

**Assessing the impact of mandatory regulation to adopt the  
Sri Lankan Standards (SLS) in the fruit processing sector in Sri Lanka**

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This study examines empirically the impact of a number of characteristics of a firm on the decision to adopt the Sri Lankan Standards (SLS) using the small and medium-scale fruit processing sector in the Western Province in Sri Lanka as the case. It is hypothesised that in the presence of a “mandatory” government regulation to adopt the SLS in the firm, the management of which has two options, i.e. it can adopt the standards on all of its major products, or exercise a “product-exit”, or in certain cases a “plant-exit”. This behaviour is influenced by factors such as the type of ownership; the availability or ability to introduce modern processing technologies; enhanced food safety controls in place; whether

the firm is involved with international markets; availability of skilled labor, and annual returns of the firm adjusted to the number of employees and major products. The primary data collected through a series of in-depth personal interviews with quality assurance managers/owners of 36 firms during May to July 2005 with a support of a structured interview schedule were analysed using Logit Regression techniques.

The results suggest that factors such as improved technology and availability of skilled labour have the highest impact on firms to adopt the SLS without a product or plant exit. However, the influence of factors such as availability of other food safety controls and exporting to international markets was moderate. The outcome of the analysis demonstrates that policy makers must take into account the business environment of the firm, both implicitly and explicitly, in their attempts to mandate implementation of enhanced food safety controls like the SLS on agri-food processing enterprises. In turn, such firms should be supported with a set of market-friendly policies, including the provision of a grace period to comply, accurate information, training and technical support and low interest credit facilities to comply with mandatory regulations.

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