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In Search of Silver Line from Immigrant Entrepreneurs in Japan: Review of Literature

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Abstract

The aim of this paper is to review published documents on immigrant entrepreneurship in conceptual, theoretical and empirical perspectives and summarize existing studies on immigrant entrepreneurs in Japan including Sri Lankans. Findings of this paper indicates several gaps to be addressed for further development of research on immigrant entrepreneurship in Japan as (1) it is a relatively new concept and a limited number of studies have been conducted due to small size of foreign born population and their scatted nature, wider language and cultural differences, insufficient macro-level data and difficulties in accessing micro-level information; (2) there are enough evidences to show that the number of immigrant entrepreneurs in Japan have been increasing in recent past and are predicted to increase in future; (3) most of the existing Asian immigrant entrepreneurs in Japan have emerged through migrant workers, assets generated in Japan and married to Japanese; (4) since services and ICT sectors have been expanding, foreigners have new avenues to start businesses in Japan (5) the large number of SMEs in Japan still focus on local markets with high technical abilities and suffer due to the limited access to Asian markets, although mutual benefits can be expanded if they have wider access to develop linkages with immigrant entrepreneurs in Japan; and finally, (6) internalization of immigrant businesses in Japan (export orientation, mergers and acquisition of foreign firms and assets, joint ventures and FDI projects started in collaboration with Japanese banks) has been a new phenomenon in the literature of immigrant entrepreneurship in the 21st century. Therefore, immigrant entrepreneurship continues to remain as an unexplored research field in Japan.

Keywords: *Immigrant Entrepreneurship, Immigrant Business, Japan, Review of Literature*

Introduction and Conceptual Definitions

The purpose of this paper is to summarize published documents on foreign-born population, entrepreneurship and immigrant entrepreneurs in conceptual, theoretical and empirical perspectives and provide summary of former studies on immigrant entrepreneurs in Japan. A person who was born in one country and living in another country either for temporary (at least more than one year) or permanently, is known as a foreign born person. This definition consider initial immigrants or first generation migrants as well as kids born for foreigners in the host country (by descent) as foreign born population. Impact of increasing foreign born population due to international migration flows have been much debated in aspects of social sciences such as sociology, political science, labour economics throughout history. As globalization proceeds, studies on dynamic international migration flows tend to increase the significance of literature on foreign born population known as "diaspora" activities in host countries and influences on home countries since the latter half of 20th century. A *diaspora* is a Greek word to indicate scattered population whose origin lies

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within a smaller geographic locale. *Diaspora* can also refer to the movement of the population from its original homeland (Ember, Ember & Skoggard, *2004).*

Contrary, there is no unified single definition for entrepreneurship (Gedeon, 2010). Historically, various definitions for the concepts of entrepreneur and entrepreneurship have emerged in an attempt to explain activities of an entrepreneur. The problem of defining the word “entrepreneur” and establishing the boundaries in the field of entrepreneurship has still not been solved (Bruyat and Julien, 2000). Originally Cantillon, Turgot and Say, Schumpeter (1934) laid the foundation for the meaning of entrepreneurship. Cantillon defined entrepreneur as someone who assumes the risk and may legitimately appropriate any profits. The entrepreneur “insures” workers by buying their labour (in production process) for resale before consumers have indicated how much they are willing to pay for them. The workers receive an assured income while the entrepreneur bears the risk caused by price fluctuations, changes in market conditions, innovations, regulations and policy changes. Turgot and Say point out that the entrepreneur obtain and organizes factors of production to create value. As one of the most influential writer in this field of study, Schumpeter (1934) related entrepreneurship to innovations. He argues that the essence of entrepreneurship lies in “employing existing resources in a different way, in doing new things with them, irrespective of whether those resources increase or not” (Schumpeter 1934: 66-69). According to him, the innovative activity of an entrepreneur feeds a creative “destruction process” by causing constant disturbances to an economic system in equilibrium, creating opportunities for economic profit. Later he defined “entrepreneur as an individual who exploit market opportunity through technical and/or organizational innovations." However, Drucker (1985) defined the entrepreneurship as "about taking risk" and later noted that the entrepreneur always searches for a change, responds to it and exploit it as an opportunity.

Hirschmeier (1964) examined the history of entrepreneurial development in Japan and defined entrepreneurship as "the will to develop. To invest, to take risks and to break with traditional business attitudes" He classified Japanese entrepreneurship into three categories, first as Romantic entrepreneurs, who open started new business, often changed their industry, type of business or management styles and established many businesses to achieve maximum wealth. According to Hirschmeier (1964) romantic entrepreneurs tended to found companies, one after the other in Meiji period in Japan. There were less concerned with maintaining or expanding the businesses. The prototypical romantic entrepreneur was Shibusawa Eiichi, who had a hand in founding of more than 600 companies over the span of his career. Second as classical entrepreneurs, who carried out similar entrepreneurial activities for a long period. According to him classical entrepreneurs might have found other businesses, but these new companies were usually extensions from the original line of business. A third type of entrepreneurs were semi-romantic entrepreneurs who fell somewhere between the romantic and the classical entrepreneurs.

Alternatively growing importance of China Towns, Hispanic Towns and villages, concentration of Africans, Indians, Koreans and Japanese into some places in the United State of America led to an increase in explorative research studies on ethnic economies/immigrant businesses and developed useful conceptual theses since early 1950s. Among them "sojourner" thesis (Siu 1952), the "protected market hypothesis" (Light

1972), “ethnic economy” (light 1972), “middleman minority” (Bonacich, 1973), “Ecological succession and racial segregation thesis” (Aldrich 1975), “the blocked mobility thesis”(Li 1976), “enclave economy” (Wilson and Portes, 1980), the “class and ethnic resources” (light 1984), “social embeddedness” (Granovetter, 1985) the “transplanted cultural thesis” (Goldberg, 1985),“bounded solidarity” and “enforceable trust” (Portes and Zhou, 1992), “mixed embeddedness” (Kloosterman et al 1999) became conceptual vocabulary among the immigrant/ethnic entrepreneurs who wrote on United States of America and Europe. Later some of these aspects of entrepreneurship extended into immigrants when scholars defined immigrant entrepreneurship. Subsequently, Light and Gold (2003) defined immigrant’s self-employment groups, its employees and their co-ethnic employees and their unpaid family workers as ethnic economy, which in turn became the most significant research area in recent past. Number of studies devoted to examine the link between immigration and entrepreneurship (Dana 2007).According to Volery (2007), immigrant entrepreneurs are defined as persons who have immigrated to a new country and started a business there. This paper also uses a term “immigrant business owner” as a synonym to an ethnic entrepreneur. The definition of ethnic entrepreneurship includes those individuals who employ themselves as well as those who employ others in host country.

As shown in Figure 1, conceptual relationships among international migration, diaspora, immigrant entrepreneurship, entrepreneurial networking, business success, growth and sustainability of immigrant Entrepreneurs have been illustrated by the recent researches on immigrant entrepreneurship. In addition, contemporary researches on immigrant entrepreneurship have been focusing on characteristics of immigrant entrepreneurs or types of their activities, networking styles and level of innovations. As Rahman and fee (2011) pointed out, although management literature on entrepreneurship focusses on innovation, ethnic business studies tend to overlook the importance of innovations in broader perspectives. Therefore, innovations in migrant entrepreneurship should be highlighted in an analysis of contemporary migrant entrepreneurship, especially in Asia.

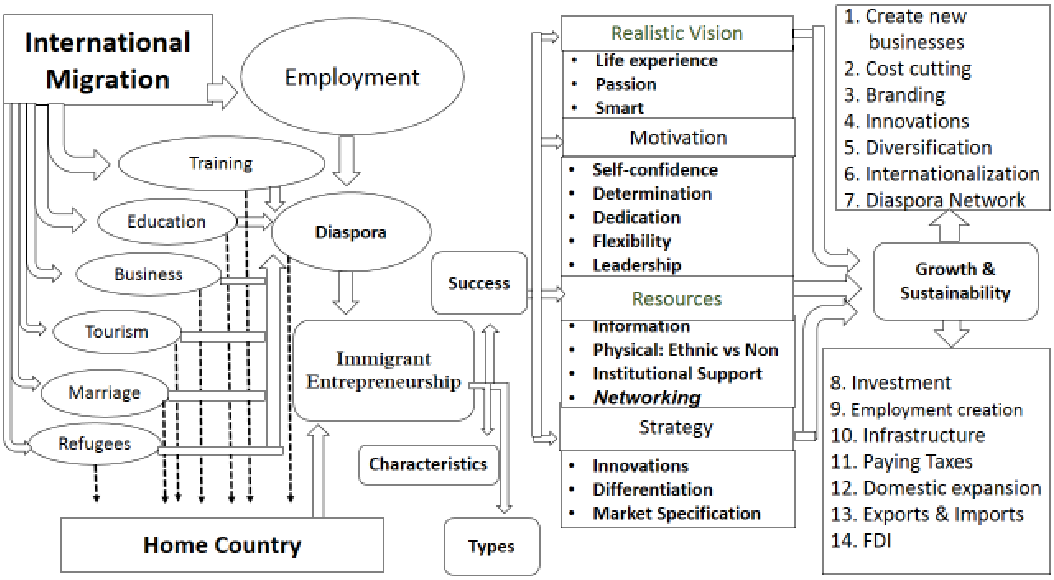

Figure 1: Conceptual Relationships among Migration, Diaspora, Immigrant Entrepreneurship, Entrepreneurial Networking, Business Success, Growth and Sustainability of Immigrant Entrepreneurship
Source: Authors' creation based on U.S. Department of State/Bureau of Information Programs "Principles of Entrepreneurship". https://www.ait.org.tw/infousa/zhtw/DOCS /enterp.pdf.

Since contribution of innovations, small and medium size enterprises and their relations with large firms, technological advancement and export orientation had been significant in the economic development process of Japan, it is worth to investigate existing literature on immigrant entrepreneurs in Japan to understand their assimilation level into Japanese economy and society.

Review of Theories on Immigrant Entrepreneurship

The phenomenon of immigrant entrepreneurship have been explained by four main theories known as: (1) the market disadvantage theory, (2) cultural perspective, (3) neoclassical perspective, and (4) institutional perspective (Chrysostome, 2010). ***The market disadvantage theory*** was introduced by Light (1979) and extended by Ladbury (1984), Jones, Macevoy, and Barrett (1994). According to this theory immigrants face many problems that prevent them entering job market of their host countries. Therefore, they engage in self-employment activities, which remain the only alternative for them. Among the problems they face are, language barriers, lack of recognition for academic and professional achievements in their home countries, limited knowledge on host country culture, resources, production techniques and markets, lack of mobility due to limited information and income, discrimination in the host-country job market are well noted in the literature on immigrant entrepreneurship (Light, 1979; Ladbury, 1984; Light & God, 2000; Min & Bozorgmehr, 2003; Volery 2007; Chrysostome, 2010). Alternatively, ***the cultural perspective*** considered several factors influencing on establishment and sustainability of immigrant entrepreneurship in western developed countries. Ethnicity differences in level and types of businesses, cultural traditions of home country, pre-migration entrepreneurial mentality, ethic and social networks, ethnic resources and niche markets were important ingredients of cultural perspective.

According to ***neoclassical perspective,*** immigrant entrepreneurship is a result of arbitration between the earnings expected from highest possible employment opportunity (wage) and self-employment (profits). Therefore, information collection and usage, innovative ideas, management skills, and risk management skills are more effective elements of establishment and sustainability of immigrant entrepreneurship in western countries (Chrysostome, 2010). On contrary, ***institutional perspective*** of immigrant entrepreneurship highlighted importance of government and institutional support for effective development of immigrant entrepreneurship (Linskey, 2004). According to Scott (1995), there are three different institutional structures, known as relative structures, cognitive structures, and normative structures. Kostova (1997) explain these three structures as government policies, widely shared social knowledge and value systems. As Ibrahim and Galt (2003) emphasized, the role of government policies in generating immigrant entrepreneurs and their sustainability in western countries have been significantly effective.

Models on Immigrant Entrepreneurship

The essence of the above-mentioned four theories have been integrated into two models attempting to explain the immigrant entrepreneurship phenomenon and widely known as ***the middlemen minority (interactive) model***, and ***the mixed embeddedness model*** (Volery, 2007). The middleman minority model emerged from the primary explanations for ethnic entrepreneurship in economic perspectives. As explained by Waldinger et al (1990), at the turn of twentieth century, the concept of ethnic business was first observed among increasing number of Jewish and Italian immigrants in New York City, with the latter group not even having sufficient funds for new investments. When number of people from one ethnic community is increasing and regionally concentrating in host countries, accumulating capital with employment and other opportunities in advanced countries, entering into information flows, international marriages, access to host country networks and resources, the supply of ethnic resources and services for late comers become a good opportunity of a foreign born people in that country. Therefore, Waldinger et al (1990) suggested that opportunity structure in terms of market conditions, access to ownership, job market conditions as well as legal frameworks and availability of cultural, traditional resources and ethnic social networks are important for the development of immigrant entrepreneurship.

On the other hand, the mixed embeddedness model introduced by Razin and Light (1998) is a further development of ethnic resources and opportunity structure. According to them structures of local economy and legal institutional factors exert a strong influence on the creation and existence of immigrant businesses. This model was based on three main assumptions on business opportunities as (1) must not be blocked by barriers of entry or government regulations (2) must recognize through potential entrepreneurs, (3) entrepreneurs must able to seize it in tangible way. This model recognizes ethnic strategies, ethnic networks and financing ethnic businesses as important dimensions of venture creation and business performances among immigrant entrepreneurs.

In addition to the above two models, Chrysostome (2010) suggested five categories of survival factors of immigrant entrepreneurs. The first as ethno-cultural factors he recognizes (1.1) size of the ethnic market niche; (1.2) the ethnic social networks; (1.3) size of the ethnic labour pool (1.4) the level of ethnic emotional support. The second as financial factors, (2.1) access to start-up capital and (2.2) access to emergency loans were recognized. The third as managerial factors (3.1) level of education in home and host country and (3.2) previous work experience identified. The Forth as psycho-behavioral factors (4.1) the level of risk aversion and (4.2) the level of commitment was recognized. Finally as the fifth, institutional environment factors (5.1) the institutional support, (5.2) the access to counseling programs and (5.3) the system of tax incentives were presented. These factors can be used in modeling the growth, structural changes, successfulness as well as survival of immigrant entrepreneurs in the modern world.

Review of Empirical Literature on Immigrant Entrepreneurship

The current phase of globalization has shown a steady growth of immigrant entrepreneurs in western countries. This has led to generate large number of empirical researches on immigrant entrepreneurs and entrepreneurship during the past three decades (Kloosterman and Rath, 2001, Kerr &Kerr, 2015).Covering many empirical studies in recent past, Aliaga-Isla and Rialp (2013) reviewed 45 articles published in academic journals based on their objectives, theoretical frameworks, methodologies and suggested several gaps in the empirical literature on the immigrant entrepreneurship. The important aspects of this survey article was that they identified six common dimensions of recent studies on immigrant entrepreneurship as; (1) most papers published were in the context of USA, Europe and Oceania; (2) mostly based on the individual level of analysis (3) deductive perspective was widely used (4) dearth of theory building (5) lack of effort to create official data on immigrant businesses(6); advocated the importance of qualitative and mixed methods to provide a more nuanced understanding of the immigrant entrepreneurship phenomenon.

Trends in Studies on Immigrant Entrepreneurship

There are three main long-term trends in studies on immigrant entrepreneurship: The first, prevailing literature have mainly focused on the reality of the USA, followed by Europe and Oceania due to significant number, long term history, high magnitude of their contribution to economy and society as well as the large number of studies. The second, since 1980s, several new concepts such as economic enclaves, ethnic business, and immigrant entrepreneurship were gradually emerged as useful literature with respect to growth and structural changes of foreign born population in western advanced countries. Some of those studies have pointed out conceptual definitions as alternative methods to investigate ethnic, minority or enclave immigrant entrepreneurs in the western context (Kloosterman & Rath, 2001, Zhou, 2004, Volery, 2007). The third, path-breaking research studies on structural changes of foreign-born population, emergence of ethnic or immigrant entrepreneurs and their activities, impacts on host countries have essentially emerged from sociology, anthropology and labour economics perspectives rather than management and entrepreneurial perspectives. As Volery (2007) pointed out research into ethnic entrepreneurship can be traced back to classic work such as those of Weber (1930), Sombart (1914) and Simmel (1950). These scholars' concepts such as the stranger as traders, social structure of society, pervasive religious cannons have influenced subsequent literature and study of immigrant entrepreneurs.

Review on Entrepreneurship and Immigrant Entrepreneurs in Japan

Japan has been an exceptional country with respect to above-mentioned three trends in global immigrant entrepreneurial studies due to absence of long term history and large concentrated immigrant groups. Therefore, newly emerged concepts, theories and models have not yet been much tested or debated in the context of Japan. However, as Sato (2004) highlighted, even though number of foreigners have been slowly increasing, composition of them have been diversified and many of them have assimilated into Japanese society and economy. As he emphasized, diversification was noticeable in terms of ethnicity, gender, visa category, and international marriages in Japan in recent past. Further, Kudo (2015) highlighted as, an increasing in the number of cross-border marriages since the 1980s has added a new element to the growing cultural diversity in Japanese society. Rahman and fee (2010) showed that 40,000 Bangladeshi migrants including students, dependents, regular and irregular migrants were in Japan at the end of 2010 and that constituted a strong base for the development of Bangladeshi migrant businesses in japan. Furthermore, according to Kharel (2016), there are already 3,000 Nepal restaurants and over 55,000 Nepal migrants in Japan by the end of 2015. Therefore, although Japan has been considered as an exceptional case and late comer to immigration literature, diversification of its immigrant population and emergence of immigrant businesses in recent past qualifies to conduct research studies on immigrant businesses in Japan. (Karunaratne 2009, and 2010, Billore 2010, Rahuman and Fee 2011).In contrast to western countries, especially Asian immigrant entrepreneur in Japan can learn lessons from special characteristics of Japanese economic development and management techniques adopted by strong SME sector in Japan such as use of new technology, lean management styles, team work and groupism, strong networks among entrepreneurs, strong sub-contacting system, and export orientation.

One of the secret of post-war Japanese economic development has been adopting well-designed public policies baked by scientific research studies and practical situational analysis (The world bank, 1993). Recent changes in migration policy in Japan has not been an exception to this. As Omura (2011) empirically found and highlighted “the increasing in foreign born population boosted Japan’s GDP by 0.16 percent without capital accumulation and by 0.24 percent with capital accumulation during the period of 2000-2009”. According to Simasawa, and Oguro (2012), permanent migration flows of 150,000 will improve the Japanese economy and welfare of current and future generations. Not only economic growth, but also to increase business start-up rate, adaptation of new technologies and innovations for small firms, presence of high skilled immigrants are vital for Japan.

In recent years, immigrant entrepreneurs have come to occupy a prominent place in the SME sector in many cities in developed countries, with varying degrees of success (Sahin et al 2014). On contrary, according to Imai and Kawagome (2015) the pace of new company formation has been declining in Japan, and it has been lower than other industrial countries for a long time period. Specially declining trend of business start-up rate may be worrisome for it may indicate waning entrepreneurship and weakening mechanism of resource allocation and economic growth. Therefore, in this era, promotion of immigrant entrepreneurship at least among long term foreign residents and highly assimilated foreigners in japan is vital for overcoming long term economic recession in Japan. However, scientific studies on immigrant entrepreneurs in Japan have been limited due to relatively low number of immigrant entrepreneurs and their scattered regional distribution pattern, relatively new phenomenon, lack of access to macro-level data and hardships in generating micro-level data (language and cultural barriers for Japanese scholars and less opportunities and high cost for foreign scholars) in Japan. A very few Japanese scholars have paid attention to immigrant entrepreneurs in Japan due to lack of macro-level data availability (such as regular surveys), relatively new phenomena, smallness of their economic activities in comparison to business activities in Japan, language differences, limited access to immigrant entrepreneurial networks, and scattered nature of them in Japan. Mostly cited widely available studies on immigrant entrepreneurial activities in Japan are represented by Karunaratne (2009a, 2009b and 2016), Higuchi (2010), Rahman, and Fee (2011), Billore et al (2010), and Billore (2011), Kudo (2009 and 2015), Kharel (2016). Summary of these important articles are given before the concluding remarks of the section as follows;

As Karunaratne (2007a) pointed out, Sri Lankans migrated to Japan mainly from late 1980s as seventh wave of migration from Sri Lanka and their earnings were more than 10 times in Sri Lanka in 1990s. According to Karunaratne (2009), most of Sri Lankan immigrant entrepreneurs in Japan were either (1) married to Japanese, (2) fluent in Japanese language, (3) most of them have started their career in japan as migrant workers, tourist or business visa holder, (4) concentrated into used automobiles exporting automobile dismantling and parts exportation trade. (5) started as community supporters by exporting used automobiles to Sri Lanka and later gradually diversified as cultural entrepreneurs by importing Gem or Tea to Japan. Therefore, most of the problems cited by the market disadvantage theory has not been reflected from the Sri Lankan immigrant entrepreneurs in Japan. However, commitment and determination of Sri Lankan entrepreneurs led to diversify their businesses with and out of the

Japan and log-term sustainability. According to Karunaratne (2007b) Sri Lankan restaurants, spice shops, gem traders, tea traders, and multi-faceted Sri Lankan product and service importers can be considered as Sri Lankan cultural entrepreneurs in japan and their estimated percentage was below 25 percent of all Sri Lankan entrepreneurs were in Japan. This study is designed to investigate their inter-temporal change from 2007 to 2016.As Karunaratne (2009a) pointed out Sri Lanka immigrant entrepreneurs in Japan gradually emerged through the migrant workers and almost all entrepreneurs have raised the capital from Japan. This study is designed to investigate more characteristics highlighted by the neoclassical perspectives from Sri Lankan immigrant entrepreneurs in Japan. Karunaratne (2009b) presented analysis on ten socio-economic characteristics of Sri Lankan immigrant entrepreneurs in Japan, namely; (1) ethnicity, (2) religion, (3) age, (4) marital status, (5) education, (6) length of experiences in japan, (7) Language ability, (8) origins in Sri Lanka, (9) location in Japan and (10) types of businesses they engage. Primary data were collected from 100 participants using in-depth interviews from October 2007 to December 2007 in Japan by adopting snow ball techniques. Findings indicated that Sri Lankan immigrant entrepreneurs in Japan were dominated by Sinhalese (88%), Buddhist (82%), average age was 43 year, 89% were males and 56% were married Japanese and living in Japan with their spouses. In light of business proliferation, and operation, Karunaratne (2009b) presented analysis on business proliferation, operation and stabilization, and empirically investigated ethnic resources utilization of Sri Lankan immigrant entrepreneurs in Japan. Findings indicated that apart from used vehicle traders, Sri Lankan entrepreneurs in Japan did not rely on ethnic resources in any stage of their businesses. Due to increasing intra-group competition and changes of vehicle import policies in to Sri Lanka, they have shifted from community supporters to ethnic entrepreneurship and then gradually shifted into cultural entrepreneurship and generalist. Finally,Karunaratne (2016) focuses on development patterns of immigrant entrepreneurs in Japan and their implications for Sri Lanka and Japan. Especially policy alternatives such as promotion of financial literacy among Sri Lankans, policy inconsistency in Sri Lanka as well as lack of information on Sri Lanka in Japan have been pointed out as important things in this study found that.

Higuchi (2010) examined migrant networks across borders and confirmed missing links between pre-migration and post migration social networks among Brazilian immigrant entrepreneurs by investigating 78 Brazilian immigrant entrepreneurs in Japan,. This study found that while most entrepreneurs were dependent on social capital in the initial phase of businesses and they relied less on social relationships transplanted to Japan than on other sources. Among the Brazilian immigrant business owners' family network was transplanted but found little evidence on chain migration, beyond family networks. He found that Brazilian entrepreneurs selectively uses different sources of social capital in different level of their businesses.

Drawing on the experiences of Bangladesh immigrant entrepreneurs in Japan, Rahman, and Fee (2011) examined how international migrants reposition themselves from the rank of irregular workers to that of entrepreneurs under the conditions of temporary migration. Because of the uncertainty and costliness of temporary migration, Bangladesh migrants seemed way and means to regularize their status to gain entry into engaged in business activities. Those who become immigrant entrepreneurs, were forced to innovate and seek overseas markets in order to survive. However, they were transnational entrepreneurs in the transactions of halal food, ethnic restaurants and apparel, and used tires, and multinational in the transactions of used automobiles, electronic accessories, calling cards and Japanese herbal products (Rahuman and Fee, 2011).

Billore (2010a) looked at the issues facing by Indian female immigrant entrepreneurs in Japan by exploring immigrant businesses across stages in a business life cycle. Based on a sample survey of 56 Indian immigrant entrepreneurs in Japan, key motivators, challenges and barriers that most immigrant female's face in business creation and development in Japan was evaluated. By administering survey among 44 female immigrant entrepreneurs in Japan, Billore et al, (2010b) reported on status of female immigrant entrepreneurship as a developing sector in Japan's entrepreneurial economy and explored the experiences and challenges they face at the initial stage of businesses in Japan. It highlighted the areas where changes in governance structure and social acceptances to create positive environment to build up and the relationship between Japan and the immigrant entrepreneurs can be strengthened. Moving in the same discipline, Billore (2011) investigated Indian immigrant female entrepreneurs in Japan and found hindrance to start and continue female immigrant businesses due to social/cultural influences, lack of government initiatives and support facilities to promote female immigrant entrepreneurship in Japan.

Kudo (2009 and 2015) provided in-depth analysis on cross-broader marriages between Japanese women and Pakistani migrants paying attentions to transformation process of workers to transnational immigrant entrepreneurship of Pakistanis in Japan. Especially ten characteristics can be identified from publication of Kudo (2015) on Pakistani business community in Japan as; (1) In 2012, with spousal visa and permanent resident visa accounted for 42 percent of the total 10,597 Pakistanis registered in Japan. The number of marriages between Pakistani men and Japanese women increased steadily during the 1990s; (2) prolonged recession in japan and lack of competencies on written Japanese hindered them from being employees in a Japanese company; (3) self-employment was a way to overcome their marginal position in Japan as foreign worker; (4) completion arose among Pakistani immigrant entrepreneurs in japan due to initiation of similar kind of businesses such as restaurants, spice shops, travel agencies, buying and selling as well as exporting used cars from Japan,; (5) they could build network through construction of mosques in Japan; (6) they obtained resources such as knowledge on Japanese language, business places from Japanese wife; (7) Japanese wife could help Pakistani businesses by giving up employment opportunities and mobilizing ethnic network they have in Japan; (8) Pakistanis in Japan also mobilized their ethnic resources and networks for businesses initiated in Japan and other counties ; (9) they were brought kins and relatives for businesses; (10) mosques provided a venue for the new entrepreneurs to meet and exchange information about their businesses in Japan; (11) overseas Pakistani network helped them to develop their business into third country.

Kharel (2016) explained the growth and expansion of Nepalese restaurants and Nepalese Cooks in Indian restaurants in Japan paying more attention to migration networks, the formation of Nepali entrepreneurship and migration flows to Japan. According to him, more than 1,800 Nepalese have migrated from a single rural village to work as cooks in Nepal restaurants in Japan in the last few years. There were more than 3,000 Nepalese restaurants and over 55,000 Nepalese migrants in Japan, making it the largest South Asian community in Japan by 2015. Kharel attempted to explore causes and patterns of migration from Nepal to Japan and the nature of transnational ties between the Nepali migrants and their homeland. Unlike Higuchi (2010) showed about Brazilian migrant Businesses in Japan, Kharel (2016) demonstrated the complex relationships among social networks, social capital, migration and immigrant entrepreneurship of Nepalese in Japan. His article was devoted to show how social capital is important to obtain opportunities in migration process and provide incentives for families in the home country. By contrast to Massey et al 1987 and Goss and Lindquist 1995, Kharel provided example to prove that the migrant networks will not lead to reduce the cost of migration. According to him Nepali restaurant owner can earn US$ 15,000 by bringing one Nepali into Japan, while Nepali cook needs to hard work for at least two years in Japan to earn this amount of money. However, apart from boom of Nepal restaurants, high poverty rates, location of Everest Mountain, low per capita income, earthquakes and natural disasters in Nepal can be considered as reasons behind the Japan-Nepal ties. As a result number of foreign students coming from Nepal has been increasing in recent past and after graduation from Japanese language schools, technical colleges or universities in Japan, majority of them start entrepreneurial activities in Japan. As described by Liu-Farrer (2009, 2011) unlike Chinese students, the majority of these young Nepali gradates still lack the Japanese language and cultural competencies to find work in Japanese companies. Therefore, they start travel agencies, remittance companies, graphic design and printing companies, specialized grocery shops, food processing and distribution, schools and media institutions, which are highly benefitting for Nepal community in Japan (Kharel, 2016). Finally it is possible to conclude that the Nepal immigrant entrepreneurs has limited themselves to ethnic enclave niches largely in response to strong competition from other ethnic minorities in Japan for salaried employment.

Apart from the above summarized individual studies on immigrant entrepreneurs in Japan, there were several research papers presented and published in Japanese language by the members of two migration related academic societies in Japan, namely as "*the Japan Association for Migration policy studies (JAMPS)*" and "the Japanese Association for Migration Studies *(JAMS)*". Among those publications, papers on immigrant enclaves and ethnic business of Nepalese in Tokyo was interested and categorized Nepal immigrant business in Japan into five types as (1) Family partnership, (2) Brotherhood partnership, (3) Nepalese partnership, (4) Nepal-Japanese partnership and (5) Nepal-multinational partnership. Since political and economic climate of Nepal is still not favorable for them to return and competition among Nepalese on ethnic market and restaurants have increased they have started to diversify their businesses into a third country than Nepal or Japan. Therefore, multinational orientation of Nepalese business in Japan can be identified as new phenomenon in immigrant business studies.

Concluding Remarks

Summary of the conceptual, theoretical and empirical literature on immigrant entrepreneurship in Japan (including Sri Lankans) indicates several gaps to be addressed for further development. First, immigrant entrepreneurship is a relatively new concept in Japanese entrepreneurial history and so far only limited number of studies have been conducted due to relatively small size of foreign born population and their scatted nature in Japan. Second, most of the Asian immigrant entrepreneurs have emerged through migrant workers (both irregular and regular) and their activities have not reported at macro-scale and scattered nature of their location need additional time and financial cost to collect information from them. It has not yet highlighted in Japan. Third so far Japanese scholars attempt is not adequate to development of this area of study due to language and cultural gaps, insufficient macro-level data and difficulty in access to immigrant entrepreneurs in Japan. Forth, the evidences such as the number of business visa holders have grown by nearly three times in Japan during the past decade, the number of skilled migrants have given separate visa system to enter Japan and growing unprecedented foreign tourists and foreign students indicate that the number of immigrant entrepreneurs in Japan will increase in future. Fifth, current situation in the demographic transition, growing elderly population, increasing marriage age and growing cross broader marriages in Japan, growing out bound migration from Japan has led to create new avenues for foreigners in Japan to start immigrant businesses such as foreign restaurants, spicy shops, and other businesses using ethnic resources of immigrants in Japan. Sixth, large number of small and medium size enterprises in Japan still focusing local market with high technical abilities and suffering limited access to Asian markets. If they can merge with these newly emerging immigrant businesses in Japan, mutual benefits will increase for both immigrants, and Japanese SME holders. Finally, internalization of immigrant businesses in Japan has been a new phenomenon in the literature of immigrant business and immigrant entrepreneurs in 21stcentury.Therefore, immigrant entrepreneurship remains as an unexplored research field still in Japan.

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Personal and Situational Factors on Consumer Financing Decisions, a Conceptual Model

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Abstract

Expected Utility Theory advocates that individuals make rational decisions. However it is not rare to see consumers deviate from rationality when making consumer credit decisions. Despite the financial literacy, individuals may tend to choose high cost consumer credit forms such as credit card as a mean of financing consumer goods and services which in fact suggests a deviation from economic rationality. The failure of Expected Utility Theory to explain and predict consumer credit decisions that deviate from rationality provide incentives to use an alternate theory; Prospect Theory which counts principles of perceptions and judgement that limit the rationality of choice. Accordingly this theoretical paper suggests personal factors; locus of control, social comparison and self-control and situational factors; life events and income may influence on consumer financing decisions.

Key words: *Consumer credit, Consumer Financing, Financial literacy, Prospect Theory, Rationality*

Introduction

Absence of cash in hand is no longer a problem in consuming goods and services at present. Consumers have been exposed to various consumer credit or financing options such as Credit cards, Personal loans, Salary loans, hire purchase and etc. Meanwhile, Pattarin and Cosma (2012) defined consumer credit as a monetary request made by a household from an institution and subsequent lending made by the institution considering the solvency. A Consumer who resorts to consumer credit has to select a form of credit out of several alternatives. This is referred to a consumer credit choice (Kamleitner et al., 2012).

Consumer credit choice is a financial decision that involves risk. For example the use of credit card can lead to indebtedness and foreclosures (Austin and Phillips, 2001; Yang and Lester, 2014). Expected Utility Theory (EUT) advocates that when individuals take decisions under risk, they do so rationally to maximise their utility. Accordingly when a financially literate consumer chooses one form of credit against others, one can expect a consumer to select low cost credit alternative to maximise the utility. In line with the EUT, several studies reports a negative relationship between financial literacy and credit use (Hilgert, Hogarth and Beverly, 2003; Norvilitis *et al.*, 2006; Disney and Gathergood, 2013). However it is not rare to see financially literate individuals choosing high cost credit forms indicating positive relationship (Lachance, Beaudoin and Robitaille, 2006; Wonder, Wilhelm and Fewings, 2008). This deviation from rationality may be explained by taking the perspectives advocated by Prospect Theory (PT). “Indeed, prospect theory is an attempt to articulate some of the principles of perception and judgment that limit the rationality of choice” (Tversky and Kahneman, 1986, p.273). Accordingly the determinanents of credit choice will be examined in this research with the insigts gained from Prospect Theory.

Financial literacy is important in understanding different consumer credit options and their costs and benefits. Financial literacy is the "consumer understanding of financial concepts and ability to correctly interpret financial data"(Gathergood, 2012, p.591). It is intuitive that a financially literate consumer selects a low cost credit option. In contrast a person with poor financial knowledge is likely to select high-cost credit alternatives. Disney and Gathergood (2013) studied the behaviour of UK households to identify the relationship between finance literacy and consumer credit portfolios and found that consumers with poor financial literacy hold high-cost credit products compared to the consumers with higher literacy. Norvilitis *et al.* (2006) found that credit card debt is associated with lack of financial knowledge. Campbell (2006) also found that US consumers with poor knowledge were less likely to refinance their mortgages when the interest rate was falling. Lower financial knowledge is related to households with lower credit management (Hilgert, Hogarth and Beverly, 2003).

On the contrary to these research findings, several studies show that highly financial literate consumers have resorted to high-cost credit options. A positive relationship between financial knowledge and credit use has been found by Lachance, Beaudoin and Robitaille (2006). Even when consumers choose among interest-free loans, they do not prefer a long term contract which is a deviation from traditional financial rationality (Wonder, Wilhelm and Fewings, 2008). Financially literate consumer searches for information prior to his choice on the form of credit. However, 8% of consumer credit decisions in the UK are made on the spur of the moment (Berthoud and Kempson ,1992, cited in Kamleitner, Hoelzl and

Kirchler, 2012, p.14). Further Low levels of information search are commonly reported even the decision is not made impulsively (Peterson and Black, 1984, cited in Kamleitner, Hoelzl, and Kirchler ,2012,p.14). Interestingly the people who hold high-cost revolving credit and low yielding savings simultaneously are found to be financially literate (Gathergood and Weber, 2014). These findings indicate a deviation from the rationality suggested by EUT.

Daniel Bernoulli formulated EUT in 1738 and it was further developed by Von Neumann and Morgenstern in 1944 and Savage in 1954 (Tversky, 1975). According to Bernoulli (1954) individuals evaluate uncertain outcomes by multiplying probabilities in to utility generated by each outcome. It is reported that EUT has been "generally accepted as a normative model of rational choice" (Keeney and Raiffa,1976 cited in Kahneman and Tversky, 1979,p.263) . Accordingly it is rational for a consumer to resort to low cost credit form when confront with several alternatives. The empirical evidences on financially literate consumers resorting to high-cost credit options suggest that EUT is no longer adequate to explain the phenomenon. Thus it compels to use a different theory; the Prospect Theory to explain and predict the phenomenon under the study.

Kahneman and Tversky (1979) proposes Prospect theory to explain the deviation from the rationality in decision making. They found that people give less importance to the outcomes which are probable compared to sure outcomes. Thus there is a risk aversion in choices which has sure gains. However when it comes to choices which have sure losses, people are risk taking. Accordingly an alternative theory is built up considering gains and losses separately unlike the utility of final outcome as explained by EUT. Further the probabilities used in EUT are replaced by the decision weights of the people. Biases of people affect to the decision weights. Psychological factors have an influence on choice. “Indeed, prospect theory is an attempt to articulate some of the principles of perception and judgment that limit the rationality of choice” (Tversky and Kahneman, 1986,p.273). According to the prospect theory, a consumer may deviate from the rationality when initiating the consumer credit decision. It is possible for financially literate individual to choose high cost financing options. Personal factors attributable to individuals and the situational factors may govern the consumer credit choice. Kamleitner, Hoelzl and Kirchler (2012,p.11) assert that “there is lack of knowledge about the influence of personal characteristics on credit acquisition”. Further they stressed that “Research has also yet to establish the effect of specific combinations of situational and personal factors” on consumer credit behavior. Accordingly this study investigates the determinants of consumer credit choice. Therefore the main research question to be addressed in this study is:

Do personal factors, situational factors and financial literacy of consumers influence credit choice?

In answering the above research question, the researcher takes the perspective that individuals do not behave rationally all the time as suggested by the prospect theory. A conceptual framework has been developed to account the behavioural biases of individuals.

This research contributes to the existing body of knowledge on consumer financing by examining the influence of different factors on consumer credit choice. Consumer credit choice has been explained using the financial literacy; however the literature shows contradictory evidence. Therefore this study attempts to explain the consumer credit choice using personal factors and situational factors. Specially there is a dearth in researches on influence of personal factors on consumer credit choice (Kamleitner, Hoelzl and Kirchler, 2012). This knowledge gap is expected to fill through this study.

Practical significance of the study is twofold. Financial institutions offering different forms of credits such as banks, finance companies and etc can use relationship between different factors and credit choice to profile the consumers and offer different credit options. On the other hand individuals can use the findings of the research to identify the natural tendencies or biases toward different credit options stemming from different personal factors and situations faced by them so that they can make more informed credit choices.

The rest of the paper is structured with a literature review on consumer credit with reference to decision theories; EUT and PT, and different factors affecting the consumer credit decisions. This is followed by the conceptualisation where the researcher argues a model for consumer credit choice with the support of literature. The methodology will be discussed outlining definitions and measures of variables identified in the conceptual model. The paper concludes with a discussion on implications of the study.

Literature review

Two approaches of decisions under risk; rationally and irrationally

Consumers credit decisions involve risk such as personal indebtedness and foreclosures. How an individual takes decisions under risk is explained under expected utility theory as well as prospect theory.

Expected Utility Theory suggests an individual takes rational decisions to maximize the utility (Bernoulli, 1954). Daniel Bernoulli formulated EUT in 1738 and it was developed by Von Neumann and Morgenstern in 1944 and Savage in 1954 (Tversky, 1975). According to Bernoulli (1954) individual does not evaluate uncertain outcomes by taking the expected value derived by multiplying probabilities in to values of each outcome rather by taking the utility of the outcomes with the probabilities. Utility that an item generates should be considered than just the monetary value of it. Some researchers describes that EUT has been “generally accepted as a normative model of rational choice” (Keeney and Raiffa,1976 cited in Kahneman and Tversky, 1979,p.263). According to the expected utility theory, consumer should take his credit choice rationally. When there are different credit alternatives, a rational consumer must choose the low cost credit option in order to maximize his utility.

Kahneman and Tversky (1979) observes that when a choice involves sure gains, individuals have more tendency to select that option even though the other options have greater gains but under the probabilities. Thus individuals are risk averse when the alternatives include an alternative with a suregain. On the other hand, when the alternatives include an alternative of sure loss among others, there is a tendency of individuals to select options of greater losses but under the probability rather than the alternative which generates sure loss. This suggests that individuals are risk taking when they select options among which a sure loss is there. Prospect theory is introduced on this light by Khaneman and Tversky to explain the deviation from the rationality. Prospect theory introduces subjective weights as opposed to the probabilities used in the expected utility theory. These subjective weights can be affected with the personal biases, heuristics of the individuals. “Indeed, prospect theory is an attempt to articulate some of the principles of perception and judgment that limit the rationality of choice” (Tversky and Kahneman, 1986,p.273)

According to the prospect theory consumer may not always select the low cost credit option to maximize his/her utility. It is possible that consumer to select high cost credit options due to subjective reasons.

Yang and Lester (2008) argued that when decisions are made people neither use their full knowledge nor the optimal computational power to maximise the expected utility in the real world. He further presented the concept of systemic irrationality based on the observation that the existence of large segments of population who incapable of making decisions rationally. Such groups include people with limited intelligence, those from lower social classes, people with psychiatric disorder, people taking medications, children and adolescents and elderly. Accordingly they argued “rationality in economic decision-making may be the exception rather than the norm”.

Consumer credit

It is observed that a broad variety of consumer credit products are offered in credit markets such as consumer loans, credit cards, hire purchase loans, point of sale lending, salary loans and etc. Pattarin and Cosma (2012) defined consumer credit as a monetary request made by a household from an institution and subsequent lending made by the institution considering the solvency. However the definition of consumer credit excludes the property according to Gurdia (2002)

Pattarin and Cosma (2012) identified a distinction between consumer credit and the consumer debt. Accordingly consumer debt arises when the debtor does not discharge his repayment obligations.

Kamleitner and Kirchler (2007) developed a conceptual model highlighiting essential steps in credit use by taking a process perspective. The suggested process model outlines 3 majors steps; processes before credit take up, processes at credit take up and processes after credit take up. Processes before credit take up includes several steps such as orginating needs and desire for goods, decision to buy or not, if decides to buy whether to use own funds or go on credit, and etc. Processes at credit take up stems from the decision to take up credit in the previous process. Once it is decided to take credit, then it needs to decide whether to go with spontaneous sources such as credit card or other non spontaneous sources such as bank credit. At this process, information on different alternatives can be searched, alternative credit forms can be evaluated and finally a choice is made. Repayment behaviour of credit is dealt in the last stage i.e processes after credit take up.

Consumer credit choice

Business firms need to decide whether they source the required funds from the equity holders or borrow from debt holders. It is referred to as the financing decision. Similarly a consumer when initiating a purchase transaction has the choice of using his own funds or resorting to credit (Fagerstrøm and Hantula, 2013). This is referred to as inter temporal choice. Accordingly consumers who do not opt for credit may either use cash in hand today or wait till the required funds are collected through savings.

Credit users can resort to various forms of credit such as credit card, salary loans, personal loans, point of sale lending and etc (Pattarin and Cosma, 2012). It is termed as the credit choice (Kamleitner, Hoelzl and Kirchler, 2012). Credit choice is a decision made at the middle phase of the conceptual model presented by Kamleitner and Kirchler (2007). The model outlined that credit choice is made in the processes at credit take up. Information search, evaluation of different forms of credit and finally a choice is made as to what form credit to be used in this middle phase.

Different perceptions about credit granting process, components of credit such as interest rate, loan duration, etc and behaviour of credit users are important aspects at the credit take up processes (Kamleitner and Kirchler, 2007). Dauten and Dauten (1976) found that consumers misperceive the credit-granting standards used by banks as well as finance companies. Ranyard and Craig (1995) studies how people evaluate instalment credit and found that people create mental accounts in the evaluation process. Further, it proposed consumers look at dual aspects of instalment credit at the same time; i.e. total costs of credit and recurrent effects of repayment which are termed as total accounts and recurrent budget period accounts. In an experiment of 96 adults, Ranyard *et al.* (2006) found that people use mental accounts in credit choice. Annual Percentage Rate is found to influence the choice of credit source whereas total cost information was important in selecting different repayment plans.

People may have different perceptions towards credit components such as loan duration, interest rate and etc. Lewis and Venrooij (1995) studied how individuals estimate the loan duration. It was found that for loans with longer repayment period and low levels of repayment, individuals tend to underestimate the loan duration. Further, when supplementary information such as total interest is presented, the accuracy of estimation found to be improved.

Discounting is another aspect which may have a bearing on credit decisions. Usually credit involves providing a benefit today for payments in future. Thus, it is important to look at how consumers discount the future events in deciding the credit today. The discount rates used by consumers to evaluate credit arrangements found to be different from the actual discount rates used in financial markets (Estelami, 2001). Further, it was found that numeric presentation of the credit amount have an influence on discount rate used by consumers. Presentation of the amount as an odd number (Ex. $ 19) resulted a lower discount rate compared to even presentation (Ex. $ 20). Presenting the credit amount as individually divided amount than the aggregated lump-sum can have an effect on consumer’s ability to evaluate the credit. Accordingly it was found that disaggregating credit amount in to smaller components result consumers using lower discount rates.

Information search on different forms of credit is supposed to taken place prior to the credit choice (Kamleitner and Kirchler, 2007).Chang and Hanna (1992) carried out a study on the information search behaviour related to consumer credit and found that consumers engage in little information search. Hilgert, Hogarth and Beverly (2003) found that less than one third of consumer compared different credit card offers when applying for a credit card. Further, it was reported that 8% of consumer credit decisions in the UK are made on the spur of the moment (Berthoud and Kempson ,1992, cited in Kamleitner, Hoelzl and Kirchler, 2012, p.14). Moreover, low levels of information search are commonly reported even the decision is not made impulsively (Peterson and Black, 1984, cited in Kamleitner, Hoelzl and Kirchler, 2012, p.14). Information search was found to be improveed when the size of the loan is higher and consumers having higher education (Chang and Hanna, 1992).

Eventhough there are alternative forms of credit, consumer may be compelled to resort to one or few forms if they have issues with the accessability to the credit. Jappelli (1990) defined consumers are credit constrained if their credit request was rejected by the financial institutions in the past. Further, Jappelli argued that there can be consumers who refrain from applying credit due to the perception that they will be rejected. These consumers were identified as discouraged borrowers. The present study attempts to identify the consumer credit choice provided that they have the accessability to different forms. Accordingly the accessability to the credit is taken as controlling variable in this study.

Risks aspects of consumer financing decisions

If the credit users are unable to settle the debt, they will be subject to personal indebtedness. When credit providers initiate legal actions against them, personal properties will be taken in lieu of borrowed money (foreclosure). Yang and Lester (2014) reported that foreclosures of United States in 2007 were 1% where close to 2 million households were affected. Further the misuse of some options such as credit cards may lead to high finance charges. To deter over indebtedness arising from credit cards, some governments has imposed stringent controls for example US, Bruneian and Indonesian governments have restricted use of credit for 21 years or less aged people (Awanis and Chi Cui, 2014).

None use of credit also may not avoid risks. Running out of cash in hand may lead to difficulties in facing unanticipated events, missing investment opportunities which are of speculative in nature and etc.

Yang and Lester (2014) argued that the inability of households in managing credit nationwide is due to the systemic irrationality. Further, he argued, because of some segments of the population who are unable to make rational economic decisions, the systemic irrationality arises.

Factors affecting the decision

Decision to take credit may be governed by various factors. Credit behaviour is explained using demographical, economic as well as psychological factors. For example Lea, Webley and Walker (1995) reported that economic and demographic factors such as income, house ownership, employment, gender prediceted the people who faced repayment difficulties. A field experiment on consumer credit conducted by Bertrand *et al.* (2005) found that psychological factors are significant in credit take up in contrary to the rationality suggested in standard economics. In addition to personal factors (ex: psychological factors) Kamleitner and Kirchler (2007) argued different situational factors such as level of income, life events can have an impact on credit behaviour. For example people who faced adverse life events were found to have credit related problems. Credit choice being one aspect of the credit behaviour may therefore governed by broad variety of factors. The forthcoming paragraphs elaborate already established factors as well as the likely factors that the researcher argues.

Financial literacy

"Knowledge not only enables consumers to make better decisions from a given set of options but also seems to increase the favorability of the options available"(Kamleitner, Hoelzl and Kirchler, 2012,p.14). It may be important to possess sufficient financial literacy when engaging in credit market activities. According to Gathergood (2012,p.591) financial literacy is the "consumer understanding of financial concepts and ability to correctly interpret financial data". Further core financial literacy is comprised of three concepts of interest compounding, real versus nominal returns and portfolio diversification. Disney and Gathergood (2013) assessed the financial literacy of consumer credit users on three aspects;

simple interest rate calculation, impact of compounding interest and understanding on the impact of settling only the minimum payment.

Financial literacy of the consumer has a bearing on his choice of different credit products. It is intuitive that the individuals with high financial literacy select low cost credit options. In contrast, if an individual does not possess sufficient finance literacy, it is likely that credit options selected by them are costlier than the choice made by a financial literate person. Disney and Gathergood (2013) studied the behaviour of UK housholds to identify the relationship between finance literacy and consumer credit portfolios and found that consumers with poor finacial literacy hold high cost credit products compared to the cosumers with higher literacy. Further most of consumers who lack financial knowledge are aware about their poor knowledge but do not take corrective actions to improve the financial literacy.

Norvilitis *et al.* (2006) found that credit card debt is associated with lack of financial knowledge. Campbell (2006) also found that US consumers with poor knowledge were less likely to refinance their mortgages when the interest rate was falling. Lower financial knowledge is related to households with lower credit management (Hilgert, Hogarth and Beverly, 2003).

Even though a financially literate person should select low cost credit options there are evidences to the contrary. A positive relationship between financial knowledge and credit behaviour has been found by Lachance, Beaudoin and Robitaille (2006). People who hold high cost revolving credit and low yielding savings simultaneously are found to be financially literate (Gathergood and Weber, 2014). Searching for information is one dimension of the financial knowledge. However 8% of consumer credit decisions in the UK are made on the spur of the moment

(Berthoud and Kempson ,1992, cited in Kamleitner, Hoelzl and Kirchler, 2012, p.14). Further Low levels of information search are commonly reported even the decision is not made impulsively (Peterson and Black, 1984, cited in Kamleitner, Hoelzl and Kirchler, 2012, p.14). This deviation from the rationality may be explained using the prospect theory as it suggests individuals deviate from rationality in decision making. Therefore a consumer may deviate from the rationality when initiating the consumer credit decision. Accordingly personal factors and situational factors of consumer may affect credit choice.

Kamleitner and Kirchler (2007) introduces a process model with three stages ; before credit take up, at credit take up, after credit take up. Credit choice is a decision made in the middle phase i.e at credit take up. Situational factors found to be related to decisions to use credit or not i.e before credit take up (Kamleitner, Hoelzl and Kirchler ,2012). Personal factors found to be related to the decisions before credit take up as well as after credit take up (Repayment behaviour) (Kamleitner, Hoelzl and Kirchler ,2012). For example lack of self control found to explain holding high cost credit along with low yielding savings.(Gathergood and Weber, 2014).

Further certain personality traits have predicted the persons with high credit card debt and foreclosure rates (Yang and Lester, 2014). Perry (2008) found some personal factors and situational factors are related to the individual's credit ratings. Therefore it is likely that personal factors and situational factors affect at the time of credit take up; Credit choice.

Personal factors

Personal factors that the researcher argued to affect the credit choice are the locus of control, social comparison, and self-control. The forthcoming paragraphs provide insight on these factors.

Locus of control

Rotter (1966) defined locus of control as the degree to which a person perceives events as contingent upon his or her own behaviour. Locus of control can be two-fold; internal locus of control and external locus of control. Individuals with internal locus of control perceive that their own behaviour affect events. In contrast individuals with external locus of control believe events occurred due to their fate, by chance or due to actions of others.

Tokunaga (1993) attempted to identify factors which differentiate effective credit users from unsuccesful credit users. It has found that unsuccessful credit users displayed higher external locus of control compared to effective users. Unsucessful credit users consisted of people who had experienced serious financial problems (operationalized by delinquency in making monthly payments and/or a debt-to-income ratio of over 100%) as a direct result of their excessive use of consumer credit, primarily in the form of credit cards. Livingstone and Lunt (1992) also found that locus of control is a significant deteminanent of debt repayment behavior. Accordingly the people who were borrowed more found to be having a external locus of control. According to the process model introduced by Kamleitner and Kirchler (2007) the state of unsuccessful credit usage falls in to the final stage of the process model i.e after credit take up which exhibits the repayment behaviour. Credit choice is being in the middle phase of credit process, it is likely that the locus of control affects when an individual decides which form credit to undertake.

Social comparison

Katona (1975), cited in Kamleitner and Kirchler (2007,p.14) stated that "it is not true that installment buying is resorted to only when it is unavoidable". Accordingly there can be different reasons for the use of consumer credit. Keynes (2006) identified six motives for consumption; Enjoyment, Short sightedness, Generosity, Miscalculation, Ostentation and Extravagance. More empirical support was found for the motive of ostentation which is closely related to the temperament of social comparison (Kamleitner and Kirchler, 2007).

Social comparison theory suggests there is an internal drive within an individual to evaluate him and the evaluation is carried out by comparing opinions and abilities of his own with that of others (Festinger, 1954). Accordingly, Individuals compare their own lifestyles with that of their reference groups.

Duesenberry identified that social comparison has an influence in savings as well as borrowing (Livingstone, and Lunt, 1992,p115). Accordingly, people save money to use it later to match with their, social reference group. Similarly, people also borrow to purchase goods that are necessary to keep up with the reference group. Morgan and Christen (2003) argued that income inequality induces households to borrow more in order to maintain their social position.

People in debt were found to showcase their social worth and social relations by way of consumption for example buying presents for others (Livingstone and Lunt, 1992). However they did not agree to the fact that the keeping up with reference group was a pressure to borrow and a cause for their financial issues. Being social comparison is an important determinant in the debt level as consequence of credit behavior; it is likely that social comparison plays an important role in determining the credit choice of an individual.

Self-control

Lack of self-control is regarded as a behavioral bias in financial decision making (Gathergood and Weber, 2014). Credit users found to be buying goods on impulse and having interest to reward themselves with purchases (Livingstone and Lunt, 1992). Further the credit users were less prepared to exert self control compared to non users (Webley and Nyhus, 2001, cited in Kamleitner and Kirchler, 2007). Self-control seems to be an influential factor both before credit use and during repayment (Kamleitner and Kirchler, 2007). Further Self-control is found to be related to credit use and the risk for indebtedness (Livingstone and Lunt, 1992). Gathergood (2012) found that lack of self control is positively related to non payment of consumer credit. It is likely that the self-control has a significant role in determining the form of credit that a consumer selects.

Situational factors

Situational factors of a consumer could have an impact on credit choice. Kamleitner, Hoelzl, and Kirchler (2012) identified Life events and income as situational factors that affect consumer credit behaviour.

Life events

Individuals may expose to different life events which significantly changes their ordinary cause of life. Examples of such life events are the loss of employment, undergoing medical surgeries, etc. Perry (2008) defined life events as incidence of experienced major medical expenses, extended unemployment, or a significant reduction in income. One can expect that individual who experience such kind of life event is inclined to borrow money. Kamleitner, Hoelzl and Kirchler (2012) identified life events as a situational factor that affect towards credit use. Life events can affect the repayment behavior negatively where the individual is less able to pay on time. On the contrary , increased feelings of coping less well with the financial situation has led to simultaneously practicing better financial management and repaying orderly (Walker, 1996). In addition, people experiencing many adverse life events displayed less risk-seeking tendencies, less sensation seeking tendencies, and more anxiety about money (Tokunaga, 1993). Furthermore persons who argued external disasters as cause for credit use repaid more than those associating credit use with internal factors (Livingstone and Lunt, 1992).

Income

Perry (2008) defined income as the income from all sources, including work, alimony, child support, rental income, investment income and any other money received. Income generally seems to be an obvious factor related to consumer credit. Consumers smooth the consumption during their lifetime by considering the life time resources as per the Life Cycle Hypothesis proposed, by Modigliani (1986). Accordingly young consumers with low levels of income at present tend to borrow and consume today to settle in future with the expected high income levels.

It is intuitive to expect that credit use is increased with lower levels of income. However, according to the literature, the relationship between income and the credit use is found to be inconclusive.

Some studies suggest a negative relationship between the credit and the income. Chien and Devaney (2001) found that households with lower levels of income were more likely to have high amounts of credit card balances. This negative relationship also confirmed in a study conducted in Italy. (Magri ,2002, cited in Crook, 2003). The argument put forward by Magri is high-income household in Italy using less debt to acquire consumer durables.

On contrary to negative relationship between income and credit, some empirical evidences suggest a positive relationship between the two. Livingstone and Lunt (1992) found that when the disposable income of a person increases, the amount they owe also increases. Further the income was found to be a significant predictor of debt. It was also found that there is no significance difference between disposable income of people in debt and people not in debt. Further some more studies find a positive relationship between Income and the demand for debt (e.g. Gropp *et al*.,1997 and Crook ,2001, cited in Crook ,2003). The positive relationship could be due to high income families demanding more housing and other goods with the greater job security compared to lower income earning families (Crook, 2003).

The income level of the consumer is likely to influence on what the credit is used for. Families with a lower level of income probably use the credit to meet day to day needs and maintain their lifestyles where as higher income people could use consumer credit to further enhance the life style (Croden, 2000 , cited in Kamleitner, Hoelzl and Kirchler, 2012; Morgan and Christen, 2003).

Conceptual model

In this study, consumer credit choice is hypothesised to be a function of financial literacy, personal factors of the consumer; locus of control, social comparison and self-control as well as the factors represent the situation of the consumer; Life events and income.

Influence of financial literacy on consumer credit

According to Gathergood (2012,p.591) financial literacy is the "consumer understanding of financial concepts and ability to correctly interpret financial data". Financial literacy is related to the economic behaviour of individuals (Lusardi and Mitchell, 2007). Thus financial literacy matters in decisions related to consumer credit. A consumer who decides to finance the purchase through consumer credit has to select what form of credit to be used (Kamleitner, Hoelzl and Kirchler, 2012). Hilgert, Hogarth and Beverly (2003) found that the relationship between credit management knowledge and credit behaviour is statistically significant. Accordingly financial literacy of the consumer has a bearing on his choice of different form of credits.

Expected Utility Theory suggests individuals take decisions rationally to maximise the utility. Accordingly it can be argued that the individuals with high financial literacy select low cost credit options. In contrast, if an individual does not possess sufficient finance literacy, it is likely that credit options selected by them are costlier than the choice made by a financial literate person. Disney and Gathergood (2013) found that consumers with poor finacial literacy hold high cost credit products compared to the cosumers with higher literacy. Norvilitis *et al.* (2006) found that credit card debt is associated with lack of financial knowledge. Campbell (2006) also found that US consumers with poor knowledge were less likely to refinance their mortgages when interest rate was falling. On contrary to the Expected Utility Theory, Lachance, Beaudoin and Robitaille (2006) found a positive relationship between financial knowledge and credit behaviour. Moreover individuals have displayed irrational behavior with respect to consumer loan choices (Wonder, Wilhelm and Fewings, 2008). Even though financial literate consumers search for information prior to credit decisions, considerable amount of credit decision are found to be taken on the spur of the moment and low levels of information search is reported (Berthoud and Kempson ,1992, cited in Kamleitner, Hoelzl and Kirchler, 2012, p.14). Furthermore, the people who hold high cost revolving credit and low yielding savings simultaneously are found to be financially literate (Gathergood and Weber, 2014). The literature is inconclusive on the influence that financial literacy has with the consumer credit decisions. Accordingly the researcher is interested to understand the impact of financial literacy on consumer credit so that the following proposition is suggested.

Proposition 1: Finance literacy influences consumer credit choice

Influence of personal factors on consumer credit

Expected utility theory suggests individuals take decisions rationally to maximize their utility. This theory is being considered as the normative model of rational choice (Tversky and Kahneman,1986). Evidences show that financially literate consumer do not behave rationally all the time (Lachance, Beaudoin and Robitaille,2006; Wonder, Wilhelm and Fewings, 2008; Berthoud and Kempson ,1992, cited in Kamleitner, Hoelzl and Kirchler, 2012, p.14; Gathergood and Weber, 2014). Deviations from the rational decision making are argued in the prospect theory(Kahneman and Tversky, 1979).

Psychological factors have an influence on choice. “Indeed, Prospect theory is an attempt to articulate some of the principles of perception and judgment that limit the rationality of choice” (Tversky and Kahneman, 1986, p.273). Locus of control is a psychological factor a person that is related to consumer credit (Kamleitner, Hoelzl and Kirchler, 2012). Locus of control found to be associated with the credit repayment behaviour (Tokunaga, 1993; Livingstone and Lunt, 1992). Further, Perry (2008) also found that locus of control of credit users is related to the consumer credit risk ratings used by lenders. Therefore it is likely that locus of control influences what form credit that a consumer selects and Proposition 2 are suggested below.

Proposition 2: Locus of control influences consumer credit choice

Social comparison theory suggests there is an internal drive within an individual to evaluate him and the evaluation is carried out by comparing opinions and abilities of his own with that of others (Festinger, 1954). Accordingly Individuals compare their own life styles with that of their reference groups. People save as well as borrow money in order to acquire goods which are necessary to keep up with the reference group (Duesenberry,1949,cited in Livingstone and Lunt ,1992,p.115). Further Duesenberry identified that social comparison has a influnece in savings as well as borrowing. Accordingly people save money to use it later to match with their social reference group. Similarly people also borrow to purchase goods that are necessary to keep up with the reference group. Therefore in line with the prospect theory, as well as social comparison theory, social comparison is a likely psychological factor that may govern consumer credit choice. Accordingly the researcher suggests the third proposition below.

Proposition 3: Social comparison influences consumer credit choice

Lack of self-control is considered as a behavioral bias in financial decision making (Gathergood and Weber, 2014). Prospect theory suggests behavioral biases deviates the rational decision making under risk

(Tversky and Kahneman, 1986). Lack of self control is found to be associated with credit repayment as well a risk of indebtedness (e.g., Kamleitner and Kirchler, 2007; Kamleitner, Hornung and Kirchler, 2012; Livingstone and Lunt, 1992; Gathergood,2012). Therefore it is likely that self-control influence the consumer decision on which form of credit to be used. Moreover it is intuitive to think that persons with lack of self-control are inclined to choose credit cards despite higher financial costs. As a result the fourth proposition is suggested below.

Proposition 4: Self-Control influences consumer credit choice

Moderating effect of situational factors

Adverse life events could cause consumer to resort to credit and also problems in repayment (Tokunaga, 1993). Further when consumers experienced negative life events, among actions taken to resort such as cutting back on spending, trying to increase income, getting financial support from other sources, they also include actions to advance their financial knowledge (Hayhoe, Leach and Turner, 1999; Canner and Luckett, 1991, cited in Kamleitner, Hoelzl and Kirchler, 2012,p.6). Thus it is likely that consumer who experienced negative life events and non-experienced consumers have different relationships between their financial literacy and credit choice.

It is intuitive that credit use is increased with lower levels of income (Chien and Devaney 2001; Magri,2002, cited in Crook, 2003). Further several studies find that low-income consumers tend to have a below average financial literacy (Hilgert, Hogarth and Beverly, 2003). Thus it is likely that the relationship between financial literacy and the credit choice could vary due to the level of income that, a consumer possesses. Accordingly, the researcher identifies the fifth and sixth propositions as given below.

Proposition 5: Life events moderate the relationship between financial literacy and consumer credit choice

Proposition 6: Income moderates the relationship between financial literacy and consumer credit choice

Based on the propositions discussed in the previous paragraphs, the researcher argues consumer credit choice depends on the financial literacy and the factors attribute to a person such as locus of control, social comparison and self-control. Further, the study suggests situational factors such as life events and income of the consumer moderates the relationship between finance literacy and the credit choice. Accordingly, the conceptualisation of the study is derived as presented in figure 1.

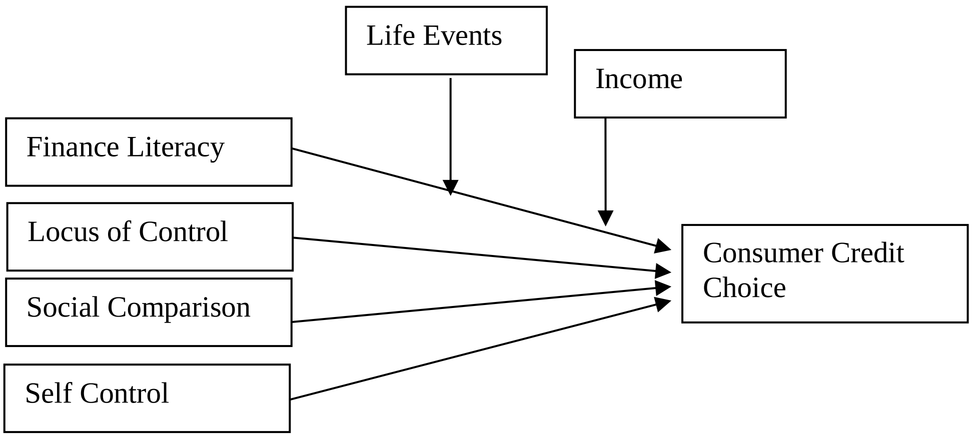

Figure 1: Theoretical framework
Source: Researcher's construction

Methodology

The previous section discussed the conceptualisation of the research problem pertaining to the study. This section briefly outlines definitions and measures of variables identified in the conceptualisation.

One can find different definitions in the literature for the variables under consideration of this study. The definitions used by the researcher for the purpose of current study are given below.

Financial knowledge or the literacy is the "knowledge of general facts about financial and economic principles and credit markets" (Perry,2008, p.17)

Locus of control is the extent to which individuals perceive that their reinforcers depend on their own actions (internal), or reinforcers are controlled by other people and outside forces (Rotter, 1966).

Social comparison theory suggested by Festinger (1954, p.117) says "there exists, in the human organism to evaluate his opinions and abilities."

Self-control is defined as ''the self's capacity to override or change one's inner responses, as well as to interrupt undesired behavioural tendencies and to refrain from acting on them'' (Tangney, Baumeister and Boone, 2004,p.274)

Income is considered as the income from all sources, including work, alimony, child support, rental income, investment income and any other money received (Perry, 2008).

Life events refers to incidence of experienced major medical expenses, extended unemployment, or a significant reduction in income (Perry, 2008)

Consumer credit choice refers to selection from different forms of credit (Kamleitner, Hoelzl and Kirchler,2012)

The above variables are measured using different scales for the use in the survey instrument of study. Accordingly, the financial literacy is measured using 7 questions introduced by Perry (2008). Out of 7 questions 3 questions are related to the interest rate where the impact to the interest rate is assessed under different scenarios. Each question includes 3 options as 'Rate would be higher', 'No impact' and 'Rate would be lower' where only one answer is correct. The balance 4 questions measures the knowledge on credit and investment where the respondent is required to select out of two answers; 'correct' and 'incorrect'.

Rotter (1975) has developed 23 item questionnaires to measure the internal and external locus of control. However, Perry (2008) has used 7 item questionnaires to measure the locus of control, and further he asserts that it is developed based on Rotter's scale of locus of control. Five responses have been used from Almost never to Almost always scoring from 1 to 5 respectively.

The construct of social comparison is two-dimensional; ability and opinion. Gibbons and Buunk (1999) has developed an 11 item questionnaire to measure the social comparison under these two dimensions. Response to each question is measured using 5 point Lickert scale ranging from strongly disagree to strongly agree.

Brief Self-Control Scale developed by Tangney, Baumeister and Boone (2004) measures self-control. The scale consists of 13 questions on a 5 point Lickert scale ranging from 1 (Not at all like me) to 5 (Very much like me).

Perry (2008) measures life events as a binary variable scoring from 1 to 0. The score of 1 represents the consumer experiencing major medical expenses, an extended period of unemployment or a significant involuntary reduction in income during the past two years. The score of 0 represents the consumer has not experienced any of the above situations during past two years.

Income has been measured by Perry (2008) using a nine-point scale of income categories and defined the income as the total of combined annual before-tax income of the respondent and his or her spouse.

When measuring the consumer credit choice, the credit user is first identified as an individual that was either using consumer credit when interviewed or had used consumer credit during the previous 24 months (Pattarin and Cosma, 2012). Credit choice can be then identified among different forms by inquiring on the actual form credit that the consumers had used. (Pattarin and Cosma, 2012)

Research Implications

Understanding the determinants of consumer credit choice is important for managers particularly who work in financial institutions. As financial institutions offer different consumer credit alternatives it is important to understand behavioural tendencies of consumer towards different forms of financing. Profiling the consumer using behavioural factors in addition to the demographic data will bring finance institutions an added advantage in providing credit. On the other hand the findings will also be important for an individual where the better understanding of behavioural biases help minimizing the financial cost of consumer credit and enable them taking more informed and rational consumer financing decisions.

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Factors Influencing Supply Chain Responsiveness in the Apparel Industry in Sri Lanka

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Abstract

The main purpose of this paper is to present the findings of research carried out to identify the factors influencing the supply chain responsiveness in the apparel sector of Sri Lanka. Even though supply chain responsiveness is a contemporary issue hardly any research has been done in Sri Lanka on this topic. Supply chain responsiveness is very relevant to the apparel industry, which is accountable for more than half of the industrial exports of Sri Lanka. Firstly, factors influencing the supply chain responsiveness were identified through the literature review, and later a questionnaire survey was conducted among 33 large apparel companies in Sri Lanka. The findings revealed that the supply chain responsiveness is highly correlated to Organizational Factors, Mutual Understanding, Flow of Information and Relationship and Decision Making. However, there is a correlation only when these factors are taken together but not individually except Mutual Understanding. The findings will be useful for managers and policy makers in the apparel industry to improve the responsiveness in their organizations and the industry.

Key words *Apparel Industry, Flexibility, Sri Lanka, Supply Chain Management, Supply Chain Responsiveness,*
Paper Type *Research paper*

Introduction

Today's business environment is more global and competitive than it has been in the past. The contemporary business is characterised by shorter product life cycles, rapid new product introductions, increasingly knowledgeable, well informed, and sophisticated customers. These forces supply chains to be more responsive, i.e. the contemporary supply chains are expected to respond or react rapidly, effectively and efficiently to changes in the marketplace so as to sustain, and furthermore to create competitive advantage. This paper presents the findings of research carried out to identify the factors influencing the supply chain responsiveness in the apparel sector of Sri Lanka.

Supply chain responsiveness literature is highly normative with research studies primarily being based on case studies (Holweg et. al, 2005). Reichhart and Holweg (2007) have stated that responsiveness has become one of the key themes in research in Supply Chain Management area. Even though much research has been conducted in various industries in different countries, for example in the textile and apparel industry in Hong Kong (Lam and Postle, 2006), firms from different industries in the USA (Gunasekaran et. al, 2008), manufacturing firms in North America (Handfield and Bechtel, 2002), fashion industry in the UK (Christopher et. al, 2004) and multiple sectors in the UK (Godsell et. al, 2006) hardly any research on supply chain responsiveness has been done in Sri Lanka. The apparel pipelines in the fashion industry have been notoriously long, complex and inflexible and the long buying cycles of these organizations have made them inappropriate for the demands of the modern fashion industry and the increasingly demanding fashion consumers (Čiarnienė and Vienažindienė, 2014). Therefore, SC responsiveness is very important for firms in the apparel industry that are supplying garments to the very competitive and volatile fashion retail industry. After the liberalization of the economy in Sri Lanka in 1977, apparel became one of the most important sectors of the economy. According to Export Development Board (EDB) (2016) of Sri Lanka, the apparel industry possesses an impressive partnership portfolio which includes world renowned labels such as Victoria's Secret, Gap, Liz Claiborne, Next, Jones NewYork, Nike, Tommy Hilfiger, Pink, Triumph, Ann Taylor, Speedo, Abercrombie & Fitch, Land's End, Marks & Spencer and Intimissi. Nearly 60% of the industrial exports from Sri Lanka were apparel in 2015. Textile, Wearing Apparel and Leather products industry has attracted the largest foreign direct investment in manufacturing sector Sri Lanka. So in this context, this will be a significant research with a high practical value as well.

Literature Review

Supply Chain Management

The main concept of this research is supply chain management. Due to its interdisciplinary origin and evolutionary nature, there is no generally accepted definition of SCM in the literature (Feldmann and Muller, 2003). The Council of Supply Chain Management Professionals (CSCMP) (2004) defines SCM as "SCM encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities, including coordination and collaboration with suppliers, intermediaries, third-party service providers, and customers". According to Slack et al. (2013), "Supply chain management is the management of the interconnection of organisations that relate to each other through upstream and downstream linkages between the process that produce value to the ultimate consumer in the form of products and services." Thus, the supply chain encompasses all activities involved in the production and delivery of a final product or service, from the supplier's supplier to the customer's customer.

Supply Chain Responsiveness

Supply chain responsiveness is defined as the capability of promptness and the degree to which the supply chain can address changes in customer demand (Prater et al., 2001; Lummus et. al, 2003; Duclos et. al, 2003; Holweg et. al, 2005). Reichhart and Holweg (2007) have concluded that responsiveness has different types, both in terms of the unit of change (product, volume, mix and delivery responsiveness) and in terms of the time horizon affected (short, medium or even long-term responsiveness). However, the concepts supply chain flexibility and supply chain responsiveness are not the same. Unclear separation of flexibility and responsiveness is a key shortcoming of existing definitions of responsiveness (Reichhart and Holweg, 2007). Supply chain flexibility refers to the ability of the supply chain to adapt to internal or external influences, whereas supply chain responsiveness is the ability of the supply chain to rapidly address changes and requests in the marketplace (Holweg et. al, 2005). Responsiveness should thus be considered as a concept that is solely customer focused, and its measurability depends on where the system boundaries are drawn and thereby on the definition of the system's customers. Gunasekaran et. al, (2008) provide a number of case studies of successful responsive supply chains (CEMEX, AT&T, Libbey Inc., Nissan and Wedgwood) based on data collected from the internet and from the literature. Findings of research carried out by Qrunfleh and Tarafdar (2013), revealed that supply chain responsiveness is associated with enhanced firm performance.

Factors influencing the Supply Chain Responsiveness

The objective of this research was to identify the factors influencing the supply chain responsiveness. Many types of research have been carried out to find the factors influencing the supply chain responsiveness in various industries in various countries. For example, Singh (2015) has identified 17 factors, some are process oriented, and some are result oriented, from the literature for analyzing SC responsiveness. These factors are top management commitment, strategy development, resource development, trust development, information sharing between SC members, risk and reward sharing, collaborative decision making, use of IT technology, co-ordinated SC, accurate forecasting of data, integrated inventory management, lead time reduction, agility of SC, agreed vision and goals, long-term relationship between SC members, availability of point of sales data and responsiveness in SC. Handfield and Bechtel (2002), have identified Human-specific asset investments, Site-specific asset investments, Contracts, Trust, and Buyer-dependence (on supplier) as variables that have an impact on supply chain responsiveness. Therefore, it is clear that as an initial step, different authors have identified different factors of SC responsiveness from different perspectives. Hence, the authors of the present research also adopted the same approach and factors identified by the other researchers were found from the literature. Table 01 shows the factors most commonly identified by various researchers.

Table 01: Factors influencing Supply Chain Responsiveness in Organizations: A literature survey

Factor	Definitions	Literature
Organizational Factors	Factors related to the internal aspect of the organization, such as structure, vision, training, etc.	Arshinder and Deshmukh, 2007; Gowen and Tallon, 2003; Othman and Ghani, 2008; Mentzer et. al, 2001; Cousins and Menguc, 2006; Droge et. al, 2004.
Mutual Understanding	The level of understanding between organizational members as well as key suppliers and groups of interest.	Bianchi and Saleh, 2010; Ballou et. al, 2000; Mentzer et. al 2001; Droge et. al, 2004; Cousins and Menguc, 2006.
Flow of Information	The path data takes from its original setting to its end users**.** In an organization, the informational flow is the facts, ideas, data and opinions that are discussed throughout the company	Fawcett et. al, 2009; Lee, 2000; Cachon and Fisher, 2000; Mentzer et. al, 2001; Cousins and Menguc, 2006; Droge et. al, 2004; Minnich and Maier, 2006.
Relationships and Decision Making	Maintaining or building strong, healthy relationships with its key suppliers, customers and employees. The level of independence and power managers have in making supply chain decisions.	Mehrjerdi, 2009; Li et. al, 2008; Mentzer et. al 2001; Droge et. al, 2004; Minnich and Maier, 2006; Handfield and Bechtel, 2002

Organizational Factors

In supply chain management, a firm is effective in coordination when more emphasis is on developing its human resources/ employees through training (Gowen and Tallon, 2002). In order for the supply chains to be responsive, the goals and vision of supply chain members should not be different; it should be a collective vision which every member of the organisation understands and one that can be easily communicated (Arshinder and Deshmukh, 2007).

Organizational culture has a significant influence on the management of a global supply chain for improved flexibility and responsiveness. McAfee et. al (2002) have discussed the effects of culture and human resource management policies on SCM strategies.

Mutual Understanding

The trust between firms takes a key part in strategy formulation for the supply chain. It is something by which the cost of the supply chain can be reduced. Actually, it is mutual confidence which describes that no party exploit the other party. For the better flow of information, trust is a major factor. There will be a conflict of interest when individuals prefer their risk and rewards instead of risk and reward of the supply chain. Trust and supply chain member's commitment is very vital for increasing the performance of supply chain in the countries that are developing (Bianchi and Saleh, 2010).

Flow of Information

Information sharing is usually achieved through the increased use of information technology or a closer integration between supply chain partners (Bagchi and Skjoett-Larsen, 2002). Various authors also take a more critical view of the extent to which information systems can solve supply chain problems and increase their responsiveness, pointing out that other inter-organizational aspects, such as trust (Minnich and Maier, 2006) and further process coordination and organizational integration (Lee, 2000). Bagchi and Skjoett-Larsen (2002) provide a concise overview of the most common characteristics of organizational integration which include joint design teams, process and quality teams, joint performance measurement and problem-solving, amongst others. According to Rich and Hines (1997), at the highest level of integration a company, i.e. an externally integrated company, integrates the supply base with the demands of the consumer in a transparent system of materials and information exchange and it seeks deliberately to manage the interfaces between companies to generate a flexible and responsive system of long-term collaboration.

Relationships and Decision Making

The term "relationships" covers a lot of ground in the supply chain management. There are strategic relationships, tactical relationships, transactional relationships, internal relationships, and possibly more. There are also relationships among members of the supply chain community (Ackerman and Bodegraven, 2007). The collaborative relationship is a mean of achieving the advantages of vertical integration without owning the means of production and facing the inherent risks of advances in technology or changes in the law. Ackerman and Bodegraven (2007) stated that there are limits to how many working relationships any company can effectively maintain. Still, it is important to maintain high trust, high communication, mutually beneficial relationships with key suppliers and customers, whether they are called partnerships or not.

Decision making is the frequency and impact of decisions made within the supply chain and their direct influence on firm performance. Supply chain management relies on real-time information flows at a number of different levels to ensure optimal decision process efficiency and customer satisfaction (Clements et. al, 2006). Understanding the supply chain decision context is important in the current dynamic business environment as it facilitates joint management of supply chains which leads to competitive advantage (Mentzer, 1993).

According to the reviewed literature, it was apparent that there were various models and methods that can be used when attempting to measure the responsiveness of supply chains in the chosen industry. These models vary in degree of complexity, and the degree of qualitative and quantitative parameters that are used in the evaluation procedure.

Methodology

If the research starts with theory and designs a research strategy to test the theory, then the deductive approach is used. If the research starts by collecting data to explore a phenomenon and generate or build theory, then the inductive approach is used (Saunders et al., 2016). Since this research started by reviewing existing literature, it can be concluded that deductive approach was used in this research. Therefore, four independent variables; Organizational Factors, Mutual Understanding, Flow of Information and Relationship and Decision Making and a dependent variable; Supply Chain Responsiveness were identified from the reviewed literature as a prelude to developing a set of hypotheses to achieve the objectives of the research.

Research hypotheses

In order to achieve the objectives of the research, a set of hypotheses were developed based on the literature reviewed in the earlier section. For example, in relation to the organizational factors, the following hypotheses were used.

Null hypothesis: There is no relationship between the level of organizational factors and the level of responsiveness of the supply chain in the Sri Lankan apparel sector.

Alternative hypothesis: There is a significant relationship between level of organizational factors and level of responsiveness of the supply chain in the Sri Lankan apparel sector

Similar kind of hypotheses was developed for the other three variables as well.

Data collection and research instrument

A quantitative study involving the administration of questionnaire was conducted in order to test the relationship between the identified variables. Different constructs to measure the variables were identified from the literature on past research. All the constructs selected for the study were measured through a 5-point Likert Scale. Altogether there were 52 statements in the questionnaire (See Table 02) in addition to few questions regarding information of the respondents such as experience and information regarding the company such as size and the products. In order to obtain a maximum response online as well as paper-based questionnaires were used for data collection. Lee and Lings (2008), recommends three steps to make an instrument more valid and useful. Firstly, get a colleague to look at the questionnaire and next test the questionnaire at the field by conducting few interviews. Finally, conduct a pilot study. Hence, the questionnaire was scrutinised by an academic who is familiar with the subject matter and a supply chain manager for understanding and accuracy before being administered. Based on their feedback questionnaire was reviewed and modified.

Sample

According to Lee and Lings (2008), the probability sample is more often an ideal than a reality, and it is very common to use the non-probability sample in research carried out in the area of Social Sciences. According to them, the two criteria that need to be addressed in selectin a non-probability sample were whether the sample provides any data of interest in order to test the theory and whether the sample selected is systematically different from the variables or characteristics of the population. Even though Supply Chain Responsiveness may be important for any organization, the selected variables are not much relevant for small organizations. Therefore, forty large apparel manufacturers, where more than a thousand workers are employed were contacted personally to inquire their willingness to participate in the survey. Among them, only 37 companies were willing to participate in the survey. Since the unit of analysis was the factory; one questionnaire was filled by a senior manager who is responsible for supply chain on behalf of each organization.

Data analysis

Twenty five respondents filled questionnaire through Google Forms and 12 respondents returned the printed questionnaires. However, 4 questionnaires were not used for analysis because they were incomplete. Finally, only 33 responses were used for the analysis. Even though the sample size seems small, when considering the fact that there are only 71 members of the Sri Lanka Apparel Exporters Association, this is fairly a representative number. SPSS statistical software was used to analyse the data. Correlation and partial correlation were the main statistical techniques used for analysis.

Analysis of the work experience of the respondents revealed that 4 (12%) of them have experience between 1 – 5 years, 21 (64%) have experience between 6 – 10 and 8 (24%) of them have more than 10 years' experience. By considering this distribution, it can be safely assumed that respondents have answered the questions with a good understanding and hence the responses are trustworthy.

Test of Reliability

According to Tavakol and Dennick (2011), Cronbach's Alpha provides a measure of the internal consistency of a test or scale. Internal consistency should be determined before a test can be employed for research or examination purposes to ensure validity. According to them, there are different reports about the acceptability of alpha ranging from 0.70 to 0.95. Since all alpha values for the dimensions used in the questionnaire of the present research are between .750 and .891, the reliability of the research instrument can be regarded as good.

Table 02: Test of Reliability

Dimensions	Number of Items	Cronbach's Alpha
Supply Chain Responsiveness	12	.807`
Organizational Factors	12	.826
Mutual Understanding	6	.854
Flow of information	9	.750
Relationships & Decision Making	12	.891

Test of Hypotheses

Correlation analysis was employed to test the hypothesis. According to Field (2009), whether to test the correlation is significant, the sampling distribution has to be normally disturbed. Contemporary literature suggests that Shapiro-Wilk is a better test than Kolmogorov-Smirnov test for testing normality (for example Razali and Wah, 2011; Saculinggan and Balase, 2013**)** and even Ghasemi and Zahediasl (2102) argue that K-S test, should no longer be used owing to its low power of testing normality. Shapiro- Wilk test results carried out on each of the variables of the present research given in Table 03 show that all the variables are normally distributed.

Table 03: Tests of Normality

	Shapiro-Wilk		
	Statistic	df	Sig.
Supply Chain Responsiveness	.959	33	.244
Organizational Factors	.960	33	.251
Mutual Understanding	.966	33	.369
Flow of information	.968	33	.418
Relationship and Decision Making	.976	33	.648

In the next step, the correlation among the Responsiveness and other variables were found and the results are shown in Table 04. These results do not support any of the null hypotheses mentioned above. Therefore it can be concluded that level of Responsiveness in the Supply Chain has positive relationships with a level of Organizational Factors, Mutual Understanding, Flow of Information and Relationship and Decision Making.

Table 04: Test of Correlation among variables

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

		Responsiveness	Organizational Factors	Mutual Understanding	Flow of Information	Relationship and Decision Making
Responsiveness	Pearson Correlation	1	.544**	.631**	.584**	.477**
	Sig. (2-tailed)		.001	.000	.000	.005
Organizational Factors	Pearson Correlation		1	.824**	.568**	.746**
	Sig. (2-tailed)			.000	.001	.000
Mutual Understanding	Pearson Correlation			1	.610**	.575**
	Sig. (2-tailed)				.000	.000
Flow of Information	Pearson Correlation				1	.647**
	Sig. (2-tailed)					.000
Relationship and Decision Making	Pearson Correlation					1
	Sig. (2-tailed)					

However, a different picture emerges when the partial correlations are considered. According to Field (2009), a correlation between two variables in which the effects of other variables held constant is known as a partial correlation. The objective of finding partial correlation was to examine the direct effect of each individual variable on the level of responsiveness in the absence of other variables. The partial correlations between the level of responsiveness and each of the other variables, while the rest of the variables are made constant, are given in Table 05.

Table 05: Partial Correlation between Responsiveness and other variables

Variable	**Pearson Correlation**	**Sig (2-tailed)**
Organizational Factors	-0.018	.927
Mutual Understanding	.301	.000
Flow of Information	.270	.149
Relationship and Decision Making	.041	.831

According to values given in Table 05 only Mutual Understanding shows a significant correlation when the other variables are made constant. i.e. when the impact of other variables is removed only the Mutual Understanding shows a significant correlation with Supply Chain Responsiveness.

Discussion

Findings of the present research support all the research hypotheses developed based on the literature and presented in section 3 above. The findings revealed that the Supply Chain Responsiveness is highly correlated to Organizational Factors, Mutual Understanding, Flow of Information and Relationship and Decision Making. Therefore, the findings of the present research also confirm the previous literature given in section 2.

Further, the analysis revealed that strong correlations exist among the dependent variables as well. i. e. dependent variables are related to each other. This confirms some of the previous research findings. For example, according to Bianchi and Saleh (2010), for better flow of information, trust is a major factor, and according to Clements et. al (2006), supply chain management relies on real-time information flows at a number of different levels to ensure optimal decision-making process. Further analysis of partial correlations revealed that except Mutual Understanding other three dependent variables have no significant correlation with Supply Chain Responsiveness on its own. Therefore, it can be inferred that only when all except Mutual Understanding, the factors are taken together they have correlations with Supply Chain Responsiveness but not individually. This finding is in line with the findings of a previous research as well. In a research done by using three case studies from automotive and electronics industry Holweg (2005) found that dimensions of responsiveness interdependent. He argues that excelling in one dimension of responsiveness is not useful if that is not aligned to the other dimensions. Even though the dimensions of responsiveness identified by Holweg (2015) are different from the dimensions used in the present research, the similarity of interdependence is comparable.

The practical importance of the findings of the research is that the mentioned factors have a combined effect on Supply Chain Responsiveness. But only the Mutual Understanding has an effect on Supply Chain Responsiveness as an individual variable. Previous researches also have shown that Mutual understanding factors such as understanding between suppliers, customers and employees have a positive effect on supply chain and supply chain responsiveness (Fawcett et. al, 2001; Mentzer et al., 2001; Droge et al., 2004; Cousins and Menguc, 2006; Das et al., 2006).

Implications for the Apparel Industry

After an extensive literature review, Reichhart and Holweg (2007) have identified the external requirements and internal determinants of supply chain responsiveness. The external requirements they have found, Demand Uncertainty, Demand Variability, Product Variety, Lead Time Compression and Demand Volatility and Seasonality exactly match with the characteristics of the apparel industry. Further, as per Hum and Parlar (2014), time-based supply chain responsiveness is very important to organization work in a make-to-order (or assemble-to-order) environment that has a supply chain with different tired suppliers that are based in different geographical locations and the lead times are different in each element of the supply chain. The characteristics that are mentioned by these authors also match with the apparel industry. Therefore, supply chain responsiveness is particularly important for the apparel industry. According to Central Bank of Sri Lanka (2015), apparel industry accounts for 43.4% of the total exports and 58.17% of the industrial exports from Sri Lanka. Fashion markets are synonymous with rapid change and, as a result, commercial success or failure in those markets is largely determined by the organization's flexibility and responsiveness (Christopher et. al, 2004). Therefore, the managers of the apparel industry may use the findings of this study to improve the responsiveness of their organizations. There are two main implications for managers. Firstly, an increase of the level of Mutual Understanding among supply chain members will lead to higher level of Supply Chain Responsiveness. Secondly, in the case of organizational factors, flow of information, mutual understanding and relationship and decision making, they are to be implemented together in order to improve the level of supply chain responsiveness as they have a combined effect on Supply Chain Responsiveness

Limitations and further research

There are several limitations to the present study. Only the managers' perceptions were measured in this study. It was one of the limitations. Secondly, in the present research, only four factors were selected from the literature to test the impact on responsiveness. But there may be other factors such as top management commitment, for example, Talib and Hamid (2014). The present research was basically a quantitative research. If interviews were held with supply chain managers, i.e. a qualitative study was also added, a better perspective would have been received. The present research was limited to the apparel sector. This research can be extended to other emerging manufacturing sectors as well.

Conclusion

The objective of this research was to identify the factors influencing the supply chain responsiveness in the appeal industry of Sri Lanka. Organizational Factors, Mutual Understanding, Flow of Information and Relationship and Decision Making were identified from the previous literature as factors influencing the responsiveness of the supply chain. The findings of the present research confirm the findings of the previous research given in the existing literature. However, the important finding to note is that except mutual understanding others do not have correlations with Supply Chain Responsiveness individually. All the factors have a combined effect on the Supply Chain Responsiveness. Therefore, in order to make their supply chain responsive, managers of the apparel sector must adopt all the identified factors in combination rather than in isolation.

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Antecedents of Export Performance of Small and Medium Scale Enteprises (SMEs) In Sri Lanka: The Role of Entrepreneur Behavior and Experience and the Moderation Role of Industry Context

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Abstract

A number of scholarly researchers have explored the benefits of engaging in international activities in increasing sustainability of SME sector. However, SMEs offer a poor contribution to export income of Sri Lanka compared to other countries. Although research has shown that the entrepreneur characteristics are associated with enhanced export success, past research has failed to identify the entrepreneur characteristics that are most influential in SME export success in Sri Lankan context. Much of the research in Sri Lanka has focused on external or institutional factors and barriers for exports with little attention to entrepreneur behaviour. Few studies have focused on studying internal barriers and export success. This study aimed to fill this research gap by testing the relationship between entrepreneur characteristics and export performance from a capabilities perspective. This study argues that entrepreneurial orientation, social capital and human capital are important capabilities of the entrepreneur which lead to successful export performance. These capabilities are known to play a synergic and complementary role which allows the entrepreneur to develop a dynamic stance that is essential in the international market. This research followed quantitative research methodology using non-disguised questionnaire. A randomly selected sample of 197 export SMEs in Sri Lanka was analyzed. The results were analyzed using Partial Least Squares Structured Equation Modelling (PLS-SEM) method. This study established that entrepreneur capabilities namely entrepreneurial orientation, social capital and human capital have a significant positive influence on the export performance of SMEs. Further, using Multi-Group Analysis (MGA), it was found, that industry context which the SME operates has a moderation effect on the relationship. The outcome of this research will enhance our understanding of success factors of SME export performance.

***Key words**: Entrepreneurship, Export Performance, Human Capital, SME, Social Capital.*

Introduction

Background

Small and Medium-sized Enterprises (SMEs) make up over 95% of businesses worldwide and 50 to 60% of global employment (Organization for Economic Co-operation and Development, 2015). Beck, Demirguc-Kunt and Levine (2005) argued that SMEs enhance economic growth in market driven economies to a significant extent. Empirical research has emphasized the need to develop a high performing SME sector in order to promote the economic and social development of any country (Dalberg, 2011; Omar, Arokiasamy & Ismail, 2009; Griffin & Ebert, 2006). Around 45% of total employment is provided by formal SME sector in developing countries (World Bank, 2015). In many developing countries, informal SMEs far outnumber formal enterprises (International Labor Organization, 2015). Once an informal sector is included in the statistics, SME involvement in an economy is as high as 60-70% of value added to GDP and accounts for 80% total employment across countries of all income level countries (International Labor Organization, 2015).

From a social development perspective, SMEs give strong support to the economies facing the issues of unemployment and uneven income distribution (Fatoki, 2014; Subhan, Mehmood, & Sattar, 2013). Reduction of relative poverty through the more equal distribution of wealth is a well-established advantage of a strong SME sector (Dasanayaka, 2011). SMEs provide both developed and emerging economies some relief from the vicious circle of poverty (Dasanayaka & Sardana, 2011). Hence SMEs are also seen as useful in promoting social unity. It is believed that poverty alleviation can be partly achieved through more employment generation (Vijayakumar, 2013) and SMEs play a significant role in generating employment (Parker, 2012). SMEs also improve employment of women and a solution to gradually increasing old age population who are looking for work (Paunovi & Prebe, 2010).

A survey revealed that the survival rate of the SMEs in Sri Lanka after 5 years from the date of inception is as low as 4.9% (Fernando, 2001). Gunarathne, (2008) emphasized that a majority of small businesses have moderate to low growth ambitions and hence only a small proportion of businesses was capable of achieving the desired employment growth. Further, World Bank highlighted that within 8 years of receiving a Small and Medium Investment loan to SMEs in Sri Lanka, more than 80% of the SMEs which received the loan perished (Task Force for SME Sector Development Program, 2002). It can be noted that although high failure rates of SMEs limit the ability of SMEs in the generation of employment and participation in economic growth all over the world, this matter is more severe in Si Lanka where sustainability of SME is comparatively very less.

Due to the absence of a universally agreed definition and lack of formal and reliable industry surveys/studies, it is not possible to do a direct comparison of SME contribution to national economies in the South Asian region. However, it can be clearly noted from Table 1 that contribution of SMEs to exports in Sri Lanka is meagre.

Table 1 - Contribution of SMEs to Exports across Few Countries

Country	**Input to exports, %**
Malaysia	26
India	40
China	42
Japan	14
Sri Lanka	5
Indonesia	17

Source: World Bank (2015) and Verite Research (2015)

Research Problem

Looking at the contribution of SMEs to Sri Lankan exports closely, in spite of the increased strategic significance of internationalisation initiatives for the SMEs, there is still an insufficient level of commitment to adopting internationalisation practices among SMEs. In this regard, only 3157 SMEs are listed in Export Development Board (EDB) as exporters out of more than million number of establishments. Furthermore, SME contribution to total exports is around 5% although SMEs account for 82% of registered exporters of the country. SME export structure is quite concentrated, both in terms of product composition and export destinations over the last three decades (EDB, 2014). This makes the SME exports of Sri Lanka highly vulnerable to the crisis in few exporting regions and industry sectors. Sri Lankan SME exports are composed mainly of primary goods with technologically stagnant production practices that could be copied by competitors easily (e.g. Sri Lanka's share in high-tech exports averages at 1.8% compared to 75% in Korea, 27% in Thailand and over 50% in Singapore and Malaysia) (Kelegama, 2013). SME exports are highly reliant on low-cost advantage, and tariff concessions which are being gradually abolished by developed countries and other low-cost destinations are becoming preferred by foreign investors (Wijesinha, 2010). Furthermore, all internationalised SMEs in Sri Lanka are confined to a single mode of internationalisation which is exporting, not contributing to the outward FDI at all.

Past research conclusively prove that internationalization provides a multitude of benefits for SMEs including better survival prospects (Lee et al., 2012), increased revenue and growth (USITC, 2010; EU, 2010), better innovative capability (Kalinic & Forza, 2012) and improved productivity and competitiveness (Achtenhagen, 2011; Coviello, Oviatt & McDougall, 2011) compared to non-internationalized SMEs. It is accepted that internationalisation is beneficial for firms and leads to better performance and growth (Xuemei, 2011).

Given this plight of the insufficient contribution of SMEs to export revenue of Sri Lanka and their unique issues in export structure, it has become necessary to understand the factors that contribute to SME internationalisation from a fresh perspective.

This research used the definition of Export Development Board of Sri Lanka which defines export SMEs as "Enterprises having an annual export turnover less than Rs.150 million in a given year". However, in order to increase comparability of research, this research will impose additional criterion for definition. The number of full-time employees working in the organisation should be equal or below 250 at the time of research.

Influence of entrepreneur orientation (EO), social capital (SC) and human capital (HC) of entrepreneur on SME internationalization

Recent literature suggests that contemporary SME internationalisation is not associated with traditional factors such as financial assets, physical assets or infrastructure. Instead, successful internationalisation seems to be associated with directly unobservable owner and firm internal capabilities (Teece, 2014; Pangerl, 2013). Accordingly, internal capabilities of internationalised SMEs must be more amplified and leveraged than those of a firm with a less ambitious, purely domestic SME (Teece, 2014).

Past research literature suggests that during the early stages of firm development, owner characteristics play a pivotal role in export performance than firm characteristics (Knight, 2001). The effect of each EO, SC and HC of entrepreneur has been tested in SME internationalisation literature, but none of them has attempted to identify the link and the synergic effect of them. This research argues that inconsistencies and contradictory outcomes related to SME internationalisation research tested with EO, HC and SC are attributed to the fact that each variable is only a component of a composite variable named “Owner Specific Capabilities” (OSC).

According to Basly (2007), the internationalisation knowledge is positively affecting the internationalisation. Social capital also had an impact on internationalisation but through the mediation effect of international knowledge. According to a study by Nkongolo-Bakenda, Anderson, Ito and Garven (2010) international experience of the owner, innovation, networks affect SME internationalisation.

As per a research carried out by Chandra, Styles & Wilkinson (2006), entrepreneur prior knowledge and social networks act as “a knowledge corridor” allowing the entrepreneur to identify international business opportunities. Networks supported the internationalisation process by providing information (in a subtle way they also replenish poor prior knowledge), reducing perceived risks and providing resources. They offer a counter argument with International New Ventures (INV) view stating that before the rapid internationalisation process, there exists a process of opportunity development which is shaped by entrepreneur experience and networks (Chandra, Styles & Wilkinson, 2012). They argue that both human capital and social capital are important to reap benefits of internationalisation.

Nichter and Goldmark (2005) observe that the entrepreneurs in developing countries have to be more creative than in the developed countries if they are to overcome obstacles such as dysfunctional legal and financial systems, distorted markets, and unequal access to resources. Due to the unconducive macro-economic factors, the impact of owner specific characteristics plays a major role in the determination of SME internationalisation and performance in developing countries. According to Kusumawardhani, Mccarthy, & Perera (2009), EO is not sufficient to enter international markets for SMEs in developing countries where they rely a great deal on networks.

The term "reasonable chance of failure" needs further discussion at this point. The question is what facilitates entrepreneurs to identify ventures of "reasonable chance of failure"? This research argues that the entrepreneur education, experience and networks actually act as precedence to help the entrepreneur to identify such ventures in international expansion and evaluate the riskiness. Also according to international entrepreneurship theories which focus on entrepreneurial characteristics of the decision maker do not imply that decision to internationalise and subsequent performance are as a result of uncalculated and uneducated risks taken by the decision maker. It is assumed that entrepreneurs "always" learn and their cognitive knowledge is an important input for entrepreneurial activities (Thorpe et al., 2005). The actors in the entrepreneur network will also provide valuable input and feedback on entrepreneurial decisions. The basic idea is that entrepreneurial orientation will be less beneficial without the support of intense networks and cognition ability.

In an article that explores how market knowledge develops over time in INVs, Hanell et al. (2014) find out that impact of EO of the entrepreneur changes during internationalisation process. During the later stages of development, the firms rely more on learned lessons become less entrepreneurial. However, entrepreneur experience is crucial for the firm's initial international development (Andersson, 2011). Recent evidence confirms that entrepreneur entrepreneurial behaviour changes with time. In a longitudinal study, Oxtorp (2014) states that entrepreneur adapts of its managerial processes to stable operations rather than entrepreneurial search and choice of markets with time lapse. At this stage greater trust is put on his/her experience in making decisions. This further strengthens the argument of this research that a composite of the variables that were previously tested in isolation actually gives the dynamic posture to the SME internationalisation.

Hormiga, Batista-Canino and Sánchez-Medina (2010) acknowledged the key role of the human and relational capital in the beginning years of the business to become successful not only in the international market but in local market also. Similarly, Welbourne and Pardo-del-Val (2008) argue that human capital per se cannot give much advantage in SME context in the absence of relational capital. Denicolai, Zucchella & Strange (2014) suggest that it is necessary to balance knowledge assets with complementary assets in order to achieve a higher degree of international performance. In other words, if international experience is not supported by other assets such as relational or entrepreneurial behaviour, higher internationalisation is unlikely.

A study by Hsu, Chen and Cheng (2015) argues that either entrepreneurs or directors with human and social capital provide firms with strategic advice and adequate resources for internationalisation, thereby increasing firm willingness to internationalise. Also, the same research found that international experience of entrepreneurs/directors is positively related to internationalisation. This confirms that both human and social capital provide the resources necessary for successful internationalisation.

Zhang et al. (2015) found that entrepreneurship behaviour and network ties have a joint effect on internationalisation of Chinese firms. The extent of ties has a moderating effect on the link between entrepreneurial orientation and internationalisation. Although they measure entrepreneurial orientation at the firm level, the same effect could be assumed to present in individual level also.

Lately, realising the interplay between EO and SC, more researchers have opted to study this two variable together or see the intervening effect of these two (Gunawan, Jacob & Duysters, 2015). Felzensztein, Ciravegna, Robson and Amoros (2015) identified the positive role of both these variables in explaining internationalisation. Earlier, Ruzzier, Hisrich, & Antoncic (2006), had proposed a conceptual framework which linked both entrepreneurs human and social capital to SME internationalisation.

In attempting to understand the success of SMEs, many researchers in Sri Lanka focused on the external growth constraints generally without specifying the owner specific factors and firm-specific factors (Nishantha, 2010). The Little empirical study has been conducted in Sri Lanka linking owner specific characteristics to SME internationalisation. Wickremesooriya (2011) researched top management characteristics, EO and learning orientation with the internationalization of SMEs in Sri Lanka. This research posits that in a dynamic environment such as international business, higher order capabilities become more important. The possession of these higher order capabilities is manifested fully when the both owner specific factors and firm-specific factors are taken together rather than in isolation. The research of Wickremasooriya (2011) assumes that entrepreneur characteristics and firm characteristics have a synergic effect in that when the SME possess the right orientation, it will have the capability to renew, reconfigure and recreate resources, capabilities and core capabilities in the volatile international environment.

Entrepreneurial orientation (EO)

Entrepreneurial Orientation refers to the "processes, practices and decision-making activities that lead to new entry" (Lumpkin & Dess, 1996). Later Lumpkin (2006) restated that EO is a "strategic orientation that characterises the strategy making behaviours that entrepreneurs engage in to discover and exploit opportunities". Entrepreneurial orientation was defined as "the combination of a firm's innovativeness, proactiveness, and risk-taking" (Miller, 1983).

Knight and Cavusgil (2004) suggest that entrepreneurial orientation, technological leadership and the strategies of differentiation are the key drivers for superior international performance in Born Globals. According to research done by Jantunen et al., (2005), EO and resource reconfiguration capacity have a profound effect in internationalisation.

According to the explanation of INVs (McDougall, 1994) and international entrepreneurship (George & Zahra, 2002), it is theoretically appropriate to state that EO should be a predictor of internationalisation of SMEs. Oddly, the effect of EO on firm internationalisation has proved fairly inconsistent. The inconsistency may arise due to the fact that benefits of EO may take many years to come to the realization (Madsen, 2007). However, further research has been called to understand these inconsistencies.

Social capital of the entrepreneur

Social capital is defined as "naturally occurring relationships to promote or aid the development of valued skills or characteristics" (Loury as cited in Bosma et al., 2000). Hoang and Antoncic (2003), in their review of the role of networks, defined a network as "a set of actors and some set of relationships that link them."

Empirical evidence on the effect of networks on internationalisation is limited (Ciravegna, Lopez, & Kundu, 2013). According to various scholars, networks contribute to indirect learning which is about studying the behaviour of the other similar organisations (Johanson & Vahlne, 2003). Networks allow organisations to link to diverse sources of information even in the conditions of lack of deliberate search and lack of entrepreneurial orientation. External networks with suppliers and customers are a major contributor to international performance (Yeoh, 2004).

According to research by Colovic & Lamotte (2014), networks are more important for SMEs in internationalisation as they have little resources and they also act as a substitute for less internationally experienced entrepreneurs. Many researchers in the field of small business growth found that there is a positive relationship between social capital and venture success (Bosma et al., 2004). It has been found that the technological capability and the international networks of owner-managers increase their chances of internationalisation. As per Musteen, Datta, & Francis, (2014), international networks enables early internationalisation, but the relationship is moderated by technological innovation and perceived environmental hostility. The development of idiosyncratic (i.e. unique) capabilities and getting access to new resources through meagre SME capital and experience may take a long time and extra effort in a dynamic market. A resolution to this challenge is to develop business relations described by personal contacts and trust that may give access to complementary resources (Borch & Madsen, 2007).

Higher stocks of social capital in the form of domestic networks (Manolova et al., 2010) and through return migration or former work experience in multinational corporations (MNCs) may also serve as a valuable and difficult-to-imitate resource for internationalisation (Kocak & Abimbola, 2009). However, some research has noted that social capital tends to decline over time and needs to be replenished. Thus, expanding the SME's stocks of social capital is equally important for emerging economy SME internationalisation as is the exploitation existing stocks of social capital (Prashantham & Dhanaraj, 2010)

In a recent to confirm the effect of networks on internationalisation Musteen, Datta, & Butts (2014) states that SMEs with CEOs who had developed strong and diverse international networks displayed better knowledge of international markets earlier to internationalisation and this knowledge was instrumental in internationalisation. This was confirmed by many other researchers who viewed networks as a main enabler of internationalisation especially to identify opportunities, easy access to resources and reduce the liability of foreignness (Zahra et al., 2005). It helps to accumulate the knowledge required for early internationalisation by which similar firms with less networking capacity rely on time-consuming experimental knowledge build-up (Monferrer et al., 2014). Manolova et al. (2010) observed that personal networking in a domestic setting was related to a higher portion of foreign sales.

Many authors have argued about the “causal ambiguity” of social capital (Portes, 1998). Accordingly, social capital seems to be characterised by “unspecified obligations, uncertain time and violates reciprocity expectations” (Portes, 1998). In other words, it is very difficult to imitate advantages gained through social ties due to these ambiguities. Networks have the potential to reduce cost, risk, achieve economies of scale and reduce new product development time (Lawson & Samson, 2001). It also increases access to opportunities and resources in the environment such as capital, information and goods and services (Gulati, Nohria & Zaheer, 2000).

Human capital of the entrepreneur

Following work started by Cohen and Levinthal (1990), a number of scholars have found that a firm’s ability to recognise and acquire new

information is dependent on their absorptive capacity, or the prior knowledge and experience of the team or firm. For instance, if a firm or the entrepreneur has experience in foreign markets, it may be able to recognise the value of institutional knowledge and acquire this knowledge for its international projects more easily.
Human capital was defined as "the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic wellbeing" (OECD, 2001). According to Bollen, Vergauwen, & Schnieders (2005), Human Capital ". . . includes raw intelligence, skills, and expertise of the human actors in the organisations" which resides inside employees.

The major difference between international entrepreneurship theory and traditional gradualist theories is that international entrepreneurship assumes that the characteristics of the entrepreneur such as entrepreneurial orientation and past experience influence firm internationalisation whereas gradualist theory focus on organisational learning after inception. Scholars have found that knowledge acquired through international experience in diverse markets increases internationalisation and firm performance (Blomstermo et al., 2004). Researchers have studied how certain owner-manager characteristics such as human capital are related to SME internationalisation (Small & Growth, 2010).

According to De Clercq et al. (2012), the individual knowledge can act as a substitute for organisational knowledge in the learning curve, allowing the organisation to internationalise rapidly. According to Evers (2011), the mental model which acts as an intermediating force between push and pull factors is largely shaped by owner orientation and experience. According to Kamakura, Ramón-Jerónimo, & Vecino Gravel (2011), human capital and managerial ties overseas appear as key factors in the internationalisation process. According to research by Fernández-Ortiz & Lombardo (2009), top management characteristics influence international diversification of SMEs. International experience was positively correlated to the international diversification. International exposure and networks were found to have a substitute effect on the ability to internationalise (Fernhaber & Li, 2013). According to Javalgi and Todd (2011), human capital (i.e., education and international experience) has a major impact on internationalisation. Higher levels of education, maturity and experience of the owner, especially on the international stage, tend to promote the development of strategies or action plans able to support the international activity (Mason, 2009).

According to Hsu, Chen, & Cheng (2013), CEO attribute such as age, experience and education level play a moderating role in the much arguably internationalization-performance relationship. He argues that since expanding into international business is a complex task; managers attempt to "reduce cognitive effort using heuristics and cognitive schemas to integrate pieces of information into a single judgment", which is largely influenced by entrepreneur human capital. The literature states that export intensity is positively influenced by manager international experience (Suarez-Ortega & Alamo-Vera, 2005). Successful internationalisation largely depends on whether the SME founder has previous experience with a foreign trade or whether it actively searches for market information before the expansion into the foreign market (Toulova et al., 2015).

Preceding international experience and knowledge top managers affects the internationalization since it can partially substitute the lack of firm level experience in internationalization. Huber (1991) proposes that new firms do not start with a zero state of knowledge but they receive the skills and experiences of founders. In addition, prior experience may also provide access to networks and positional advantages (previous know-how and probably even the access of distribution channels, suppliers etc.) in the industry based on prior status, trust and reputation of the founder. It also helps the firm to borrow best practice in internationalization to the firm without costly organizational experiments. Shane (2000) argued that discovery of new opportunities is related to prior knowledge and experience. Discovery of new opportunities involves recognizing the value of new information and those entrepreneurs with previous experience will capitalize on the new opportunity sooner than those who are required to search such knowledge to assess the opportunity (Lecler & Kinghorn, 2014).

Internationalization intensity

Internationalisation is the extent of international activities of a firm. McDougall and Oviatt (2000) defined it as “combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organisations”. Internationalisation supports SMEs to achieve growth, competitiveness and superior performance (Votoupalova, Toulova, & Kubickova, 2015). Internationalisation is a multi-dimensional concept (Lu & Beamish, 2001). Many researchers have mentioned that it is imperative for future research to assess Degree Of Internationalization (DOI) in a multidimensional manner which is a major research gap in internationalisation literature (Papadopoulos & Martín, 2010).

The majority of past studies measured internationalisation based on a percentage of sales generated from foreign markets (FS/TS) or its derivatives according to a review by Baldegger & Schueffel (2008). The measurement of FS/TS has its own disadvantages if used alone. Firstly, it does not imply export success (i.e. not the return on export commitment). Secondly, it is highly sensitive to sales volume (numerator) and currency fluctuations. In extreme cases, a firm can record higher export intensity yet a lower volume of exports. Even with the wide agreement on multi-dimensionality in internationalisation, only 39% of the studies in the period from 1995-2005 used more than one dimension (Hult et al. 2008).

Methodology

In consideration of the objectives of the study and the phenomenon itself, a positivistic paradigm was considered appropriate. The survey research strategy was used to collect primary data from SME owners/managers in Sri Lanka through administering structured questionnaires. The population of this study was all SMEs (defined as firms which derive less that Rs 150 million from international revenue per year and those firms which have less than 250 full-time employees) which are engaged in any type of international trade activities. To empirically test the developed framework, primary data were gathered using the survey questionnaire method and questionnaires were distributed to randomly selected SMEs involved in exporting. The sampling frame used was the annual register of exporters published by Export Development Board of Sri Lanka. Questionnaires were personally administered by visiting the organisation. 197 responses were collected.

This research adopted the scale developed by Bolton & Lane (2012) to measure entrepreneurial orientation. This research used a measurement scale which is developed, validated and tested recently to measure social capital (Che Senik et al., 2011). Ratio scale was used to measure the number of months in international experience following Ciszewska-Mlinari (2003) to measure human capital. This research used three dimensions used by Sapienza, De Clercq, & Sandberg (2005) which include FS/TS, the percentage of employees that spend a significant time in international activities and the geographical scope of foreign sales which represents scale, structure and scope aspects of internationalisation respectively.

Results

On average SMEs in the sample had conducted business for close to 20 years at the time of the survey. This shows the sustainability of the SMEs engaged in exports is higher compared to locally oriented SMEs. The maximum time taken to enter the international market was 35 years while 46% of the organisations were internationalised from the inception. 49.7% of the SMEs were under the category of Private Limited Companies while sole trading accounted for 35% and partnerships accounted for 15.2%. There were no public limited companies in the tested sample.

Out of 197, 139 SMEs (70.6%) were involved in manufacturing while 30% and 28% were involved in retail/wholesale business or service business. The manufacturing sector had the largest composition in the sample. But this representation is to be expected given that services sector still contribute about 10% of export value in Sri Lanka (EDB, 2015). On average, 71.5% of the sales income of the SMEs was attributed to foreign sales in the sample. The minimum foreign income to total income ratio was 2% while 42 SMEs were fully internationalised.

Reliability and Validity Analysis of the Scales

Reliability of the construct was confirmed as all Cronbach's alpha values exceeded the threshold value of 0.7 for all construct items (Nunnally, 1978).

Table 2 - Reliability Statistics for the Scales

Construct	N of Items	Reliability Statistics - Cronbach's Alpha
EO	9	0.935
SC	7	0.813

The normality was tested by Shapiro-Wilk test, and all items in all constructs were significant indicating non-normal distribution. However, PLS-SEM is robust against non-normal data (Hair et al., 2010). As dynamic capabilities view is a recent theoretical advance, still most of the past research is conceptual or qualitative. Covariance Based-SEM techniques are better suited for theory testing while PLS is better suited for theory development (Tobias, 1995). Hence PLS-SEM was selected for testing of the structural model.

Exploratory Factor Analysis (EFA) was conducted for all constructs. An indicator to measure innovation in entrepreneurial orientations scale loaded unexpectedly on proactive dimension and was removed before further analysis. An indicator of social capital scale loaded on two factors. So it was removed before further analysis following suggestions of Hair et al. (2010). After verifying that scales represent the underlying latent factors properly, SMARTPLS was used to test the measurement model. One indicator in social capital measurement was dropped due to low loadings and insignificance (p>0.05 level) (Hair et. al., 2010).

Under the measurement model, the internal consistency of measurement or reliability was assessed at two levels, namely item reliability and composite reliability where both reliability values must be greater than 0.7 (Nusair & Hua, 2010). Bagozzi and Yi (1988) and Fornell and Larcker (1981) stated that if AVE is greater than 0.5 that is a necessary condition for the convergent validity of the instrument. All AVEs are above 0.5, and composite reliabilities are above 0.7

Table 3 - Cronbach Alpha, Composite Reliability and Communality

Variable	**AVE**	**Alpha**	**CR**
HC	1.000	1.000	1.000
EO	0.665	0.927	0.940
SC	0.503	0.753	0.798

The existence of discriminant validity was assessed by comparing square root of AVE of each construct with its correlation with other constructs in the model as shown in Table 4 (Fornell & Larcker, 1981).

Table 4 - Fornell and Larcker Criterion for Discriminant Validity

	EO	**HC**	**SC**
EO	**0.8159**		
HC	-0.0669	**1.0000**	
SC	0.5408	0.0014	**0.7097**

Testing of Structural Path

The result of the bootstrapping is given in Table 5. It shows that the path OSC>INT is significant at 0.01 level.

Table 5 - Summary of Structural Model Testing

Path	Path Coefficient	Std Error	t value	Significance at 95% confidence interval
OSC>INT	0.698	0.041	16.96	Sig at 0.01 level

It was found that owner specific capabilities explain about 49% of the variance in internationalisation. The SMARTPLS output is given in Figure 1.

Multi-group analysis

The multi-group analysis is a special case of moderation in which the moderating variable is categorical rather than ratio or interval (Henseler, 2012). As per the guidance of Chin (2000), two-step approach can be adopted to test multi-group analysis in PLS-SEM. First, both subpopulations parameters are estimated using standard algorithm. Then an unpaired sample t-test is conducted to check whether there is a significant difference between two group-specific parameters. One minor limitation of this method is that it gives optimum results if two empirical bootstrap distributions are normal (Henseler, 2012). The sample was tested for major differences in significance values and path coefficients due to the influence of industry context in OSC constructs. The direct relationship was tested. The method follows the suggestions of Chin (2000).

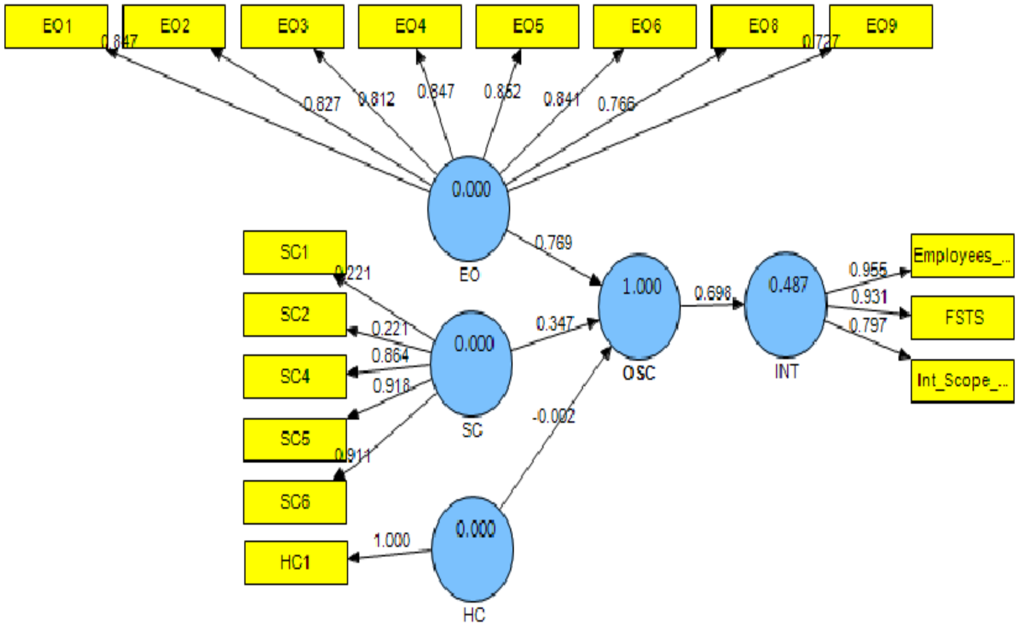

Figure 1 – The visual output for SMARTPLS algorithm

It can be seen from that in traditional industries EO>INT path is significant, but in non-traditional industries, it is not significant (beta value has changed from 0.4714 to 0.1133). Similarly, beta value of SC>INT path has increased to 0.6779 in non-traditional industry context from 0.4230 in the traditional industry context. HC>INT path is not significant in traditional industries but significant in non-traditional industries although the increase in beta value is small compared to other two cases (i.e. increased to 0.10 in non-traditional industry context from 0.03 in traditional industry context). For confirmation t-statistic was calculated following Chin (2000). According to t-statistics, the difference was significant at 0.01 level for EO-INT relationship, the difference was significant at 0.05 level for SC-INT relationship, and the difference was insignificant at 0.05 level for an HC-INT relationship.

Discussion

This research used the new construct named owner specific capabilities which were formed by EO, SC and HC variables to explain internationalisation. The three dimensions of this construct are tested earlier in internationalisation literature, and hence the following discussion is on how these findings fit in with the previous findings.

This research finds that EO is a major determinant of internationalisation with a combination of other variables. This is in line with the large majority of the past research carried out. (Deligianni, Dimitratos, Petrou & Aharoni, 2015; Zhang et al., 2015; Baba, 2011; Javalgi & Todd, 2011; Evers, 2011(b); Lan & Wu, 2010; Fouda, 2007; De Clercq, Sapienza, & Crijns, 2005; Jantunen et al., 2005; Knight & Cavusgil, 2004; Balabanis & Katsikea, 2003; Knight, 2000).

Contradictory outcomes are also reported in the previous research stating that either EO does not significantly affect internationalisation or only a few dimensions have a significant effect (Hosseini, 2013; Zhang, Ma & Wang, 2012; Mika et. al., 2011; Frishammar & Andersson, 2008; Morgan & Strong, 2003). This may be due to the fact that entrepreneurial behaviour is time-dependent.

This research is in compliance with voluminous literature which have stated that there is a significant positive relationship between social capital7 and internationalization (Milanov & Fernhaber, 2014; Ngoma & Ntale, 2014; Chen, 2013; Fernhaber & Li, 2012; Ciravegna, Lopez & Kundu, 2012; Rodrigues & Child, 2012; Xiao, Ma & Wang, 2012; Torkkeli, Puumalainen, Saarenketo & Kuivalainen, 2012; Che-Senik, Scott-Lad, Entrekin & Adham, 2011; Loane & Bell, 2006; Sharma & Blomstermo, 2003).

In contrast, Andersen (2012) finds a negative relationship with the extent of social capital and international performance while a study by Masciarelli (2009) found inverted U relationship between social capital and degree of internationalisation. The above, contrary results can be explained by expounding the negative role of excessive social ties. Having social ties concentrated in few countries can bring about "rigidity" to the firm inhibiting further international diversification which is known as "over-embeddedness" (Balboni, Bortoluzzi, & Vianelli, 2014).

A multitude of past research studies conclude that international experience of the owner (or the board in some research) is a significant predictor of internationalization (Toulova, Votoupalova & Kubickova, 2015; Navarro-García, Schmidt & Rey-Moreno, 2015; Lecler & Kinghorn, 2014; Fernhaber & Li, 2013; Kamakura, Ramon-Jeronimo & Vecino-Gravel, 2011; Javalgi & Todd, 2011; Fernandez-Ortiz & Lombardo, 2009; Mason, 2009; Chandra et al., 2006; Suarez-Ortega & Alamo-Vera, 2005).

Research implications

According to recent literature, the main contributory factors for competitive advantage in an international environment are those internal to the organisation (Pangerl, 2013). This research enhanced theoretical understanding of how owner specific factors influence SME internationalisation. The policy makers and SME managers need to support entrepreneurial/innovative cultures of SMEs. Empowerment of employees, less formal control, performance-based rewards, recognition for new initiatives, open door policies, etc. can inculcate such an entrepreneurial and dynamic culture with in the firm. The government should restructure the higher education system and professional education system in such a way the nurture entrepreneurship spirit, international mindset and creativity. Entrepreneurial and innovative organisational culture, dense and strong network relationships and international experience are necessary to develop dynamic capabilities and thus become a successful SME in the export market.

Future researchers are suggested to compare and contrast the tentative model across industry contexts, large and small organisations and countries.

Conclusion

This research found that owner specific capabilities namely entrepreneurial orientation, social capital and human capital positively influences SME export performance in Sri Lanka. The outcome of this research will enhance our understanding of success factors of SME export performance and provide insights for policy makers and SME managers in Sri Lanka. It was also revealed that entrepreneurial orientation and social capital of entrepreneur are influencing the export performance of SMEs in different magnitudes in different industry contexts.

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The Role of Social Commerce on Consumer Decisions: A Theoretical Foundation

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Abstract

The advent of social commerce phenomenon has largely started gaining attention in consumer behavior literature. Apparently, social commerce has shifted more power from the seller to the buyer and predominately fueled to strengthen e-commerce acceptance. Thus, understanding consumer behavior in the context of social commerce adoption has become inevitable for business organizations that aim at elevating their bottom-line, competitiveness and ensuring sustainability. Moreover, social ties facilitated in social commerce enable trust as the most promising benefit while alleviating the perceived risk, which was the major striking concerns with online commerce over the years. Though examining the influence of social commerce on consumer behavior and decision making is started getting scholarly attention recently, adequate explanatory model laid on the relevant theoretical foundation in this regard is still fragmented. Consequently, researchers constructed this theoretical foundation with the intention of enriching extant literature and to lay a formal groundwork for investigating this phenomenon. Hence, this paper aimed to comprehend: the nature of online social networks, emerging social commerce phenomenon, the role of social support in social commerce and influence of social commerce on consumer decisions respectively.

Keywords: *Consumer Decision Making, Online Social Networks, Social Commerce, Social Support*

Introduction

Advancements in the Internet technologies in recent years have successfully brought online communities via Online Social Network (OSN) platforms. In fact, Web 2.0 is the groundbreaking technological advancement that made the paradigm shift of Internet technology to embark the virtual social environments, thus seamlessly connect each other. Consequently, people started embracing the social media including OSNs at an unprecedented way. Further, the growth of such tendency is mainly fueled by the smart mobile penetration and rapid spread of the Internet. Unlike in the past, today consumers are exposed to various sources of information in which major popularity is residing with the OSNs due to its unique functionalities of enabling users to co-create content as well as the ability to interact with others. Besides, such OSN platforms are becoming an important tool for business organizations to attract consumers and market their products, services and events. In fact, OSN platforms have now been highly recognized as commercialized platforms equipped with virtual social interactions. Thus, academia and practitioners coined the term as “Social Commerce” to name this technologically advanced phenomenon.

It is evident that the Web 2.0, predominantly including OSN sites has a major impact on our behavior. In fact, from a commercial point of view, it has extended its impact on offline and online purchasing decisions of consumers (e.g., Forman et al., 2008; Hajli, 2015; Han & Windsor, 2011; Kwahk & Ge, 2012; Stephen & Galak, 2012; Wang & Yu, 2015). Hence, as a result, “Social Commerce” and allied “Social Media Marketing” have emerged and trended. Subsequently, OSNs led to strengthening e-commerce adoption by building the trust and minimizing the perceived risk, which was strongly driven by the online community social support. Social Commerce uses Web 2.0 social technologies and infrastructure to facilitate interactions and user contributions in an online context to support consumers' acquisition of products and services (Liang & Turban, 2011). Importantly, OSN environments facilitate consumers not only to buy the products and services but also to co-create content that adds value to both the consumer and seller (Do-Hyung et al., 2007). Hence, consumers are becoming active content creators on the Internet in contrast to the preceding traditional passive behavior (Hajli, 2012). OSNs are no longer a niche media as people have widely adopted and are using them to a greater extent. Hence, the applicability of social commerce may not be fragmented to any demographic and geographical profile. In fact, social commerce can be accepted as a global phenomenon. Consequently, organizations and marketers should not be sceptical on harnessing the benefits of social commerce.

Marketers are highly keen on analyzing the consumer behavior than the past due to evolving nature of intense competition. Importantly, understanding consumer decision making process stages with respect to any product, service or event is conceived as the fundamentals of analyzing consumer behavior, thereby crafting strategic marketing decisions. It is evident the fact that consumer perception and preference have been started to shift from traditional commerce to the online commerce with the increasing likelihood of embracing the Internet in their lives. Therefore, marketers could not resist observing online consumer behavior for them to succeed. Precisely, analyzing consumer behavior in OSNs is imperative for marketers' decision making. Provided this rationale and accepting notions by the scholars, researchers highlights that the consumer decision-making process stages is believed to be the heart of the consumer behavior, hence vital to incorporate in social commerce studies. Yadav et al. (2013) coined the fact that implications of social commerce on consumer decision making process stages are worth investigating for firms to leverage. Furthermore, Zhang and Benyoucef (2016) affirmed that there exists a theoretical and an empirical gap in investigating the above-mentioned phenomenon as available literature mostly attempted to assess the impact of social commerce on individual stages or few stages at a time instead of comprehending the holistic consumer decision making process stages. Consequently, this paper intends to lay a theoretical foundation to comprehend the impact of social commerce towards an integrative model incorporating all the consumer decision steps anticipating new knowledge.

Theoretical Foundation

Social Media and Online Social Networks

The Internet has transformed many spheres of society. Social media that includes various Web 2.0 applications have become the most popular online destinations in recent years. Kaplan and Haenlein (2010) defined the social media as “a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content”. Further, they classified social media into six different types based on the social presence/media richness and self-presentation/self-disclosure namely: collaborative projects, blogs, content communities, social networking sites, virtual game worlds and virtual social worlds.

Generally, OSNs (which are commonly grouped under the umbrella term “Social Media” or “Web 2.0”) are web-based services that allow a person to create a profile in a given system and enable to build connections with other users in the same system, allowing to view and navigate among themselves (Boyd & Ellison, 2007; Kaplan & Haenlein, 2010). Importantly, such OSNs allow communities of people to gather online, share information, knowledge, and opinions (Kaplan & Haenlein, 2010). In fact, OSNs are a major category of web-based communication applications which have been widely used by the typical Internet users on a daily basis. Most notably, the advent of OSNs including Facebook has attracted millions of users worldwide (Boyd & Ellison, 2007). The rapid growth and accessibility of OSNs have fundamentally changed the way people manage information about their personal and professional lives. Increasing use of OSNs is mainly reasoned by the ease of use, allowing rapid updating, analyzing and sharing information, establishing and maintaining spontaneous social contacts and relationships, supporting informal learning practices with interaction and communication, etc. Accordingly, OSNs have become a global phenomenon and attracted extensive population from all around the world despite the different demographical characteristics. Today, OSNs are increasingly attracting the attention of academia and researchers as usage of OSNs have become often human activity. Apparently, there are plenty of OSNs with various technological affordances and supporting a wide range of interests and practices.

Facebook as an Online Social Network

The inception of OSN Facebook has been one of the groundbreaking socio-technological trends in the recent past. Facebook define itself as “a social utility that helps people share information and communicate more efficiently with their friends, family and coworkers” (www.facebook.com). OSNs, including Facebook, are widely accepted and adopted by the worldwide Internet users. Approximately, 2 billion Internet users are using OSNs, and these numbers are expected to grow continuously as a result of increased usage of smart mobile devices and widely spreading Internet accessibility (Statista, 2016). Among the other OSNs, Facebook has become the most popular OSN and contributes significantly to a larger proportion of overall Internet traffic (eBizMBA Guide, 2016). As of December 2016, there were approximately 1180 million daily active users of the Facebook around the globe (Social Bakers, 2016). In fact, Facebook had a tremendous growth in terms of the monthly active users significantly surpassing other OSNs during the last few years (Richter, 2016). As of June 2016, Facebook subscribers were approximately 22.9% of total world population. Besides, among the other regions, Asia was the largest contributor to Facebook subscriptions (Internet World Stats, 2016). Similarly, Facebook is ranked among the most popular OSNs in Sri Lanka. There were nearly 6.1 million Internet users representing 29.1% of the total population in Sri Lanka as of June 2016 (Internet World Stats, 2016). Further, there were approximately 4.2 million Facebook subscribers in Sri Lanka representing 20.1% of the total population (Internet World Stats, 2016). As of June 2016, Sri Lanka Facebook penetration statistics were very close to the global average Facebook penetration of 22.9% (Internet World Stats, 2016). Moreover, globally, average time spent on Facebook per visit is approximately 18 minutes, and Facebook allows to operate their system by 70 different languages (Statistic Brain, 2016).

It is evident that the OSNs, specially including Facebook revolutionized the business landscape allowing the customer to be more informative and interactive compared to traditional way of undertaking business. Now, for any business, despite being large or small, tend to perceive that the Facebook is an inevitable aspect of their marketing strategy. Facebook is chosen as the most important social network for marketers over the other OSNs, and the majority of the marketers are planning on increasing their use of Facebook for marketing activities (Stelzner, 2016).

Social Commerce

Social media technologies gave birth to the social commerce as a new phenomenon in the business world. Although the concept of social commerce has been increasingly received interest among the academia and practitioners, research on social commerce is still in early stages of development (Wang & Zhang, 2012). Similarly, they pointed that understanding of social commerce is scattered and limited. Therefore, social commerce has no specific definition as it has different meanings and different scholars came out with various definitions to explain the phenomenon.

Stephen and Toubia (2010) defined social commerce as “a form of Internet-based social media that allows people to actively participate in marketing and selling of products and services in online marketplaces and communities”. According to Liang and Turban (2011), social commerce uses Web 2.0 social technologies and infrastructure to facilitate interactions and user contributions in an online context to support consumers’ acquisition of products and services. Broadly, social commerce involves “the use of Internet-based media that allow people to participate in the marketing, selling, comparing, curating, buying and sharing of products and services in both online and offline market places, and in communities” (Zhou et al., 2013). Lin et al. (2017) defined social commerce as “any commercial activities facilitated by or conducted through the broad social media and Web 2.0 tools in consumers' online shopping process or business interaction with their customers".

It is evident that these OSNs allow the consumer to be more informative and interactive (Song & Yoo, 2016; Wang & Yu, 2015) in contrast to traditional business. In fact, such OSN channels including Facebook placed the consumers in a more active role as market players and enabled them to reach (and be reached by) everyone, anywhere and anytime (Hennig-Thurau, et al., 2010). Now, any business tends to strongly admit that social media is an inevitable aspect of their marketing strategy despite their scale of business. Hence, it is recommended to build the business presence in social media platforms (Heinrichs et al., 2011; Osei & Abenyin, 2016). Busalim and Hussin (2016) highlighted that with a new paradigm of conducting commerce using social media, social commerce is to be a promising new area of research.

Social Commerce and Social Support

For an organization, it is important to have a business model adapted to social commerce, as the next generation of online business attracts new consumers predominantly supported by communities (Ridings & Gefen, 2004). Similarly, the user's experience in the online context is fairly different to the offline environment as a social influence has got broadened with the use of the social media in contrast to the past where social influence was limited to a small social circle. Theoretically, social support is how an individual's experience about being cared for, being responded to and being helped by people as a member of a social group (Ali, 2011; Cobb, 1976). Literature affirms that the presence of the social support both in offline and online contexts has a significant impact on the consumer behavior. Li (2011) asserted that user behavior is affected not only by their own motivations but also by motivations of other users in the consumer's OSN. Therefore, theories related to social interaction and social support will be relevant in understanding consumer behavior in social commerce research (Liang & Turban, 2011).

Social Commerce is accepted as a subset of e-commerce that combines commercial and social activities (i.e. social interactions and user-generated content) via a Web 2.0 environment (Liang & Turban, 2011). Social technologies allow users to have social relationships with family, friends, peers, members of the other communities and e-vendors. In fact, OSNs allow users to access and observe decisions as well as opinions related to products and services of not only close friends, family, and colleagues, but also other people around the world (Pan et al., 2007; Wang & Yu, 2015). Hajli (2015) posited that members of such OSNs could communicate and share their consumption related experience by means of Social Commerce Constructs (SCCs) that include rating and reviewing recommendations and referral, and forums and communities. They are supporting each other both in an informational and emotional context (Hajli, 2013; Liang et al., 2011). SCCs have a significant impact on the emotional and informational support (Shanmugam et al., 2016). Social relationship is the key feature that differentiates social commerce from traditional commerce and other forms of online commercial activities. Consequently, social support is the key determinant of consumers' social commerce intention as well as the success of social commerce (Liang et al., 2011; Rad & Benyoucef, 2011; Wang & Yu, 2015; Zhang et al., 2014).

SCCs are Web 2.0 social features that empower consumers to generate content and share their experience (Hajli, 2015). Members of online communities engage in different group activities and support each other through the social interactions and communications, which in turn are influential in shaping the consumer behavior (Bagozzi & Dholakia, 2002; Ridings & Gefen, 2004). SCCs namely; rating and reviews, recommendations and referrals, and forums and communities are the key enablers of social support in OSNs (Hajli, 2013). Further, Hajli et al. (2014) stressed that such SCCs are resulted by conceptualizing the eWOM (electronic word of mouth), which is also known as User Generated Content (UGC) in social commerce. SCCs in OSNs allow users to witness the perceptions and reactions of the community members towards products and services by means of UGC. Nature of SCCs may be either in the form of favourable or unfavourable for a product or service based on consumers experience and the level of satisfaction. Consequently, SCCs provide content that might attract and retain consumers or deviate and switch consumers of products or services. However, availability and the features of these SCCs are a platform (i.e. online social network platform) specific. Importantly, the social support facilitated in social commerce led to enhance the trust and minimize the perceived risk, eventually increasing the buying intention of the consumer (Hajli, 2015; Han & Windsor, 2011). In fact, trust is the most challenging concern of e-commerce for consumers, which can be addressed by social commerce. Consumers search for product, service and company information in OSNs since they find such sources contain UGC that are more reliable and relevant than information provided by the marketers (Bernoff & Li, 2008; Fotis et al., 2012) and traditional media (Goh et al., 2013). Further, SCCs provides seller's inducement to be trustworthy (Hajli, 2013). Moreover, people tend to consider and follow others' heuristic information (i.e. choices, opinions and etc.) to simplify the cognitive effort in decision making and overcoming the information overload (Bonabeau, 2004; Simpson et al., 2008), which could be facilitated by OSNs to a greater extent. Consumers do not have an experience regarding physically observing (i.e. touching, smelling, etc.) product in online shopping. However, comments, reviews and ratings provided by other consumers are able to mitigate such limitations and thus influence the consumer behavior (Akar & Topçu, 2011; Do-Hyung et al., 2007). Apparently, consumers are more interested in other people's recommendations than the vendor generated information (Ridings & Gefen, 2004). Consequently, Senecal and Nantel (2004) asserted that consumers are strongly influenced by the online recommendations for their online product choices. Hence, consumers could rely on such online recommendations especially when they cannot experience the products or services in online context. In addition, consumers' purchasing intention increases along with the quality of the reviews and the number of the online reviews (Do-Hyung et al., 2007). In fact, third party reviews have a significant impact on consumer purchasing decisions (Yubo & Jinhong, 2005). Further, an increase in the total number of ratings on a product or service will have a positive influence towards the consumer purchasing decisions (Cheung et al., 2014). They also stressed that prior purchase information provided by other consumers on an OSN could provide a reference basis to subsequent purchasing decisions of the same consumer as well as later potential consumers' decisions.

Social Commerce and Consumer Decision Making

A key area of consumer behavior is to understand the consumer decision-making process, which has multiple stages, including the predominant act of buying products and services. Depending on the different factors and findings, numerous researchers and academics have developed and revised consumer decision-making process models over the past years. There was a slightly different consensus about the stages involved in consumer decision making process model among the scholars (e.g., Engel, Kollat, & Blackwell, 1968; Foxall, 2005; Nicosia, 1966; Rice, 1993; Tyagi & Kumar, 2004). However, the five stages model that explains five prominent activities in consumer's decision making process: need recognition, information search, alternative evaluation, purchase decision, and post-purchase behavior is considered as the commonly accepted model of consumer decision-making process (e.g., Kotler & Armstrong, 2016; Kotler & Keller, 2016; Schiffman & Wisenblit, 2015). Conceptually, it is accepted that marketers need to focus on all the stages of consumer decision-making process rather than relying on the purchase decision stage only. Although each stage represents a decisive step in the decision-making process, all the consumers do not follow them in a sequential order (Kotler & Armstrong, 2016; Osei & Abenyin, 2016; Rad & Benyoucef, 2011). In fact, consumers pass through all five stages with every purchase, but in more routine purchases, consumers often skip or reverse some of these stages (Kotler & Armstrong, 2016).

Analyzing the consumer behavior has been an interesting research phenomenon both in the context of traditional and online marketplaces. Social Media can positively as well as negatively influence the rationality and effectiveness of consumer decision making (Power & Phillips-Wren, 2011; Rad & Benyoucef, 2011; Wang & Yu, 2015). Moreover, consumers tend to weigh negative eWOM more heavily than positive eWOM in their decision making (Park & Lee, 2009). Majority of social commerce studies examined consumer behavior by paying attention to information (especially eWOM) seeking behavior (e.g., Bilgihan et al., 2014; Bronner & Hoog, 2014; Chu & Choi, 2011), purchase attitude and purchase intention (e.g., Hajli, 2015; Ng, 2013; Wang & Chang, 2013; Wang et al., 2012). However, Yadav et al. (2013) argued that social commerce domain should not be distinguished narrowly with only considering the purchasing function of consumer behavior, rather it should encompass exchange-related activities that occur before, during and after a focal transaction. Hence, Yadav et al. (2013) defined social commerce as “exchange related activities that occur in or are influenced by, an individual’s social network in computer-mediated social environments, where the activities correspond to the need recognition, pre-purchase, purchase and post-purchase stages of a focal exchange”. Similarly, Lin et al. (2017) briefed that social commerce involves a variety of commercial activities that could assist consumers’ in the pre-purchase evaluation, shopping decisions, and post-purchase behaviors. Further, Osei and Abenyin (2016) and Zhang and Benyoucef (2016) affirmed the validity of using consumer decision making process stages model to investigate the impact of social commerce on consumer decision making. Many scholars argued that providing a compelling consumer experience in which social interactions are fully inculcated in every stage of the consumer decision-making process is a prerequisite for successful social commerce (e.g., Huang & Benyoucef, 2013; Yadav et al., 2013; Zhou et al., 2013).

Contribution

The domain in which this theoretical foundation is constructed is novel as discussed at the outset. It was admitted that this could be the increasingly attracting research discipline with the evolution of social media and online social networks usage (Khang et al., 2012; Liang & Turban, 2011; Lin et al., 2017; Zhang & Benyoucef, 2016). This article adopted Yadav et al.’s (2013) definition of social commerce and concentrated the discussion on

OSNs to highlight the “social” dimension of social commerce, complying with the argument by Zhang and Benyoucef (2016). The need of having adequate theoretical foundation for social commerce and consumer decision making was noted as per scholarly suggestions. This paper intended to investigate the above-mentioned phenomenon as available literature mostly attempted to assess the impact of social commerce on individual stages or few stages at a time instead of comprehending the holistic consumer decision making process stages. Unique characteristics of social commerce allow organizations to strengthen the relationships with customers allowing business organizations to achieve desirable economic boosts such as increased sales and successful marketing (Amblee & Bui, 2011; Hajli & Sims, 2015; Michaelidou et al., 2011). Accompanied by the valid rationale articulated at the outset of the paper, in future researchers intend to extend the research to examine the impact of social commerce on consumer decision making stages with empirical evidence gathered from Sri Lankan context. Ultimately, findings are expected to provide valuable theoretical as well as practical insights for academic researchers and practitioners.

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