

Impact of Internal Capabilities on Firms' Financial Performance: With Special Reference to Large Export Manufacturing Firms in Sri Lanka

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Abstract

This study explores the influence of internal capabilities on the financial performance (FP) of large export manufacturing firms in Sri Lanka. Grounded in the Resource-Based View (RBV) and Core Competency Theory, the conceptual model focuses on Leadership Capability (LS), Business Strategy (BS), Shared Value (SV), and staff Competence (STF). Adopting a positivist stance and deductive approach, a pilot survey of 39 responses was conducted to test content validity. Subsequently, structured questionnaires were distributed to 453 large-scale exporters listed by the Export Development Board (EDB), yielding 385 usable responses. Structural Equation Modeling was used for analysis. Findings reveal that LS, BS, and STF significantly influence (FP). However, SV did not show a statistically significant impact and was removed from the final model. This research provides empirical insights into which internal capabilities most effectively drive financial outcomes in Sri Lanka's export-oriented manufacturing sector.

Keywords: *Leadership Capability (LS), Business Strategy (BS), Shared Value (SV), and staff Competence (STF), Firms Performance (FP)*

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Introduction

Sri Lanka's corporate environment faces numerous challenges, including economic constraints, high production costs, and technological barriers, limiting growth across sectors. The country's real GDP growth has averaged below 5% in the past five years, falling short of Asia's 8% average. Additionally, high labor turnover and low GDP contributions from the manufacturing sector persist. The Global Competitiveness Report (2017/18) showed Sri Lanka's global ranking falling from 71st to 85th out of 137 countries, while the Global Innovation Index (2018) ranked Sri Lanka 88th out of 126, emphasizing a need for innovation improvements.

This study addresses this gap by investigating the influence of internal capabilities: leadership styles, business strategies, and staff capabilities on the financial performance of large export manufacturing firms in Sri Lanka. By applying frameworks like Resource-Based Theory and Core Competency Theory, the 7S Model, the research provides theoretical and practical insights to improve competitiveness. The findings aim to support Sri Lanka's effort to enhance its global competitiveness, fostering a sustainable and robust business ecosystem.

Literature Review

The performance of organizations is influenced by both internal capabilities and external factors. Leadership, particularly transformational leadership, plays a crucial role in promoting innovation and a culture of growth (Schumpeter, 1942; Wang, 2013). Business strategies focusing on customer needs, R&D, and performance management systems are vital for maintaining a competitive edge (Porter, 1985; Kaplan & Norton, 2008). Resources such as skilled staff and strategic alliances enable firms to adapt to changing markets (Barney, 1991). Internally, factors like gender equity and effective performance appraisal systems

create an environment that encourages innovation (Fay et al., 2014). Externally, firms must align their capabilities with market trends and technological advances to remain competitive (Hussein et al., 2011).

Effective leadership involves guiding employees towards organizational goals, measured through vision clarity and decision-making (Bass & Avolio, 1995). Business strategy includes planning, market positioning, and innovation (Porter, 1980). Shared values within an organization are crucial for maintaining ethical standards and cultural alignment (Collins & Porras, 1996). Staff engagement, skills, and productivity are also key to an organization's success (Huselid, 1995).

Internal capabilities (Independent Variable) - comprising leadership style, business strategy, shared values, and staff composition, are pivotal in driving organizational performance. Leadership Style (LS) is essential for directing, planning, and motivating within organizations, fostering an environment conducive to creativity and innovation through risk-taking and innovative thinking (Newstrom & Davis, 1993; Peters & Waterman, 1982; Aldrich & Martinez, 2001). Business Strategy (BS) involves the competitive actions a firm takes to attract customers and achieve organizational goals, including strategies like cost leadership and differentiation, which impact production costs, innovation, and market positioning (Porter, 1985; Barney, 2012). Shared Values (SV) represent the core beliefs and principles that guide behavior and decision-making within an organization, shaping its overall culture and promoting competitiveness while advancing social conditions (Peters & Waterman, 1982; Porter, 2011). Lastly, Staff (STF) capability plays a critical role in implementing strategic initiatives and ensuring organizational effectiveness, with motivated and knowledgeable employees being essential for fostering innovation and driving

organizational success (Peters & Waterman, 1982; Ricardo & Wade, 2001).

Firm financial performance (Dependent Variable) - encompasses various dimensions, including financial, production, and marketing indicators. Traditional financial metrics like return on investment and earnings per share may not fully capture the performance in an innovative environment (Kaplan & Norton, 2008). Hence, there is a need for a more comprehensive approach that incorporates both financial and non-financial perspectives which integrates financial measures with operational metrics related to customer satisfaction, internal processes, and innovation activities (Niven, 2006). Firm performance is operationalized through various indicators such as return on assets, return on equity, profitability, revenue growth, and total factor productivity (Murphy, Trailer, & Hill, 1996). These measures provide insights into how well a company's strategy and execution contribute to its bottom line.

Main theoretical lens and supporting theories: The Resource-Based View (RBV) theory, developed by Wernerfelt (1984) and Barney (1991), emphasizes that a firm's internal capabilities, such as Leadership Capability, staff, and shared values, are crucial in achieving sustained competitive advantage and superior financial performance. These internal resources must be valuable, rare, inimitable, and non-substitutable to provide a competitive edge, as highlighted by Lockett, O'Shea, and Wright (2008). Leadership shapes the organization's strategic direction and culture, staff represents the human capital essential for strategy implementation, and shared values ensure alignment and cohesion within the organization. Effective management of these resources, as discussed by Graham et al. (2013) and Klein (2011), is critical for firms to succeed in complex and dynamic market environments, as per Barney & Clark (2007).

Furthermore, integrating RBV with Core Competency theory provides a deeper understanding of how business strategies contribute to financial performance. RBV, along with insights from Core Competency theory, emphasizes that firms must strategically manage their unique resources to maintain competitive advantage, as proposed by Prahalad & Hamel (1990). Business strategies should align core competencies with market opportunities, as suggested by Shapiro (1990), to enhance competitive positioning and drive financial success. The combination of these theories underscores the importance of aligning internal strengths with external market demands, ensuring dynamic and adaptive strategies that translate internal capabilities into tangible financial outcomes.

Operationalization in quantitative research involves defining and measuring concepts according to the study's framework. Leadership's impact on firm performance, for example, is assessed through Leadership Capability (like transformational or transactional) and measured using tools like the Multifactor Leadership Questionnaire (MLQ) (Bass & Avolio, 1995). Business strategy is operationalized through approaches like Porter's Generic Strategies, examining how cost leadership and differentiation influence financial outcomes. Shared value initiatives, staff management (capabilities, skills and engagement), and their links to financial metrics such as sales growth and profit margins are similarly analyzed. Statistical tools such as multiple regression analysis and structural equation modeling (SEM) evaluate these relationships. An operationalization table is often employed to clarify how each concept will be measured and analyzed systematically.

While theoretical frameworks such as the Resource-Based View (RBV) and Core Competency Theory have identified internal capabilities like leadership Capability, business strategies, and staff capabilities as

key factors influencing firm performance, there is a notable empirical gap in understanding how these internal capabilities translate into financial success within the context of large export-oriented manufacturing firms.

Conceptual framework

The conceptual framework developed for this study explores the association between internal capabilities—comprising leadership Capability, business strategies, staff, and shared values—and financial performance within large export manufacturing firms in Sri Lanka. Grounded in the Resource-Based View (RBV) and Core Competency theory, the framework posits that these internal capabilities are critical resources that drive competitive advantage and superior financial outcomes. Leadership Capability influences organizational direction and employee motivation, business strategies optimize resource utilization, staff quality enhances productivity, and shared values create a cohesive organizational culture. This integrated approach underscores the importance of strategic alignment and resource management in achieving financial success in the dynamic business environment of Sri Lanka. Following diagram explains the pictorial description of the framework:

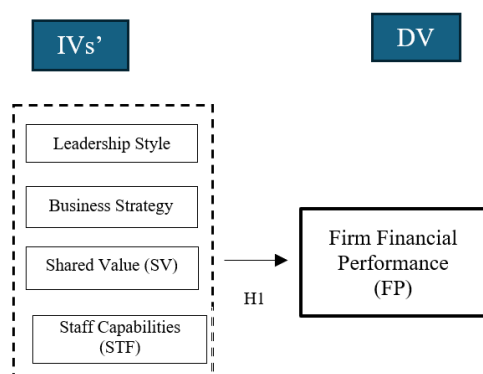


Figure 1: Conceptual Framework

Source: Author's work, 2022

The definition of the hypothesis can be given as a tentative, yet technically provable statement which envisages what is expected to discover through the empirical data (Sekaran & Bougi, 2017). As per the previous literature, there are five main hypotheses developed in relation to the Internal Capability and Firms Performance. Zafar and Mehmood, (2019) showed that there are significantly positive relationships between Innovative Culture, Transformational Leadership, Knowledge Management, Learning Orientation, and the Organizational Performance. Accordingly, the following hypotheses can be reasonably formulated as supported by RBV theory, and Core Competencies theory. Detail hypotheses in relation to the large export manufacturing firms in Sri Lanka are as below:

H1: There is a significant impact of Internal Capabilities (ICs') on Firm's Performance (FP)

Overall, internal capabilities, encompassing leadership Capability, business strategy, shared values, and staff, are essential for achieving and sustaining superior firm performance. By optimizing these internal factors, firms can enhance their operational effectiveness, adapt to market changes, and secure a competitive edge.

H1a: Leadership Capability (LS) have significant impact on firm's performance (FP)

Transformational leadership has been shown to significantly impact firm performance, particularly in high-technology start-ups and established firms. Leaders with positive psychological traits can drive innovation and employee engagement, leading to superior organizational outcomes (Peterson, Walumbwa, Byron, & Myrowitz, 2009). Further, Leadership and Innovation in SMEs are usually complementary to each other to achieve the organization's business objectives, including sustainable growth and

profitability (Allison, Kitching, & Hartshorn, 2009).

H1b: Business Strategy (BS) has a significant impact on firm's performance (FP)

Strategic planning helps firms identify and leverage their core competencies to gain a competitive edge (Porter, 1980). According to the Resource-Based View (RBV), effectively managing unique resources leads to sustained competitive advantage and higher performance (Barney, 1991). Empirical studies have shown that companies adopting comprehensive strategic management frameworks report improved performance metrics (Kaplan & Norton, 2008).

H1c: Shared Values (SV) have significant impact on firm's performance (FP)

SV ensures alignment and cohesion among employees, fostering a strong organizational culture that enhances morale and reduces turnover (Collins & Porras, 1996; Schein, 2010). Moreover, shared values guide ethical decision-making, improve employee engagement, and enhance customer satisfaction and loyalty, all of which contribute to superior financial performance (Treviño et al., 2006; Meyer et al., 2004).

H1d: Staff (STF) capabilities has a significant impact on firm's performance (FP)

Investments in human capital, such as training and development, lead to improved employee performance and firm outcomes (Becker, 1964). Engaged employees are more productive and contribute more significantly to strategic goals, resulting in better financial and operational performance (Harter, Schmidt, & Hayes, 2002).

Methodology

This study, adopting a positivist epistemological stance, investigates the impact of internal capabilities on the financial performance of large export manufacturing firms in Sri Lanka. Using Structural Equation Modeling (SEM), it examines how Leadership Capability (LS), Staff (STF) capability, and Shared Value (SV) influence firm performance, drawing on theories such as Resource-Based View (Wernerfelt, 1984; Barney, 1991) and related studies (Barney & Clark, 2007; Lockett, O'Shea, & Wright, 2008). Data were collected through surveys and interviews with C-level executives from 420 firms listed by the Export Development Board (EDB), targeting a sample of 196. Performance was measured using financial indicators (Zizlavsky, 2014; Zhao, Li, & Lee, 2009), and reliability was ensured through Cronbach's alpha and factor analysis (Nunnally & Bernstein, 1994). The study's questionnaire, designed with operational rigor, utilized a conceptual framework to assess the variables. Tull and Hawkins (1984) note that questionnaires are effective for gathering data from large, geographically dispersed populations. Findings confirm that internal capabilities, particularly leadership, staff expertise, and shared values, play a critical role in influencing firm performance. The results offer valuable strategic insights for enhancing the performance of export-oriented firms in Sri Lanka (Graham et al., 2013; Sekaran & Bougie, 2016). Questionnaire development procedure was based upon accepted methods of scale development for business research (Cooper and Schindler, 2003).

Table 1: Scale Development

Author	Measurement Scale
Lockett, O'Shea, & Wright, (2008), Graham et al., (2013), Klein, (2011), Jimenez-Jimenez & Sanz-Valle, 2011)	Leadership encourages creativity and innovation, Management's tolerance for risk-taking, Strategic acumen of the leadership, and flexibility in the workplace.
Anning-Dorson (2016), Auken et al. (2008)	Financial planning of the firm aligns with its strategic objectives. Company's day-to-day actions and decisions are guided by well-defined strategies, members of the organization understand job roles.
Kafetzopoulos and Psomas (2015), Baron and Kenny (1986)	Frequent progress reviews maintain alignment with organizational goals, environment encourages innovative proposals, rewarding motivates employees. (Shared Value)
Barney (1991), Nonaka and Takeuchi (1995), Meyer and Allen (1991)	Human resources are a crucial element of the resource-based view (RBV), knowledge creation and sharing are essential components of a learning organization, employee commitment is a critical factor influencing organizational performance.
Ng, Kee, and Ramayah (2020), Northcott and France (2005), Zizlavasky (2014)	Company uses its assets to generate earnings. profit per employee, are crucial for efficiency and effectiveness of a firm's workforce, revenue per employee is a significant measure of productivity, growing profit margins indicate effective cost management and pricing strategies, Increasing EPS suggests that the firm is generating higher profits and effectively managing its equity base.

Source: Researcher developed through an extensive literature review

Summary of the samples: Large export manufacturers and exporters of Sri Lanka are categorized under nine (9) different categories for measurement and development purposes as depicted in the table below: With 385 valid responses from a population of 453 firms (85% response rate), the study minimizes non-response bias, ensuring representativeness. According to Sekaran & Bougie (2017), judgmental sampling under purposive sampling was employed to ensure data were collected from knowledgeable respondents, confirming that all relevant companies were included, thus enhancing validity and robustness of the study.

Table 2 Categories of the companies

Industry Category	Population	Respondents	Percentage
Food and Beverage	105	101	96%
Ceramics	10	9	09%
Rubber and plastics	45	39	87%
Construction	10	8	08%
Leather and Footwear	9	7	08%
Materials	251	210	84%
Packaging	8	5	63%
Household goods	10	4	04%
Motors and spares	5	2	04%

Total	453	385	85%
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Source: Survey data, 2022

This study focuses exclusively on large export manufacturing firms in Sri Lanka. While this allows for in-depth analysis within this specific context, it may limit the generalizability of the findings to smaller firms or non-export sectors, which could exhibit different dynamics in relation to internal capabilities and financial performance. Under each company, senior managers the high level, middle level or lower level were assigned as the respondents to get the feedback since they are assumed to be knowledgeable enough to get the learned outputs similar to judgmental sampling techniques where information are collected through learned professions (Sekaran and Bougie, 2016).

The study aimed to assess the impact of internal capabilities on the performance of large export-oriented manufacturing firms in Sri Lanka, using a questionnaire-based approach. The questionnaire, adapted from Jiménez-Jiménez & Sanz-Valle (2010), included 37 questions across five dimensions, measured on a 7-point Likert scale (Wang & Ahmed, 2004). The reliability and validity of the questionnaire were confirmed through a pilot study, with Cronbach's alpha values exceeding 0.8 (Nunnally & Bernstein, 1994) and a Kaiser-Meyer-Olkin (KMO) measure above 0.7, indicating sample adequacy (Cerny & Kaiser, 1977). Although reliability and validity were tested, Common Method Variance (CMV) was also assessed using Harman's Single-Factor Test. Since the first factor explained 48.060% of the variance, which is below the 50% threshold (Harman, 1967), CMV is unlikely to be a significant issue in this study. The study targeted C-level executives in large export-oriented firms, particularly those earning at least 10% of their revenue from exports, identifying 453 companies through the Export Development Board (EDB). Data collection involved both primary methods, such as administering

questionnaires and conducting field interviews, and secondary sources, including publications from the Central Bank of Sri Lanka, Export Development Board, and Board of Investment (Sekaran & Bougie, 2016; Tull & Hawkins, 1984). This comprehensive approach aimed to ensure a robust analysis of the internal factors influencing firm performance in the Sri Lankan export manufacturing sector.

The study employs Structural Equation Modeling (SEM) to analyze the relationships between internal capabilities and firm performance in large export-oriented manufacturing firms in Sri Lanka. SEM is chosen for its ability to model complex, multivariate relationships and empirically test hypothetical connections (Degirmenci & Breitner, 2017; Chin, 1998; Lai et al., 2015). It allows for comprehensive analysis through measurement models specifying relationships between observable and latent variables (Baumgartner & Homburg, 1996). Reliability and validity are ensured through rigorous testing: reliability indicates the consistency of measurements (Sekaran & Bougie, 2017), while content validity is confirmed by expert reviews (Rungtusanatham, 1998) and criterion-related validity by examining associations in varied cultural contexts (Malhotra, 2004).

Data Analysis and Interpretation

Data analysis involves descriptive statistics, correlation, regression, confirmatory factor analysis (CFA), and SEM. CFA evaluates scales using Cronbach's Alpha and the Composite Reliability Index (CRI) (Bagozzi & Yi, 1988). Triangulation with industry experts and data from the Export Development Board (EDB) ensures qualitative validation. Supplementary materials like product brochures enhance primary data. SEM, particularly Covariance-Based SEM (CB-SEM), is used to validate

models (Hair et al., 2017; Henseer & Sarstedt, 2012). The model's adequacy is assessed through reliability and validity tests, including average variance extracted (AVE) and the Heterotrait-Monotrait (HTMT) ratio, ensuring high reliability and validity (Hair et al., 2018; Henseler et al., 2015). Structural model assessment focuses on the R^2 coefficient to explain variance in firm performance (Falk & Miller). Hypothesis testing examines direct relationships among internal capabilities (ICs) and firm performance (FP). Additional analyses using descriptive statistics and Prof. Andrew F. Hayes' Process Macro method address normality and model complexity issues, using IBM SPSS 26 and AMOS version 23.

The study focused on large export manufacturing companies in Sri Lanka, selected according to the Export Development Board's categorization. To ensure the questionnaires' validity, a pilot survey was conducted with 43 respondents from publicly quoted companies. The data were analyzed using IBM SPSS version 26.0, employing Exploratory Factor Analysis (EFA) and Principal Component Analysis (PCA) to identify underlying constructs, with over 300 units recommended for robust analysis (Tabachnick & Fidell, 2006). The analysis included Varimax rotation for factor extraction (Hair et al., 2010; Pallant, 2010), which was validated through Confirmatory Factor Analysis (CFA) using a different dataset. The sampling adequacy and reliability were confirmed through KMO testing (0.849) and Cronbach's alpha values, all of which exceeded the acceptable threshold of 0.6 (Nunnally & Bernstein, 1994).

The data collection process included both self-administered and researcher-administered questionnaires, yielding 404 responses from 420 distributed questionnaires, with 385 deemed acceptable for analysis. To ensure data accuracy, the study employed rigorous cleaning methods, including mandatory questionnaire responses

to prevent missing data (Narayanaswamy & Harinarayana, 2016). Exploratory Data Analysis (EDA) checked for multivariate assumptions such as normality, homoscedasticity, linearity, and multicollinearity, with adjustments made for non-normal distributions and outliers managed using statistical methods (George & Mallery, 2010; Hair et al., 2010; Aguinis, Gottfredson, & Joo, 2013). The researcher also engaged in active follow-up to improve the response rate and address the common challenges associated with mailed questionnaires (Goodman & Dion, 2001; Patton, 2002). This meticulous approach ensured the robustness of the data, providing a solid foundation for the study's findings.

The descriptive statistics for the large export manufacturing companies in Sri Lanka reveal key insights into their demographics and characteristics. The study sampled 453 companies, with 385 valid responses (85% response rate). The firms were categorized by industry, export percentage, years of establishment, number of employees, senior management age, tenure with the company, gender balance, unionization status, capital employed, annual turnover, export regions, foreign business partnerships, diversification status, and recent profile changes. The majority of respondents were middle-level managers (64%), representing industries such as materials (55%) and food and beverage (23%). A significant portion of companies (52%) exported more than 80% of their turnover, indicating heavy reliance on exports. Most firms were established more than 25 years ago (66%) and had over 500 employees (75%). Senior management predominantly fell within the 41-50 age range (89%) and had been with their companies for over 10 years (75%). The workforce showed a female majority in 65% of companies, while 61% were unionized. Capital employed and annual turnover varied, with 31% of firms employing capital above Rs 5bn and 36% achieving turnovers above Rs 5bn. Export destinations were primarily Europe, USA, and Russia (60%).

Foreign partnerships were common, with 26% in joint ventures whilst 86% having some foreign linkage. 52% of firms, were diversified into various other businesses. Only 5% underwent significant profile changes in the past three years, indicating stability in most firms' strategies and operations, over a period of time.

The assessment of the structural model involved evaluating the multiple correlation

coefficient R squared, which indicates the variance of the construct explained by the model. For the proposed model, the R squared value was 0.54, meaning that 54% of the Firm Performance is explained by the identified Internal Capabilities (Leadership Capability, Business Strategy, Shared Values, and Staff), although the impact of Shared Values was insignificant.

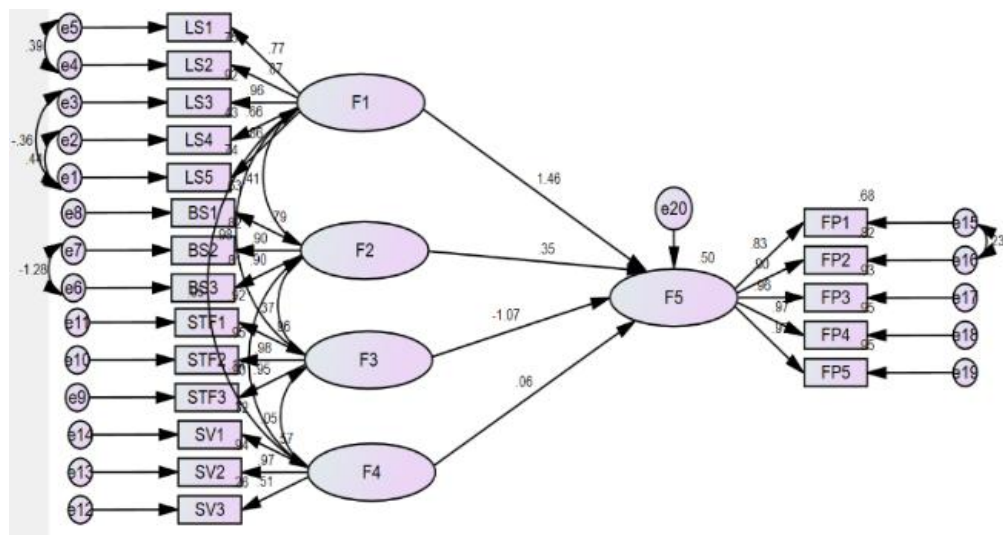


Figure 2: Structural Equation Model

Source: View Text output of SPSS Amos

The model fit indices were analyzed using SPSS Amos, with the final model showing improved fit indices: CMIN/DF = 4.174, GFI = 0.872, CFI = 0.948, TLI = 0.935, IFI = 0.948, and RMSEA = 0.091. These values were within or close to the recommended thresholds, suggesting the model is adequately fit after modifications. The initial model fit indices showed RMSEA slightly

above the acceptable range, but modifications were performed to reduce it. Despite the chi-square (χ^2) statistic being sensitive to sample size, other criteria met the thresholds, confirming the model's adequacy. Based on the below table, Cronbach alpha, and Composite reliability well above the 0.70 and hence it is confirmed that all the constructs are well within acceptable limits.

Table 3: Summary of measurement model

Construct	Items	Factor Loadings	A
LS	LS1-5	0.800	0.
BS	BS1-3	0.885	0.
SV	SV1-3	0.550	0.
STF	STF1-3	0.962	0.
FP	FP1-5	0.840	0.

Reference V >
Source: Survey data, 2022

According to them, the discriminant-based issues are present when the HTMT values are relatively high.

Table 4: Hetrotrait-Monotrait ratios

	LS	BS	SV	STF	FP
LS					
BS	0.466				
SV	0.095	0.127			
STF	0.858	0.445	0.103		
FP	0.577	0.561	0.106	0.512	0.657

Source: Survey data, 2022

Therefore, internal consistency reliability is well established between the constructs of the study. According to Hair et al. (2019), the AVE value should be equal or greater than 0.50 to satisfy the convergent validity, Cronbach values of indicator loadings need to be greater than 0.60 and the composite reliability should be greater than 0.70. According to Hair et al. (2019), the much acknowledged Fornell & Larcker technique is not most suitable to assess the discriminant validity. Hence, Henseler et al. (2014) suggested the Heterotrait-Monotrait (HTMT) ratio of the correlation as the replacement.

According to Hair et al. (2018), the HTMT values should be less than 0.9 for conceptually similar constructs while should be less than 0.85 for conceptually different constructs. The HTMT values shown in the table do not include or all values are less than 0.90 except STF-->LS thus discriminant issues are unlikely to present. Since, the measurement model is successfully assessed satisfying the basic requirements, the next step is to assess the structural model procedure which is shown in table 4 (Hair et al., 2018).

Table 5: Model fit indices

Table 5: Model fit indices

Fit Indices	p-value	CMIN	GFI	CFI	TLI	IFI	RMSEA
Recommended Value	>0.05	1-5	>0.90	>0.90	>0.90	>0.90	<0.08
Initial Value for model	<0.05	5.220	0.732	0.865	0.848	0.865	0.105
Final Value for model	<0.05	4.953	0.753	0.874	0.858	0.874	0.85

Source: SPSS Amos view text output

According to Hair et al. (2017), the next step is the investigating the R² values of the endogenous values and the results are given in the table 5. According to Chin et al. (2013), the amount of variance explained by R² offers a suggestion of the model fit as well as the predictive ability of the endogenous. Further Hair et al. (2013) propose that for an individual the value R² needs to be more than a minimum acceptable level of 0.10. For instance, the R² value of "Innovation" was found to be moderate and equal to 74%, and for "Firm Performance" it was about 67%,

both values of R² mentioned are superior than 0.10. Consequently, it was appropriate to investigate the significance of the paths associated with these variables. R² values of 0.75, 0.50 and 0.25 are considered as substantial, moderate, and weak. R² values of 0.90 or higher are said to be typically indicative of overfit. So, in this study, according to table 4.35, R² value is 69% of the FP is explained by the Innovation (INO), Leadership Capability (LS), Business Strategy (BS), and Staff (STF). According to Hair et al. (2018), it is moderately explained.

The View Text output confirms that the internal capabilities LS, BS, and STF have significant impacts on the firm performance (FP) as shown in the table below:

Table 6: Structural Model Results

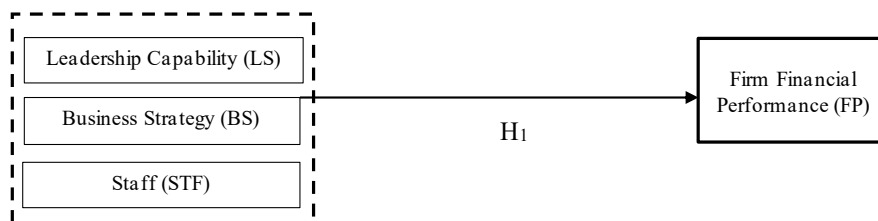
	Relationship	Estimate	S.E.	C.R.	P	Status	R2 value
F5 <-- F1 -	LS→FP	1.107	0.330	3.352	***	Supporting $\beta=2.078$, C.R = 2.554, $p < 0.05$	0.50
F5 <-- F2 -	BS→FP	0.333	0.057	5.882	***	Supporting $\beta=0.362$, CR= 4.058, $p < 0.05$	
F5 <-- F3 -	SV→FP	0.171	0.132	1.292	0.196	Not supporting	
F5 <-- F4 -	STF→FP	-0.750	0.293	-2.564	0.010	Supporting $\beta=0.1094$, C.R = 2.115, $p < 0.05$	

Source: SPSS Amos view text

As per table only the relationships of Leadership Capability (LS), Business Strategies (BS) and Staff (STF) towards Firm Performance are statistically significant since their p values are less than 0.05. On the other hand, the relationship of Shared Value (SV), whose p value is 0.196, towards Firm Performance is not statistically Significant since their p values is higher than 0.05, C.R value is less than 1.96. The assessment of the R2 values, as suggested by Hair et al. (2017), reveals that the model's predictive ability is strong. For example, the R2 value for "Firm Performance" (FP) is 67%, significantly

above the minimum acceptable level of 0.10 as proposed by Chin et al. (2013). In this study, 67% of FP is explained Leadership Capability (LS), Business Strategy (BS), and Staff (STF), indicating a moderate level of explanation according to Hair et al. (2018). According to the outcome of the finally examined CB-SEM, the hypothesized relationships are redefined for the improved interpretation. Direct relationships between the Leadership Capability (LS), Business Strategy (BS) & Staff (STF), and Firm Performance (FP) were identified as shown below in the revised conceptual framework:

Figure 3: Modified Conceptual Framework



Source: Author's work, 2022

Discussions of Findings

The study examines the influence of internal capabilities on the performance of large

export manufacturing firms in Sri Lanka, focusing on leadership, business strategies, internal systems, structure, shared values, staff, and strategic resources. Using the

Resource-Based View (RBV), the findings highlight that leadership and business strategies significantly impact firm performance, while staff has a negative effect due to overstaffing, and shared values show no significant influence. Leadership drives innovation and job satisfaction (García-Morales et al., 2012; Seaver, 2010), while a strategic vision provides a competitive advantage (Hamel & Prahalad, 1989). Transformational leadership enhances performance through employee motivation (Bass & Avolio, 1995; Jung & Sosik, 2002), and business strategies are critical for sustainability (Hambrick, 1980; Oosthuizen, 1997). Human capital plays a vital role in achieving organizational goals (Wang et al., 2008). The study revalidates RBV and Core competency Theory, offering practical insights for Sri Lankan firms to focus on leadership and business strategies to boost performance. It also recommends optimizing staff levels to avoid negative impacts on firm outcomes.

Practical Implications

The study emphasizes the importance of fostering an innovative culture within organizations to enhance creativity and performance, particularly in the context of Sri Lankan firms, where traditional practices and bureaucratic procedures often limit performance. By leveraging knowledge and cultural resources effectively, companies can achieve higher levels of innovation and better results, as posited by the Resource-Based View (Amit & Schoemaker, 1993). Transformational leadership also plays a critical role in motivating employees with numerous studies supporting the positive impact of transformational leadership on organizational innovation (Bass & Avolio, 1995; Gardner & Stough, 2002). Moreover, the right business strategy, tailored to the specific context and external environment, can provide a sustainable competitive advantage, leading to superior organizational performance. The study also highlights the need for firms to adapt their strategies to the

competitive landscape. Additionally, the development of human capital through exposure to foreign markets and continuous learning is essential for achieving the firm's goals and objectives, particularly in the export sector. Overall, the research provides practical insights for improving firm performance through strategic leadership, strategy, and human capital development.

Observations and Recommendations

Some companies use subcontractors to scale operations and manage supply chains effectively, reducing fixed capital requirements while increasing working capital needs. Firms with high in-house R&D intensity focus on product and process improvements but face challenges in deploying innovative projects in unionized environments. Leadership Capability and business strategies are crucial for improving firm performance, with overstaffing identified as a common issue in Sri Lankan firms. Effective workforce management is essential to optimize performance and operational costs.

Limitations of this study focus on large export manufacturing companies in Sri Lanka and excluded other sectors such as commercial, transportation, plantations, hotels, retailing, hospitals, pharmaceuticals, biotechnology, banks, insurance, telecommunications, power and energy, and real estate, as these sectors do not have significant exports (Department of Commerce, 2017; Colombo Stock Exchange, 2020). The study's limitations include the exclusive measurement of firm performance in financial terms, without considering non-financial metrics.

Future Research Directions

Future research should investigate variations between manufacturing and service firms, as well as between large and small firms, to better understand how internal capabilities



affect different organizational subgroups. Separate analysis of financial and non-financial performance metrics will also offer more detailed insights. Research could also focus on specific categories within export manufacturing, such as food and beverage, leather, and plastics, examining them either individually or comparatively. Further, incorporating innovation into future studies is crucial to grasp its role in firm performance. Different types of innovation, process, market, and organizational—should be analyzed to understand how they contribute to overall performance.

Competitive rivalry could be examined as a moderating factor, helping firms navigate competitive pressures. Additional factors such as export percentage, company size, senior management demographics, unionization, and foreign relationships could be explored as moderating influences. Expanding the scope to include strategic resources and internal business systems could further explain firm performance. With 69% of firm performance explained by internal capabilities, future studies have opportunities to explore other contributing factors.

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