to Cardon et al., (2009), passion drives people to accomplish things, and people who have had EP have positive strong emotions toward the entrepreneurial activity they're doing and so develop a strong motivational drive to act on those feelings. In addition, existing EI research (Huyghe et al., 2016, Biraglia and Kadile 2017, Fellnhofner 2017, Syed et al. 2020, Neneh 2020) have found that EP is a major predictor of EI. This study hypothesizes that:

H1: There is a positive relationship between entrepreneurial passion and entrepreneurial intention

1.3. Entrepreneurial Passion and Entrepreneurial Self-efficacy

Within the context of individual activities and intentions, passion has been demonstrated to build confidence and competence. (Cardon et al., 2013). ESE is defined as “one's belief in one's ability to put skills into practice in order to achieve the goals, and it is very task-oriented”(Zhao et al., 2005). According to Baum and Locke (2004), EP increases a person's motivation to engage in entrepreneurship-related activities. When a person is passionate about starting a business, he or she is more likely to find a way to learn and develop relevant entrepreneurial skills, which will increase their ability to undertake the activity and so enhance their ESE belief. This is supported by previous research (Cardon et al. 2013, Huyghe et al., 2016, Biraglia and Kadile 2017, Fellnhofner 2017, Syed et al. 2020), which found a positive link between EP and ESE.. This hypothesizes that;

H2: There is a positive relationship between entrepreneurial passion and entrepreneurial self-efficacy

1.4. Entrepreneurial Self-efficacy and Entrepreneurial Intention

Self-efficacy, according to Boyd and Vozikis (1994), is a critical explanatory variable in determining both the degree of EI and the likelihood that those intentions would materialize in entrepreneurial activities. ESE, according to Krueger (1993), is a necessary antecedent of entrepreneurial willingness. Chen et al. (1998) demonstrated that ESE can predict future entrepreneurs' EI and actions of entrepreneurs. As a result, in the case of entrepreneurship, ESE entails discussions of the tasks involved in the establishment and development of new businesses and those who believe in their entrepreneurial abilities to start a new business will generate the desire or the intention to do so (Zhao et al., 2005). According to De Noble, Jung, and Ehrlich (1999), people with high ESE believe that the world is full of chances, whereas people with limited ESE see the world through the lens of cost and risk. People with high ESE, are better at seizing prospects for success, can more accurately forecast the future, and have more energy to spend on entrepreneurial tasks when faced with problems, dangers, and uncertainties (Krueger Jr and Brazeal, 1994). Previous studies suggest ESE and EI have a positive association (Bullough, Renko, and Myatt 2014, Tsai, Chang, and Peng 2014, Hsu et al. 2018), this study hypothesizes that

H3: There is a positive relationship between entrepreneurial self-efficacy and entrepreneurial intention

1.5. The Mediating Role of Entrepreneurial Self-Efficacy

Individuals' entrepreneurial goals appear to be adequately antecedent by a high level of EP and the ability to find new solutions (Biraglia and Kadile, 2017). When opening a company, people must have a strong belief in their ability to succeed and achieve their objectives using their skills, and this belief in one's own abilities is referred to as "self-efficacy" by (Bandura, 1997).

Within the context of individual activities and intentions, passion has been demonstrated to build confidence and competence (Cardon et al., 2013). Higher degrees of ESE has also been linked to it (Murnieks et al., 2011). As a result, this study contends that individuals who are

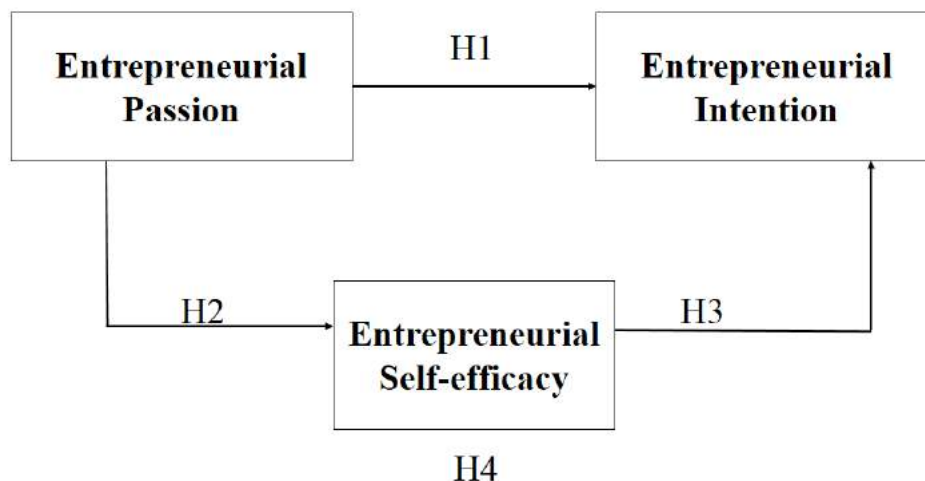
passionate about starting a new business (entrepreneurial passion) will persevere in acquiring the required skills and capabilities to cope with the responsibilities and challenges of being an entrepreneur (ESE), and thus will be more motivated to engage in entrepreneurial action (EI). It is feasible to argue that beginning a business necessitates a high level of skill to overcome a variety of obstacles and hurdles. As a result, ESE can be viewed as a mediating component in the relationship between entrepreneurial enthusiasm and entrepreneurial ambitions. This study is aimed at undergraduates who are only considering starting their own business, and prior research has shown the limited understanding that ESE influences the relationship between EP and intentions. However, the relationship was found to be significant in the later study when respondents had already established their business (Huyghe, Knockaertb, and Obschonka, 2016, Biraglia and Kadile 2017). Accordingly, this study hypothesises that

H4: Entrepreneurial self-efficacy mediates the relationship between entrepreneurial passion and entrepreneurial intention

2. Methodology

Conceptual Framework

Figure 1: Conceptual Framework



Source: (Based on Literature)

The research was conducted as a quantitative research method, followed the deductive approach.

2.1. Sample and data collection

The target population of the study was final year undergraduates who study entrepreneurship as their degree program from state universities in Sri Lanka (University of Sri Jayewardenepura, Uva Wellassa University, Kelaniya University, Ruhuna University, Eastern University). Because (Shirokova et al., 2016) suggest that most entrepreneurs develop the

desire to start a business and engage in innovative and revenue-generating entrepreneurial activities while in university. The study sample size is one hundred and thirty-five (135) final year (The academic year 2015/2016) undergraduates who study an entrepreneurship degree program in state universities in Sri Lanka. The sampling technique used for this was convenience sampling to collect data had limitations in collecting data during Covid 19 pandemic period.

Primary data is the main source of data used for the study. The researchers used self-administered questionnaires for data collection. The questionnaire is divided into four (4) sections: demographic questions, entrepreneurial passion questions, entrepreneurial intention questions, and entrepreneurial self-efficacy questions.

2.2.Measures

This study used measures developed by (Cardon et al., 2013) for EP sample item included (E.g. “establishing a new company seems exciting to me”) and scored from (strongly disagree to strongly agree). EI using measures developed by (Liñán and Chen, 2009). Sample items include, (E.g., “I will make every effort to start and run my own business shortly”) and scored from ((Strongly disagree to strongly agree). Entrepreneurial Self-efficacy using measures developed by (Zhao et al., 2005). Sample items include, (E.g., “I am confident that I can successfully identify new business opportunities”) and scored from (strongly disagree to strongly agree).

3. Data Analysis and Results

To analyze the data, this study used a variety of statistical data analysis approaches such as Karl Pearson correlation analysis, regression analysis, Baron and Kenny four-step mediation assessment, and the Sobel test.

3.1.The Response Rate of the Study

Hundred and thirty-five (135) questionnaires were distributed among final year undergraduates who study an entrepreneurship degree program from state universities in Sri Lanka in order to collect data. Hundred and twenty-two (122) questionnaires were returned. There was a 90.37% response rate. Findings show that more than half (55%) were female undergraduates, and the remaining 45% were male undergraduates who participated in this study.

3.2.3.2 Reliability Analysis of the Data

Cronbach's reliability test was used to determine the internal consistency of the research constructs. The results show that it is 0.888, which is higher than the alpha level of 0.70, indicating that there is satisfactory internal consistency.

3.3.3.3 Correlation analysis

Table 1: Correlation between Entrepreneurial Passion, Entrepreneurial Intention, and Entrepreneurial Self efficacy

Dimension	Pearson correlation	P-Value	Relationship
EP and EI	0.715	0.000	Intermediate linear positive relationship
EP and ESE	0.851	0.000	Strong linear positive relationship
ESE and EI	0.725	0.000	Intermediate linear positive relationship

Source: Based on data

Pearson correlation coefficient analysis was run to determine the relationship between two variables. Findings implied that probability of the association between EP and EI, EP and ESE, ESE and EI is 0.000. This is less than the significance level of 0.05 and it comprehended that test were highly significant. Based on the results of this study there was an intermediate, positive correlation between EP and EI ($r = 0.715$). There is a strong positive linear relationship between EP and ESE ($r = 0.851$). Further, there is an intermediate positive relationship between ESE and EI ($r = 0.725$).

3.4. Regression Analysis

Table 2: Model summary of simple linear regression analysis

R	R Square	Adjusted R Square
.715	.512	.508

Source: Based on data

Findings provides the R and R^2 values. The R -value represents the simple correlation and is 0.715. The R^2 value indicates how much of the total variation in the dependent variable EI, can be explained by the independent variable EP. In this study, 51.2% can be explained.

Table 3: ANOVA

Model	Sum of squares	Degree of freedom	F	Significance
Regression	55.631	1	125.708	0.000
Residual	53.105	120		
Total	108.736	121		

Source: Based on data

Findings indicates regression model predicts the dependent variable significantly well and is statistically significant. According to the findings, P is 0.000 is less than 0.05, and indicates that overall, the regression model is statistically significant and predicts the outcome variable.

Table 4: Coefficient summary of simple linear regression analysis

Predictor	β coefficients	Standard error	T – value	P-value
Constant	0.957	0.208	4.591	0.000
Entrepreneurial passion	0.735	0.066	11.212	0.000

Source: Based on data

EI is 0.957 when EP remains zero this is implied by constant β_0 . Statistically significant at a 0.05 level of significance ($P = 0.000$). Also, the independent variable (EP) shows a positive beta coefficient. It shows every additional one-unit increase in EP, results in to increase EI by 0.735. Statistically significant at a 0.05 level of significance ($P = 0.000$).

Based on the research findings, simple linear regression equation can be built up as follows;

$$\text{Entrepreneurial Intention} = 0.957 + 0.735 \text{ Entrepreneurial Passion} + \varepsilon$$

Table 5: Summary of the model

Path	B (unstandardized coefficient)	Standard error	B (standardized coefficient)	P value
C	0.735	0.066	0.715	0.000
A	0.885	0.055	0.851	0.000
B	0.417	0.114	0.422	0.000
C'	0.366	0.119	0.356	0.003

Source: Based on data

Researchers used Baron and Kenny's four-step mediation analysis approach (1986). The coefficients of 0.735, 0.885, 0.417, and 0.366 at the 0.05 significant level and revealed that all four paths are significant. The beta coefficients were all positive, indicating that the variables have a positive association. In addition, the c' path indicated a value of 0.366 for the unstandardized coefficient. As a result, when the mediator is included in the model, there is a positive association between variables. Therefore, the c' path is also significant and when compare the c path and c' path there is a significant difference between the unstandardized coefficients of the two paths. The difference was 0.369 and it demonstrated that entrepreneurial self-efficacy partially mediates the relationship between EP and EI at a 0.05 significant level. Aside from that, the Sobel test was used to determine the indirect association. Based on the

Sobel test calculation, it illustrates the portion of EP on EI due to the mediating effect of ESE as 36.9 % at the 0.05 significant level. As a result, the findings of the presented model study support the idea that ESE mediates the EP-EI link.

Table 6: Summary of hypothesis

Hypothesis	Accepted or rejected
H1: There is a positive relationship between entrepreneurial passion and entrepreneurial intention	Accepted
H2: There is a positive relationship between entrepreneurial passion and entrepreneurial self-efficacy	Accepted
H3: There is a positive relationship between entrepreneurial self-efficacy and entrepreneurial intention	Accepted
H4: Entrepreneurial self-efficacy mediates the relationship between entrepreneurial passion and entrepreneurial intention	Accepted

Source: Based on data

4. Discussion

First objective of this study is to identify the relationship among entrepreneurial passion, entrepreneurial intention, and entrepreneurial self-efficacy. According to the results of the current study, researchers have discovered that EP and EI have a positive relationship and hypothesis 1 is accepted. Findings from prior studies (Huyghe et al., 2016, Biraglia and Kadile, 2017, Fellnhofner, 2017) suggest that there is a relationship between EP and EI. Moreover, results of the current study it was found that there is a relationship between EP and ESE and hypothesis 2 was accepted. The findings agree with the prior studies (Murnieks et al., 2011, Huyghe et al., 2016). Further, study findings suggest that there is a positive relationship between ESE and EI, and hypothesis 3 was accepted which congruent with previous scholars' findings (Bullough et al., 2014, Tsai et al., 2016, Hsu et al., 2019) supported the view that ESE positively associated with EI.

Second objective of this study is to analyze the impact of entrepreneurial passion on entrepreneurial intention. Sri Lanka has a high unemployment rate, which demands a government policy that encourages entrepreneurship as a means of lowering unemployment. According to previous research, the growth of entrepreneurial intention precedes the formation of new businesses (Lián and Chen, 2009). Researchers discovered that EP has a positive impact on EI in the current study. The present study's findings are consistent with those of (Huyghe et al., 2016, Biraglia and Kadile 2017, Fellnhofner 2017, Syed et al. 2020, Neneh 2020), which imply EP would predict EI positively.

Third objective is to analyze the mediatory role of entrepreneurial self-efficacy on the relationship between entrepreneurial passion and entrepreneurial Intention. Furthermore, the current study's findings indicate that ESE will mediate the relationship between EP and EI. The researchers performed multiple regression analysis to accomplish the study's objective. Under

multiple regression analysis, researchers used Baron and Kenny's four-step model. The first step in the four-step model was to determine the direct relationship between the independent and dependent variables. The coefficient between EP and EI was +0.735. At a 0.05 significance level, this result indicates that there is a positive association between the independent and dependent variables. It proved that there is a positive relationship between variables and hence C path was significant. The second step was to figure out how the independent variable and the mediator were related. The coefficient of EP was 0.885 and it suggested that when EP was increased by one unit, ESE increases by +0.885. Moreover, it is also implying that there is a positive relationship between EP and ESE. The results of this presented that the "a" path is significant at the 0.05 significant level. Furthermore, the third step was to find out the relationship between the mediator and the dependent variable, implied the coefficient value as +0.417 and it proved that there is a positive relationship between ESE and EI. As such "b" path was significant at the 0.05 significant levels. The fourth step was to identify the mediating effect of the model. According to the multiple linear regression analysis, the coefficient value at 0.05 significant level was +0.366, and therefore the c' path is also significant and the coefficient value has reduced by 0.369. It illustrates that ESE partially mediates the relationship between EP and EI.

Apart from that researcher conducted the Sobel test to identify the indirect relationship. Based on the Sobel calculation, it illustrates the portion of EP on EI due to the mediating effect of ESE as 36.9 % at the 0.05 significant level. Therefore, the results of the presented model study support the conclusion that ESE mediates the relationship between EP and EI. As a result, hypothesis 4 is supported, and thus confirms the evidence from (Huyghe et al., 2016, Biraglia and Kadile 2017, Neneh 2020)

4.1.Theoretical implications

With the completion of this research knowledge gap that was found within the literature with little evidence was addressed in order to generate novel insights into the entrepreneurship literature in two ways. Firstly, understanding of factors that lead individuals to become entrepreneurs by studying the powerful role of EP on EI and advance the entrepreneurship literature and found that EP has a positive impact on EI, and secondly advances the understanding of the ESE in the relationship between EP and EI, and results indicate that ESE partially mediate the relationship between EP and EI.

4.2. Practical Implications

Entrepreneurial passion contributes significantly to EI, both directly and indirectly through ESE. This indicates that EP is a vital skill that should be cultivated in potential entrepreneurs. The findings strongly suggest that EP is an important factor in determining EI. As a result, academics should prioritize them in the development of university curriculum therefore leading to more influential education for entrepreneurship.

Moreover, educational programs can be designed identifying the need for and relevant approaches to improve EP among students, such as using role models or stories in

entrepreneurship training programs. These findings aid career mentors, coaches, and policymakers in strategizing and designing relevant intervention and initiatives to inculcate entrepreneurial confidence in the career development and guidance process for undergraduates as the study findings support the ESE partially mediate the relationship between EP and EI. They also have implications for labor policies that have traditionally placed a greater emphasis on employability and entrepreneurship to address the economic challenges of youth employment.

5. Conclusion

In the literature review section discussed in detail, it is worth noting that various scholars have debated the value and influence of EP on business success. Questionnaires were distributed among the entrepreneurial undergraduates in state universities in Sri Lanka. This study focuses the impact of EP on EI under the mediating role of ESE. Findings conclude that there is a significant positive relationship between EP on EI, a relationship between EP and ESE, the relationship between ESE and EI. These findings conclude that the EI of university undergraduates was enhanced by developing EP and ESE. Furthermore, the study's findings revealed that EP had a positive impact on EI. According to the findings, ESE can help undergraduates in Sri Lanka strengthen their EP and EI.

5.1 Future Directions

As with other studies, this one has some limitations that could be exploited by future researchers. First, while EP is a multidimensional term, our research focuses solely on its founding dimension. Future researchers can investigate other EP dimensions that were not covered in this study (e.g., inventor and developer). Next, this study focused on the establishment of intentions, than about the actual start-up of a firm. Future research could look into how EP, ESE affect actual business start-ups. Moreover, this study was conducted using final year undergraduates who study entrepreneurship degree program and future study can be conducted for the junior levels and with undergraduates who study other programs. Future studies can be conducted using moderating effects to identify moderation effects on existing relationships.

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Application of Differentiation Strategy on The Business Performance of SMEs (Evidence from the SMEs Operated in Western Province)

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Abstract

Differentiation strategy is being used fully or partially by many enterprises operated in the small and medium scale. Being a less developed country, more than 75% of the enterprises are accounted for small and medium scale and practise differentiation strategies through goods, services and even in their process. Middle of the competition SMEs are subject to prolong with set of critical factors. The study aims to investigate the influence of the differentiation strategy on the performance of enterprises in terms of profitability and sustainability also it identifies the impact on the operational efficiency of the enterprises. 750 sample enterprises were selected using stratified random sample throughout three districts secretariats in western province in Sri Lanka. Primary as well as secondary data collection methods were used along with descriptive and inferential techniques. Confirmatory factor analysis, regression analysis along with Pearson correlation used to validate the findings of the study. The Study highlights the significant positive influence of differentiation through product innovation, product uniqueness and product value creation. Enterprises can focus much on green concerns in differentiating the products as the alternatives for obstacles faced through finance and resources. Better understanding of differentiation with sustainable values would distinct the product in earning competitive advantage as well as business existence.

Keywords: differentiation strategy, business performance, sustainability

1. Introduction

1.1. Background of the Study

Limited resources and unlimited wants create the trading era with tremendous changes which occur frequently. The scarcity of the resource's stresses on strategic alternatives available to small firms. Hence the resource utilization is possessed by larger scale firms, the smaller scale firms need to evaluate the potential marketing strategies to recognize the distinctive competencies. This is a part of the ground theory of Porter's generic strategy which is introduced by Michal Porter during 1980's (Yoan, 2018). According to Jimnah (2020) the business strategy is mandatory as to run business operation beyond operational efficiency. A successful business strategy like differentiation strategy helps in measuring the growth and success of the business and increase adaptability. The empirical model of Seifert (2002) illustrates the interactive

movement from strategic positions in to strategic actions in the market. Strategic positioning is comprised with the variables of sustainable practice, provision of uniqueness, brand valuation, growing competencies of marketing and market positions. Similarly the strategic action can be pushed towards having a remarkable brand, covered market Niche, diagonal communication, brand image and the sustainability of the enterprise.

Figure 01- Differentiation strategic empirical model (Seifert, 2004)



Similar to Michael Porter's theory Edward Chamberlin (1993) implied the theory of monopolistic market completion regarding the market structures and functions of economic units. In the theory he has stated that the imperfect market such as monopolistic ought to partially or slightly differentiate the product as to gain over the economical advantage in the market. Further he argues that differentiation is the effective mechanism in a market where large buyers and sellers are applicable in trading activities in gaining financial benefits. Even in agriculture markets the watermelons are differentiated with the shape and size using genetically modified crops technology (Praiz, 2021). Differentiation strategy is known as one of Porter's typology of business strategies that focuses on constructing unique and high quality products to make a distinction amongst their products from the competitors where conferring advance benefits to the customers, offering their products with premium price, and investing more in research and development activities. Adopting the differentiation strategy requires technology, set of specialized assets, and high intellectual workers to distinguish their products from their competitors. Differentiation strategy is able to add to profitability of a firm from the high profit margin made by providing firm's products (Retnaningtyas, 2018).

The strategy of differentiation means course of action in distinguish the product, process or conduct of a business from its rivals as to make uniqueness for itself. This strategy would bring firms to upgrade the economical performance and to exist in the industry for a long run. Firms that use differentiation strategy as their business strategies will be able to reach certain financial gains due to their premium profit margin and competitive advantages constructed by the firms. In deed firms generally pursue differentiation strategy less forced to use real earnings management. The main center

of attention of firm that uses differentiation strategy is customer satisfaction and successful products' performance, rather leading to earnings management (David, 2020). The firms do undertake differentiation strategy by forming a perception of certain values such as product performance, product innovation, product durability, and brand recognition to its customers.

Every organization that competes in a market has a willingness to be superior to its competitors. In common context the organizations apply this competitive strategy through the functions of various existing firms located in the market. The basic concept of the formulation of a competitive strategy begins with the development of a general formula on how a business would grow and the policies along the approaches required reaching the targets (Bayal, 2021).

Approximately 90% of entities would belong to SMEs where it creates 45% job opportunities and 52% on economic growth (Shares of economic sectors, 2019). Generating employment opportunity would diminish the unemployment as well as poverty of the nation (Central Bank of Sri Lanka 2018). The small and medium scale enterprises are the execution of the entrepreneurship of a society. Defining SME would be distinct since the measures are varying from country to country according to the socio-economic nature. Basically number of labours employed, amount of capital employed and the annual turnover earned would be the common measures in framing SME. According to Sri Lankan context, the enterprises that gratifies the annual turnover not exceeding Rs.750 million and employing lesser than 300 employees can be categorized in to small and medium scale business (Sri Lanka National policy frame work 2015).

1.2. Research problem statement and justification

According to Porter (1990) suggested four "generic" business strategies that could be adopted in order to gain competitive advantage based on cost leadership and the product differentiation. The strategies relate to the extent to which the **scope** of a business' activities are narrow versus broad and the extent to which a business seeks to differentiate its products. According to CMA (2020) 75% of the enterprises operated in Sri Lanka represent SME's and they contribute 45% of the total employment of the country where 52% of the GDP driven through these productive units. The SME's that are practicing self directed culture and dynamic learning show approximately 30% to 50% of sustaining rate compared to the other enterprises in the market. At the same time those organizations reflect higher productivity of 52% other than the substitutes in the industry (Most admired companies of Sri Lanka, 2019). The challenges experienced by many SME's are relevant to the labour training, technology adaptation, asymmetric information and the high competition in the market. Due to some dynamic obstacles some ventures fall on to the shut down stage too (National human resource & employment policy, 2021).

Therefore the study intends to investigate the significance of business existence of SMEs during the competitive environment and to identify the influence of the strategies such as differentiation on the entrepreneurial and business functions towards the operational efficiency.

1.3. Research questions

- Does the differentiation strategy positively influence the business performance?
- Does innovation process impact on the operational efficiency of the business?
- Does differentiation of goods, services and process contribute to the competitive advantage of SMEs?

1.4. Research objectives

- To identify the relationship between the differentiation strategy and business performance
- To examine the influence of innovative process on the operational efficiency of the firms
- To evaluate the role of differentiation on the competitive advantage of SMEs

Therefore the study aims to address the issues related to the adaptation of differentiation strategy among the SMEs.

2. Literature review

2.1. Background of the Theory

According to porter (1994) the differentiation strategy, the organization attempts to be unique in its industry in several scopes generally valued by consumers. The organization chooses single or multiple attributes that are observed important by many consumers within the framework of the industry and uniquely puts it to meet those requirements. The organization then rewarded with premium price because of its exceptionality and uniqueness. The technique to distinct is dissimilarity for each industry. Differentiation can be based on the product, product delivery methods, marketing approach, and other a range of aspects. Further he states that the major types of the differentiation strategies in to product differentiation, service differentiation and brand differentiation.

- a) **Product differentiation:** the product is when the organization creates a new product perceived by the consumers as a unique and different commodity. Goods are potential to be differentiated. Organization can differentiate their products based on product features, performance quality, reliability of the product and its visual appearance. The assortment of the products among the substitutes and rival's products in the market is always on the difference connected with a product which would persuade purchase of a brand (Hassan, 2010).

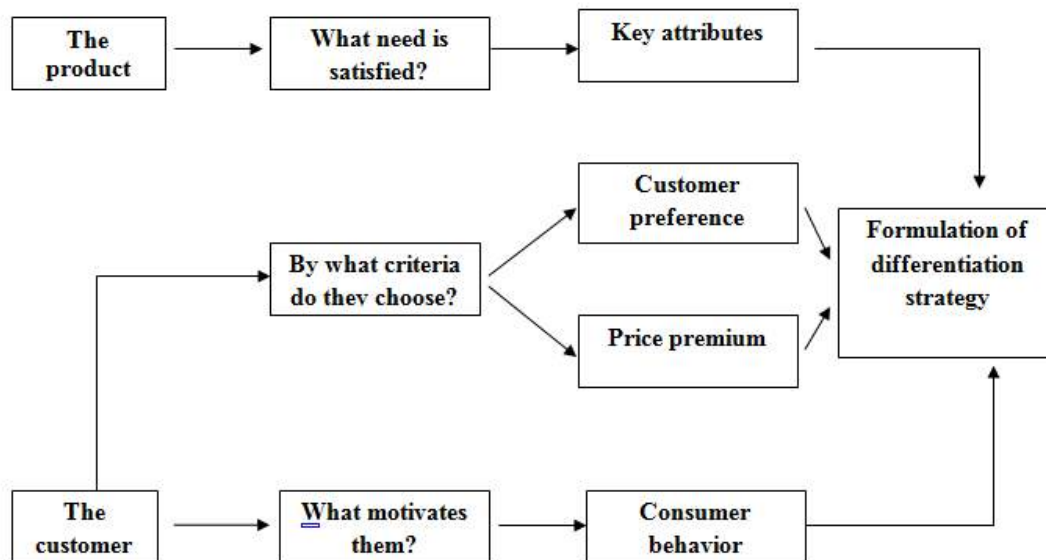
- b) **Service differentiation:** it is where the intangible products are differentiated consistently to render better quality of service than the rivals. This is accomplished by fulfilling the expectations of the customers in the market (Tjiptono, 2011).
- c) **Process differentiation:** it is where the existing system or structure of producing or providing services is distinguished. Of a firm are differentiated as to determine the position in the market. And also the firm's items potentially attractive among the many consumer choices as well as the brand as a way to attain competitive advantage in the industry.

Once the organization has noticeably defined its image to customers then it's essential to synchronize that earned image to make it a foundation of competitive advantage that the company has in the long term. (Anwar, 2018)

2.2. Implication of Differentiation Strategy on Performance Of SMEs

Exploiting differentiation strategy works out when the firms themselves realize as inimitableness with respect to the others in its particular industry. According to Dickson (2018) there is a difference between market segmentation and product differentiation and found that even marketers are unable to agree on what the distinctions are, or which specific element placed in first at sustain the brand or a firm. When it applied to the small businesses, they need to refrain being pre occupied with attempting to identify market segment and they will not have the resources to be able to explore all of the alternatives for prospective market segmentation. With a lack of identification, the firms will need to choose mass marketing. This adversely impacts the small firms in finding and growing the unit of economy (Roy A. Cook, 2012). Formulating a differentiation strategy is an effectual way of coordinating and evaluating the internal and external factors. The insight of the enterprise needs to be capable enough to adopt the requirements of customer and the attributed perceived from the market (Grant, 2002). The simplified model of differentiation strategy formulation is given through figure 2.

Figure 2 – Differentiation strategy formulation (Grant, 2002)



Differentiation strategy helps the organizations to stand out in a market and then differentiating the products of the firm from its rivals. Differentiation strategy is vital approach than the marketing strategy and it always carried out at the time of the growth of marketing strategy.

Utilization of resources and usage of appropriate strategies can be known as critical factor for not only profitability but also sustainability of the business. In context of Asian countries its evident full that differentiating the core item than the substitutes would improve the financial performances (Nijuhan, 2015). The resource-based theory also ropes the ideology of the financial performance and differentiation strategy. In fact the usage of differentiation positively impact on financial as well as economic performance of the industries like manufacturing (Jimnah, 20210. However adopting and implying the differentiation strategy would be challengeable for the firms especially like small and medium scale enterprises. There are limitations in applying differentiation strategy; those are capital, not having an effective distribution channel, mindset in doing business, and lack of technology (Joy, 2021).

Regardless of the consequence of generic strategies being a critical factor in gaining competitive advantage by the firms and thus a firm's growth and sustainability, not as much of empirical researches have been embark on to justify this in SMEs (Dimitros, 2021). Former researches up to the date mainly contemplated in large scale enterprises that are dominant in research work regarding the growth of small & medium scale enterprises. To be victorious in the market or industry the differentiation strategies are being applied in the form of innovation differentiation, service differentiation, marketing and quality differentiation (Mahago, 2016).

2.3. Product Differentiation and SME's

Findings of the study done by Njuguna (2015) indicates that small and medium scale enterprises are distinguishing themselves among the rivals, provision of a variety of product, provision of quality commodities, prompt in managing complaints, and imposing reasonable prices. 25 % of the consumers in the food manufacturing sector prefer the product modifications than the other changes. And 23% of the respondents in the similar sector confessed that the unique product at the reasonable price. The study conducted by Bayal (2021) reveals that there is significant association between product pricing and competitive advantage of the organization. This destined that the success in the terms of profitability, sustainability of an organization was significantly influence by the pricing of its products. The enterprises operated in the apparel industry generally take up sorts of competitive strategies such as marketing differentiation, segmentation differentiation, innovation differentiation and products service to attain competitive advantage in the industry. (Praiz, 2021).

The study conducted by Brown (2016) identifies that the Quality is an important choice in helping SMEs to be diverse from other enterprises as to gain competitive advantage. Certainly, as the quality standards and certification made a significant change in terms of growth and reputation for the enterprises operated in the fast moving consumer goods industry in Europe. Further the study exposed that the differentiation strategy is the stratagem most engaged by the Small and medium scale enterprises. Some of the features of differentiation strategy also signified the positive relationship with competitive advantage. This facilitates the SME's to win off the degree of competition and the uncertainty. Differentiation is when an organization or brand surpasses competitor's brands in the terms of the aspects such that faces reduced compassion for other aspects (Ali, 2021). Enterprises such as SME's do at least as well as other competitive enterprises, or rather superior than, any other rivals in the market'. when goods and services are based on such core competencies, they characterize the value of enterprises' intention in mass or niche market and the firm's business strategy; in consequence, the business strategy espoused by the firm to be able to gain competitive edge over the rivals in the industry (Jimnah, 2021). Being the factor globalization has contributed to the higher degree of completion for the manufacturing and service enterprises irrespective to the scale of enterprises. The firms have a tendency to seek competitive advantage through generating products with preferred valued aspects in terms of quality of the goods and service, flexibility and reliable delivery of the product (Xhavit, 2020).

Barney (2012) states that the competitive advantage is gained through building core capabilities which are done through following major approaches.

- Creating high user value and able to create value for the consumers with less cost.
- Constructing the unique feature or uniqueness, that is hard to be imitated by the rivals
- Making access to a new market or existing market with sustainable mode.

Further he recognizes that the resources and capabilities of firms are the input to generate sustained competitive advantage and achieving better-quality routine. Competitive advantage is at the spirit of enterprise's performance. Being profitable and sustainable is not easier especially in the contemporary context of competitive environment (David, 2020). Reference to the small scale enterprises those sell fresh consumer commodities are mostly applying the combination of business strategies than following a pure strategy like product or service differentiation. The mixture of adopting to cost leadership and product differentiation would mean a lot for these firms since their operational efficiency and the sustainability is tend to be possible (Susan , 2017).

2.4. Service Differentiation and SME's

Differentiation on service is a defendable approach for the enterprises financially and economically to be viable. It is possible when the firms earn above their average marginal returns and It cut off a firm from the competitive circle through creating the product or brand loyalty, it minimizes the price elasticity of demand by composing customers to respond less insightful to price changes on the goods or service of an entity (Roy, 2016).

The exploratory study undertaken by (Puruwanhi, 2020) confessed that that differentiation Strategy involves in proffer a good or service to the market that is unique or has unique selling proportions. Indeed it is the formation of distinctive qualities that creates a unique service to release with the profitable concern. The result of the study concludes that differentiation of an enterprise would significantly impact on the business performance. Following table illustrates the summary of the results. Service differentiation can be referred as to the extent which an enterprise spotlights on service as its foundation of offering regard to the consumers' requirements. Based on the direct effect the service differentiation implies the orientation of the competitor such as congregation of intelligence on rivals, which is a part of the market orientation and potential to formulate as a direct effect on the performance of the business in terms of economy and rational (Rajiv, 2020). The contemporary understanding the service differentiation is not restricted to collect the intelligence and safely moves on competitors' service render. Numbers of manufacturing firms even apply the service differentiation as viewing the stratagem for capturing the market (Oliva, 2008). The confrontation states that, employing a specific strategy is in actual fact a process of adopting and practicing the in the business viewing the market environment, point is market orientation acting a elementary role and further it is assumed or hypothesized that the market orientation and economic performance of a firm is inter related.

According to Jobber (1990) in the emerging economic condition service and product differentiation would be the critical factors in determining the firms to exist or experience the short term failure in the industry. There are some criteria elaborate on customer expectation for service providing enterprises known as measures for quality service.

- Accessibility: the convenient location and extent to right of entry for the service
- Security: the less riskiness of the service rendered.
- Reliability: the consistency of the service
- Credibility: the degree of trustworthiness of service purchased.
- Understandability: the extent to which the customers' requirements are met.
- Responsiveness: the quickness or fastness of service.
- Courtesy: the extent to the friendly and flexible approach
- Competency: the expertness of the service providers

Quality management in service enterprises is quite different from the commodity manufacturing enterprises. Unlike the measures and approached used in the commodity manufacturing organization, the service providing enterprises need to apply different measures as to monitor and evaluate the quality aspects (Hasan, 2010). This is vital due the intangibility of the product of the service rendering organizations. These enterprises generally use standard evaluation, accessibility of the service, superiority and the unique selling point. According to Kotler (2004) the major indicators of the service differentiation such as

- Ordering ease
- Time due of delivery
- Flexible ordering
- Installation of service
- Consultation
- Customer training
- Customer feedback & repair

Further the customer feedback and repair means getting the live comments or opinions about the service rendered to the consumers and also attending to the alteration if any (Dimitros, 2021).

The challenges in determining the service quality are differ from the nature of service and the firm which is rendering. Further better good service qualities are trait to differences in the expectations, perception and experience regarding the corresponding among the service provider and customers. In case of a service providing firm to have a competitive and comparative edge in a competitive environment, the recognition of consumer expectations, specifications on the service quality and actual service delivery, are dominant factors towards organization survival and growth (Aldert, 2014). According to Widuri (2018) being a service provider it should adopt the critical factors such as customer requirements, competitor's performance, lead time of service delivery and the cost of providing the service. Consideration and adaptation of these variables would push the enterprises in to the success way in terms of profitability and sustainability (Joy, 2021). Misleading of management of a service firm towards customers' expectations, fake promises on service and discriminating price scales will adversely diminish the reputation and the demand for the service rendering enterprise.

Competitive isolating mechanism refers the differentiation factors of a service enterprise as to distinguish the service from the rival in the industry (Fisher, 2018).

Table 01: Differentiation phase & comparison (Jackson, 2016)

Comparison of cost and differentiation strategies		
	Cost advantage	Differentiation
Cost advantage	Scale and scope	Non required
Differentiation advantage	Low (price strategies)	High (non- price strategies)
Market segmentation	Low (mass market)	High (many markets)
Distinctive competencies	Manufacturing and buying	Marketing (R&D)
Dimension of differentiation		
Dimension of differentiation	tangible	Intangible
Quality	Performance reliability	Reputation
Innovation	New functional attributes	Modernity
Customer responsiveness	New distribution system	Brand relationship management

The table 01 indicates the comparative analysis between the leading approaches where SME's follow according to their capability and scope. But in common, quality of service, innovation of service, and sensitivity of consumer's expectation would stimulate the enterprises to line towards effective brand –customer management (Jackson, 2016)

2.5. Process Differentiation and SMEs

Differentiating the system or the structure of firms would create a dentition in the market over the rivals. In the contemporary practice being green and eco- friendly is becoming as the unique and distinguishing fact in gaining competitive advantage (Cohen & William, 2014). Demuth (2014) indicates that the green entrepreneurial actions are the special ability of the entrepreneurs to attain the established objectives of them and maintaining green value chain in expecting the reward for their green trade

activities. And also further he highlights that the green practices what the entrepreneurs are executing would be similar to the all scale of the enterprises and those practices would be oriented towards environmental protection.

According to Zhaojun (2017) the tendency of green entrepreneurs is to discover the various green entrepreneurial activities due to flexibility and adaptability emerged out of innovation in identifying best possible solutions to the business and social challenges. Concurrently there is a supportive argument presented by Malavisi (2018) gives the similar ideology regarding the green practices and strategies. Green entrepreneurial activities would comprise the modern business practices and green innovations that are aimed at profit and social welfare maximization. Many business small and medium scale enterprises focus on green materials and manufacturing process while concerning ecological impact. The worth of being diverse is being analyzed by ample of literatures on different levels of theoretical flat forms. In spite of the heterogeneity of the framework the findings, some studies confess that the enterprises might face lower degree of competition or some time no competition through differentiating the enterprise. In the sense of differentiating the enterprise refers not only the product differentiation but also it covers the service, process and he structure to be differentiated partially or entirely (Baum, 2012). And further more from the socio-economical perspective green entrepreneurship acts as a revolutionary solution to the contemporary social, economic and environmental challenge. Therefore these nature friendly entrepreneurial activities are the combination of the green knowledge and green resources such as material, market and management in the direction of solving socio-economic issues through nature friendly products that return the financial reward as well as long term social benefits (Dale, 2019).

2.6. Literature Gap

According to the collected and analyzed literatures in this study, the greater contribution has been given to the manufacturing enterprises that are producing commodities rather services. The different varieties of differentiation used in the manufacturing sectors adduced to prove the relationship among the product differentiation in to competitive advantages. The service providing organizations have not been analyzed on the basis of the generic theory such as differentiation theory. There are few studies that are highlighting the advantages gained through the differentiation strategy. Dynamic and the sophisticated changes seen in the consumer trend, taste and fashion toward the service consumption might have deviated the scope of the studies.

3. Methodology

The conceptual model focuses on theoretical reflection of the concepts relevant to the research on the influence of differentiation strategies towards the profitability and sustainability of enterprises. The conceptual frame work has been developed as the empirical model which elaborates the clear cut ideology supported through the pragmatic evidences from the literatures and the former studies. The study provides the

overall knowledge on strategy adaptation towards success entities. The study is carried out based on exploratory and the sample frame work has been drawn the population in the western province through 40 different divisional secretariats and 03 district secretariats. The data collection is use through primary as well as secondary method. Reliability and validity testing done along with regression analysis are expressed in deriving the hypothetical testing.

According to the definition formulated by the OECD (OECD, 2011a), green growth means taking measures conducive to growth and economic development, while ensuring that natural assets continue to provide the resources and environmental services which contribute to the country's prosperity. Green growth focuses on accelerating investments and innovations that will underpin sustainable development and provide new economic opportunities. Reilly (2012) states that the push for green economic growth expresses the intention to direct the economy towards technologies and consumption patterns that create jobs and economic growth as well as reduce the impact on the environment

3.1. Location of the study

The study concerns the area of western province comprises through 40 divisional secretariats. These divisional secretariats are including 20450 (Gampaha DS statistics, 2019) registered and existing small and medium scale enterprises.

3.2. Development of hypothesis

Based on the summary of referred literatures and the general observation there are four basic hypotheses used to explore the influence among the factors on business performance.

H1: Products innovation positively contribute to the performance of enterprises.

H2: Product uniqueness positively contribute to the performance of the enterprises.

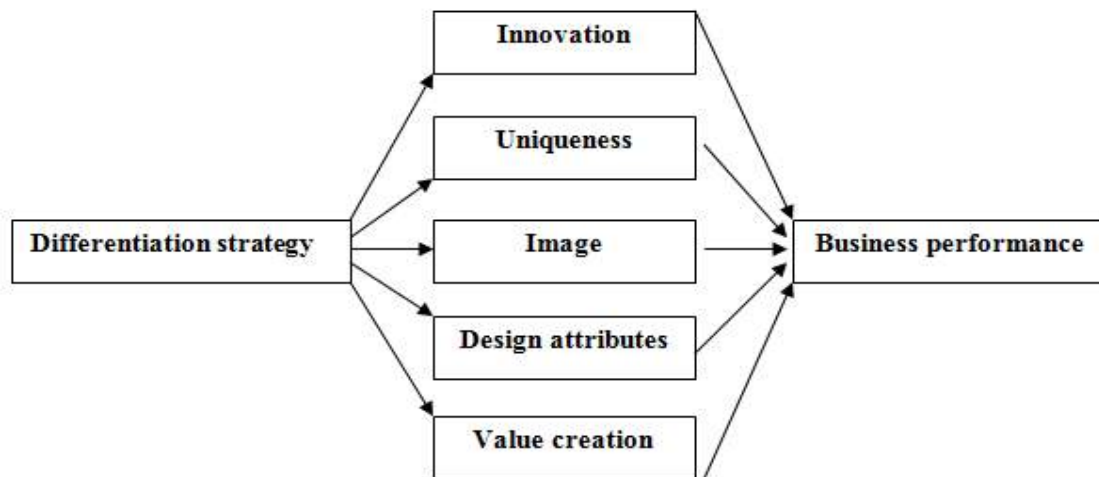
H3: Product image positively contribute to the performance of the enterprises.

H4: Product design attributes positively contribute to the performance of the enterprises.

H5: Product value creations positively contribute to the performance of the enterprises.

3.3. Conceptual framework

Figure 03 Author's empirical framework



Model (figure1) expresses the major five forms of differentiation approach that are influencing on the performance level of SMEs. According to the literatures and the observation the critical and most common practices that have been used in differentiating the goods, services and the process are associated with the performance level of the enterprises.

3.4. Population & Sample Framework

There are approximately 20450 SMEs that are registered up to 2019 throughout 40 divisional secretariats and 3 district secretariats in the western province. The enterprises are taken from the different sectors such as food and beverage, cosmetics and herbal, household groceries, farm and agricultural items, clothing and apparel and handmade crafts & souvenirs. Stratified random sample technique has been used to testify the influence of differentiating practices to the enterprises' success. In determining the sample size requirement non proportionate sampling technique is being used. The table 02 illustrates the sample framework.

Table 02: Sample framework

Districts	Number of Secretariats	Divisional Number enterprises	of Sample enterprises
Gampaha	13	7012	250
Colombo	13	7418	250
Kalutara	14	6020	250
Total	40	20450	750

3.5. Data Collection & Instruments for Analysis

The study uses the data collection basically from primary sources through self-administered close ended question. Mean time secondary data also has been used to support the research findings. Reports of divisional secretariat, Journal article and the publications given by the Sri Lankan and international authors regarding the application and obstacles of differentiation strategies regard to the SMEs are being used to collect the data. Reliability and validity test has been done through Alpha Cronbatch to ensure the accuracy of factor variables along the model. The results are expressed through descriptive as well as inferential ways. Illustrative figures and tables, central tendency are used to reflect the descriptive manner. Regression analysis and Pearson correlation test are being to reflect inferential manner. According to the hypothetical test the results are interpreted and generalized.

3.6. Variables of the study

Performance of enterprises is being the dependent variable there are 5 independent variables such as Innovation, image, uniqueness, design attributes and value are used to examine the influence resting on the performance of enterprises. The performance is measured through the profitability and sustainability. The following table (03) illustrates the variables used in the study.

Table 3 (dependent and independent variables of the study)

Factors	Types of variable	Item number	Variables
Product innovation	Independent	01	Novelty
	Independent	02	Demand
	Independent	03	Business knowledge
Product image	Independent	04	awareness
	Independent	05	Recognition
	Independent	06	Admiration
Product uniqueness	Independent	07	Valuable
	Independent	08	Customer Loyalty
	Independent	09	Competency
Product attributes	Independent	10	Aesthetic attraction
	Independent	11	performance
	Independent	12	Affordability
Product value creations	Independent	13	Green concerns
	Independent	14	Profit margin

	Independent	15	Green technology
Business performance	Dependent	16	Business profitability

Source: Author's compilation

4. Results and Discussion

According to the former findings and the reviews taken from the literature the most prominent factors are identified and associated with the theoretical concepts as to testify the generic practices of differentiation. Regression analyses along with Pearson correlation test have been conducted as to testify the validity of formed hypothesis to generalize the results findings.

4.1. Results of the study

4.2.1. Results of reliability and validity

Table 04: Summary of factor loading measurement model

F(S)	1	2	3	4	5	AVE	CR
01	0.906						
02	0.902						
03	0.900					0.902	0.922
04		0.810					
05		0.811					
06		0.831				0.817	0.913
07			0.884				
08			0.888				
08			0.804			0.858	0.902
10				0.820			
11				0.803			
12				0.909		0.846	0.901
13					0.904		
14					0.922		
15					0.890	0.905	0.908

There are major five major factors that have been resulted out from the fifteen elements. Reliability was measured through CR and tested by convergent validity via AVE. CR

values of the factors is above 0.70 which is at the satisfactory level. As a result reliability and validity of the variance were up to the satisfaction as illustrated in the above table 03.

4.2. Results of Confirmatory Factor Analysis

This study basically examines the remarkable differentiation factors that are highly essential to be considered on operational efficiency such as maximizing profit of enterprises. There are five critical factors loaded along with 15 elements (variables) forming a well-fitted measurement structure. Product innovative factors (variable 01) derived from three elements such as novelty, demand and business knowledge notified from element 01-03. Product image factors (variable 02) derived from three elements such as awareness, recognition and admiration comprised from the elements 4-6. Product uniqueness factors derived from the elements of customer value, customer loyalty and competency of firms are loaded from elements 7-9. Product attributes factors are comprised of the elements of aesthetic, performance and the affordability tagged through the elements 10 to 12. Product value creation factor includes the elements from 13-15 such as Green concerns, profit margins and green technology. The model summarizes that the Number of parameters was 57, the values of indices GFI and AGFI were 0.88 and 0.85 respectively in adducing that model is fit along the data (Urbach & Ahlemann, 2010).

4.3. Results of the structural model

As indicated by results of structural model, among the key five differentiations of product factors product innovation factors, product uniqueness factors and product value creation factors are significantly correlated on the performance of enterprises in terms of profitability or operational efficiency. Among the formed five hypotheses, the first hypothesis (product innovation factors) affects on the productivity of business performance and accepted ($p=0.008$). Also the third hypothesis (product uniqueness factors) has the direct collision on profitability of the enterprises and accepted ($p=0.001$). Hypothesis five (product value creation) showing a momentous relationship to the enterprises' performance and accepted from the testing value ($p=0.019$) conversely the second hypothesis (product image factor) reflects the inconsequential relationship on business performance thus rejected with the value ($p=0.114$). Finally the fourth hypothesis (product attributes factor) implies the insignificant relations towards the performance level of the enterprises ($p=0.066$).

Application of the structural model to this study represents the relationship of the latent variables from 1-15 that are hypothesized to the major 5 factors in the model of exploration. The main thumb rules for this model are the R^2 measures and the significance level of the coefficient (Duarte & Raposo, 2015). Following table 4 illustrates the summary of structural model.

Table 5- Summary of structural model

H(s)	Variables	β	S.E	C.R	Sig
H1	Product innovation	0.252	0.08	2.127	0.008
H2	Product image	0.266	0.02	1.050	0.114
H3	Product uniqueness	0.400	0.09	1.251	0.001
H4	Product attributes	0.331	0.03	2.863	0.066
H5	Product value creation	0.420	0.07	2.980	0.019

4.4. Results of the coefficient analysis

(Table 6– Summary of Coefficient)

	Un coefficient	standardized Standard error	Standard coefficient	t	Sig
	B			B	Standard error
Constant	-8.212	6.522		-1.652	0.122
Novelty	0.885	0.288	0.381	4.010	0.009
Demand	0.810	0.202	0.255	3.001	0.015
Business knowledge	0.802	0.221	0.243	3.901	0.007
awareness	0.020	0.121	0.090	0.552	0.100
Recognition	0.009	0.115	0.088	0.501	0.120
Admiration	0.017	0.297	0.072	0.221	0.051
Valuable	0.726	0.102	0.212	2.172	0.021
Customer Loyalty	0.877	0.211	0.344	4.011	0.010
Competency	0.882	0.228	0.392	3.991	0.015
Aesthetic attraction	0.080	0.110	0.043	0.442	0.066
performance	0.091	0.165	0.038	0.450	0.052
Affordability	(0.010)	0.210	(0.026)	(0.662)	0.122
Green concerns	0.801	0.130	0.352	3.820	0.020

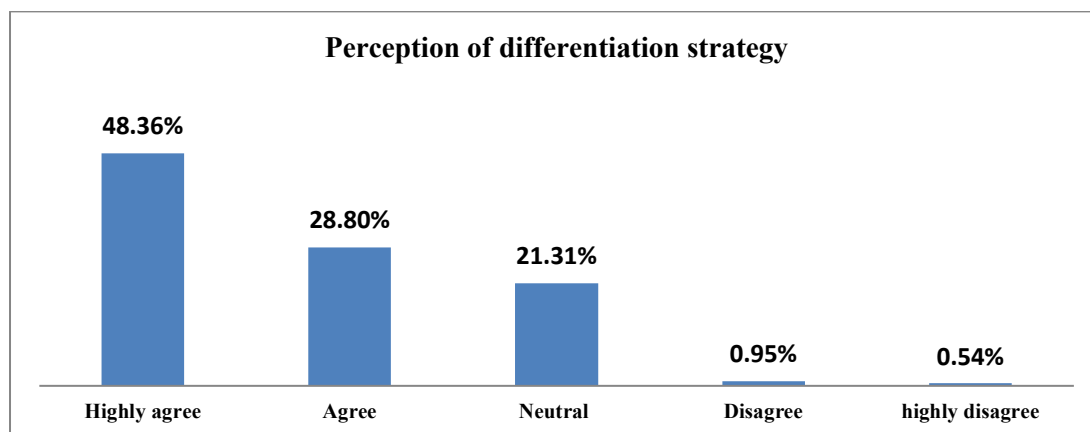
Profit margin	0.790	0.142	0.310	3.600	0.003
Green technology	0.901	0.132	0.322	3.588	0.052

The Un-standardized coefficient exemplifies to what extent the dependent variable is varying along the independent variable while other all independent variables are remain constant. As per the significance value there are nine differentiation aspects were showing the significance where the coefficients are implying the significant different to zero and bring to a close that the phases of differentiation approaches such as the novelty of the item, demand for the product, business knowledge, customer loyalty, product valuable, competency of the firm, green perceptions of the firm, profit margin, and the usage of green technology are positively associated to the performance of the enterprises.

4.5. Discussion of the results

The study was targeted with the 750 sampled SMEs from different stratum. From the responds given through the questionnaires 18 were rejected due to the lack of reliability of the response. Therefore, the study associates with only 732 questionnaires which is 98% in response rate. In general, over view many enterprises confess that the application of differentiation strategy would stimulate the performance level of their businesses. 98% of the enterprises agree in adopting the differentiation process in benefiting the enterprises. Following figure 01 illustrates this nature in details.

Figure 04: Perception of differentiation strategy



As per the results of the study it has been proven that production innovative factors ($p=0.008$) product uniqueness factors ($p=0.001$), and product value creation factors ($p=0.019$) are significantly associated with the business performance. Whereas the enterprises are showing that product image factors ($p=0.114$) and product attributes factors ($p=0.066$) are having insignificant association towards the business performance. The study has revealed that Enterprises are fully or partially adopting the

differentiation approach in their products would experience the efficiency throughout the business operations. Since novelty is the process of an introduction of the item which has never been there in the market would gain the competitive advantage thus it allows the enterprises to earn more revenue through the incremental volume of sales. According to the study 66% of the enterprises confess that through the innovation and novelty they experience the profitability of their enterprises. There is a significance relationship seen among the novelty of the item and the performance of a business ($p=0.09$).

Differentiating a product will be as a push factor in increasing the demand in the market. This is proven in the study as well and the response rate revealed that 87 % of the enterprises believe on differentiation as to boost the demand than the existing situation and 50.5% of the enterprises highly agree upon the product differentiation. The study encounters a positive relationship between the demand after differentiation and the business performance ($p=0.015$). To differentiate the product the business enterprises need to adjoin the business experience gained through the operations for so long in bringing up the product as to match the customer requirements and opinion. This is factual in the study as well. 85.3% of the enterprises in the survey admitted that the business knowledge is advantageous in product differentiation towards the profit and existence. There is a significant relationship shown between business knowledge and the business performance ($p=0.007$). According to Miller (2016) Differentiation strategy is the potential to present inimitable and superior value to the consumer in terms of product quality, exceptional characteristic and variation. This is supported from the findings of the study where 72.5 % of the enterprises confess that making the unique product would gain profitability. And this is shown through the significant association among unique value towards the operational efficiency ($p=0.021$). Differentiation is a feasible approach for SMEs. This is possible since the enterprises are diminutive to abide a cost strategy (Beal, 2000). The view of the consumers might differ from person to person and the sensitivity on the manner in which the enterprise offers the consumers the heterogeneous item at reasonable price in making consumers pride while using the item. (Peter, 2017) indeed the survey validate the nature where 91.5% of the enterprises believe that the differentiation makes adequate profit in real scenario as well there is a positive relationship shown on the customer loyalty towards business betterment ($p=0.010$). According to Naushua, (2015) Product differentiation is not limited only to the visual aspect of the products. Even the way of advertising or marketing the product comes with the differentiation of the product among the substitutes and the market. The study has shown that perceived competencies such as ability to compete and resilience would impact on the business performance and 54.3% of the enterprises strongly agree on this. Business competency and the business performance is significantly related ($p=0.015$).

Using eco-friendly materials and energies would differentiate the product in competitive edge. Perceptions of the consumers are towards sustainability in the contemporary situation. Therefore making a different through sustainable materials

would help the venture to succeed. The study has shown that 84% of the enterprises believe in using green based resources in making profits. The study shows the significant relationship between the sustainable concerns and performance ($p=0.020$). Modes of distinctions can be perceived by the consumers valuing the rational concern which positions itself to meet the formed requirements. This would be resulted in skimming prices and the supernormal profit. In deed this is adducible from the findings of the survey. 95.3% of the enterprises have the same opinion where producing or distributing some this unique and distinct would make the enterprises in better economic returns. The study has shown the significant relationship between product differentiation and rising profit margins ($p= 0.003$). the result of the survey verdict that 53% of the respondents have confessed that usage of sustainable technology and green process would gain them the competitive advantage as to utilize the operational efficiency. This is reflected from the study among there significant co relationship ($p=0.52$)

On the other hand many literatures have supported the differentiation takes place through brand image would improve the business performance. Numbers of enterprises do offer trial products, in order to create an attention for the consumers to identify and distinguish the product from other rivals 'offerings. The ways of branding the product would be critical since economic agents such as producers, consumers, mediatory are acting in ways of weaken brands instead of building the brands. Therefore this branding technique would serves to differentiate products and creates a basis for forming brand reputation through consumer trust (Nausha, 2015). But the results of the survey indicate that product image and the business performance have insignificant relationship ($p= 0.114$). Simultaneously the purpose of branding is not only to differentiate the product from the rivals but also to create the unique selling point in making the existing products salable (Robert, 2017). As to support this 62.2% of the enterprises do not believe that the product awareness guarantee the profit. Also 47.4% of the enterprises confront as product admiration towards the profitability.

Amoako (2008) investigated the interaction among the production design mix covering aesthetic appearance, cost, and the performance of the product towards the performance of the firm. The positive relationship has been victimized among the two variables and the approach of manufacturing comprises with quality, cost, flexibility, and the aesthetic appearance. Addition to that the findings of the study shows that the product modification and quality stress on the competitive edge of an enterprise which is a simple and flexible technique for SME's even to adopt at lower trade off. In contrast the study reveals that there is an insignificant correlation between the product attributes and the business performance ($p= 0.066$) and also the enterprises used in the survey confessed that 45% of them are in confrontation with the product performance and the profitability of the firms. The study of Susan (2017) states that The phase of product differentiation comprises with set of components such as product innovation, quality of the product, product design, and consumer unique value not basically the image created by the community of the product.

5. Conclusion & Managerial Implications

Differentiation strategy would offer superior extent for the organizations to produce and distribute goods and services with advantageous aspects as a way of competing the market covering existing and the new consumers. It is adducible that competitive advantage can be gained through differentiating the product strategy and impact on the operations of the organization similar to consumer goods manufacturing enterprises. Efficiency increases essentially out of worth a firm is able to create for its consumers which exceeds the enterprises' cost of forming the new value. Product differentiation strategy can be a device of competitive advantage which is agreed to by the firms with the intention of provide products which satisfies individual customer's needs. In that angel valuing their expectations in offering the product value without compromising the cost advantage is fundamental. Based on rational concept the valuable root of differentiation of products would facilitate an enterprise to increase its total revenues and to counterbalance market threats, uncertainties as to take advantage of opportunities and trends in the industry. Therefore differentiating the product not actually creating a novel item and its some modification made on the existing products. Further creating product image thorough advertisements and awareness campaigns will not advantageous in the prevailing context. But when ventures are differentiating the products through creating value with sustainable materials, resources and process would enhance the awareness and the customer attraction. Therefore the SMEs need to focus more on differentiation the items through the less costly sources in including the eco friendliness and the innovation as much as simple and flexible in minimizing cost and maximizing profit. In fact when the SME s are focusing much on the innovation, uniqueness and value creation would better them off other than considering the image and aesthetic related factors. This would gain them not only the operational efficiency but also the long-term sustainability of the enterprises.

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