

**ORGANISATIONAL CAPABILITIES AS COMPETITIVE STRATEGIES FOR  
FINANCIAL PERFORMANCE OF BUSINESS PROCESS OUTSOURCING FIRMS IN  
MAURITIUS**

by

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submitted in accordance with the requirements for the degree of

**MASTER OF COMMERCE**

in the subject

**BUSINESS MANAGEMENT**

at the

**UNIVERSITY OF SOUTH AFRICA**

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**15<sup>th</sup> May 2023**

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I further declare that I have not previously submitted this work, or part of it, for examination at Unisa for another qualification or at any other higher education institution.

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## **ABSTRACT**

The main aim of the study was to gauge the possible influence of financial performance on the sustainability of firms that operate in the BPO sector in Mauritius. The impact of internal capability on profitability, and the effects of asset efficiency on firm performance were analysed through quantitative approaches to gain insight into the financial performance of the BPO firms. Firm-level indicators were utilised to measure the potential relationship between firm characteristics and performance. The regression model identified that return on assets has an impact on net profit margin and the firm size is also statistically significant and positively related to net profit margin. Furthermore, return on equity, current assets, current liabilities and firm size have a significant effect on return on assets. The findings indicate that human talent with the right skills and investment in technology play integral roles in the success of the Mauritian BPO sector.

### **Key words:**

Asset efficiency, business process outsourcing, competitive advantage, financial indicators, human capital, profitability, resource-based view strategy, strategies, technology

## **Acknowledgements**

I would like to express my indebtedness and appreciation to Prof. Aregbeshola (my supervisor) for his guidance and inspiration throughout this study. I sincerely thank him for his encouragement, contribution, patience and continuous support that made it possible to reach this important milestone. He encouraged me throughout this academic journey - even during challenging times.

I would also like to extend my sincere appreciation to my daughter Shadai Beepat and my nephew, Sandeep Beepat for their ongoing support during the years of study. My appreciation also goes to my employer, DeafNET Centre of Knowledge for their financial support towards my study.

Finally, and most importantly, I am grateful to God for granting me the determination and strength to complete this study.

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### **List of abbreviations**

BPO	Business process outsourcing
CA	Current assets
CL	Current liabilities
CRAAP	Currency, relevance, authority, accuracy, and purpose test
FDI	Foreign Direct Investment
FS	Firm size
GTCI	Global Talent Competitive Index
GDP	Gross domestic product
ICT	Information and communications technology
IT	Information technology
ITES	Information technology enabled services
MTCI	Ministry of Technology, Communication and Innovation
NPM	Net profit margin
RBV	Resource-based view
ROA	Return on assets
ROE	Return on equity

## **Chapter 1**

### **Introduction and background**

#### **1.1 INTRODUCTION**

Mauritius became familiar with business process outsourcing (BPO) in the late 1990s, and the island has since successfully expanded its BPO capabilities. According to the Economic Development Board of Mauritius (2019), the island provides unique advantages as an outsourcing destination for BPO activities. Their report further mentions that the first phase of the IOX Submarine Cable (Indian Ocean Exchange) project would soon be finalised to reinforce connectivity and the island's broadband infrastructure. Mauritius has become an important BPO destination in the Indian Ocean and multinational outsourcing organisations are currently offering services such as telemarketing, technical support, insurance processing, data processing and customer support.

According to the World Bank (2018), Mauritius's gross domestic product (GDP) reached 4% in 2017. The offshore BPO sector continues to support foreign capital inflow into the island. In January 2018, the current account of the island was in a surplus, and the international reserve was up to US\$6.1 billion. Also, given the continuous economic growth during the last decade, the sector has seen impressive growth, while it retains potential for further growth. On the other hand, the Mauritius information and communication technology (ICT)/BPO sector is firmly anchored through reliable infrastructure and telecommunications facilities which have made the sector the third pillar of the economy (Ministry of Technology, Communication & Innovation, 2018). In addition, the Measuring Information Society (2017) indicates that the gross value-added earnings by the sector at the current price was Rs21.4 billion. During the 2015 accounting year, the ICT/BPO contributed 5.7% to the GDP.

The sector has developed distinctive strengths in telecommunication, banking, financial services and insurance, information technology (IT) application development as well as maintenance support. Call centres have been diversifying and are now offering other BPO non-voice services. The Board of Investment annual report (2016) further labels the Mauritian ICT/BPO industry as one of the most dynamic sectors, remaining resilient in the fast-growing economy.

It is an important and growing segment of ICT and has reached 750 companies and currently employs 23 000 people. However, the share of GDP of the ICT sector dropped to 5.7% compared to 2015.

The growing pressure from globalisation has increased the intensity of competition around the world. Banda (2015) explains that due to competitive conditions, BPO in Mauritius has reached a growth plateau. It started in the late 1990s as a means to diversify the economy as a consequence of the sugar and textiles industries no longer being profitable. The above view is supported by Bedassy (2015), who mentions that Mauritius is already experiencing a bumpy ride due to serious competition from its regional neighbours. The prospects of the island becoming a leader in ICT/BPO in the Indian Ocean are not optimistic. Furthermore, BPO firms must implement a winning strategy to cope with competition to maintain a sustainable competitive advantage.

The BPO sector is an important and growing segment of the ICT sector. Globalisation has intensified competition and local firms are striving to compete with multinationals. Chumo (2015) explains that international competition has intensified and the challenges Kenyan BPO firms are facing are mainly marketing strategies to promote local competencies, infrastructure and skills requirements.

It is observed that BPO firms must focus on how to sustain their competitive advantage to survive a turbulent environment. Most importantly, outsourcing companies need to gear up to face the next phase of global challenges. Sharma, Taggar and Jain (2018) explain that the Global Talent Competitive Index (GTCI) focuses on measuring how nations expand, attract and retain talent. It provides support to executives to understand talent dilemmas and devise strategies. Also, it stresses how technology is shifting talent competitiveness to boost economies and the nature of work. The GTCI combines six indicators, namely retain, attract, grow, enable, global knowledge skills and vocational and technical skills, that are related to achieving competitiveness.

Table 1.1 shows Mauritius's ranking in the 2022 GTCI.

**Table 1.1:** GTCI (2022) rankings and scores**MAURITIUS – KEY INDICATORS**

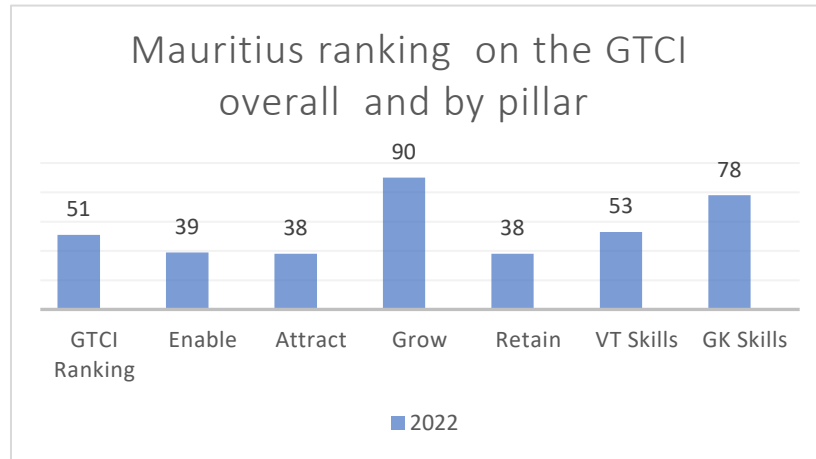
Rank ( out of 133)	51	GDP per Capita (PPP US\$)	21 240
Income Group	Upper- Middle	GDP ( US\$ billions)	11.16
Regional group	Sub-Saharan Africa	GTCI score	45.87
Population ( millions)	1.27	GTCI score(income group average)	41.23
<b>GTCI 2022 COUNTRY PROFILE BY PILLAR</b>			
	<b>Score</b>	<b>Rank</b>	
<b>1 Enable</b>	<b>53.61</b>	<b>39</b>	<b>4 Retain</b>
1.1 Regulatory Landscape	67.83	33	4.1 Sustainability
1.1.1 Government effectiveness	63.53	37	4.1.1 Pension coverage
1.1.2 Rule of law	70.12	32	4.1.2 Social protection
1.1.3 Political stability	83.58	19	4.1.3 Brain retention
1.1.4 Regulatory quality	71.18	26	4.1.4 Environmental performance
1.1.5 Corruption	50.72	39	4.2 Lifestyle
1.2 Market Landscape	33.06	87	4.2.1 Personal rights
1.2.1 Extent of market dominance	22.08	114	4.2.2 Personal safety
1.2.2 Domestic credit private sector	42.55	31	4.2.3 Physician density
1.2.3 Cluster development	46.5	58	4.2.4 Sanitation
1.2.4 R&D expenditure	7.57	66	<b>Vocational &amp; training skills</b>
1.2.5 ICT infrastructure	47.73	83	5.1 Mid Level Skills
1.2.6 Urbanisation	31.92	109	5.1.1 Workforce with secondary skills
1.3 Business and Labour Landscape	59.93	24	5.1.2 Secondary education
<b>Labour Market</b>			5.1.3 Technicians and associate
1.3.1 Labour rights	71.45		5.1.4 Labour productivity / employee
1.3.2 Labour-employer cooperation	52.81		5.2 Employability
<b>Management Practice</b>			5.2.1 Ease of finding skilled employees
1.3.3 Professional management	53.87		5.2.2 Relevance of education system
Technology Adoption			5.2.3 Skills matching
1.3.5 Enterprise software	100		5.2.4 Highly educated unemployment
1.3.6 Cloud computing 23.93	23.93		
1.3.7 Firms with website n/a			

Source: Lanvin and Monteiro (2022)

According to Lanvin and Monteiro (2022) the ability to achieve competitiveness also relies on strong performance in sub-pillars. A quick glance at the ICT infrastructure sub-index (1.2.5) reveals poor performance. It can be observed that Mauritius needs to improve its ICT infrastructure to raise the level of the engage pillar to improve overall competitiveness. This is in line with research done by Pereira et al. (2021), who highlight the nature of investment in digital infrastructure technology as a fundamental component for BPO firms. It should be noted that technological advancement is helping firms to shift their services across borders.

## Global Talent Competitive Index 2022

Figure 1.1: Global Talent Competitive Index of Mauritius



Source: Lanvin and Monteiro (2022)

The report shows that Mauritius's position is in the upper half of the GTCI 2022. The country's highest ranks are related to retaining (38<sup>th</sup>) and attracting (38<sup>th</sup>) talent. Putting the lens closer, it can be seen that Mauritius needs to improve its ability to grow (90<sup>th</sup>) by improving the quality of formal and tertiary education and the enable indicator.

According to Mann and Graham (2016), BPO firms constitute different facets of economic globalisation. Economic globalisation is defined as the offering of ongoing benefits and acquiring of new skills, capital and economic growth for countries. However, the authors argue that the benefits gained from the globalisation of services will most likely benefit highly qualified groups while directly impacting the bargaining power of low-skilled workers. Meanwhile, Kanade (2015) did a study on talent repellents in the BPO industry in India. He concluded that human resource management has failed to identify the reason for high labour turnover in the BPO sector in India.

The outsourcing sector in Mauritius is now facing new challenges, and revisiting competitive advantage will subsequently add value to the Mauritian economy. Further to the pressure exerted by globalisation, competitive conditions are rising in this turbulent environment. It appears that developing and maintaining a competitive advantage will help firms to stay ahead of competitors.



Ndegwa, Kilika and Muathe (2018) reiterate that understanding the resources of an organisation will make a firm better understand its potential of creating and sustaining its competitive advantage. Firms must find ways to survive and devise strategies to cope with the challenges of globalisation, and yet at the same time strive to gain a good competitive position in the BPO sector.

Bhat and Darzi (2018) point out that as competition is on the rise in the outsourcing sector, companies need to constantly focus on building core competencies through service delivery, identifying product strategies, recruiting skilled employees and accumulating intellectual property. They maintain that core competencies have strategic values in contributing toward sustainable competitive advantage in today's turbulent competitive environment. It is imperative that with the recent waves of competition, companies need to develop and maintain competitive advantage in the unstable BPO sector in Mauritius. Furthermore, globalisation has forced the government, together with key players in the sector, to look towards strategies that will increase overall productivity. In addition, trade barriers and tariffs have been reduced and protectionist policies are no longer valid as the world is becoming a global village.

Based on the above, it is observed that the BPO sector of Mauritius is now facing uncertainty due to the free trade concept and international competition. This means that companies must compete at a national, regional and international level because of competitors across the world. It is evident that further growth in the BPO sector depends on developing and implementing new business strategies. Due to intensified competition in the BPO sector, assessing the resources is relevant to this study and strengthens the strategic management theory of resource analysis.

## **1.2 LITERATURE REVIEW**

Asongu, Koomson and Tchamyou (2017) assert that the level of uncertainty arising from the recent financial crisis has provided more evidence of an unstable global market. This is in support of Du Toit (2016), who reports that the level of uncertainty in insurance, financial, real estate and business services has increased due to the turbulent environment. The latter also points out that intensity of competition will differ from business to business.

Kleibert (2015) found that the BPO sector has shown growth over the last two decades and is still expected to rise. It is believed that its impact on the world economy will be higher than the earlier relocation of manufacturing activities. At this point, it is clear that competition is rising and most sectors are experiencing higher levels of uncertainty. Therefore, firms should conduct analyses and access strategies to achieve high performance.

Hakkak and Ghodsi (2015) mention that in the run to gain a competitive advantage, firms must find a way to survive and devise strategies to cope with compatibility drives, taking into consideration all their inherent challenges. Dynamics and sustainability are regarded as a must to survive the current turbulent business environment. The next section deals with competitive approaches that can help to explore competitive advantages.

### **1.2.1 Competitive Advantage**

Sihite (2018) shows that competitive advantage is a management concept that is very common in business management literature. It must be achieved to withstand a turbulent environment and add value to business success. The author reiterates that internal resources and company innovation strategy can deliver superior value for a firm. Barney (2001) says that in search of competitiveness, firms must understand sources of competitive advantage. When changes arise, a company must adopt a strategy that makes use of its resources effectively.

Kaur, Sharma and Goyal (2019) explain that in the process of gaining competitiveness, competitive advantage can be obtained by devising organisational strategies based on internal and external analysis. Further to the argument of competitiveness, James and Joseph (2015) mention that resource-based theory suggests that the resources possessed by a firm are the determining factor in achieving a competitive edge. However, Wu et al. (2017) reiterate that resources on their own are of no use and the way resources are exploited will lead to profitability. From the above, it can be concluded that competitive advantage is undoubtedly the backbone of a company's ability to survive.

### **1.2.2 Source of Competitive Advantage**

Nan and Tanriverdi (2017) state that in this turbulent environment, information technology (IT) can enhance competitive advantage, whereas Abbas Bhaya and Kraidy Jassmy (2017) argue that branding is associated with high quality that can achieve strategic relevance, which can lead to competitive advantage. Despite the dominance of competitive advantage concepts, sustainable competitive advantage is the latest concept in the field of strategic management (Arsawan et al., 2022). It happens when other firms cannot duplicate the benefits of competitive advantage. Thus, to achieve long-term sustainable competitive advantage, there should be sustenance in the resources of the organisation that have been supplying goods and services.

To be one step ahead of competitors, decision-makers need to address the competitive edge in the company. Sołoducho-Pelc and Sulich (2020) point out that the resource-based view (RBV) is an excellent model that considers resources and opportunities to shape competitive edge. The model emphasises the necessity to acquire and develop resources, transform them and use them in innovative processes to make new goods and services.

### **1.2.3 Understanding Sustainable Competitive Advantage**

According to Mahdi, Nassar and Almsafir (2019), in the global arena of the 21<sup>st</sup> century, growing the monetary value of organisations and attaining sustainable competitive advantage is becoming very challenging. They reiterate that RBV is a well-known strategic management theory that combines resources and capabilities to secure sustainable competitive advantages. As a result, it will contribute to achieving high performance.

Pahurkar, Nair and Kolte (2019) investigated the impact of learning organisations on employee retention, competitive advantage and financial performance in the BPO industry. They report that when firms implement systems and processes that allow rapid development of new goods and services, it has a high employee retention rate and leads to a sustainable cost advantage. Furthermore, the study of Foster et al. (2018) found that the BPO sector in Kenya has succeeded in integrating into emerging value chains by sourcing low-value work. Additionally, it has created a niche opportunity for developing local markets.

#### **1.2.4 Sources of Sustainable Competitive Advantage**

Barney (2001) recognises attributes that can be regarded as a major source of sustainable competitive advantage. The resource must be valuable, inimitable, rare and imperfectly substitutable. On the other hand, Grant (2010) emphasises that income earned from resources and capabilities not only depends entirely on the capacity to create competitive advantage, but also on how long the advantage can be maintained. Durability and capability are the main axis upon which competitive advantage is based.

Mahmood and Zafar (2016) did a study in Pakistan on human resource management practices for employee retention. They emphasise that it is crucial to identify employee turnover and implement vital strategies to retain employees. Also, retaining talented employees will provide an important source of competitive advantage. The study of Wijesiri et al. (2019) suggests that when management of BPO formulate the policies on employee retention, they should consider not only the human resource practices, but also factors that can impact on the workforce. On the other hand, Mao et al. (2016) specify that intangible resources such as technology are strategic resources for gaining a competitive edge.

Hakkak and Ghodsi (2015) make the case that as a result of competition, factors affecting global business are different and more complex than what was previously the norm. The concept of competitive advantage and being on the front line has resulted in arguments pertaining to competitive strategies. The next section deals with competitive strategies that a firm can use to increase competitiveness.

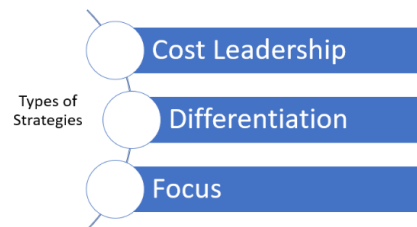
#### **1.2.5 Understanding Strategy**

Porter's analysis of competitive strategy (1985) consists of the analysis, decisions and actions that an organisation commences in order to create and sustain competitive advantage. Laari, Töyli and Ojala (2017) state that many researchers have focused on developing and defining competitive strategies. Most of them were based on Porter's generic strategies to achieve high performance. In this regard, Kabuel and Kilikai (2016) draw the conclusion that for a firm to have a source of sustainable competitive advantage, it has to develop strategies by combining its resources in such a way that competitors cannot duplicate it.

The above discussion leads to the acknowledgement that competitive strategies play an important role in achieving organisation goals and competitive advantage in the BPO sector. As advocated by Grant (2010), there are three types of generic strategies that can be used to achieve strategic management actions.

## 1.2.6 Types of Strategies

**Figure 1.2: Types of competitive strategies**



**Source: Grant (2010:127)**

Figure 1.3 shows Grant's 'generic strategies' as a guide to success in achieving competitive advantage in an organisation. Hales and Mclarney (2017) explain that cost leadership, differentiation and focus are three generic strategies that can be used to promote products or services in different-sized companies.

### 1.2.6.1 Cost leadership strategy

Porter (1985) explains that the cost leadership strategy is a method of realising competitive advantage by developing the edge that pushes up sales through (i) lower costs by increasing revenue while charging market price and (ii) charging a low premium to increase market share, while still enabling firms to make a reasonable return per sale because of lower costs.

As an example of cost leadership in the BPO segment, CSL BPO Services (2017) was established in Mauritius in 1999 and took over the task of providing telephonic assistance for Mauritius Telecom customers. As the BPO sector in Mauritius is experiencing competition, the company has already started to outsource their call centre activities to Madagascar where there is cheap labour. This has allowed the firm to offer low prices to attract customers. The firm is currently training inexperienced call centre operators at a lower cost in Madagascar.

### ***1.2.6.2 Differentiation strategy***

Porter (1985) further explains that differentiation for a company involves making unique products or services and determining ways to distinguish itself from competitors. This depends on the exact nature of the industry of the goods and services offered. It involves functionality, features, support, durability and also a brand image that is valued by customers. Similarly, in the context of differentiation strategy, EURO CRM Mauritius (2017) started its operations in 2004, and has a wealth of experience, having developed skills in many IT fields. The company differentiation strategy has earned the company its position as a leader in customer relationship management by making strategic investments in geo-marketing. Geldes et al. (2015) explain that there has been a growing interest in industrial clusters as a tactic to improve performance and to promote regional economic development. The reason for this interest is that geographic proximity facilitates knowledge spillovers and contributes to firms' international competitiveness and business opportunities.

### ***1.2.6.3 Focus strategy***

Porter (1985) sub-divides the focus strategy into two parts: cost focus and differentiation focus. He explains that firms with focus strategies distillate on certain niche markets. Companies need to understand the special needs of customers and the dynamics of those markets. Moreover, they must come up with formulae that reduce costs or create unique products for those markets. As a result, the companies focus on brand loyalty among customers in their unique market. Porter (1985) concludes that the key to success is to ensure that "something extra" is added when serving the niche market.

Apollo Blake Mauritius (2017) is an outsourcing firm that was founded in Mauritius in 2008. The head office is based in America and the company provides bilingual (English and French) service solutions for:

- Inbound/outbound customer service,
- Technical web-based help desk support through voice,
- Email, live chat and social media.

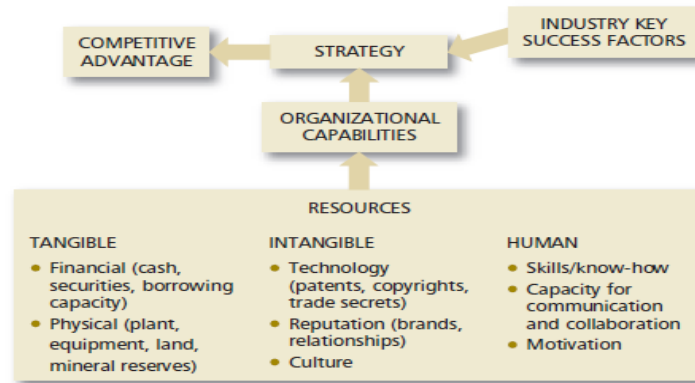
In 2011, the organisation expanded its wings to explore legal process outsourcing, taking on issues such as legal, insurance and death claims as part of their legal niche strategy focus. Sutanto and Sudarsono (2018) argue that competitive advantage can only be achieved if a company has resources that are in line with demand. Furthermore, resource analysis can lead a firm to gain competitive advantage. Therefore, RBV leans towards understanding how companies can develop and sustain sources of competitive advantage.

### **1.2.7 Conceptual Framework**

Porter (1985) came up with a more in-depth analysis model to better understand a firm's competitive position in an industry. The model provides a framework for assessing the impact of the external environment on a firm's ability to develop a competitive advantage. However, Isabelle et al. (2020) present an opposing view that Porter's five forces model does not take into consideration factors such as globalisation, digitalisation, deregulation and the level of innovativeness. Additionally, other factors that are overlooked are freeport and joint ventures. They are of the opinion that the framework needs to be revised. All of these forces have a direct impact on a firm's ability to compete in this turbulent environment.

Mikalef et al. (2020) examined the relationship between big data analytics capability and competitive performance. They made use of Grant's approach (2010) in classifying resources into tangible (e.g. financial resources), human skills (e.g. employees' knowledge and skills) and intangible (e.g. organisational learning and organisational culture) to develop IT capability. Figure 1.4 is a similar model that is used to conduct a resource analysis in the industry. It covers all the key factors aiding competitive advantage and defines a link between resources, capabilities and competitive advantages.

### **Figure 1.3: Resources, capabilities and competitive advantage**



Source: Grant (2010:127)

This is a managerial framework that is used to determine the strategic resources of a company to take advantage to achieve a competitive edge. For the purpose of the study, only those resources to assess competitive advantage in the BPO sector in Mauritius are considered. The framework highlights the significance of analysing resources in assessing the financial performance of BPOs and can be efficiently used in providing an insight of competitive advantage.

## 1.2.8 Resource-based View Strategy

Hoskisson et al. (2018) indicate that the RBV strategy is based on stakeholders making investments in specific assets that can add value to a firm's assets and capabilities to generate competitive advantage. A recent study by Zahra (2021) found that RBV has become known as an important strategic tool that companies can use to build and maintain competitive advantage in turbulent markets. The model suggests that tangible and intangible assets have some qualities that make them the driving force of competitive advantage.

### 1.2.8.1 Tangible resources

According to Grant (2010), a resource analysis is not concerned with valuing a company's assets but helps rather to better understand how competitive advantage is created. To assess how to compete effectively, the structure of these assets must be understood, which consist of plant, land and buildings, equipment, minerals and cash.

### 1.2.8.2 Intangible resources

Grant (2010) further explains that intangible resources have three features that differentiate them from tangible resources.



Firstly, they do not deteriorate and are expected to have long-term benefits compared with tangible assets. Secondly, many managers can make use of them. Lastly, the resources are difficult to exchange and cannot be taken away from the owner. In achieving competitive advantage, intangible resources in the BPO sector include customer service, telecommunications such as voice calls, and data connectivity and reliability of the services. Good employers will have a strong identity in the marketplace and will reinforce competitive priorities. As a result, IT departments in the BPO firm must constantly reinvent their branding strategies in order to differentiate themselves from one other.

### ***1.2.8.3 Human resources***

Qehaja and Kutllavci (2015) pinpoint the importance of human resources as a basis for competitive advantage. Moreover, companies have implemented a system that increases the potential of management and its employees. People and developed systems are regarded as valuable assets that provide a source of sustainable competitive advantage.

### ***1.2.8.4 Internal capabilities***

Porter's views (1985) focus on an organisation's capabilities, core competencies and competitive advantage. Priadana et al. (2021) maintain that to survive in a turbulent business environment, a firm requires sustainable competitive advantage. This can be achieved through coherent business, competitive strategies and the ability to exploit organisational resources and capabilities. As a matter of fact, those capabilities originate in the resources that the firm possesses. The growing concern arising from globalisation is that it is harder to develop a competitive edge and improve a firm's financial profitability.

As a result of globalisation, firms are faced with a range of complicated financial problems. Pazarskis et al. (2018) reiterate that the study of financial situations and competitiveness is extremely important. Larasati and Purwanto (2022) assert that enterprises should maintain their sustainability and focus on their financial statements. Furthermore, the financial performance of a firm is an element that is directly linked to the performance of the company and is reflected in the income statement. It is observed that research-based view approach is a more direct means of examining the financial health of BPOs which can also boost overall competitiveness. The following section deals with financial analysis as an important role in decision making process.

### **1.2.9 Financial Analysis as a Strategic Tool to devise the Right Strategies**

Mahajan and Yaday (2016) define financial analysis as an assessment of the profitability, stability and viability of a business. Haralayya (2021) describes ratio analysis as a strategic tool when conducting financial analysis. It is used to collate the risk and return relationships of different firm sizes and understand the financial situation. It involves the analysis and interpretation of financial reports to identify strengths, weaknesses, areas of opportunities, threats, historical performance and current financial position of a firm. As a result, it will help managers to devise strategies to cope with competition.

Chrobocińska (2020) identifies different ways to assess the competitive position of a firm by conducting ratio analysis based on financial indicators. In reshaping the strategy, ratio analysis can be characterised as an evaluation of business activity that contributes to better resource allocation and identifying causes of deviation. It is noted that the effectiveness of the firm's management can also be assessed through ratio analysis.

Hamid (2018) explains that easily identified assets can be found on financial statements and develop organisational capabilities. As a result, firms can develop strategies such as combining processes, people and assets that it uses to transform inputs into outputs. In research done by Chan and Abdul-Rashid (2017), financial results also show a significant difference depending on the strategies adopted by firms. In a declining market facing intense competition, firms may choose different strategies to retain core competencies and keep key staff members. Furthermore, Bordeianu and Radu (2020) stress that ratio analysis is crucial for a firm to analyse its profitability, liquidity, efficiency, solvency, risks and proper utilisation of resources that can assist in decision-making. Previous studies indicate that the uses and applications of financial ratios to find out financial efficiency and develop a step ahead is crucial. The contribution of ratio analysis techniques in this study is significant because it is seen as a way in making fair comparison throughout the outsourcing sector.

In conclusion, BPO firms are facing difficulties with the cost of operation, changing technologies and lack of skilled labour, all of which prevent the expansion of activities. This has created a drive to understand how BPOs can create and maintain their position in the ICT sector in Mauritius.

Thus, this research is a study of the effectiveness of competitive strategies adopted by BPO firms operating in Mauritius. More precisely, the financial statements of BPO firms are analysed based on the RBV approach.

The study focuses on ratio analysis, which provides valuable information with a focus on devising strategies. This research approach was deemed suitable to better understand the deployment of resources and devise the right strategies.

### **1.3 MOTIVATION FOR THE STUDY**

The BPO sector remains the third pillar of the Mauritian economy. Over the last few years, the growth rate in the BPO sector has been steadily declining and it remains stagnant. The sector has started to experience a bumpy ride due to an increase in regional competition. Strategic management literature suggests that a firm's strategic resources and capabilities can generate a competitive advantage. On the other hand, the Mauritian government is investing in the development and advancement of technology which increases the possibility that some BPO activities can be taken over by an automated system and face intense competition.

This is indeed a matter of concern for BPO operators, as they are confronted by many issues that can impact on them and even them put out of business. The above issues regarding competition and their implications have led to an interest in recognising the importance of developing competitive advantage. Previous studies have focused on types of BPO risks; however, this study looks at extended literature by analysing financial statements of BPO projects in Mauritius, with a focus on devising strategies.

### **1.4 PURPOSE OF THE STUDY**

Nason and Wiklund (2018) refer to a recent bibliometric analysis which found that a resource-based approach in conducting analysis is leading the strategic management field. Also, RBV and Penrosean approaches are very useful for developing goods, services and strategies. Strategic resources are elements that offer a firm competitiveness and differential strategies.

The purpose of the study was to evaluate the financial statements of the BPO firms operating in Mauritius and subsequently devise strategies that will enhance performance and enable the firms to cope with the competitive business environment. In this research, 43 audited financial statements of BPO companies were analysed. This analysis provides information and suggestions can be made to enable these companies to develop strategies to maintain their competitive position in the region and to stay ahead of competitors.

## **1.5 PROBLEM STATEMENT**

Pahurkar, Nair, & Kolte (2019) mention that changing technology, global competition and regulations strengthen the need for BPO firms to transform and revisit competitive strategies in order to have an immediate impact on financial performance. Competitive strategies play an important role in achieving organisation goals and competitive advantage. According to the literature, RBV is seen as the most influential theory in collecting, developing and exploiting resources resulting in sustainable competitive advantage.

The study problem pertains to Mauritian BPO firms which are now facing uncertainty due to competition and the outsourcing sector is now faced with a range of complicated financial problems. Also, competition in the global BPO sector has intensified and Mauritian outsourcing firms are experiencing challenges and firms are having a poor financial performance. Considering the current situation in the industry, this study was therefore a scientific investigation into the financial performance of the sampled organisations as it relates to the competitiveness of the firms and subsequently devises strategies that will enhance performance.

## **1.6 RESEARCH OBJECTIVES**

The main aim of the study was to gauge the possible impact of financial performance on the sustainability of firms that operate in the BPO sector in Mauritius. Thus, the effects of internal capability and efficiency were investigated. This sheds light on and provides an understanding of how resources can generate a competitive advantage as it becomes essential given the fierce competition that now characterises the sector. Furthermore, the research specifically aimed to achieve the following objectives:

- To investigate the effects of internal capability on the profitability of firms that operate in the BPO sector in Mauritius in relation to return on assets and firm size.
- To investigate the effects of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius in relation to return on equity, current asset, current liability and firm size.

## **1.7 PERIOD OF STUDY**

This research covered a period of 10 years, from 2010 to 2019, of the accounting year consisting of 12 months.

## **1.8 RESEARCH QUESTIONS**

In order to attain the stated objectives, the study sought to answer the following research questions:

- What are the effects of internal capability on the profitability of firms that operate in the BPO sector in Mauritius in relation to return on assets and firm size?
- What are the effects of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius in relation to return on equity, current asset, current liability and firm size?

The study therefore sought to identify matters relating to competitive advantage in the BPO sector using a quantitative methodological approach.

## **1.9 RESEARCH DESIGN**

According to Rahi (2017) the purpose of exploratory research is to pursue new insights, determine what is happening and as a bid to ask questions. Cohen, Manion and Morrison (2017) mention that explanatory research helps to find out the reasons behind the occurrence of a particular phenomenon. Furthermore, it explains a situation or problem usually in the form of casual relationships.

Prawirodipoero, Rahadi and Hidayat (2019) explain that financial ratios are an analytical tool to assess the financial performance of an organisation. These financial indicators can evaluate the overall financial condition of a company. Thus, financial ratios pinpoint strengths and weaknesses from which strategies and initiatives can be formulated.

In addition, Simlai and Guha (2019) draw attention to the fact that practitioners are making use of financial indicators to forecast the future success of firms. The study used of a combination of descriptive and casual research design to evaluate the annual statements of BPO firms and highlighted a trend over a period of 10 years.

### **1.9.1 Population**

The study involved the BPO sector in Mauritius. For this research, the population consisted of local BPO firms and was restricted to companies operating in Mauritius. There are 205 BPO companies registered with the Ministry of Technology, Communication and Innovation (MTCI), 53 of which were still in operation at the time of the study. The rest of the companies were inactive, had changed the nature of their business, or were dysfunctional.

### **1.9.2 Sampling Plan**

The study relied purely on secondary data which was collected from financial statements. The MTCI list of BPO companies was used. The audited financial statements of 53 BPO companies for a period of 10 years were collected from the Government of Mauritius's Corporate and Business Registration Department, 1 Cathedral Square, Jules Koenig, Port Louis of which 43 were retained for analysis.

### **1.9.3 Instrument**

The analysis was performed on the audited financial statements of 43 BPO companies operating in Mauritius, filed from 2010 to 2019.

### **1.9.4 Data Collection**

Balance sheets and income statements for 10 years were examined. An official request to obtain the statements was submitted to the Government of Mauritius's Corporate and Business Registration Department.

### **1.9.5 Data Editing, Coding, Capturing and Storing**

According to Gelling (2015), quantitative data is gathered in a precise and replicable manner to test hypotheses and answer the research question.

Quantitative data collection and analysis focus on the collection of information that is measurable and countable. All secondary data collected in this study was classified and sorted into an easy spreadsheet. Excel was used to organise all of the data into an easily searchable spreadsheet. Data was broken down into smaller categories and coded. A few checks were conducted to look for duplicates and errors for each variable.

### **1.10 METHOD OF DATA ANALYSIS**

Financial ratio analysis was conducted according to the type of efficiency and profitability using a descriptive method to measure the performance of the BPO companies. Net profit margin and return on assets formulae were used to calculate the ratios in the statistical analyses.

### **1.11 DATA ANALYSIS AND INTERPRETATION**

According to Kaur, Stoltzfus and Yellapu (2018), descriptive statistics are used in a study to arrange the data logically and to explain the connection. The first analysis in this study was to identify the mode, mean, median standard deviation, variance, kurtosis and skewness, which are measures of the central tendency of a set of data. Also, normality and autocorrelation tests were applied to ensure data stability. Regression analysis was applied. Data analysis for the actual study was done through a statistical package, i.e. SPSS. Inferential statistics were used for the initial analysis.

### **1.12 CONTRIBUTION**

The BPO companies operating in Mauritius were chosen for the study regarding the effectiveness of competitive strategies in the BPO sector. The study will be beneficial for management to determine ways to survive and devise strategies to cope with the competitive business environment. As a result, this will lead to a better understanding of how to maintain competitive advantages and improve overall performance. The findings will also help to respond to the challenges currently facing the industry. The outcomes of the study are aimed at encouraging BPO firms to take into consideration the importance of developing and maintaining sustainable competitive advantage.

### **1.13 VALIDITY AND RELIABILITY**

De Menezes and Xavier (2018) explain that validity is concerned with the degree to which an instrument accurately measures the variable. They also state that a reliable assessment tool produces reliable measurements and stable results. According to Guay, Samuels and Taylor (2016), balance sheets and income statements provide companies with accounting information for analysis and discussion. However, there have been concerns about the effectiveness of these disclosures in communicating information to key stakeholders. It should be noted that the paid financial statements used in this study were collected from the Mauritius Corporate and Business Registration Department and have been authenticated and validated.

### **1.14 RESEARCH CONSTRAINTS**

The data was limited to BPO companies operating in Mauritius. Data from other IT companies operating in Mauritius did not form part of the research. Furthermore, the historical performance of BPO companies cannot be a determinant of future financial health performance over a given period. Moreover, the analysis of data was limited to the period from 2010 to 2019. Mauritius is a small market, and the findings might not be generalisable to other surrounding islands in the Indian Ocean.

### **1.15 ETHICAL CONSIDERATIONS**

All financial statements, namely balance sheets and income statements, were collected from the Government of Mauritius's Corporate and Business Registration Department and were believed to be public knowledge. Thus, the research complied with ethical standards relating to academic research. The study did not include human participation and was regarded as having no risk to any person.

### **1.16 OUTLINE OF STUDY**

The chapter layout of the dissertation is as follows:

#### **Chapter 1: *Introduction and Background***

This chapter consists of an introduction, background and motivation for the study, the problem statement, the purpose and significance of the study, the research design methodology, ethics statement, limitations and conclusion.



## **Chapter 2: *The Conceptual Discourse of Competitive Strategies***

The literature review of the study is presented in this chapter.

## **Chapter 3: *Research Methodology***

The research design and methodology are described.

## **Chapter 4: *Data Analysis and Interpretation***

The data analysis and discussions on findings are presented.

## **Chapter 5: *Conclusions and recommendations***

Conclusions and recommendations are made based on the research findings.

### **1.17 CONCLUSION**

As discussed in this chapter, the BPO sector is an important pillar of the economy of Mauritius. The industry has reached the maturity stage and, due to global competition, local BPO firms must gear up in order to face competition. Developing and maintaining sustainable competitive advantage in the BPO will make the island become a cyber-city offering services with added value. The purpose of the study was to devise strategies that will enhance the performance of BPO firms in Mauritius and to determine how businesses can cope with the competitive business environment.

The study relied purely on secondary data collected from financial statements of BPO operations in Mauritius. The audited financial statements of 53 BPO companies for a period of 10 years were collected from the Government of Mauritius's Corporate and Business Registration Department, of which 43 were retained for analysis.

The main objectives were briefly explained, as well as the research questions. In addition, the significance and the limitations of the study were highlighted. Lastly, the ethical standards relating to academic research were discussed briefly; human participation was not included. The next chapter contains a review of the literature on the types of competitive strategies as well as financial analysis.

## **Chapter 2**

### **The conceptual discourse of competitive strategies**

#### **2.1 INTRODUCTION**

Xiao and Watson (2019) maintain that a literature review is crucial for academic study. It is essential to build knowledge on existing work. By studying previous literature, scholars understand the in-depth knowledge of the existing subject field and identify gaps to study. This chapter presents the theoretical component of the study as stated in chapter 1, which includes a discourse on competitive advantage, competitive strategies, the resource-based view approach, strategic tools and the business context within which this study is situated.

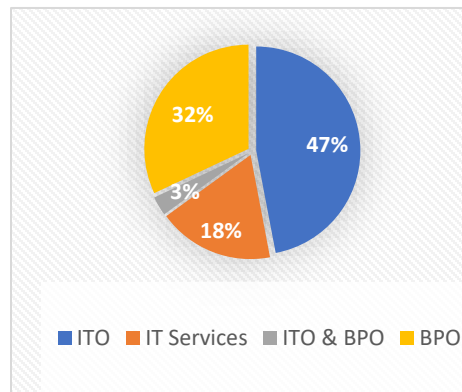
The available literature is analysed and the factors that may have influenced a BPO firm's productivity are explored. BPO is an important and growing segment of Mauritius's ICT sector. It plays a key role in economic and financial activities that drive the sustainability of the island. It is the dream for all leaders to succeed in this challenging and volatile environment.

#### **2.2 BPO SECTOR**

According to Republic of Mauritius (2020) the ICT/BPO industry represents a key driver of the Mauritian economy with a GDP contribution of 5.6% for 2017 and employing around 24,000 people. The sector is vibrant spanning from start-ups to multinationals across various segments such as applications development, e-commerce, support desk, digital services among others.

The Board of Investment (2015) highlights that the ICT/BPO remains a sector with rapid growth, and it has reached 750 companies. Giant organisation such as Huawei, Accenture, Orange Business Services, Ceridian, and Infosys amongst others have already established their operations. The report added that foreign investment in the BPO sector features France accounting for 85% which represents 27% of the industry. The local based companies account for 56% of the industry. The rest of the industry is divided among Asia, Africa, USA and Canada.

Figure 2.1: ICT/BPO (2015) Industry Segmentation



**Source: Board of Investment (2015)**

Figure 2.1 highlights the industry segmentation of the ICT/BPO sector. BPO is a segment of the ICT industry. The sector is subdivided into IT services, ITO, BPO and ITO & BPO segments. The firms operate within the BPO segment offering services in BPO Non-Voice, edge Process Outsourcing (KPO), BPO Voice and BPO Voice and Non-Voice. Below is a breakdown on business opportunities that exist in the sub section of the BPO segment.

- BPO Non-Voice - Legal Process Outsourcing, Payroll, Accounting and Finance outsourcing and Back Office
- BPO Voice - Call Centres
- KPO - Capital and insurance market services, legal services, biotechnology, animation and design
- BPO Voice and Non Voice

## **Employment**

According to Basu and Ghosh (2017) Foreign Direct Investment (FDI) inflow plays an important role in job creation and has created more employment compared to other sectors. Board of Investment (2016) explicitly considers that the BPO industry is one of the largest employers in the country and today's outsourcing involves more complex jobs such as financial analysis, software design, and even medical prescriptions.

The fact that the Island has emerged as an attractive BPO destination, the sector has been able to create jobs in knowledge intensive activities. In this perspective, it is believed that human resource plays an important role behind success in the emerging digital economy. It is observed that the FDI in the BPO sector has made a positive impact on the labour market in Mauritius.

Figure 2.2. Breakdown of employment per sub-sector.



Source: HRDC, (2017:19)

The ICT/BPO is already the third pillar of the Mauritian economy and currently employs about 24 000 people. The BPO sub segment holds the biggest share of employment and remains the main job creator as depicted in figure 2.2. The government of Mauritius has taken several measures to establish linkages between the workplace and education. To meet the demand of labour in the sector, the Ministry of Labour, Industrial Relations and Employment are issuing work permits for overseas professionals as a strategy to reinforce and consolidate the workforce in the ICT/BPO sector (Board of Investment, 2015).

In view of steady the growth in the ICT- BPO industry, government is trying to pay more attention on developing new value added activities in this segment. In addition to focusing on competitive advantage, the island also has an advantage from its location where optic fibre submarine communications linking Malaysia, India and South Africa has already been laid.

The government is doing its utmost to attract technology-related businesses and steps have been taken to build more high-tech cities. According to Mauritius Telecom report (2015) the telecommunications system of the island has received a major boost where Mauritius linked up with the South Africa Far East (SAFE) fibre-optic cable.

On a critical look, competition in the industry has intensified and language skills is no longer a barrier for competitors such as India and Philippines. The competitors are consolidating their resources in order to better met customer expectations. On the other hand, Madagascar, Central and East Africa are beginning to penetrate the BPO market. In its present condition, Mauritius does not have competitive immunity. Some companies are struggling due to poor visibility but the Island is still a destination for BPOs due to its location and language. Internet rates will further drop and BPO firms must stay competitive in order to survive the competitive environment.

Since the new millennium, the ability to compete internationally has become a necessity if a business wants to survive in the global market. Du Toit (2016) states that competition has risen in most sectors due to globalisation. Briggs (2016) argues that international competition in the global outsourcing sector has intensified. Firms are outsourcing their major non-core functions to specialist service providers such as BPO firms with the aim of becoming efficient service providers and gaining a competitive advantage in their core business. Furthermore, Kleibert (2015) points out that globalisation forces and technological revolutions are creating a platform to enter into intense competition in the IT industry.

Businesses can be caught off guard for failing to consider competition within the turbulent environment. A close look at the BPO business environment within the Indian Ocean region shows that factors influencing businesses are far more complex than in the past. This scenario opens the door for BPO players in Mauritius to consolidate and strengthen their position in the outsourcing market. The first part of this chapter contains a review of the key concepts of strategy and its importance, types of competitive strategies, competitive advantage and sustainable competitive advantage in order to better understand competitive strategies.

The theoretical underpinning of this research is guided by Grant's theoretical framework (2010), which was used to conduct resource analysis and to show how resources and capabilities are extremely important in creating a competitive advantage in the BPO sector.

### **2.3 COMPETITION IN THE CONTEMPORARY BUSINESS WORLD**

The latest technologies, innovation and international competition are the main driving forces in the BPO industry. Law (2018) explains that firms have started to investigate back source production activities due to not using internal production capabilities. This move is attributed to external changes arising from economic turmoil. Chinnamuthu and Gabriel (2016) assert that HR specialists of BPOs must pay more attention when recruiting the labour force as the entire business depends on them. It should be noted that the new labour practice is very challenging due to the complex labour force. In another recent study, Wanniarachchi, Kumara Jayakody and Jayawardana (2022) found that career growth opportunities, incentives and organisation politics are having a direct impact on brain drain in the IT-BPO sector in Sri Lanka. Countries are facing a brain drain, where organisations are losing professionals due to globalisation.

The study of Naseer Butt et al. (2018) on knowledge sharing and interbrand competition found that retail stores are offering the same products to the same customers with very little product or service differentiation. Dwivedi, Kaushik and Luxmi (2015) say that as competition is on the rise, firms are competing with one another through job poaching instead of market share. They mention that Indian call centres are experiencing a high employee turnover of 40% when compared with the global average of 20%. Attrition in the BPO arena is seen as high despite massive growth in this sector. Furthermore, Lacity and Willcocks (2017) identify three types of conflict in business service outsourcing, namely service conflict, relationship conflict and commercial conflict. These conflicts involve disputes between BPO service providers and clients. These authors reiterate that failure to resolve the issues can have severe consequences on a firm.

In line with these concerns, the Mauritius Board of Investment (2016-2017) indicates that for a few years, the ICT/BPO industry in Mauritius has been experiencing sustained growth due to regional competition and rapid technological developments.

This is further backed by the Mauritius Chamber of Commerce and Industry (2017-2018), which estimated the unemployment rate in Mauritius to be at 7.1% in 2017. This figure is regarded as high in comparison to other countries which were hit by the recession.

As discussed earlier in chapter 1, outsourcing in Mauritius is now facing new challenges, and it is observed that revisiting competitive advantage in the BPO sector will subsequently add value to the Mauritian economy. Before looking at competitive strategies, it may be useful to define the meaning of the strategic concepts of competitive advantage and sustainable competitive advantage.

#### **2.4 CONCEPT OF COMPETITIVE ADVANTAGE**

Since it is the starting point, Barney (2001) explicitly considers that an organisation has a competitive advantage when it carries out a value-creating strategy that is not implemented by competitors. Nderitu and Njuguna (2017) observe that competitive advantage is the ability to generate profits from assets and shareholder's equity. Competitive advantage can therefore be achieved from a value-creating strategy that has not been implemented by other competitors, or that has been improved better than competitors.

In examining the outsourcing industry, Krstic and Kahrovic (2015) explain that a firm can take a step ahead if it can produce services which are more efficient and effective. Different types of companies are turning to outsourcing as a strategy with the aim of gaining better access to outside knowledge and controlling overhead costs. As a result, companies need to be a step ahead in this unstable competitive environment.

#### **2.5 CONCEPT OF SUSTAINABLE COMPETITIVE ADVANTAGE**

In a recent study, Maury (2018) tried to get a clearer picture of how competitive advantage can become sustainable. In summary, the author explains that a stronger market position translates to temporary competitive advantage, while technological capabilities are now linked in achieving sustainable competitive advantage. Kuncoro and Suriani (2018) make the case that competition is unavoidable. Therefore, it is essential for firms to come up with new ideas, thoughts and innovative products.

The authors further describe that this will meet customer needs, customers' demands and complaints of product quality and continuous product innovation. As a result, it becomes value created and can be used continuously by customers as sustainable competitive advantage. Further to the argument on sustainable competitive advantage, Krysińska et al. (2018) emphasise the importance of knowledge resources, which refer to project/organisational knowledge that is kept for reuse and sharing. It is categorised into four focus areas:

- Tacit knowledge built through growing experience
- Tacit routine knowledge which can be reutilised and embedded by actions and practices
- Explicit conceptual knowledge assets that are articulated through images, symbols and language systemic knowledge

In conclusion, the ability to manage and control resources in this volatile market will drive an organisation to achieve high performance. In order to ascertain competitive advantage due to pressure arising from globalisation, Kabuel and Kilikai (2016) mention that for a firm to have a source of sustainable competitive advantage, it must develop strategies by combining its resources in such a way that competitors cannot duplicate this. It is observed that competitive advantage will have a positive and significant effect on financial performance of firms.

## **2.6 COMPETITIVE STRATEGIES**

The study done by Mazurkiewicz (2017) on achieving competitive advantage by modern companies reiterates that resources are not valuable on their own but are important in terms of activities targeted to gain a competitive edge. Pressure arising from the competition is forcing firms to exploit internal resources, which are now regarded as a high priority. Islami, Mustafa and Topuzovska Latkovikj (2020) reiterate that for a firm to survive competition, it must increase profitability and market share, and create and implement strategies. In this regard, firms that have implemented organisational strategies are seen as “specialists” if they can survive with a limited range of resources. Furthermore, Chrysochoidis, Dousios and Tzokas (2016) argue that competitive strategy helps to achieve performance objectives in organisations.



Liu and Atuahene-Gima (2018) studied enhancing product innovation performance in a dysfunctional competitive environment and is in no doubt that companies can take a step ahead by aligning business opportunities with strategies such as Porter's generic strategies, since strategies play an integral part in the success of an organisation. This is supported by Yadav and Joshiya (2021), who reiterate that BPO firms must develop strategies such as employee retention to improve labour turnover as it affects the overall performance of outsourcing firms.

In their study, Suryatini et al. (2017) found that competitive strategies can improve companies' overall performance and that IT strategy improves overall profitability. Giurgiu and Borza (2015) maintain that the result at the end of the strategy should be competitive advantage. They emphasise that if a firm is ahead of its competitors, it can gain sustainable competitive advantage. In another study, Whitaker, Kumar and Krishnan (2018) identify geographic platform, client firm capabilities and vendor configuration as factors leading to improved quality and lower labour costs to achieve strategic goals in the BPO arena. As Lorenzo et al. (2018) discuss, to survive an unpredictable environment, strategic moves will have a direct impact on building defence mechanisms against the competition. For further refinement, Hoskisson et al. (2018) reveal that an RBV strategy can contribute to competitive advantage from the point of creating value through the specific investment held by suppliers, employees and customers. Stakeholders can make firm-specific investments within a firm to gain a resource-based competitive advantage where incentives for stakeholders are the foundation for this strategy.

As competition is a growing concern, businesses around the globe must keep ahead, facing many hostilities in the current world economic situation. Indeed, the BPO sector is facing challenges arising from globalisation. Top-level management in the BPO sector therefore, needs to perform their utmost best in implementing competitive strategies. To survive, the BPO industry needs to implement strategies that will address competition. Failure to identify the right strategies could have a direct impact on the overall performance of the firm. The above indicate that there is a relationship between competitive strategy and firm's financial performance. The next section covers the different types of strategies that can add value to an organisation.

## **2.7 PORTER'S GENERIC STRATEGIES**

In recent years, competitive strategies, internationalisation and entrepreneurship have remained the main focus for scholars and businesses. Porter's generic strategies have been widely accepted both academically and in business environment (Hernández-Perlines, Moreno-García & Yañez-Araque, 2016). Salavou (2015) identifies three strategies that focus on an organisation's ability to develop a competitive advantage with regard to its rivals. These are cost leadership, differentiation and focus strategies.

### **2.7.1 Cost Leadership**

According to Gheribi (2018), cost leadership strategy focuses on low cost relative to rivals through the entire strategy and the objective. To achieve cost leadership, economies of scale are implemented, marginal customer accounts are avoided, cost reductions are implemented through experience, overheads are controlled and costs tightened. Other cost leadership practices that are identified are reducing costs such as research and development, sales force, advertising and quality management control.

Apollo Blake is a BPO organisation that was established in Mauritius in 2008. The company supports clients based all over the world and has extended its product line, and now offers services in healthcare, automotive, retail, telecommunications, e-commerce, legal, logistics and leisure. The firm develops and executes solutions which require professional support and focuses on developing customer care, for example combining the solution of outbound and inbound voice integrated with real-time back-office processing and customer care solution cross-supporting voice, social media and email. Moreover, the firm's customer relationship management approach has become identical to technology platforms (Apollo Blake, 2017). The firm has taken full advantage of the following:

- The government of Mauritius has reduced the price of bandwidth.
- Low-cost bilingual staff are recruited from a bigger pool of employees.
- Technology has improved and Mauritius has access to three sub-oceanic fibre optic cables.

Apollo Blake has offered remarkable benefits in terms of cost reduction and increased performance.

As a result, it is benefiting from the economy of scale, now making use of technology, low prices and low wages in Mauritius to render services to its clients. Significantly, Apollo Blake clients are taking advantage of the services due to reduced costs.

The study of Cavaleri and Shabana (2018) found that the outcome of sustainability in firms is linked to a good match between sustainability initiative, source of competitive advantage, Porter's generic strategies and technology advancement initiatives. They propose a model that aims at helping companies to align sustainability and strategy, while simultaneously allowing them to avoid becoming stuck in the middle.

### **2.7.2 Differentiation**

The second approach in the generic strategies is to be unique in such a way that customers value it. According to Porter (1985), the generic differentiation strategy approach involves creating something unique to the product and services valued by customers, thus allowing the firm to ask a higher price. Islami, Mustafa and Topuzovska Latkovikj (2020) maintain that a successful differentiation strategy can also mean better compatibility, better product flexibility, greater convenience and improved service to gain customer loyalty. Furthermore, the strategy will be more effective if the source of uniqueness is arduous for competitors to match.

EURO CRM Mauritius (2017) has earned its position as a leader in customer relationship management by making strategic investments in geo-marketing.

### **2.7.3 Focus**

Porter's focus strategy emphasises a narrow segment by applying cost leadership or differentiation. This approach often enjoys customer loyalty and competitors do not compete directly. Hales and Mclarney (2017) point out that the focus strategy works best when some customers have specific requirements and when competitors are not tapping into the segment's needs. Apollo Blake Mauritius, as mentioned previously, applies this strategy. The above literature indicates that Porter's generic strategies are important to increase firm performance.

#### **2.7.4 Limitations of Generic Strategies**

Bowen et al. (2022) report that since 2018, the Chinese economy has experienced intense competition in many business sectors. As a result, both exports and the growth of GDP have declined, intense competition between enterprises has arisen and supply has exceeded demand. They reiterate that Chinese firms need to investigate and improve management efficiency and review Porter's generic strategies as a requirement for market competition.

By contrast, Viltard (2017) argues that the risk of a differentiation strategy is that there is a high cost implication. The study by Gould and Desjardins (2015) criticizes Porter's strategy as not being sensitive to a turbulent environment and not stating how contestants can change from one approach to another. Salavou (2015) further supports that strategic specialisation can create a gap in products offered to the customer and business can forget customers, putting aside the needs of the customer; this will have a negative impact on the organisation. As a result, it is easy to imitate the strategy, which can place the company at a disadvantage.

As mentioned in chapter one, RBV is an important tool with an understanding that internal resources can have strategic value for an organisation. It is considered an important managerial framework that sees resources as key to achieving competitive advantage. It covers all the key factors helping competitive advantage and describes a link between resources, capabilities and competitive advantages. The next section covers the RBV strategy and financial analysis; the strategy that can have an impact on the BPO industry is examined.

#### **2.8 RESOURCED-BASED VIEW (RBV) STRATEGY**

To begin with, Ronaldo et al. (2018) maintain that RBV recognises that a firm's competitive advantage depends on the resources and capabilities needed for competition. Mitra, O'Regan and Sarpong (2018) are adamant that the types of resources employed by a company are vital for organisational success. A study done by Davis and Simpson (2017) reiterates that RBV considers that internal resources can have a direct impact on the sustained competitive advantage of an organisation.

In line with RVB strategy, Grant (2010) explains that to gain competitive advantage, a firm must analyse individual resources and then look at how the resources work together to create capabilities. His work combines the elements in a theoretical framework. The resources are divided into three broad types: tangible, intangible and human resources.

### **2.8.1 Tangible Resources**

According to Hidenori (2017), resource allocation has been in the spotlight in the strategic management field. Grant (2010) describes tangible resources as the easiest way to identify and evaluate resources. Firms must look at opportunities that exist in employing assets, fixed assets and the use of finance to add value. However, physical assets are not sufficient enough to increase the profitability of a firm. Camisón et al. (2016) carried out research on the concept of performance and they relate that the second form of tangible assets is financial resources, and these are located in the firm's financing structure. This structure is limited to the firm's debt capability, liquid assets, financial investment and its own financial capability. It can be a source of competitive advantage when the resources can take advantage of new opportunities.

### **2.8.2 Intangible Resources**

Won and Chelladurai (2016) assert that intangible resources are invisible and represent high barriers to imitation. Thus, intangible resources are a good source of competitive advantage. Kabue and Kilika (2016) found that a competitive advantage based on an intangible resource is more difficult for competitors to imitate and therefore it is a good source of sustainable competitive advantage. In addition, Abdelkader and Abed (2016) argue that increasing customer demands are putting pressure on firms to reconsider exploiting IT resources.

Companies cannot just remain with their old ways of conducting business. Making use of technology can be seen as a competitive edge in this turbulent environment. On the other hand, Naatu (2016) argues that a successful brand increases customer loyalty and long-term profitability. De Heer and Tandoh-Offin, (2015) explain that branding allows a firm to be legally protected through a registered trademark, making it hard to copy. Therefore, branding offers huge benefits which eventually increase revenues to the firm and shareholders.

### **2.8.3 Human Resources**

Ramces et al. (2022) report that regardless of the COVID-19 pandemic, the BPO industry in the Philippines has shown resilience and growth of 5% compared to the previous year. Outsourcing firms were exempted from closure during the lockdown period, allowing employees to work remotely, thus showing their importance to the country's economy. McIvor (2016) observes that firms have started to move away from cost motives to make use of outsourcing to access a skilled labour pool. In Arora's view (2016), human resources play an integral part in the outsourcing sector. BPO firms offer services such as voice and non-voice-based offers to clients all over the world. As a result, there is ongoing interaction between employees and customers which has a direct impact on the image of the firm. Thus, human resources play an important role in achieving a firm's objectives.

Malhotra and Gautam (2016) did a study on human resource practices and employee attrition in the Indian BPO sector. They concluded that the boom in the Indian BPO sector was due to cheap labour cost and huge talent of English-speaking professionals. As a result, the industry has become the growth engine and has crossed important mileposts in terms of profitability. Bindi and Shanthaamani (2016) examined employee perceptions of organisational initiatives regarding quality of work life in BPO firms. They concluded that a conducive atmosphere at the workplace encourages employees to be punctual and improves performance. Furthermore, they reiterate that BPOs should promote organisational initiatives to maintain better quality in the work performance of staff members which, in turn, will reduce labour turnover.

A human resources strategy in the BPO sector frequently relies on skill, competencies and the attitude of the employees. The BPO must continue to develop and maintain these valuable assets (Dwivedi et al., 2015). Furthermore, Presbitero, Roxas and Chadee (2016) take human resources strategy to another level by concluding that the link between employee and organisational values can increase the human resource management practices for employee retention in the BPO sector. Consequently, a good match between the values of BPO companies and their staff members has a direct effect on higher retention rates.

From the above, it can be concluded that the tangible, intangible and human resources strategy can be a source of superior advantage and have financial stability.

#### **2.8.4 Limitations of RBV**

Ilmudee et al. (2021) explain that resource-based theory identifies a set of critical elements to achieve competitive advantage, but it does not mention how the competitive advantage is attained. Also, it does not give any detail on how companies achieve competitive edge in a turbulent environment. Jensen, Cobbs and Turner (2016) point out that many physical resources are important for firms to exploit, yet similar assets are owned by competitors. Therefore, these resources are not sufficient to create a competitive advantage. Other expertise such as social media and the firm's relationship with digital media firms might be valuable and result in gaining a temporary advantage.

Another disadvantage highlighted by Stratopoulos (2017) is that when a firm adopts technology, it is expected to add value to an organisation. However, emerging technology can be risky due to failure to implement it successfully, together with a lack of stability, or being unable to assimilate the service. Investing in resources that are not valuable can put a firm in a disadvantaged position. From the above, it can be observed that the RBV strategy can have a positive impact on competitive advantage by adding value to shareholders. BPO firms must exploit and create opportunities for competitive advantage from their assets.

Appelbaum et al. (2017) state that in a highly technical business climate, financial accounting should be further utilised in descriptive, predictive and data analytics to provide more relevant and critical information to management. Manogna and Mishra (2021) studied the financial performance of companies operating in India. They reiterate that a firm's performance is vital for stakeholders and managers. The balance sheet and income statement reflect the written record of the operating results, cash flow and financial performance of an entity. Also, ratio analysis is an important tool in predicting the financial health of an organisation. This view supports that of Rashid (2018), who emphasises that financial ratio analysis is important for investors and shareholders to evaluate a firm's financial position, identify financial trends and measure the overall financial performance.

Based on the RBV approach, the study focuses on ratio analysis to better understand the deployment of resources and devise the right strategies.

## **2.9 FINANCIAL RATIO ANALYSIS**

Zdunek-Rosa et al. (2020) make the case that to operate in a market economy, firms should always verify and assess their financial results. It should be noted that financial data not only allows efficient and effective day-to-day management of a company, but also contributes to the right strategic direction of the entity. Additionally, it must be seen as a skill that managers should have for the advancement of an organisation. Ali and Sami (2018) did a study on factors affecting profitability in firms based in Malaysia. According to them, the main goal of any firm is to be sustainable in any turbulent environment. Firms must develop, implement and maintain strategies that will enhance profitability. This can be achieved by analysing the internal and external factors that can influence firm profitability. Lee (2015) did a study on financial analysis and concludes that all factors that influence profitability must be identified to achieve success and come up with a plan. The financial ratio indicators display the relationships between different items included in the financial statements in the form of ratios. Furthermore, Lee mentions that profitability, stability, growth and activity are most commonly used in analysing financial ratios.

In conducting a financial ratio analysis, Kusmayadi, Rahman and Abdullah (2018) used listed firms on the Indonesia Stock Exchange to analyse the effect of net profit margin, price to book value and debt to equity ratio on stock return. They mention that financial ratio analysis not only investigates the strengths and weaknesses of firms, but also signals a wake-up call in assessing the financial condition of a firm. In addition, Karaömer and Özbireciklİ (2019) also consider that financial ratios provide important data on whether a firm can improve the value of its assets, its ability to meet its short-term commitments, continue to survive in a turbulent environment and increase its assets. Furthermore, Iriyadi, Maulana and Nurjanah (2018) did a study on financial reporting and emphasise the importance of the information on the financial statements. They reiterate that management can monitor and evaluate business performance and make decisions more precisely in order to strengthen competitive advantage and sustainability.



As concluded by Theogene, Mulegi and Hosee (2017), financial ratios are seen as a good tool to assess financial performance and evaluate the financial condition of a firm or other company. Through ratio analysis, a firm can observe trends in the organisation, make comparisons with previous years, contrast with other enterprises operating in the same industry and analyse ratios such as profitability, liquidity and efficiency. With a critical look at competition, it can be concluded that ratio analysis is significant in pinpointing strengths and weaknesses from which strategies can be devised.

### **2.9.1 Influence and Significance of Ratio Analysis**

Dhole, Mishra and Pal (2019) used companies in Australia to investigate working capital management, firm value and financial constraints. They found a relationship between the financial ratios and firm profitability. Khan and Khohkar (2015) examined the effects of selected financial ratios on profitability in the Middle East. They concluded that there is a relationship between net profit margin and selected variables such as asset turnover and inventory turnover. Thabet, Hussein and Kendory (2021) carried out a study on the influence and significance of financial ratios on firm profitability through ratio and regression analyses. They concluded that there is a positive significant relationship between financial ratios and firm financial performance. Furthermore, they stress the importance of analysing ratios in shaping firm performance and strategies. This confirms that ratio analysis can provide valuable information with a focus on shaping a firm's financial performance and devising strategies to achieve a competitive edge.

### **2.9.2 Profitability Ratio**

According to Bordeianu and Radu (2020), profitability expresses a firm's ability to make a profit, which indicates its financial performance. It implies higher revenue than costs from the sale of goods. Ratios consider the firm's overall performance and efficiency over a period of time. In addition, they relate how well an enterprise is using its assets to make a profit. Banda and Edriss (2022) state that profitability is an important aspect that firms must pay attention to for their survival. Additionally, profitability has become an important strategic tool for firms to measure the efficiency and effectiveness of their management. A firm with higher profitability indicates that the firm is highly efficient.

Furthermore, Nariswari and Nugraha (2020) did a study on profit growth and they conclude that gross profit margin, net profit margin and total asset turnover have a significant impact on profit growth of companies.

### **2.9.3 Asset Efficiency**

Fakhri and Darmawan (2021) say that return on assets is widely used by firms to measure financial performance and it focuses on the firm's ability to generate revenue. Guruswamy and Marew (2017) mention that it is a good ratio to evaluate the effectiveness of an organisation. Return on assets is an excellent financial indicator that can provide meaningful information on how a company could generate earnings based on assets. Furthermore, Saputra (2022) finds that ROA also provides benefits to management and boosts investor confidence in companies. The author reiterates that earnings are a good indicator of a firm's ability to achieve its obligations to shareholders and creditors, and is a part of the firm's value-added process.

In this study net profit margin and return on assets were used to investigate internal capability on profitability and the effect of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius.

### **Net Profit Margin**

According to Sunaryo (2020) the NPO ratio is calculated by dividing net profit after taxation by sales volume. A higher NPM indicates a firm is more efficient in its operations.

### **Return On Asset**

Purba et al. (2020) mention that ROA is used to measure how much profitability is earned from a company asset. It is computed by dividing net profit after taxation by total assets. Also, it measures the effectiveness of company resources being used to generate profit.

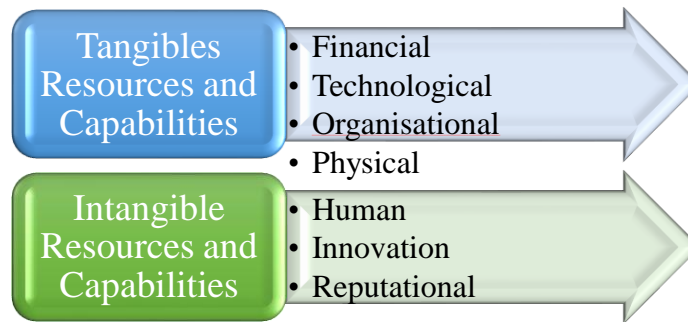
The above discussion reveals that ratio analysis plays an important role to make more well-informed decisions in resource allocation. Also, it provides insights into the company's financial performance.

Consequently, the study investigated how the relationship between competitive advantage and strategy by conducting ration analysis in the outsourcing sector.

## 2.10 CONCEPTUAL FRAMEWORK OF THE STUDY

The strategic management theories have expanded to accommodate the internal and external needs of the firm's requirements.

**Figure 2.3: Types of resources and capabilities based on RBV**



**Source: Mong et al. (2021)**

According to Mong et al. (2021) RBV theory has shown that it necessitates various methods to measure, identify, and understand resources within the organisation. The firm that has assets and capabilities allows them to gain a competitive advantage which led to long-term performance.

As discussed in the preceding paragraphs, competitive strategies can improve companies' overall performance and profitability. The RBV model of competitive advantage by Grant (2010) was applied in this study. The model was integrated in the research to assess competitive advantage in the BPO sector in Mauritius. It covers all the key factors aiding competitive advantage. The aim of the study was to determine how resource analysis from a strategic perspective can create an advantage and how the competitive advantage index could be utilised in order to gain a competitive advantage. For the purpose of the study, only the resources of an organisation in the proposed model are considered. Based on the literature review, it is assumed that net profit margin and return on assets are expected to influence the profitability of the BPO companies, which will indicate how strategies can be devised.

## **2.11 RELEVANCE OF THESE STRATEGIES**

As mentioned at the beginning of the chapter, the BPO sector in Mauritius is an important and growing segment of Mauritius's ICT sector and plays a key role in the economic and financial activities of the island. The industry is currently facing competition arising from the very competitive environment. The continued existence of BPO firms has been in the headlines of recent local reports, newspapers and international indicators, and new competitive strategies are required if a BPO firm wants to survive in this turbulent environment. Consolidating the BPO sector should be regarded as crucial to the enhancement of the industry to add value to the economy of Mauritius.

Gerbl, McIvor and Humphreys (2016) reiterate that despite the rising importance of continuous improvement and redesign in the BPO sector, not enough research has been undertaken on firms regarding geographic location and not enough attention has been given to the choice of the location's distance of the firms. Arora (2016) raises an important point that not enough studies have been conducted that explore the success factors that guide employee satisfaction in the BPO sector, despite an alarming rate of labour turnover. This is further backed by Yang, Bossink and Peverelli (2017), who argue that although there is an abundance of literature on RBV, a firm can benefit from combining internal resources.

This study sought to identify factors that contribute to success and competitive advantage in the BPO sector, which is regarded as vital for the economy. This matches the purpose of this study, which was to measure and understand the current status of competitive advantage of the BPO sector in Mauritius. As a result, it will help to develop strategies to maintain a competitive position in the region and to stay ahead of competitors, based on theoretical models. It is further argued that identifying assets and using the resourced-based model will increase the value of strategic discussion.

## **2.12 CONCLUSION**

The BPO is an important and growing segment of Mauritius's ICT sector, and it is an important pillar of the economy of the island.

The latest technologies, innovation and international competition are seen as the main driving forces in the BPO industry. The negative impact of globalisation has resulted in an increase in the intensity of competition.

Local reports have indicated a slowdown in expansion activities due to the cost of operation, changing technologies and a lack of skilled labour in the ICT sector. Furthermore, for a number of years, the BPO sector has been experiencing slow growth due to regional competition and rapid technological developments. Outsourcing in Mauritius is now facing new challenges, and revisiting competitive advantage in the BPO sector will subsequently add value to the Mauritian economy.

It is challenging for a company to survive in this turbulent environment without building competitive strategies against the competition. Competitive strategies can improve companies' overall and financial performance. There are different types of competitive strategies that a firm can use in order to improve competitiveness in BPO firms in Mauritius. Porter's generic competitive strategies comprise cost leadership, differentiation and focus strategy. Grant's work reinforces the RBV by combining the elements of tangible, intangible and human resource assets in a theoretical framework. The main goal of the RBV is to build and maintain a superior advantage.

Based on the above discussion, conducting a resource analysis in BPO firms is seen as a good strategic tool to strengthen competitive strategies and to gain competitive mileage. In this study the RBV model of competitive advantage by Grant (2010) was applied. The model is perhaps the most important managerial framework to determine strategic opportunities and failures associated with resources. The aim of the study was to examine the relationship between resources and their effect on a BPO company's competitive advantage.

This paper is based on theories that focus on RBV competitive strategies in order to enjoy a superior advantage. Subsequently, the goal of this quantitative research was to evaluate the effectiveness of competitive strategies in BPO companies operating in Mauritius.

The arguments of this research are based on theories that pay attention to resource analysis and that, in turn, enhance competitive advantage. Indeed, the quest for competitive advantage in the BPO sector needs to be addressed in order to survive competition.

In this concluding section, the factors that contribute to success and competitive advantage in the BPO sector, which is regarded as vital for the economy, are examined. Most importantly, this matches the purpose of the study, which was to measure and understand the current status of competitive advantage in the BPO sector in Mauritius. In addition, it will help to develop strategies to maintain the competitive position in the region and to stay ahead of competitors, based on theoretical models.

## **Chapter 3**

### **Research design and methodology**

#### **3.1 INTRODUCTION**

Al Kilani and Kobziev (2016) regard research methodology as an important section, outlining the research-specific methods. It is very useful to create the structure of the study, such as research philosophy, approach, strategy and areas of the methodology. As mentioned in chapter one, quantitative research is applied and formed part of the study.

Loeb et al. (2017) explain that quantitative description is part of a wider study that requires causal analysis. The result of causal research methods may show the effects of an intervention, as implemented in a particular time and place. Whereas descriptive research explains the conditions and circumstances of the cause. The authors reiterate that another facet of explanatory study is a good combination of causal and descriptive analysis to provides a better understanding of the nature of the problem. Furthermore, if it is well applied, it can assist researchers to explain the findings, identify problems for relevant associate and identify emerging issues for future study. A connection between causal and descriptive analysis is clearly shown by Al-Ababneh and Mukhles (2020) who explain that explanatory study focuses on investigating what is happening, asking questions, exploring new insights, give rise to ideas and hypothesis for future studies. Therefore, it provides a better understanding of the nature of the problem.

Therefore, this chapter covers the research design and methodology of this study, including the aim of the research, the population sample, the choice of the research instrument, how data was collected, the reliability of the research, as well as its validity and ethical considerations. Moreover, the technique and approach used to collect and analyse financial data are explained. Implementing a descriptive and causal research design were applied throughout the study.

#### **3.2 RESEARCH DESIGN**

Asenahabi (2019) states that research design is a plan to connect the conceptual research problems to the appropriate and achievable empirical research. It gives certain direction for procedures in research which is adopted by a scholar before data collection and analysis process starts.

It is also seen as a road map allowing researchers to have the means and methods of solving the research problem. The study adopted the combination of descriptive and causal research design to agree on the evaluation the financial statements of the BPO firms. Therefore, this research design enabled the researcher to gather data from financial statements.

### **3.3 RESEARCH PURPOSE**

Apart from the study type, the main purpose of the research design is to describe variables and to understand their interconnection with an area of research (Al Darmaki, 2015). As mentioned in chapter 1, the purpose of the study was to evaluate the financial statements of the BPO firms operating in Mauritius and subsequently to devise strategies that will help these firms to enhance their performance and cope with the competitive business environment. Hence, the study was based only on financial statement analysis using a quantitative method. The research tool utilized for the purpose of this study is the secondary data collected from the Government of Mauritius's Corporate and Business Registration Department.

### **3.4 SECONDARY DATA**

The study is on BPO companies which submit annual returns on a yearly basis to Corporate and Business Registration Department. To achieve the purpose of the research, the study will consider balance and income statements for 10 years.

According to Hair et al. (2021) secondary data refers to data that has already been collected, often for a different research purpose. Sileyew (2019) mention that secondary data can be obtained from existing working documents, manuals, different types of report, statistical data, policies and regulations. In addition, Sambasivan et al., (2021) reiterate that the quality of the data is crucial to ensure that the analysis can accurately represent and predict the phenomenon it is claiming to measure.

Vu (2021) explains that validity and reliability are among important concepts to justify research quality and yield healthy results. It is regarded as two important criteria to measure the quality for both quantitative and qualitative research.



Sürücü and Maslakci (2020) mention that validity is concerned with whether the measuring instrument measures the concept in question, follow by the concept being measured accurately. On the other hand, reliability is an indicator of the stability of the measured values obtained in repeated measurements under the same circumstances using the same measuring instrument.

By law, all existing companies in Mauritius must submit their financials statement to this government department. An official request to obtain the statements were submitted to the Government of Mauritius' Corporate and Business Registration Department. The paid documents were authorised and collected by the researcher. The data is accessible, accurate and publicly available. With regards to the content of the financial statements to be used, it should be noted the documents collected have been authenticated and validated. Additionally, the financial data will be able to measure the objectives and can be said to be reliable.

The two criteria namely validity and reliability as referred to by Sürücü and Maslakci (2020) have been met by this study. Therefore, the study meets the criteria of both validity and reliability as the data is obtained from the Government of Mauritius's Corporate and Business Registration Department which is a reputable source.

### **3.5 PERIOD OF STUDY**

This research covered a period of 10 years, from 2009 to 2019, of the accounting year consisting of 12 months.

### **3.6 TYPES OF RESEARCH**

According to Barnham (2015), a quantitative approach is about searching for facts through a series of “what” questions. In contrast, qualitative research is associated with “why” questions. Gog (2015) explains that qualitative research entails an approach to generating new theories that arise from data. Mishra et al. (2019) explain that descriptive statistics are methods that are used to summarise data in an acceptable and meaningful way. There are three types of descriptive statistics, namely measures of frequency, measures of central tendency and measures of dispersion; these will provide easy summaries about the sample and the measures.

Financial ratio analysis considers the relationship between the balance sheet and the income statement of a specific period (Prawirodipoero et al., 2019). Faello (2015) emphasises the important role of financial indicators in the reporting of financial matters. These indicators consist of a numerator, a denominator and two financial amounts from either a balance sheet or an income statement, or both. In addition to the views expressed above, Al-Kassar et al. (2019) explain that ratio analysis converts historical figures into organised relationships and offers information that is crucial to decision-makers to evaluate firms' financial positions. In a recent study, Sar (2018) explains that competitive advantage is a significant factor in firm performance. The generic strategies and the resultant competitive advantage can thus be determined by using financial data.

The research aimed to analyse and evaluate financial performance based on financial statements in response to recent challenges in the sector. A quantitative research methodology was used based on data from annual statements of BPO companies to highlight a trend over a period of 10 years.

### **3.7 POPULATION**

Scholars must consider the group of people relevant for the research in order to determine the population (Fărcaș, 2017). For the current study, BPO companies were selected as a case study for the research. Given that the main purpose of the study was to determine the performance of firms in the BPO sector as a way of determining their long-run sustainability, and subsequently to devise strategies that will enhance performance specifically in Mauritius, the population consisted of local BPO firms operating in Mauritius. It was not viable to collect data from BPO firms operating on other islands under the jurisdiction of the Republic of Mauritius. The rationale for using BPO companies registered under the Corporate and Business Registration Department is that their filed financial statement is available on special request. The target population has a cut-off period of 2010 to 2019.

### **3.8 SAMPLE**

The study's sample consisted of 43 BPO firms, were selected from a complete list as published on the website of the MTCI.

To verify the current status of those companies, an online entity search was performed by utilising a website hosted by the Mauritian government ([https:// online search. mns.mu/](https://online.search.mns.mu/)). As a result of the search, 156 BPO firms were excluded from the dataset for the following reasons:

- A defunct status showed for 42 of the companies.
- For 105 companies, no response was returned.
- Seven companies were shown not to have filed financial statements in recent years.
- Two companies had changed the nature of their business.

The audited financial statements of 52 BPO firms for a period of 10 years were collected from the Government of Mauritius's Corporate and Business Registration Department. According to the financial statements collected, only 43 were eligible for the study because they contained the necessary data. The other 9 financial statements were discarded for the following reasons:

- Two companies were shown to have filed their last financial statements in 2014.
- Two companies had financial statements for three years.
- Five companies were removed from the dataset due to incomplete data.

Thus, the analysis was done on the financial statements of 43 companies.

### **3.8 SAMPLE TECHNIQUE**

Sarstedt et al. (2018) mention that when choosing a sampling method requires scholars to make several choices. The key decision is whether to use probability or non-probability methods. The authors mention that because of cost and convenience advantages, non-probability sampling has always found a place in academic research. It is very crucial for a scholar to determine which non-probability sampling technique is appropriate to his study.

Taherdoost (2016) mention that the sampling technique to be utilised depends on the type, nature and purpose of the study. In another study, Etikan and Bala (2017) touch on that judgemental sampling technique is a non-probability method based on the judgement of the researcher as to who will provide the best information to achieve the objectives of the research. Considering the above, the study makes use of judgemental sampling technique as the researcher used the sample that is most relevant to the BPO firms.

### 3.9 INSTRUMENT

According to Muis, Denton and Dubé (2022) scholars struggle to determine the reliability of information available from different sources. To address this concern, many educational institutions have incorporated the currency, relevance, authority, accuracy, and purpose test (CRAAP) as an effective method to support the identification of inaccurate data. Fielding (2019) carried out a study on getting students thinking like fact-checkers in evaluating web sources. He mentions the CRAAP test has been incorporated into many library websites across North America, with the idea to extend the tool beyond its original checklist approach.

The data for this study was collected from the Government of Mauritius's Corporate and Business Registration Department. The analysis was performed on the audited financial statements of 43 BPO companies operating in Mauritius, filed from 2010 to 2019. The researcher conducted a test based on a checklist translated from the CRAAP guiding material. The study applied the five criteria namely currency, relevancy, accuracy, authority, and purpose to test the filed statements source.

Table 3.1 shows the CRAAP result.

Currency	All BPO firms operating in Mauritius must file its annual financial statements to the Registrar of Companies at the end of financial year. The information is already on financial statements which have been published as an official document. The resource publication date fits with the required date range from 2010-2019.
Relevance	The financial data found in the statements provide the required inputs to calculate the ratios. The study confirms the type of data needed is relevant to data source.
Authority	These financial statements belong to the government and can only be access on special request.
Accuracy	All financial statements must be audited before submitting to the government department. The study confirms the accuracy of the information.
Purpose	The financial statements give insight into BPOs performance and a snapshot of the financial health. Also, financial ratios provide important data on

	<p>whether a firm can improve the value of its assets, its ability to meet its short-term commitments, continue to survive in a turbulent environment and increase its assets. The study confirms the information on the financial statements will help to evaluate the BPO firms operating in Mauritius and subsequently to devise strategies.</p>
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**3.10 DATA COLLECTION**

Majstorovic et al. (2019) stress the importance of analysing financial statements in terms of modern business management and firm development. Prawirodipoero et al. (2019) explain that financial ratios are one of the analytical tools used to assess financial performance and to evaluate the overall financial condition of a company. More specifically, financial ratios are important in identifying strengths and weaknesses from which strategies can be derived. In Damjibhai’s view (2016), financial ratios are helpful not only when important decisions need to be made for increased performance, but also when a core value needs to be determined. Moreover, Omondi-Ochieng (2019) shows that users and applications of financial ratios have evolved to be the premier financial efficiency in measuring the competitive resource environment.

To achieve the purpose of the research, balance sheets and income statements for 10 years were examined. An official request to obtain the statements was submitted to the Government of Mauritius’s Corporate and Business Registration Department. The documents were authorised and collected. To carry out the quantitative analysis, the ratios to be applied to the BPO’s are discussed below.

**3.11 DATA ANALYSIS AND INTERPRETATION**

Maulud and Abdulazeez (2020) explain that regression analysis can be used to find out an existing relationship between the dependent and independent variables. A regression model must be free from classical assumption testing (Komariyah et al., 2021). If the normality assumption is not executed, the findings may not be consistent. The classic assumption test should be performed before the analysis of the data. The tests are carried out in the form of normality and autocorrelation tests.

These tests apply a set of measures to check whether the data being used follows a normal distribution. Furthermore, the normality test makes use of the Kolmogorov-Smirnov goodness-of-fit test to detect if the dataset is normally distributed. Therefore, classical assumption testing was applied to make sure that the data was normally distributed. A quantitative approach was applied in this study and therefore the process relied on statistics. Mishra et al. (2019) explain that statistics relate to the collection, analysis, presentation and interpretation of data, and there are two main branches, namely descriptive and inferential statistics.

Descriptive statistics are used in research to organise data systematically to explain the relationship in a meaningful and logical manner (Kaur et al., 2018). When conducting research, the descriptive statistics are calculated first to expose the data. Vetter (2017) explains that descriptive statistics are reported in tabular format to give a detailed picture of the data. The first analysis helps identify the mode, mean and median, which are measures of the central tendency of a set of data. Additionally, measures of variability (spread) are tools to complement measures of central tendency, which include standard deviation, variance, kurtosis and skewness. Inferential statistics make use of random samples and are valuable when it is not feasible to examine each member of the entire population (Ali & Bhaskar, 2016). In this study, both descriptive and inferential statistics are used. This study will include net profit margin and return on asset ratios to investigate the financial performance of BPO companies.

### **3.12 METHOD OF DATA ANALYSIS**

The audited financial statements that were collected were analysed using descriptive statistics. Financial ratios were analysed under the category of profitability and efficiency using descriptive methods to measure the performance of the BPO firms. Different types of formulae were used for the calculation of different kinds of ratios in the statistical analyses. All data collected in this study was classified, sorted and captured using Microsoft Excel 2016. IBM SPSS software was used for the statistical analyses, and tables and charts were drawn to present the results of the analyses.

### **3.13 ESTIMATION TECHNIQUES**

Cerqueira, Torgo and Mozetič (2020) say that choosing a proper estimation approach mostly depends on the characteristics of the data set.

Fumo and Biswas (2015) assert that linear regression analysis has positive outcomes and accuracy among other statistical models. It allows researchers to analyse relationships between the dependent variable and independent variables. The multiple linear regression technique is widely used to measure the association of two variables. Furthermore, partial correlation and regression are the tests that allow scholars to better understand the relationship between the two variables (Kumari & Yadav, 2018). The study by Ziglari (2017) on multiple regression results reveals that scholars should include statistics value for collinearity in their study. The above literature indicates that the regression model is a powerful tool for analysis.

In this study multiple regression analysis was used with the purpose of understanding the relationship between the variables and drawing conclusions that achieved the research objectives and answered the research questions.

### **3.14 REGRESSION ANALYSIS**

The study focused on the relationship between the dependent variables and independent variables. In this study, the dependent variables are the net profit margin (NPM) and return on assets (ROA) ratio. The independent variables are ROA, firm size (FS), return on equity (ROE), current assets (CA) and current liabilities (CL).

The multiple linear regression model is:

$$Y = \beta_0 + \beta_1X + \beta_2X_2 + \dots \dots \dots \epsilon$$

Where:

- Y = Dependent variable
- X = Independent variables
- $\beta_0$  = Intercept (value of Y when all X = 0)
- $\beta_1$  = Slope of the regression line
- $\epsilon$  = Random error term

### **3.15 PROPOSED MODEL**

Below are two models that have been formulated in this study, taking into consideration the research objectives and research questions. The two models are explained and each is divided into one equation, to investigate the financial performance of BPO companies in this study.

### 3.15.1 Model 1

#### *Internal capability*

This model is used to address research question 1:

What are the effects of internal capability on the profitability of firms that operate in the BPO sector in Mauritius? The possible equations to estimate the relationship are as follows:

$$\text{NPM} = \alpha + \beta_1 (\text{ROA}) + \beta_2 (\text{FS}) + \epsilon_t$$

Where:

NPM            Net profit margin

ROA            Return on assets

FS              Firm size

### 3.15.2 Model 2

#### *Asset efficiency*

This model is used to address research question 2:

What are the effects of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius?

The possible equations to estimate the relationship are as follows:

$$\text{ROA} = \alpha + \beta_1 (\text{ROE}) + \beta_2 (\text{CA}) + \beta_3 (\text{CL}) + \beta_4 (\text{FS}) + \epsilon_t$$

Where:

ROA            Return on assets

ROE            Return on equity

CA              Current assets

CL              Current liabilities

FS              Firm size

Descriptive statistics are used to summarise the dataset and are broken down into measures of variability. Normality and autocorrelation tests were then conducted to ensure that the regression model was free from any classical assumptions. Subsequently, correlation and multiple regression analyses methods were studied by running SPSS to reveal the relationship between a single dependent variable and various independent variables.



### **3.16 DEFINING THE VARIABLES**

The selection of the two dependent variables was based on analysis of competition. Firstly, the management of a BPO firm can use financial ratios to assess the competition's performance in respect of internal profitability and efficiency ratios with a view to identifying weaknesses and developing strategies to gain a competitive edge. Secondly, financial ratios are relevant in the IT industry, and will help to examine the current financial position and guide managers in making decisions.

#### **3.16.1 Net Profit Margin (NPM)**

It should be noted that every business is concerned with its high performance and profitability. Shahniah and Endri (2020) explain that profitability ratios are used to measure the efficiency and effectiveness of management. They are expressed by the size of the financial metrics in relation to sales. The higher the value of the ratio, the better the ability to describe the high profitability of the firm. Farooq (2019) describes NPM as a financial ratio that explains the ability of a firm to earn profit by selling a single unit of their product item after deducting all firm expenses. It also reveals the efficiency of management in the sales and production department. Additionally, Singh and Das (2018) state that profit margin is also an indicator of a firm's various policies and ability to control costs. In this study net profit margin was used because a firm that always achieves high net margins indicates a strong competitive edge. Thus, this study sought to determine the relationship between NPM and firm characteristics on the profitability of BPO firms in Mauritius.

#### **3.16.2 Return on Assets (ROA)**

Guruswamy and Marew (2017) assert that ROA is an excellent internal ratio as it measures the profit against the whole assets. It provides good information about a company's financial performance when using assets to generate profit. In addition, it shows the percentage of profit a firm earns in relation to its overall assets. In another study, Suroso (2021) explains that ROA is used to determine the degree to which investments are able to generate profits. Also, it measures the effectiveness of management in managing shareholder's equity. Moreover, Dakić and Mijić (2020) did a study on impact of internal factors on return on assets. The authors mention that the business success of firms is measured by its profitability. ROA is frequently used as the profitability indicator in analysis and is regarded as the most appropriate financial indicator.

According to Saputra (2022) the BPOs ability to generate revenues in operating activities focuses on assessing company performance. Hapsari (2019) mention that CA is seen as a performance platform which shows progress such operational efficiency organizational performance and financial performance. Consistent with previous research, this study used ROA as an accounting-based performance measure of competitive strategy and profitability. The indicator is needed by stakeholders to examine whether a firm is making good profit and devise strategies. Thus, by taking ROA into account, management is able to evaluate financial performance and identify weaknesses within firm's investments. Having a more accurate insight of these parameters will achieve financial success and improve competitive advantage. Moreover, this research examined whether firms' resources significantly affect financial performance represented by return on assets. For these reasons, ROA was selected as the dependent variable and independent variables in the regression model. Therefore, it is the best way to evaluate effectiveness and profitability and is a good internal management ratio. Thus, this study sought to determine the relationship between ROA and firm characteristics on asset efficiency as a source of competitive advantage.

### **3.16.3 Firm Size (FS)**

FS is a measure of the number of years in operation. Guruswamy and Marew (2017) found a positive relationship between an organisation's profitability and its number of years in existence. This is because companies acquire more experience in how to improve business efficiency. This view is strongly supported by Olawale, Ilo and Lawal (2017), who conclude that FS plays an important role in influencing profitability. The study by Nanda and Panda (2018) started to investigate the determinants of corporate profitability and they report that a company's profitability is positively affected by FS. As concluded by Ozcan, Unal and Yener (2017) on the effect of FS on profitability, there is a positive relationship between size and profitability of a company.

However, FS in this study denotes the effective management of human capital within the BPO sector. This choice was informed by the fact that the sustainability of BPO firms depends heavily on the quality of human capital at the disposal of any firm in the sector, which, by extension, measures their operational age in the industry (Arora, 2016; Begum & Mohamed, 2016; Porto & De Abreu, 2019).

### **3.17 VALIDITY AND RELIABILITY**

De Menezes and Xavier (2018) define validity as the degree to which an instrument accurately measures the variable. They also point out that instrument validity is judged by its capacity to carry out its descriptive role. According to Salameh (2019), the main objective of releasing financial statements is to relay valuable financial data on the organisation's performance during a specified period. This enables investors to make wise financial decisions based on transparent information. With regard to the content of the financial statements used in this study, it should be noted that the documents were collected from the Government of Mauritius's Corporate and Business Registration Department and were authenticated and validated.

Rose and Johnson (2020) describe reliability as the soundness of the study, regarding the right methods preferred. It gives an explanation and clarity of the methods utilised and increases a sense of reliability of the research. Furthermore, Dumay and Cai (2015) define reliability as the extent to which data can be trusted to represent the observed result, rather than a spurious one. To safeguard the validity and reliability of the research findings, a literature review was undertaken in this study to ensure relevance of research questions, objectives, findings and recommendations of the study.

### **3.18 ETHICAL CONSIDERATIONS**

Komić, Marušić and Marušić (2015) highlight a few definitions of code of ethics in research. It can be described as official documents relating to moral standards guiding professional behaviour. All financial statements relevant to this study were collected from the Government of Mauritius's Corporate and Business Registration Department and are believed to be public knowledge.

The paid financial statements were only used for the purpose of the study and all information was treated as confidential. Furthermore, ethical clearance was obtained from the Ethics Committee. Thus, the research complies with ethical standards relating to academic research.

### **3.19 LIMITATIONS**

This research focused on the performance of the 43 BPO firms operating in Mauritius. An in-depth financial ratio analysis was conducted, since these factors are crucial for the survival of firms.

The secondary data that was used was limited to BPO companies operating in Mauritius. The financial statements could not be verified before the documents were purchased. The secondary data might therefore not provide accurate information, since companies maintain some confidentiality. Furthermore, data from other IT companies operating in Mauritius did not form part of the research. Finally, as the goal of the study was to investigate the performance of BPO firms operating in Mauritius, the results are applicable only to BPO firms operating in Mauritius.

### **3.20 ROLE OF THE RESEARCHER**

The researcher did not need any permission from the BPO firms to analyse the data from the source.

### **3.21 CONCLUSION**

The main aim of the study was to gauge the possible impact of financial performance on the sustainability of firms that operate in the BPO sector in Mauritius. An explanation has been given in this chapter of how the quantitative, combination of descriptive and causal research design and applied approaches were followed, as these methods were deemed more appropriate to pinpoint relevant factors within the sector. The target population of this research comprised local BPO firms operating in Mauritius. The sample consisted of the financial statements of 43 BPO companies and the research was restricted to a period of 10 years. Relevant financial statements were collected from the Government of Mauritius's Corporate and Business Registration Department. With regard to the content of the financial statements used in this study, it should be noted that the documents were authenticated and validated.

The selection of the two dependent variables was based on analysis of competition. Firstly, the management of a BPO firm can use financial ratios to assess the competition's performance in respect of internal profitability and efficiency ratios with a view to identifying weaknesses and developing strategies to gain a competitive edge.

Ratio analysis was conducted. First normality and autocorrelation tests were conducted to ensure that the regression model was free from any classical assumptions.

Then the correlation descriptive statistics and regression analyses methods were applied by running SPSS to reveal the relationship between firm characteristics and financial indicators and drawing conclusions that achieved the research objectives and answered the research questions. The next chapter presents the application of the methodologies and the empirical results. All data collected is analysed and interpreted.

## **Chapter 4**

### **Data Analysis and Interpretation**

#### **4.1 INTRODUCTION**

The purpose of this study was to understand the specific determinants of performance of BPO firms in Mauritius, and to determine how businesses cope with the competitive business environment. The main problem of this study, as contained in chapter 1, emanated from the fact that Mauritian BPO firms are facing uncertainty due to competition, and the intensity of the competition is having a direct impact on the performance of the sector. This chapter thus contains a statistical analysis that is based on the research design that was discussed in chapter 3. The results generated through the analysis could influence policy suggestions that may strengthen the competitiveness of the firms in the sector.

The empirical aspect of this study utilised datasets generated from the balance sheets and income statements of sampled companies for a period of 10 years. In other words, the data generated for the analysis was generated from the audited financial statements of BPO companies operating in Mauritius, filed from 2010 to 2019.

According to the financial statements collected, 43 were eligible for the study because they contained the necessary data for the period under consideration. The other nine financial statements were discarded due to missing data and some of the companies were found to be dormant. Furthermore, financial data was used to analyse internal capability as a determinant of profitability, as well as the impact of asset efficiency on firm performance. In addition, the role of key resource bundles on firm performance was also investigated with a view to identifying the contribution/effects of these variables on the performance of the companies and how the companies can optimise these performance measures to create competitive advantage. It may be suggested that financial statements display the worth of a business and the efficiency of the management in increasing profitability. Also, ratio analysis can appraise current performance in areas such as profitability, potential investment, as well as the financial health of an organisation.

## 4.2 DATA ANALYSIS

As Nagy (2018) explains, multiple linear regression investigates the relationship between the multiple independent variables and a dependent variable by a linear function according to a given dataset. As indicated in chapter 3, multiple linear regression techniques were employed to achieve the objectives of this study. Also, normality and autocorrelation tests were applied to ensure data stability. This was followed by regression analysis. With this statistical technique, the extent to which the dependent variable is influenced by the independent variables can be determined. These sequences of reporting apply to the proposed models. The results show how the deployment of resources can aid value-adding strategies that can influence competitiveness in the BPO sector in Mauritius. Furthermore, the results are intended to suggest possible approaches that may augment the competitive advantage of firms in the BPO sector.

## 4.3 PROPOSED MODELS

The main aim of the study was to gauge the possible impact of financial performance on the sustainability of firms that operate in the BPO sector in Mauritius. This has become essential given the increasing competition that now characterises the sector. Below are the two models stated in their implicit form that have been formulated for this study, taking into consideration the research objectives and research questions.

### *Model 1*

#### *Internal capability*

The estimation approach leads to the following equation:

$$\text{NPM} = \alpha + \beta_1 (\text{ROA}) + \beta_2 (\text{FS}) + \varepsilon_t$$

### *Model 2*

#### *Asset efficiency*

The estimation approach leads to the following equation:

$$\text{ROA} = \alpha + \beta_1 (\text{ROE}) + \beta_2 (\text{CA}) + \beta_3 (\text{CL}) + \beta_4 (\text{FS}) + \varepsilon_t$$

The list below presents the descriptions of variables included in the two models.

### **Dependent variables**

NPM            Net profit margin

ROA            Return on asset

### **Independent variables**

ROA            Return on assets

FS              Firm size expressed by the number of years in existence

ROE            Return on equity

CA              Current assets

CL              Current liabilities

$\varepsilon_t$         Error term in the time series

## **4.4 CLASSICAL ASSUMPTION TESTING**

Nariswari and Nugraha (2020) identify a few tests that must be carried out before regression analysis. They explain that the regression model must be free from classical assumption testing. If the normality assumption is not performed, findings from the analysis may not be reliable. These tests are based on comparing a set of measures to determine whether the data being used follows a normal distribution. The study by Wyłomańska, Iskander and Burnecki (2020) recommends Shapiro-Wilk and Kolmogorov-Smirnov as two goodness-of-fit and well-known tests that are nowadays considered classical. Therefore, it is imperative to conduct a normality test to detect if the dataset is normally distributed. Mishra et al. (2019) explain that when the P-value is lower than 0.05, the null hypothesis is accepted, and data is regarded as normally distributed. Based on the above, two classical assumption tests were carried out in this study, namely the normality test and the autocorrelation test, to ensure that the dataset followed a normal distribution and the regression model was free from estimation biases.

## **4.5 MODEL 1**

### **Internal capability as determinants of profitability**

This model was used to answer research question 1: What are the effects of internal capability on the profitability of firms that operate in the BPO sector in Mauritius?



Therefore, the proposed model investigated the effects of internal capability on the profitability of firms that operate in the BPO sector in Mauritius. The model considers the relationship between NPM as the dependent variable, interacting with independent variables, such as ROA.

As indicated in the previous chapter, the aim of this model was to determine how internal capability could be leveraged to improve competitiveness in the industry.

### Profitability in relation to sales

$$\text{Net profit margin} = \frac{\text{Net profit after taxation}}{\text{Sales}}$$

The ratio is computed by dividing net profit after taxation by sales volume. This ratio measures the profits earned by each firm in the sample in Mauritian rupees after all costs and expenses have been deducted. The following equation is proposed to estimate the relationship:

$$\text{NPM} = \alpha + \beta_1 (\text{ROA}) + \beta_2 (\text{FS}) + \epsilon t$$

#### 4.5.1 Descriptive Statistics

Table 4.1 presents the descriptive statistics for Model 1 during the period 2010 – 2019.

Model 1	N	Minimum	Maximum	Mean	Std Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std Error	Statistic	Std Error
logNPM	305	.0000	.6660	.18467	.1409	.927	.140	.985	.278
logROA	430	-3.130	1.9920	.13891	.5954	-1.144	.118	2.829	.235
logFS	430	2.000	2.8438	2.4255	.2282	.234	.118	-.989	.235
Valid N (listwise)	305								

According to Chittaranjan (2020), standard deviation indicates how much the data is spread out from the mean. If the standard deviation is large, then the values are spread out away from the mean. In other words, the further the dispersion of the dataset from the mean, the larger the standard deviation. By contrast, if the standard deviation is small, the values of the statistical data tend to be close to the mean. Thus, the mean indicates the average distribution of the dataset. Table 4.1 shows the descriptive statistics for all the variables in Model 1. The values of the mean and standard deviation of the dependent and independent variables are displayed, and the following results are generated from the analysis:

NPM is the dependent variable with a mean value of 0.184, a standard deviation of 0.14 (which is less than the mean), ROA with a mean of 0.138 and standard deviation of 0.595 (which is more than the mean) and FS with a mean of 2.42 and standard deviation of 0.22 (less than the mean). These results show that there is a smooth variability of the dataset and a strong indication that the dataset clusters around the mean. It is further revealed that NPM and FS have low variability as suggested by the standard deviation. However, the statistical value of ROA shows that the dataset is slightly higher than the mean, but the margin is considered acceptable because of its low standard deviation. The low dispersion statistics are therefore considered an indication of normal distribution.

The next focus is on skewness and kurtosis to look at the shape of the distribution. Komalasari, Pawitan and Faqih (2017) mention that skewness and kurtosis investigate the pattern of data distribution. There are two types of skewness, namely positive and negative skewness. Positive value skewness is when data extends on the right side of the distribution with a long tail. Negative skewness is when the tail of the distribution is dispersing on the left side. Furthermore, the authors mention that the kurtosis value shows a low or high data distribution curve in comparison to the normal curve. The result of the kurtosis statistic in Table 4.1 shows that the dataset is slightly tailed relative to the normal distribution. Similarly, the skewness statistics indicate that the distribution varies around the mean. FS shows a slightly positively skewed distribution, whereas ROA shows a slightly negative skewed distribution.

#### 4.5.2 Normality Test

A normality test was performed, and the preliminary estimation results showed that the dataset was moderately skewed between positive and negative dispersion. A log transformation was performed to reduce the skewness of the dataset and to achieve linearity. The following is the result of the normality test of independent variables FS and ROA and the dependent variable of NPM.

Model	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
logNPM	0.130	430	0.000	0.942	430	0.000

logROA	0.154	430	0.000	0.910	430	0.000
logFS	0.137	430	0.000	0.941	430	0.000
a. Lilliefors Significance Correction						

According to Table 4.2, the result of the normality test after the dataset was transformed suggests a more moderately distributed dataset. This suggests that the dataset passes the assumption of normal distribution.

### 4.5.3 Autocorrelation Test

Chen (2016) explains that a normal distribution model will produce a random series of residuals without autocorrelation. If there is autocorrelation, it means that the model has weaknesses. Han (2018) reiterates that Durbin Watson is an excellent statistical test to detect autocorrelation in regression analysis and the value should be between 0 and 4. Table 4.3 presents the goodness-of-fit statistics for Model 1.

Table 4.3: Autocorrelation test for Model 1					
Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Durbin-Watson
1	0.603	0.364	0.360	0.1127	.937
a. Predictors: (Constant), logROA, logFS					
b. Dependent Variable: logNPM					

Based on the results of analysis contained in Table 4.3, it can be concluded that there is no autocorrelation among the explanatory variables, as the Durbin Watson statistics fall within the region of acceptability (0.937, which is within the 0 and 4 acceptable range).

### 4.5.4 Correlations

Yang et al. (2021) state that in statistics, the Pearson correlation coefficient represents the relationship between two variables ranging from  $-1$  to  $1$ . When a value is closer to  $0$ , it means there is no positive or negative correlation, and the variables are not related. An absolute value of the coefficient ( $1$ ) means that there is a perfect linear relationship between the variables under consideration.

Also, a correlation coefficient of  $-1$  means a perfectly inverse relationship, that is, when there is an increase in the value of one variable, there would be a corresponding decrease in the value of

the other variable. Table 4.4 presents the Pearson correlation for Model 1 during the period 2010 – 2019.

<b>Table 4.4: Correlations for Model 1</b>				
Model 1		<b>logNPM</b>	<b>logROA</b>	<b>logFS</b>
logNPM	Pearson Correlation	1.000	0.59	0.193
	Sig. (2-tailed)		0.0000	0.0000
	N	305	305	305

The results of the analysis in Table 4.4 suggest that ROA has a positive correlation coefficient of 0.59 with the dependent variable, whereas FS has a weak positive correlation coefficient of 0.193. The weak positive correlation with FS supports Tahir, Anuar and Ahmad (2016) who found that FS has a positive and significant relationship with NPM. Based on the above results, all conditions to run multiple regression models were attained. Therefore, the multiple regression analysis was conducted.

#### **4.5.5 Regression Analysis**

According to Budiono and Firdayasa (2017), R square is a statistical measure of the ability of the model to describe variations in the dependent variable. The coefficient of determination analyses the extent to which the ability of all independent variables is essential in explaining the variation expressed by the dependent variable (Wulandari & Harjito, 2021). In more specific terms, the analysis of variance (ANOVA) test reveals the extent to which the average mean of models or group mean varies from one another. In this study, ANOVA was deployed to estimate the extent to which the average mean of independent variables expressed the variation in the mean of the dependent variable. However, the model summary statistics give a general understanding of the deterministic properties of the model through the adjusted R square, as well as the standard error of the estimate. The standard error of estimate simply determines the extent to which the estimate may be considered erroneous or unstable. The lower the statistics of the standard error of estimate, the better the predictive ability of the model.

<b>Table 4.5: Multiple regression analysis for Model 1</b>				
Model	R	R Square	Adjusted R Square	Std Error of Estimate

1	0.603	0.364	0.360	0.112795		
a. Predictors: (Constant), logFS, logROA						
b. Dependent Variable: logNPM						
<b>ANOVA</b>						
Model 1		Sum of Squares	df	Mean Square	F	Sig.
	Regression	2.200	2	1.100	86.453	0.000
	Residual	3.842	302	0.013		
	Total	6.042	304			
a. Dependent Variable: logNPM						
b. Predictors: (Constant), logFS, logROA						
<b>Coefficient</b>						
Model 1		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std Error	Beta		
	(Constant)	-0.099	0.068		-1.464	0.144
	logROA	0.221	0.018	0.576	0.000	0.000
	logFS	0.076	0.028	0.127	0.006	0.006
a. Dependent Variable: logNPM						

Table 4.5 shows the results of the model summary, ANOVA and coefficient test of the regression analysis. The regression analysis was conducted to examine the impact of internal capability on the profitability of BPO firms in Mauritius.

The f-test and the P-value of the analysis confirm the stability of the model in explaining the variations in the behaviour of the dependent variable in the sample. The adjusted R square for NPM is equal to 0.36, as measured against a set of explanatory variables (FS and ROA). This result suggests that about 36% of variation expressed by the dependent variable in the model could be explained by the independent variables. The P-value is 0.00, which confirms the high statistical significance of the model. It can be concluded that the overall regression model is a good predictor of the roles played by internal capability of firms on their overall performance. This holds sway where  $F(2,302) = 86.45$ ,  $p < 0.01$  and  $R^2 = 0.36$ . The next focus of the analysis is to look at the coefficients table and at the variables individually.

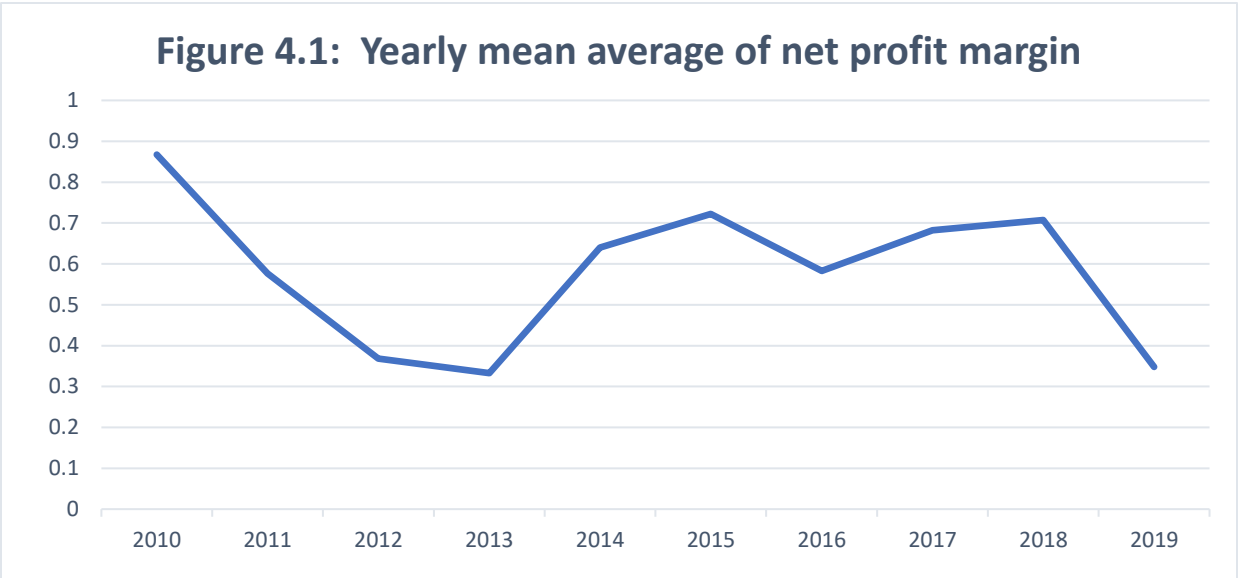
The significance level of ROA is 0.05, demonstrating that this variable is significant in influencing NPM. On the other hand, FS is equally statistically significant at 0.006, confirming that FS also has a strong predictive influence on the performance of firms in the BPO sector in Mauritius.

#### **4.5.6 Discussion**

Model 1 examines the effects of internal capability on the profitability of firms and investigates the relationship between NPM in relation to ROA and FS. The ROA is significant in measuring the ability of the model to describe variations in the dependent variable. Based on the result of the regression analysis, ROA has an impact on the NPM. In addition, FS is also statistically significant and positively related to the NPM ratio. This is in line with previous studies, such as the work of Nanda and Panda (2018), who found empirical evidence that there is a relationship between FS and profitability. They mention that large companies are making huge profits in the intense market while small firms make only normal profits. Furthermore, Nazir, Azam and Khalid (2021) conclude that FS has a positive impact on profitability.

The results of Model 1 support Tumanggor (2020) who did research on the influence of the current ratio, NPM and ROA. Based on their Pearson correlation test results, a high of 0.988 was observed between NPM and ROA. A connection between NPM and ROA is clearly indicated by Xu and Liu (2021), who conclude that firms with more intangible assets have better financial performance. Furthermore, Loana (2020) confirms that there is a significant linear relationship between NPM and ROA after a high correlation was found between the two variables.

Based on the above, it can be concluded that the result of the analysis relates to previous research in which the *a priori* expectations were established. As mentioned in chapter 1, globalisation has intensified competition and local firms are striving to compete with multinationals. The BPO sector of Mauritius is now facing uncertainty due to intense competition. Additionally, the study compared the NPM ratios over 10 years to examine the internal capability of the firms in relation to their performance. Figure 4.1 below shows a yearly mean average in comparison to the NPM ratio over a period of 10 years (from 2010 to 2019). This was done to highlight the performance of the 43 BPO firms operating in Mauritius.



It must be remembered that the NPM ratio measures the sales recorded by the sampled firms in Mauritian rupees, which was calculated as net profit after deductions (namely after deducting all operating costs, expenses and taxation). According to Figure 4.1, the NPM shows a decreasing trend from 2010 to 2013. From 2014 to 2015, the BPO sector managed to improve its performance by growing the NPM. The NPM then slightly decreased in 2016 and showed a slight increase in 2017. A rapid decline can be seen from 2018 onwards compared to previous years. It is observed that over the 10-year period in the sample, the NPM fluctuated noticeably, which shows significant instability in the performance of firms in that industry. As mentioned earlier, the NPM ratio is a measure of the effectiveness of day-to-day operations of a business.

As such, a decline in NPM can be attributed to various challenges that erode the profitability of firms – in this case, the argument revolves around intense competitive pressure. It can thus be concluded that the BPO sector in Mauritius is experiencing financial difficulties due to the decrease in profit margin. Outsourcing in Mauritius is facing new challenges, and revisiting competitive strategies in the BPO sector may help to address the increasing reduction in NPM.

It is also noteworthy to mention that the NPM in the sample shows a significant relationship with ROA. In strategic management theory, it is seen that organisational and managerial practices are the foundation of profitability and robust firm performance.

While conducting an internal analysis, Batarlienè et al. (2017) reiterate that it is crucial to identify strengths and weaknesses relating to human resource management when planning to grow the NPM. In other words, firms would have to leverage the competitive superiority of human capital within the firm in order to attain a sustainable level of competitive advantage. Consistent with this, Delery and Roumpi (2017) agree that human resources are the main source of sustainable competitive advantage for a company, especially when considering the possibility of growing NPM. Furthermore, they suggest that human capital is not only a source of sustainable competitive advantage; it can also result in managerial dilemmas that may erode competitive advantage.

Begum and Mohamed (2016) did a study in India on human resource management practices and their impact on job satisfaction in the BPO sector. They concluded that supervisors and managers must create a platform for employees to showcase their innovations and creativity. This will improve the profitability of the organisation and contribute to achieving its goals and objectives. Porto and De Abreu (2019) maintain that it is the responsibility of a firm to build competencies by making use of skills and knowledge to develop rare processes that cannot be copied easily by competitors in order to achieve sustainable marginal profitability. As indicated earlier, FS was deployed as a proxy to measure human capital in the model as a result of various data generation challenges.

The importance of an effective human resource strategy is also supported by Osazefua Imhanzenobe (2020), who states that Walkers' theory of profit suggests that the managers' abilities and practices are the main drivers of sustainability and financial performance. The findings of research done by Wijesiri et al. (2019) indicate that recruitment and selection, training and development, performance management and reward management all have a positive impact on employees' retention and eventual corporate financial performance. In conclusion, they found that the low employee retention in the Sri Lankan BPO sector is due to the lack of good human resource practices, and that weakness has eroded the profitability of the sector. Qehaja and Kutllovci (2015) pinpoint the importance of human resources as a basis for competitive advantage.



This view is also supported by Arraya and Porfírio (2017), as well as Bustani (2020), who found that human resources can develop employees into valuable resources using training as a basic tool, and in such a way enable them to gain sources of competitive advantage for the profitability of the firm. It should be noted that human resources play an integral part in the success of outsourcing and as a basis for competitive advantage in the BPO sector (Arora, 2016; McIvor, 2016; Malhotra & Gautam, 2016). An argument can be advanced, from the linkages created between the empirical findings in this study and established literature, that human resource management plays an integral part in developing competitive advantage. From this perspective, it is believed that improving human resource management in the BPO sector can lead to profitability and lead to the path of competitive advantage.

#### **4.6 MODEL 2**

##### **Asset efficiency**

Model 2 was used to answer research question 2: What are the effects of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius? Therefore, the proposed model investigated the effects of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius. This model considers the relationship between return on assets, return on equity, current assets, current liabilities and firm size in order to find the deterministic effects of the independent variables on the dependent variable (return on assets).

##### **Profitability in relation to total assets**

$$\text{Return on assets} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

The ratio is computed by dividing net profit after taxation by total assets. It measures the overall effectiveness of firm resources being used to generate revenue. More specifically, it measures the contribution of the firm's assets to the overall operating profits. The estimation approach leads to the following equation:

$$\text{ROA} = \alpha + \beta_1 (\text{ROE}) + \beta_2 (\text{CA}) + \beta_3 (\text{CL}) + \beta_4 (\text{FS}) + \epsilon_t$$

To begin the analysis of Model 2, descriptive statistics were first calculated to determine the pattern of data distribution, which is the most basic evaluation of data usability.

As indicated in the preceding paragraphs, if a set of data fails normal distribution tests, such a dataset would only yield spurious results if deployed in any form of regression analysis. As such, descriptive statistics ensure that the dataset passes the assumptions of normal distribution. The results of the analysis are contained in Table 4.6.

#### 4.6.1 Descriptive Statistics

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std Deviation</b>	<b>Skewness</b>		<b>Kurtosis</b>	
	<b>Statistic</b>	<b>Statistic</b>	<b>Statistic</b>	<b>Statistic</b>	<b>Statistic</b>	<b>Statistic</b>	<b>Std Error</b>	<b>Statistic</b>	<b>Std Error</b>
<b>logROA</b>	430	-3.130	1.992	0.1389	0.5954	-1.144	0.118	2.829	0.235
<b>logROE</b>	329	0.000	5.688	0.6386	0.6032	3.306	0.134	18.883	0.268
<b>logCA</b>	430	0.000	1031.8028	212.85	170.6994	1.615	0.118	3.407	0.235
<b>logCL</b>	430	-54.094	920.6233	166.1901	137.988	1.659	0.118	4.163	0.235
<b>logFS</b>	430	2.00	2.8438	2.4255	0.2282	0.234	0.118	-0.989	0.235
<b>Valid N (listwise)</b>	329								

Analysis of the descriptive statistics contained in Table 4.6 reveals the following:

ROA is the dependent variable with a mean value of 0.139, and the standard deviation of 0.595 (which is slightly higher than the mean); ROE has a mean of 0.098 and standard deviation of 0.032 (which is less than the mean); CA has a mean of 212.85 and standard deviation of 170.69 (which is less than the mean) and CL has a mean of 166.19 and standard deviation of 137.98 (which is less than the mean). Furthermore, the FS mean value is 2.43 and the standard deviation value is 0.23, which is lower than the mean.

The results of ROE, CA, CL and FS show a notable dataset with below-the-mean characteristics, whereas ROA shows data values being higher than the mean. Furthermore, the results of the kurtosis statistics in Table 4.6 show that the data is slightly tailed, but not sufficiently enough to negate the assumption that the dataset is normally distributed. The CA, CL, FS and ROE show a slightly positively skewed distribution, and ROA shows a slightly negatively skewed distribution.

To reinforce the assumption that the dataset passed normal distribution tests, the classical assumption tests, namely the normality and autocorrelation tests, were conducted to ensure that the regression model was free from normal distribution errors.

#### 4.6.2 Normality Test

Table 4.7 shows the results of the normality test for Model 2.

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
<b>logROA</b>	0.181	329	0.000	0.857	329	0.000
<b>logROE</b>	0.150	329	0.000	0.742	329	0.000
<b>logCA</b>	0.162	329	0.000	0.873	329	0.000
<b>logCL</b>	0.123	329	0.000	0.858	329	0.000
<b>logFS</b>	0.148	329	0.000	0.937	329	0.000
a. Lilliefors Significance Correction						

Based on the normality test above, it can be concluded that the dataset appears normally distributed, especially considering the fact that all the tested variables are statistically significant at a 99% confidence level. This result is notably true in both tests of normal distribution, namely in the Kolmogorov-Smirnova, as well as in the Shapiro-Wilk models.

In the paragraphs that follow, a test of autocorrelation was conducted and the results appear in Table 4.8.

#### 4.6.3 Autocorrelation Test

Table 4.8 presents the Durbin Watson test for Model 2.

Model 2	R	R Square	Adjusted R Square	Std Error of Estimate	Durbin-Watson
		0.405	0.164	0.153	0.5088
a. Predictors: (Constant), logROE, logCL, logCA, logFS					
b. Dependent Variable: logROA					

Based on the results contained in Table 4.8, it can be concluded that there is no autocorrelation as the result of Durbin Watson falls within the acceptable region (1.17). This done, the statistical analysis of correlation was conducted to test the long-run relationship between the variables used in Model 2. The results of the correlation test are presented in Table 4.9.

#### 4.6.4 Correlations

		<b>logROA</b>	<b>logROE</b>	<b>logCA</b>	<b>logCL</b>	<b>logFS</b>
logROA	Pearson Correlation	1.000	0.045	0.249	0.088	0.193
	Sig. (2-tailed)		0.4120	0.0000	0.067	0.000
	N	430	329	430	430	430

From the results in Table 4.9, it can be deduced that the correlation between ROA and ROE and CL is not very strong. A weak positive correlation of 0.249 and 0.193 was found with CA and FS, respectively. The positive correlation suggests that an increase in the independent variables would lead to a corresponding increase in the dependent variable (ROA). Based on the goodness-of-fit results, as well as the correlation statistics, it is suggested that all conditions to run multiple regression estimation were attained. Therefore, a regression analysis was conducted and the results are presented in Table 4.10.

#### 4.6.5 Regression Analysis

Model	R	R Square	Adjusted R Square	Std Error of Estimate		
2	0.405	0.164	0.153	0.5088		
a. Predictors: (Constant), logROE, logCL, logCA, logFS						
b. Dependent Variable: logROA						
<b>ANOVA</b>						
Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	16.429	4	4.107	15.860	0.000
	Residual	83.908	324	0.259		
	Total	100.336	328			
a. Dependent Variable: logROA						

b. Predictors: (Constant), logROE, logCL, logCA, logFS						
Coefficient						
Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std Error	Beta		
2	(Constant)	-0.919	0.323		-2.846	0.005
	logROE	0.108	0.047	0.117	2.272	0.024
	logCA	0.002	0.000	0.547	5.837	0.000
	logCL	-0.002	0.000	-0.46	-5.202	0.000
	logFS	0.423	0.137	0.179	3.092	0.002
a. Dependent Variable: logROA						

Table 4.10 shows the results of the model summary, ANOVA and coefficient tests for Model 2. It must be remembered that Model 2 was specified to investigate the effects of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius.

The findings of Model 2, as contained in Table 4.10, show that the adjusted R square for ROA is 0.164, which indicates that 16.4% of the variation in ROA of BPO firms could be explained by the independent variables ROE, CA, CL and FS. The P-value is 0.009, which is less than 0.05. It can be concluded that the overall regression model is significant where  $F(4.324) = 15.86$ ,  $p < 0.01$ ,  $R^2 = 0.064$ . Furthermore, the overall regression model was suitable for the purpose of this study because it exhibits a satisfactory level of explanatory properties. The next focus of the analysis was on the coefficient table and the variables individually. The P-values for ROE, CA, CL and FS are lower than 0.05, meaning that those variables are significant in influencing ROA.

#### 4.6.6 Discussion

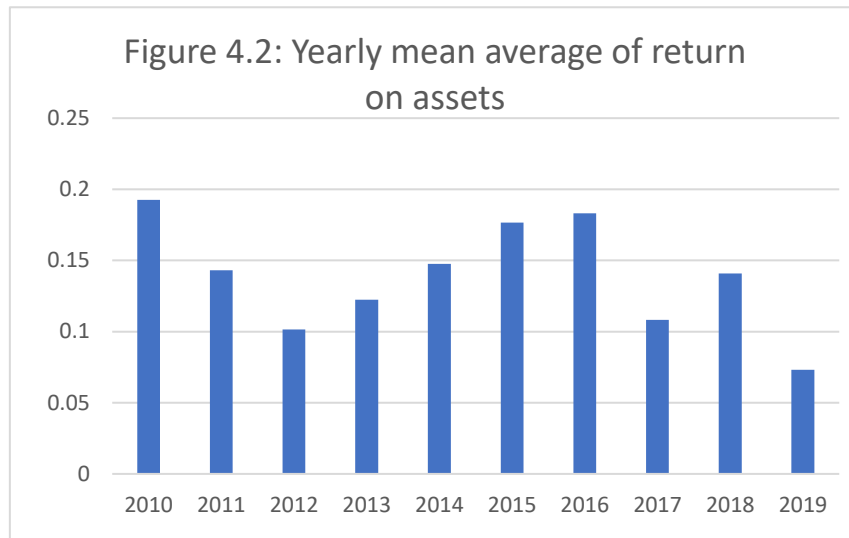
Model 2 investigated the effects of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius. The study examined the relationship between ROA in relation to ROE, CA, CL and FS. A weak positive correlation was observed between ROA and CA, as well as with FS. However, the summary statistics, as well as the test of coefficients, lend credence to a strong deterministic influence of the independent variables on the dependent variable. In other words, the significance level of ROE, CA, CL and FS is less than 0.05, demonstrating that these variables are significant in influencing ROA.

The study of Rambe and Rambe (2021) investigated FS and debt to equity ratio to ROA for the period between 2014 and 2018. They concluded that there is a positive and significant relationship between FS and ROA. Pointer and Khoi (2019) did a similar study on the predictors of ROA and ROE and found that the variables are significant predictors of key variables. Furthermore, Abdul (2017) found a positive relationship between firm efficiency and corporate profitability. The above studies show some parallels with the current study. Based on the results of the regression analysis, it can be concluded that the independent variables were significant in measuring the ability of the model to describe variations in the dependent variable.

In this study, ROA was used to determine a company's ability to leverage its asset efficiency for profitability. High profitability is a positive sign of an organisation's efficient utilisation of sets, and it highlights a notable increase in a firm's value. Investors normally react positively to firms that have high ROA as a sign of operational efficiency. Significantly, resources have strategic value in understanding competitive strategies. When searching for a strategy to survive in a competitive business environment, a firm is frequently required to deploy strong management leadership, which is characterised by highly competent human capital.

Haque, Tausif and Anis (2020) explain that ROA shows the extent to which a business is run efficiently, and the measure is used to gauge a company's ability to turn internal resources into sustainable profitability. ROA is also a good indicator of management effectiveness in the deployment of its assets in an efficient manner. In addition, Husna and Satria (2019) suggest that a firm with good performance in asset efficiency attracts foreign investors and increases the firm's stock price. The result of the analysis also indicates a trend in influencing the BPO firm's ability to generate profit and create competitive advantage.

It is considered important to reiterate that this study utilised a dataset that spans a period of 10 years to track the performance of firms in the BPO sector in Mauritius. Figure 4.2 shows the yearly average mean value of ROA for the 43 BPO companies in the sample.



The graph can be seen to be fluctuating and declining throughout the sample period. The instability in the trend analysis of ROA may be interpreted as a decline in the financial stability of the BPO sector. Dayag (2019) stresses that firms need to reinforce ROA and align corporate strategies with the intent to grow their asset efficiency. A good ROA performance means good returns on the total assets that are employed by the firm. As such, corporate resources may act as a strategic determinant of the effectiveness of competitive strategies adopted by the firm.

Chege (2021) did a study on BPO firms in Kenya and concluded that the technological infrastructure in the BPO arena is considered a major driver. The author concluded that technological changes provided an avenue to increase asset performance. As a result, technological innovations have helped BPO firms to reduce operating costs, enhance quality services and ensure business survivability. Also, the IT infrastructure in the BPO sector represents a driving factor and is associated with cost advantage and quality improvement. The study by Rao and Balasubrahmanya (2017) found that India, with its well-established global telecommunications infrastructure conducive for BPO, has made the country become the world's leading exporter of IT services over the past three decades. Consequently, the outsourcing sector, which includes BPO companies, grew to 7.5% of the GDP and increased its world market share to 58% in 2011 (Woszczynski, Dembla & Zafar, 2016).

Intangible assets in the BPO sector consist of business analytics software, cloud computing and process automation software, which are currently being used by most of the operators in the sector

to bring down costs and to achieve operational efficiency (Mauritius Board of Investment, 2015). Following this type of argument, Lewis (2018) identifies an increase in software robotics used for automation in the BPO and IT sectors. These technological adaptations are considered an important asset in the sector. It is noteworthy that intangible resources play an integral part in the success of firms in this sector (Lewis, 2018).

The findings for Model 1 show that ROA has an impact on profitability. Based on the results of the analyses of Model 2, ROE, CA and CL exhibit a significant effect on ROA. Thus, how the BPO firm's ROA ratio relates to profitability in this turbulent environment should be taken into consideration. From a strategic management point of view, Kerionwu, Edgar and Gray (2017) explain that the tangible resources investment in a BPO firm consists of a data centre facility, computer hardware, software, data, networks, as well employees – with specific emphasis on human capital. They contend that the more complex an outsourcing process is, the greater the technological investment that is required for efficient business operations. Business process outsourcing is the ICT industry where technology cannot be separated. Despite the increase interest in in technology, Pereira et al. (2021) concluded that the investment in organisational capabilities, knowledge and learning have resulted in strategic agility which in turn contributes to greater technological performance. As such, investing in technological deployment as a strategic weapon may be the new tool to develop competitive advantage in the BPO sector.

#### **4.7 SUMMARY**

The study examined profitability and efficiency in relation to firm performance and identified the drivers of competitiveness in the BPO sector in Mauritius. The conceptual appraisal in previous chapters suggests that economic indicators for BPO firms operating in Mauritius are favourable due to various government schemes, incentives and tax exemptions offered to non-listed firms. According to the financial statements collected, 43 were eligible for the study. The models were tested for a period of 10 years to determine the effects of various financial ratios on the profitability and asset efficiency of the firms as possible sources of competitive advantage – vis-à-vis corporate performance. Multiple linear regression techniques were employed to achieve the objectives of the study by answering the research questions.



Normality and autocorrelation tests were applied to ensure that the regression model was free from any classical biases. Furthermore, descriptive statistics, diagnostic tests and regression analyses were performed, and the results presented.

The findings in Table 4.5 illustrate that return on assets has a strong link with net profit margin, and firm size has an impact on net profit margin. The results are in line with other previous findings. Consequently, it could be suggested that a good match between net profit margin and the efficiency of management leadership would have a direct positive effect on profitability in the BPO sector in Mauritius, and it may provide an avenue to gain competitive advantage in the sector. The average mean over the 10 years indicates that the net profit margin has fluctuated and is declining drastically in the BPO sector. Outsourcing in Mauritius is facing new challenges, as competitive advantage has been eroded due to loss of competitiveness in the sector.

Table 4.10 presented the results of Model 2 for the 10 years under consideration. The findings show that the significance level of return on equity, current assets, current liabilities and firm size is less than 0.05, demonstrating that these variables are significant in influencing return on assets. The next chapter presents a summary of the results regarding the relationships between the variables, and recommendations are made.

## **Chapter 5**

### **Conclusions and Recommendations**

#### **5.1 INTRODUCTION**

The aim of the current study was to gauge the possible impact of financial performance on the sustainability of firms that operate in the BPO sector in Mauritius. As highlighted in the previous chapter, the concept of competitive advantage has received considerable attention from scholars because of its valuable contribution to business success. It is imperative for a firm to have a competitive edge to yield high productivity and to cope with the intensity of competition. Indeed, competitive advantage can give a firm a superior advantage in a hyper-competitive sector, such as the BPO sector in Mauritius. However, it is not enough to have the best product or service to stay a step ahead of competitors, achieve a high return on investment, or survive turbulent markets. The increasing pressure arising from globalisation is forcing top-level management to develop new business strategies and reconfigure strategic resources and capabilities to improve business performance. As a result, better profitability can be attained, and effective and efficient use of resources can be achieved in order to respond to global challenges. Creating strategies to maintain competitive advantage should therefore improve a firm's competitive position, shape the industry's attractiveness and lead a firm to the path of success.

As mentioned in chapter 1, Mauritian BPO companies are now striving to compete with multinational corporations that have invested in the country, especially due to rising competitive pressure. With the current intensity of competition in the BPO sector in Mauritius, outsourcing firms have realised the need to revisit their strategies to achieve superior competitive advantage. Undoubtedly, with a clearly defined competitive strategy, BPO firms can lay a foundation for maintaining a competitive edge. In essence, firm resources and capabilities have strategic value and can be seen to have a solid foundation to cope with the uncertain environment. As such, BPO firms operating in Mauritius require proactive strategic management action in order to survive the turbulent environment. This study was therefore initiated to investigate the effectiveness of competitive strategies adopted by BPO firms in Mauritius.

In the previous chapter, data analysis was presented and the findings were interpreted. The results were aligned with a few findings in the previous studies to draw parallels with established literature. The main focus of chapter 5 is to outline the major findings of the research and indicate how the research questions were answered and how the research objectives have been achieved. To wrap up the study, a synopsis of the study is presented, conclusions are drawn based on the analyses and recommendations are made. Areas of possible further research are also identified.

## **5.2 SUMMARY OF PREVIOUS CHAPTERS**

The main body of the study was split into five chapters which covered the introduction and background, conceptual discourse of competitive strategies, research methodology, data analysis, recommendations and discussion. The opening chapter (chapter 1) presented a general framework of the study, with an introduction and general insight into the other four chapters (chapters 2 to 5).

Chapter 2 presented the theoretical component of the study, which included a discourse on competitive advantage, competitive strategies, the resource-based view approach, a few other strategic management tools and how resources and capabilities are extremely important for creating a competitive advantage and understanding financial analysis in the BPO sector. It is challenging for a company to survive in this turbulent environment without building competitive strategies against major competitors. The discussion in this chapter showed the importance of resource optimisation in the BPO sector in Mauritius as a good strategic tool to strengthen competitive strategies and to gain competitive mileage. Furthermore, opinions garnered from the literature review suggest that competitive strategies can improve companies' overall performance and profitability.

As stated in chapter 3, the financial statements were collected from the Government of Mauritius's Corporate and Business Registration Department. A total of 43 BPOs were eligible for the study because they contained the necessary data for the period under consideration. The study followed a quantitative approach, which was deemed more appropriate to estimate relevant factors within the sector. Two models were developed for the research.

The first model attempted to depict the effects of internal capability on profitability and the second model investigated asset efficiency as a source of competitive advantage. Financial data was used to analyse internal capability as a determinant of profitability, as well as the impact of asset efficiency on the firm's performance. It should be noted that ratio analysis is regarded as a strategic tool in helping managers and investors make wise decisions about new investments, mergers, acquisitions, devising new competitive strategies, etc. Financial statements display the worth of a business and the efficiency of the management in increasing business performance. Additionally, ratio analysis can appraise current performance in areas such as profitability, potential investment, as well as the financial health of an organisation.

Chapter 4 was based on the financial ratio analysis of BPO firms operating in Mauritius. The analysis was done on data retrieved from the financial statements of BPO firms as discussed in chapter 3. The two main ratios applied in this study as dependent variables are used to measure profitability and asset efficiency, namely net profit margin and return on assets. These were used as dependent variables because of the specific research objectives and research questions. Firm size, return on assets, return on equity, current assets and current liabilities were used as independent variables. All the variables were taken in Mauritian currency, except for firm size, which was expressed in terms of the number of years in existence.

The financial ratios (NPM and ROA) were computed by using financial information reflected on the financial statements. The analysis began with a descriptive method to give a clearer picture of the distribution of the data and to examine the shape of the distribution. A log transformation was performed to reduce the skewness of the dataset and to achieve linearity. The next step was to utilise normality and autocorrelation tests to run the dynamics of the variables and to ensure data stability. This was followed by correlation to test the statistical significance and whether the variables were linearly related. As mentioned in chapter 3, multiple linear regression techniques were employed to achieve the objectives of the study by answering the research questions.

### **5.3 RESEARCH PROBLEM**

The problem statement for this study was as follows:

Mauritian BPO firms are operating in a challenging economic and financial environment, and their ability to compete internationally has become a necessity for business survival. Therefore, it was necessary to conduct a scientific investigation into the financial performance, involving profitability and efficiency, of the sampled organisations as they influence the competitiveness of the firms.

### **5.4 ACHIEVING THE RESEARCH OBJECTIVES**

The main aim of the study was to gauge the possible impact of financial performance on the sustainability of firms that operate in the BPO sector in Mauritius. In line with the aim of this study, the research objectives investigated in this study were:

- To investigate the effects of internal capability on the profitability of firms that operate in the BPO sector in Mauritius in relation to return on assets and firm size.
- To investigate the effects of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius in relation to return on equity, current asset, current liability and firm size.

### **5.5 RESEARCH QUESTIONS**

To achieve the above research objectives, research questions must be answered. Below are the investigative questions which were researched in support of the research objectives.

- What are the effects of internal capability on the profitability of firms that operate in the BPO sector in Mauritius in relation to return on assets and firm size?
- What are the effects of asset efficiency as a source of competitive advantage in the BPO sector in Mauritius in relation to return on equity, current asset, current liability and firm size?

## **5.6 RESEARCH FINDINGS**

### **5.6.1 Research Objective 1**

The study found that there is a relationship between the dependent and independent variables. Specifically, ROA has an impact on NPM; FS is also statistically significant and positively related to the NPM ratio. The correlation between the NPM and ROA revealed that organisational and managerial practices are foundational to profitability. In other words, firms would have to leverage the competitive superiority of human capital within the firm in order to attain a sustainable level of competitive advantage. The analysis also examined the trend behaviour of NPM ratios in the BPO sector. From the trend analysis of the NPM for the 43 BPO firms examined within the context of this study, it appears that the overall NPM for all the firms in the sector decreased significantly. This is likely due to increasing pressure arising from the inflow of superior foreign competitors. Since FS and ROA have an impact on NPM, human resource strategy becomes indispensable to achieve sustainable competitive advantage.

These findings are also in line with previous studies that have found empirical evidence to affirm a possible relationship between FS, ROA and profitability. FS has been found to lead to benefits that are capable of improving profitability and performance. However, Supriyadi and Terbuka (2021) mentioned that ROA has no significant partial effect on the company's value. Thus, maintaining a human resource strategy to achieve competitive advantage becomes essential for BPO survival.

### **5.6.2 Research Objective 2**

The findings from this model show that ROE, CA, CL and FS have a significant effect on ROA. On the contrary, Lusy et al. (2018) concluded that current assets and current liabilities don't have any impact on return on asset. Thus, the influence of the ROA ratio on firm efficiency in this sector should be taken into consideration. The analysis has also utilised the dataset that spans a period of 10 years to track the trend performance of firms in the BPO sector in Mauritius. The uncertainty that characterises the trend analysis on ROA may be interpreted as a decline in the financial stability of the BPO sector.

As mentioned previously, RBV theory recognises that a firm's competitive advantage depends on tangible assets, intangible assets and capabilities needed to compete. Since there is a positive relationship between firm efficiency and corporate profitability, it can be concluded that the technological infrastructure in the BPO firm can provide an avenue to increase asset performance. Intangible assets in the BPO sector consist of business analytics techniques, cloud computing expertise and process automation technology. The IT infrastructure in the BPO sector represents a driving factor and is associated with cost advantage and quality improvement. Since ROE, CA, CL and FS have the greatest impact on ROA, the RBV strategy becomes the desired strategic orientation.

As such, corporate resources may act as a strategic determinant of the effectiveness of competitive strategies adopted by the firm. The deployment of the latest technological capability and techniques can therefore result in high performance and may ultimately create sustainable competitive advantage.

## **5.7 RECOMMENDATIONS**

The BPO sector should consider upskilling its labour force to improve profitability. Effective human resource management has been documented as the source of sustainable competitive advantage in the BPO sector. Making use of human talent with the right skills can be a strategic weapon that may be explored to develop resilient competitive advantage. It can thus be concluded that investing in human resources may add value to sustainability and profitability of BPO firms in Mauritius. Cutting-edge technology should also be used as a strategic weapon to develop a sustainable competitive advantage in the BPO sector. Further to the argument of competitiveness, the Mauritian government needs to intervene to improve the attractiveness of the BPO sector through further investment in the areas of technology.

## **5.8 FURTHER STUDIES**

The findings indicate that human capital and technology play integral roles in the success of the Mauritian BPO sector. Further research, possibly comparative research between selected African countries, may be conducted to determine the specific impacts of human capital and technology in the BPO sector by deploying more robust variables over a longer period of time.

## 5.9 SUMMARY

The study determined the specific importance of each of the deterministic variables and proposes strategies that may enhance the competitive performance of the firms in that sector within the Mauritian economy. The literature suggests that the strategic utilisation of resources of a company enables firms to implement strategies that improve performance. Previous studies suggest that the resource-based view (RBV) has a positive influence on the attainment of sustainable competitive advantage. As a result, firms can develop, implement and maintain strategies that would enhance profitability by optimising resource utilisation. For the purpose of this study, the impact of internal capability on profitability, as well as the effects of asset efficiency on firm performance were analysed through quantitative approaches to gain insight into the financial performance of the firms in the BPO sector in Mauritius. Firm-level indicators were utilised to measure the potential relationship between firm characteristics and performance.

Some 43 companies were sampled for the period spanning from 2010 to 2019. The data was collected from the Government of Mauritius's Corporate and Business Registration Department. The empirical aspect of this study utilised datasets that were generated from annual financial statements, namely income statements and balance sheets.

The current study is an attempt to summarise the effects of internal capability on the profitability of the BPO sector in Mauritius. In addition, the effects of asset efficiency were examined as a source of competitive advantage in the BPO sector in Mauritius. The diagnostics analysis suggests that there is no autocorrelation among the variables of interest, and the dataset was normally distributed to ensure the stability of the results.

The regression model identified that return on assets has an impact on net profit margin and the firm size is also statistically significant and positively related to net profit margin. The study also found that return on equity, current assets, current liabilities and firm size have significant effects on return on assets. The overall conclusion could then be centred on the need to implement unique human capital management and encourage the use of cutting-edge technology as strategic weapons to develop a competitive advantage.



Furthermore, policymakers are required to improve the attractiveness of the BPO sector through technological advancement. The results documented in this study are aligned with previous other studies in a way that shows consistency of identified problems, thereby strengthening the need to improve on this research through a cross-national or continent-wide comparative study.

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