

# Factors Affecting Growth of SMEs in Tourism Industry in Sri Lanka

**R M T H Ratnayake**  
**E D T M N D Menike**  
**Travis Perera**

## **Abstract**

The objective of this paper is to identify managerial factors of sustainable growth of SMEs within the tourism industry of Sri Lanka. A preliminary qualitative survey pointed to entrepreneurial characteristics, strategy making, employee commitment, employee competence and organizational culture as determinants of sustainable growth of this sector. The empirical study was done through a questionnaire survey among 306 respondents in 113 SMEs, mainly in the Southern region. It revealed a strong positive relationship between the entrepreneurial characteristics and the sustainable growth of the entity, which confirms the arguments put forward in most of the literature on the subject. The results also supported the moderating effects of strategy making and employee competencies on the relationship between entrepreneurial characteristics and sustainable growth.

**Key words:** Small and Medium size Enterprise, Entrepreneurial Characteristics, Employee commitment, Employee competency, Organizational culture, Strategy making.

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**Ms. R M T H Ratnayake** is an Engineer at the Air Port and Aviation, Sri Lanka. E-mail: thamalirh@yahoo.com

**Ms. E D T M N D Menike** is a Chartered Engineer at the Sri Lanka Telecom PLC, Sri Lanka.

**Dr. Travis Perera** is a Senior Consultant, at the Postgraduate Institute of Management, University of Sri Jayewardenepura, Sri Lanka. E-mail: drtravisperera@gmail.com

## **Introduction**

The paper explores the factors that determine the sustainability of growth of small and medium size enterprises (SME). SMEs in Sri Lanka are classified based on the yearly sales turnover or number of full-time workers (Annual Report, Central Bank, 2011). SMEs are significant not only for developed countries but also for developing countries (Annual Report, Central Bank of Sri Lanka, 2011). They play a distinctive and increasingly important role in directly contributing to economic growth through the creation of goods and services. For these reasons over the last two decades in particular, SMEs have received considerable attention from researchers and policy-makers around the world.

The world has witnessed the emergence of tourism as one of the largest and fastest growing industries at present (World Tourism Organization Annual Report, 2012). Sri Lanka, endowed with resources that some other countries lack, has not yet fully exploited its tourism potential. The available statistics on global tourism give clear evidence that while world tourism growth was phenomenal, the growth rate of Sri Lankan tourism has been minimal (Annual Report, Central Bank of Sri Lanka, 2007).

The tourism sector in Sri Lanka as a whole, whether graded hotels or supplementary establishments, suffered four external shocks that hampered their growth within the last six decades (Economic Progress: 50 Years – SLCB, 1998). Nevertheless, recovery from these setbacks and the momentum of growth after each external shock was fast due to government assistance extended to this sector when required (Economic Progress: 50 Years – SLCB, 1998).

The growth of any enterprise is affected by factors from the external environment which are beyond the control of the management as well as factors from the internal environment which could be controlled by utilizing appropriate management tools (Economic Progress: 50 Years – SLCB, 1998). Some studies of SMEs lend support to this conclusion. Moideenkutty et al. (2011) found in their study the importance of Human Resource Management in SME growth. Cacciolatti and Fearne (2013) showed that SMEs that make good use of structured marketing information have a higher probability of growth than those that do not.

Most of the empirical studies were carried out in Western and Middle East countries (Kim, 2004) and comparatively little is known about the situation in Sri Lanka. More specifically, despite the recent research on the practice of management techniques,

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little research has empirically examined its practice in Sri Lanka. As the culture and methods of doing business in Sri Lanka is different from those of Western countries (Gupta et al., 2002 as cited by Jayakody, 2008) where the majority of the studies have been conducted, the present study is designed to contribute to filling this gap in empirical studies by examining the major contributory factors affecting the growth of SMEs in the tourism industry of Sri Lanka.

As stated earlier, there is no known literature on the factors affecting the growth of SMEs in Sri Lanka. Central Bank figures point to the potential for SMEs to earn high revenues through tourism (Annual Report, Central Bank, 2011). But it was observed from the preliminary studies carried out on this topic that SMEs are focusing only on short-term survival. Therefore, it is worthwhile to identify the factors affecting the growth of these kinds of firms (Eggers et al., 2013), which will be beneficial to them as well as to SMEs in general (Morrison, 2003). The findings of this study will also be useful to the entrepreneurs in the business and those planning to enter the tourism industry in the future. Policy makers concerned with tourism in Sri Lanka will also benefit from this study as they can use this study to identify the main factors they need to focus on in formulating the policies affecting the tourism sector in Sri Lanka, especially the SME sector.

The next section of the paper is structured so as to provide a literature review consisting of theoretical and empirical literature that aims to develop an understanding of the reasons for the growth of SMEs. It is followed by the conceptual framework for the research that is supported by the literature review and the hypotheses. The latter sections present the approach to gathering data, reliability and validity of instruments used, the data analysis and the limitations of the research. The findings, the discussion and the recommendations and future possible research areas are presented at the end of the paper.

### **Literature Review and Study Framework**

The literature review covers the most prominent factors that affect the growth of SMEs in the tourism industry: strategy-making, employee commitment and competencies, organizational culture and entrepreneurial characteristics.

### ***Entrepreneurial Characteristics***

Drucker regarded entrepreneurship as perceptiveness to change exploiting it as an opportunity (Drucker, 1985 as cited by Exton, 2007). Several researches identify entrepreneurial characteristics as class, gender and ethnicity. More recent research focuses on the profiling of individual entrepreneurs (Shaver and Scott, 1991 as cited by Ryan et al., 2011) or seeks to characterize them by personality and psychological characteristics and behavioral patterns (Jennings, 1994 and Kuratko et al., 2005 as cited by Exton, 2007).

Entrepreneurial activities are often initiated and carried out by individuals within organizations (Sanchez & Soriano, 2011). According to Eggers et al. (2013), entrepreneurship and entrepreneurial orientation respectively are seen as drivers of a firm's growth. They refer to several authors who have investigated the impact of entrepreneurial orientation on the firm's performance and found that entrepreneurial orientation is a construct associated with the firm's success, particularly in the long-run (Shepherd & Wiklund, 2005 as cited by Eggers et al., 2013).

The tourism industry also provides favourable conditions for the creation of small family businesses by people seeking autonomy and independent work conditions (Braun and Hollick, 2005 as cited by Pechlaner et al., 2012). Hence, it is useful to investigate the impact of entrepreneurial characteristics on the growth of SMEs in the tourism industry. Zhang and Bruning (2011) referred to Penrose (1959) and investigated how entrepreneurs utilize their skills and experience to influence their firm's performance. More specifically, this demonstrates that the entrepreneur's personal characteristics influence the firm's performance.

*Hypothesis 1: Entrepreneurial characteristics positively influence the sustainable growth of the entity.*

### ***Strategy-Making***

Strategy-making is the manner in which organizations make important decisions leading to the development of strategies (Verreynne, 2004 as cited by Kyobe, 2008). It is usually viewed as rational in nature, and studies conducted on strategic alignment in SMEs have mainly assumed a planned business strategy. Further, Kyobe, (2008), referring to Verreynne (2004), argues that SMEs place differing emphases on strategy-making and may employ different strategy-making types.

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Mintzberg (1973) identified three main strategy-making modes: entrepreneurial, planning and adaptive. In the entrepreneurial mode the owner himself takes the decisions and risks on behalf of his stakeholders. In contrast to this, in the adaptive mode, the organization takes decisions to adapt according to the environment. The main characteristic of the planning mode is that it uses formal analytical methods to prepare explicit and integrated strategies for the future (Mintzberg, 1973).

The studies by Greenley (1994) in relation to the nature of the relationship between strategy-making and performance results in a positive association between the two concepts. He also identified a range of benefits arising from effective planning. The earlier studies conducted by Thune & House (1970) as cited by Glaister et al., (2008) concluded that a better financial outcome was reported by a group of planners than by non-planners. There were several studies that tried to link the firm's performance with its strategy-making capability, in the context of small and medium size firms (Baker et al., 1993, as cited by Hannon & Artherton, 1997). In these studies a general association was identified between performance and strategy-making.

Shrader (1984) as cited by Glaister et al. (2008) concluded that there was no clear systematic relationship between the performance and effectiveness of strategic planning. Some researchers argued that strategic planning can have a negative impact on performance if it introduces rigidity and encourages excessive bureaucracy (Bresser & Bishop, 1983 as cited by Glaister et al., 2008). Many benefits of strategy-making were identified by past researchers, such as enhanced co-ordination, control by reviewing performance and progress toward objectives, identifying and exploiting future marketing opportunities, enhancing internal communication between personnel, and improving the corporate performance of companies (Greenley, 1986 as cited by Aldehayyat et al., 2011).

Kazanjian et al., (2002) as cited by Dhliwayo & Vuuren (2011) argue that the link between strategic planning and entrepreneurship is fundamental. They further argue that this implies that the desired business outcomes would not be maximized by isolating the two. They categorise entrepreneurial orientation as a construct of entrepreneurship. Okhomina (2010) in his study emphasized that achievement need, tolerance for ambiguity, risk-taking and locus of control were analyzed with respect to entrepreneurial characteristics and identified them as correlates with entrepreneurial characteristics. Therefore, the following hypothesis can be derived from the above literature.

*Hypothesis 2: Strategy-making moderates the relationship between entrepreneurial characteristics and sustainable growth of the entity*

### ***Human Resource Management***

The life-blood of an organization is its employees (Carol et al., 2003). When an organization has a well-trained workforce, it can produce better jobs, employees can be creative and have increased morale (Moideenkutty et al. 2011). This will go a long way to enhance the organization's productivity, and ultimately its performance. Many studies have found a positive relationship between HRM and the performance of firms (Moideenkutty et al. 2011).

Sanchez et al., 2011 emphasized that organizations by themselves do nothing and most collective activities that take place within organizations are an amalgam of the activities of its individual members. HRM plays a key role in entrepreneurial firms as their mover and shaker (Keating and Olivares, 2007 as cited by Sanchez & Soriano, 2011). Therefore, it is evident that there is a relationship between HRM and entrepreneurship and growth of an entity.

Many studies have been carried out on the impact of HRM in the workplace. The main outcomes of deploying HRM practices such as recruitment and selection and training and development practices in an organization are employee commitment (Anthony, 1994 as cited by McGunnigle & Jameson, 2000), knowledge, skills and abilities or competencies (McGunnigle & Jameson, 2000). HRM practices can be thought of as a mechanism that sends out values and beliefs of the organization that will shape a certain corporate culture (Peters, 1978 as cited by McKenzi, 2010).

In this study the impact of HRM was measured using three variables: employee commitment, employee competencies and organizational culture.

### ***Employee Commitment***

According to Steers (1977) as cited by Zaitouni et al. (2010), organizational commitment can be interpreted as the employee's long-term relationship and intention to stay in the workplace along with an unshakable belief in the goals and objectives of his/her organization, followed by a devoted effort to reach these goals.

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According to Zaitouni et al. (2010), most managers want highly committed employees working under them so that they believe they can achieve the organization's goals more effectively. The high motivation and the engagement in work that comes from organizational commitment are essential to the growth of organizations, especially of those whose success depends on the employees' ideas and creativity (Worsfold, 1999). The importance of this concept in the context of organizational growth is emphasized by Peccei and Rosenthal (1998) as cited by Worsfold (1999).

According to Jong et al. (2007), employees' innovative behaviour depends greatly on their interaction with others in the workplace. In general, leaders are a powerful source of influence on employees' work behaviours (Yukl, 2002 as cited by Jong et al., 2007). They also argued that when organizations grow beyond a few employees, entrepreneurs should start worrying about how followers must be directed towards specific goals (Shane, 2003 as cited by Jong et al., 2007). This shows that there is a relationship between employee commitment and entrepreneurial characteristics. Therefore, the following hypothesis can be derived from the literature:

*Hypothesis 3: Employee commitment moderates the relationship between entrepreneurial characteristics and sustainable growth of the entity*

### ***Employee Competencies***

According to Athey and Orth (1999) as cited by Urtasun and Nunez (2012), competency can be defined as a set of observable performance dimensions, including individual knowledge, skills, attitudes and behaviours, as well as collective team, process and organizational capabilities, that are linked to high performance and provide the organization with sustainable competitive advantage. Employee competencies are among the main areas that organizations focus on to gain competitive advantage (Fernandes et al., 2005). It encompasses an individual's technical and interpersonal knowledge and skills.

In the balance scorecard model, Kaplan and Norton (1992) as cited by Fernandes et al. (2005) identified four areas to focus on if the organization wants to perform better. The four perspectives are financial, customer, internal process and innovation and learning. They included competences and resources in the innovation and learning perspective, indicating that they lead for a higher level of achievement

of performance in other perspectives. Therefore, the following hypothesis can be derived from the above literature:

*Hypothesis 4: Employee competency moderates the relationship between entrepreneurial characteristics and sustainable growth of the entity*

### **Organizational Culture**

Kilman (1985) as cited by Lee & Yu (2004) identified that culture has been characterized by many authors as “something to do with the people and the unique quality and style of the organization”. In another study, culture is defined as sharing of values, social ideals and beliefs by an organization’s members (Smircich, 1983 as cited by Lee & Yu, 2004).

Rodriguez & Gomez (2009) mentioned that organizational culture has mainly emphasized its impact on organizational efficiency. Nevertheless, historical divisions between hard and soft elements of management have hindered a closer look at its relationship with HRM. Schein (1985) as cited by Lee & Yu (2004) suggests that a strong culture creates more organizational efficiency than does a weak culture. Lee and Yu (2004) also referred to Saffold’s (1988) discussion that culture can affect organizational performance if it is “strong” (wide consensus, deeply internalized and socialized) and “appropriate” (relevant to its industry and business conditions).

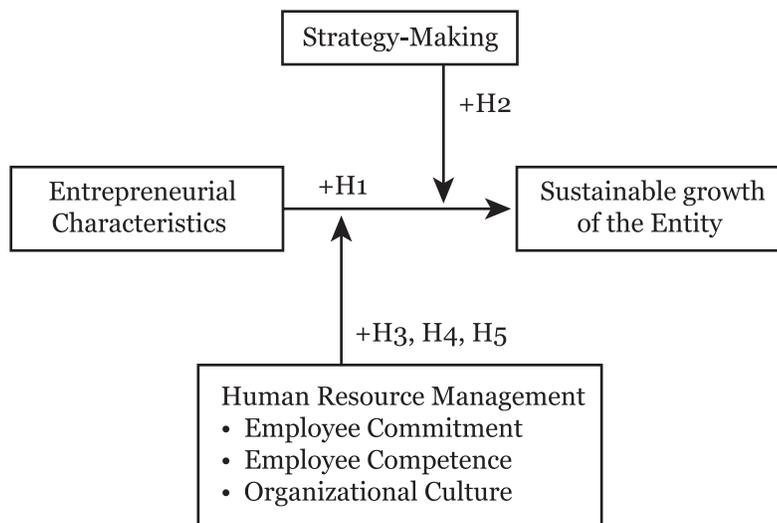
Morrison (2006) mentioned that the existence of an entrepreneurial culture represents societal support for an enterprising spirit that will flourish within certain communities in response to uncertainty and competition (Kirzner, 1979 as cited by Morrison 2006). Understanding the cultural values, motivations, and aspirations of various cultural sub-groups within populations is critical to increasing the knowledge base about factors that contribute to entrepreneurial behaviour (Morrison, 1998 and Collins, 2002 as cited by Morrison, 2006). Based on this literature a hypothesis can be formulated as:

*Hypothesis 5: Organizational culture moderates the relationship between entrepreneurial characteristics and sustainable growth of the entity*

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The preceding discussion reveals that entrepreneurial characteristics, employee commitment, employee competencies, organizational culture and strategy-making have an impact on the sustainable growth of the entity. Entrepreneurial characteristics influence the sustainable growth of an entity positively and thus it can be considered an independent variable. Strategy-making, employee commitment, employee competencies and organizational culture are taken as moderators that influence the relationship between entrepreneurial characteristics and the sustainable growth of the entity (Figure 1).

**Figure 1: Conceptual Framework by Authors**



### Methodology

A cross-sectional survey was the main method, but a qualitative study was also conducted to enrich, and to triangulate the findings from the quantitative survey. The data gathered for the study was based on the questionnaires given to 306 participants from 113 SMEs in the tourism industry. SMEs categorized as “supplementary establishments” by the Sri Lanka Tourism Development Authority represented the sample. The selection of samples was based on convenient sampling to gather as much reliable data as possible. Most of the respondents were from the Southern region. There were some respondents from Kurunagala and Colombo districts as well.

Five in-depth interviews were conducted with SME owners to validate and enrich the findings that emerged from the quantitative surveys. The interviewees were selected based on a convenient sampling from the Southern Province. The interview guide was based on the questionnaire used in the survey. The interviews were recorded with the permission of the respondents and were kept for coding. All five interviews were conducted in Sinhalese as the owners were not very fluent in English.

### ***Data Analysis***

The statistical analysis was done using the SPSS version 20.0 and SmartPLS version 2.0, which are commonly used in management research. Before the analysis began, the first step was to examine the completed questionnaires that were received to check for accuracy and completeness. Twelve questionnaires were discarded since they were not complete and consistent. Inconsistency was measured with the negative questions in the questionnaire. The data collected from the 306 respondents were averaged according to their companies to obtain a sample of 113, since the unit of analysis for this study is the number of organizations.

Since the data set did not meet the requirements to conclude that the data set was normally distributed, it was analyzed using PLS for several reasons. One is that PLS makes fewer demands on the underlying data distribution or sample size. Another is its ability to model under conditions of non-normality (Chin et al., 1996). The data was analyzed using PLS in a two-step method, i.e., the data was analyzed under the measurement model and the structural model (Fornell & Yi, 1992). The latent variable was considered as a second order construct and the items of the questionnaire were fed into the first order variable and the second order construct when using PLS.

The measurement model which measures reliability and validity was tested in order to validate the goodness of data. Using PLS, reliability is measured by Cronbach Alpha and the Composite Reliability indices. Both these indices should be greater than 0.6 (Henseler et. al., 2009) to conclude that the measurement has reliability. Individual loading of each item to the respective construct was considered to determine the reliability of each item. Lower valued items were removed in order to improve overall reliability of the constructs.

The loadings of each item to its construct and the Average Variance Expected (AVE) was used to measure the validity of the measurements. Convergent validity

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is measured from the AVE and the value should be greater than 0.5 (Henseler et al., 2009) to be accepted as a good measurement of the construct. The cross loading of individual items was taken to determine the discriminant validity of the measurement. Each loading should be higher than the loading it has to the other constructs. AVE can also be used to determine the discriminant validity of the data set. The rule is that the square root of AVE should be larger than the correlation of a specific construct with any of the other constructs (Zait and Berteau, 2011).

The structural model tests the relationships and their significance between the constructs of the model. In PLS three dimensions are used to determine the relationships among the constructs. The path coefficients are similar to beta values in regression. 't' value which determines the significance (the relationship is significant if the value is greater than 1.9835 at  $p < 0.05$  for one tailed,  $N=113$ ) and the  $R^2$ , the coefficient of determination, to check the overall effect size and degree of variance between the constructs (Henseler et al., 2009).

The independent, dependent and moderator variables are considered as latent variables. The product between the independent and moderator variables is used to measure the interaction effect of the moderator (Chin, 1996). All the indicator values were standardized before the measurement. In the first scenario the path coefficients and  $R^2$  were measured without the interaction effect and in the second the interaction effects were included in the measurement. Finally, the significance of the interaction was calculated (Chin, 1996).

### **Measures**

This study examines four personal characteristics frequently investigated in entrepreneurship research. Zhang et al. (2011) measured need for achievement and internal locus of control on a five-item Likert scale with Cronbach's alpha of 0.886 and 0.801 respectively. They also reported that the need for cognition consists of four key components: enjoyment of cognitive stimulation, preference for complexity, commitment of cognitive effort, and desire for understanding (Lord and Putrevu, 2006 as cited by Zhang et al., 2011). These aspects were measured by a five-item measure (Cronbach's alpha 0.704). Merlo (2009) indicates in his research that the need for power is related with the organization's performance. Two of the statements used were: "It is important for us to have the best products and services" and "We push ourselves to be all that we can be".

The four characteristics identified by Mintzberg (1973) were used to measure the entrepreneurial mode of strategy-making: an active search for new opportunities, power centralized in the Chief Executive, dramatic leaps forward in the face of uncertainty and growth as the dominant goal. To measure the level of short-term planning by SME owners, measures developed by Hoyt et. al. (2007) in their study to develop validated instruments to measure organizational responsiveness were used. The factors included in the personal interactions that support short-term tactical plans (PLANPERS) were used with a Cronbach's Alpha of 0.913. For example, the two statements used to measure short-term planning were: "We hold regular planning meetings to review and revise our goals and objectives" and "We have a written plan for the next 12 months."

Meyer & Allen (1997) conceptualized employee commitment as having three dimensions: affective, normative and continuance (extracted from Fields, 2002). This conceptualization is used in this study to define the measures for employee commitment. According to Meyer & Allen (1997), the coefficient alpha value ranged from 0.77 to 0.88 for affective commitment, from 0.65 to 0.86 for normative commitment and from 0.69 to 0.84 for continuance commitment. Accordingly two statements that Meyer & Allen (1997) were used to measure affective commitment were: "I would be very happy to spend the rest of my career with this organization" and "I really feel as if this organization's problems are my own".

A study by Manhardt (1972) examined 25 job characteristics (extracted from Fields, 2002), which he categorized under three dimensions: comfort and security, competency and growth, and status and independence. Of these, competency items were selected as the measures for this study to examine the relationship between employee competency and organizational performance, and the coefficient alpha of these items was measured as 0.65. Also, recruitment, training and development were adapted from the study done by Gibb (2001) on the state of human resource management in order to incorporate the industrial characteristics in the study. These items have an alpha value of 0.9. Two of the statements that captured recruitment practices were: "We get the right person for the job" and "Recruitment procedures are carried out in a fair and consistent manner".

Hofstede (1984) as cited by Ming-Yi (2006) used work-related cultural dimensions as a research paradigm in the field of intercultural communication, cross cultural psychology, and international management. His classification on four work-related cultural values, viz. power distance (power inequality between superior and subordinates), uncertainty avoidance (tolerance of ambiguity), masculinity-

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femininity (gender roles in organization) and individualism-collectivism (value between themselves and groups/ organization) is used in this study to measure the type of culture of the SMEs in the tourism industry. Statements that measured power distance were “The Manager takes most decisions without consulting subordinates” and “It is frequently necessary for a manager to use authority and power when dealing with subordinates”. Culture can be defined as mental programming or the software of the mind (Hofstede, 1991 as cited by Gannon, 2004). Hofstede’s cultural dimensions were based on individual attitudes of mind. People are different and their attitudes are also different. Hence, Hofstede’s dimensions of culture are useful for examining organizational culture.

The sustainable growth of an entity is measured under the three dimensions of the triple bottom line: profit, people and planet or economic, social and environmental (Clarke-Sarther et. al., 2011). This study captures the economic aspect of growth with the measures used by Fernando et al. (2005) with a Cronbach’s alpha value of greater than 0.69 and captures the environmental aspect of growth of the entity by using Huang and Kung’s (2011) study of environmental consciousness and intellectual capital management with a Cronbach’s alpha value of 0.92. Items identified by Manhardt (1972) under the growth dimension were used in this study to capture the people aspect of the triple bottom line. The coefficient alpha was 0.65 for competence and growth items. Items that measured the economic aspect of the entity were “Market share increase” and “Success rate in launching new products”.

### **Data Analysis and Results**

The survey data can be categorized according to the number of employees. This is used as the main measure to distinguish between SMEs. Seventy-five percent of the companies participating in the survey have less than 10 employees and were considered as small enterprises. The rest of the companies had more than 10 employees and were categorized as medium enterprises. The majority of hotels considered employing both seasonal and permanent employees to maximize their profit. Only around 20% hotels employ either seasonal or permanent workers. These hotels target both local and foreign customers and only three of the 113 hotels targeted exclusively foreign customers. The composition of the respondents was 73% male and 17% female while 45% of the respondents were in the age group 31-40 years, and nearly 80% had qualifications lower than GCE A/L.

The basic descriptive statistics of the data set and the association between the variables are given in Table 01.

**Table 1: Descriptive Statistics and Correlation Matrix**

	Mean	SD	1	2	3	4	5	6
Employee commitment	3.22	0.325	0.553					
Employee competency	3.85	0.412	.522*	0.67				
Organizational culture	3.80	0.248	.462*	.665*	0.483			
Entrepreneurial characteristic	3.84	0.263	.350*	.495*	.450*	0.514		
Sustainable growth	2.97	0.23	.287*	.436*	.460*	.530*	0.595	
Strategy making	2.94	0.429	.230*	.214*	0.118	0.057	.375*	0.687

*Note:* \* Correlation is significant at the 0.05 level (2-tailed). \*\*. Correlation is significant at the 0.01 level (2-tailed). The diagonal contains the  $\sqrt{\text{AVE}}$  of the constructs

The standard deviation is less than 0.5 in all the measures and can be considered satisfactory. Outliers of some of the concepts were replaced with the mean of the respective construct to reduce the standard deviation and skewness of the data. The data set was tested for normality using the skewness measurement and through the Shapiro-Wilk test. The significance of the data should be greater than 0.05 in order to be considered as normally distributed data set. But only entrepreneurial characteristics met this criterion while all other constructs failed to meet it. Due to this nature of the data, as said above, the researchers decided to use PLS.

**Table 2: The Reliability and Validity Measures of the Variables**

	AVE	Composite Reliability	Cronbachs Alpha	No. of Items
Employee commitment	0.3056	0.7768	0.7755	11
Employee competency	0.4561	0.8753	0.8323	09
Organizational culture	0.2331	0.773	0.7535	11
Entrepreneurial characteristics	0.264	0.8418	0.8215	17
Sustainable growth	0.3543	0.7437	0.6195	07
Strategy-making	0.4722	0.8184	0.7329	06

*Note:* From Data Analysis

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The results of reliability and validity testing are given in Table 2. Some items that did not meet the factor loading limit of 0.7 were retained as their significant value is considerable at  $p < 0.05$ . Also, according to Table 1 discriminant validity was not found in entrepreneurial characteristics and organizational culture.

**Table 3: PLS Results for the Relationship between Entrepreneurial Characteristics and Sustainable Growth of the Entity**

	Sustainable Growth		
	Path Coefficient	R <sup>2</sup>	t-Value
Entrepreneurial characteristics	0.3274	0.556	4.9651

*Note:* From Data Analysis

From the results it can be said that entrepreneurial characteristics explain 55.6% of sustainable growth of an entity in the sample. The path coefficient is at 0.3274 and this figure can be interpreted as significant as t-value is greater than 1.9835. Therefore, it can be concluded that the null hypothesis is rejected and the hypothesis that entrepreneurial characteristics positively influence the sustainable growth of the entity (H1) can be accepted.

**Table 4: PLS Results for the Moderating Effect on the Relationship between Entrepreneurial Characteristics and Sustainable Growth of the Entity**

	Sustainable Growth		
	Path Coefficient	R <sup>2</sup>	T-Value
Entrepreneurial characteristics	0.2086		4.1257
Strategy-making	0.1383		3.5601
Employee commitment	-0.1142		1.423
Employee competency	0.1924		4.3303
Organizational culture	0.0364		0.5453
Entrepreneurial characteristics * Strategy Making	-0.1603		2.3113
Entrepreneurial characteristics * Employee commitment	0.1033	0.692	1.2228
Entrepreneurial characteristics * Employee competency	-0.2529		2.5417
Entrepreneurial characteristics * Organizational culture	-0.1446		0.8504

*Note:* From Data Analysis

According to Table 4, the significance of the interaction effect of strategy-making is 2.0675, which achieves the required level to be considered as significant. Therefore, it can be concluded that the path coefficient of the interaction, i.e. -0.1322, can be considered as significant and the hypothesis that strategy making moderates the relationship between the entrepreneurial characteristics and sustainable growth of the entity is accepted.

The significance of the interaction effect of employee commitment does not meet the required levels as it is 1.4942. Therefore, the hypothesis that employee commitment moderates the relationship between entrepreneurial characteristics and sustainable growth of the entity is rejected.

When examining the significance of the relationship, it can be seen that the t-value of the interaction effect is 2.6892, which achieves the required level to be considered as significant. Therefore, it can be concluded that the path coefficient of the interaction, i.e. -0.2128, can be considered as significant and the hypothesis that employee competencies moderate the relationship between the entrepreneurial characteristics and sustainable growth of the entity is accepted.

The significance level of the interaction effect of organizational culture is less than 1.9835. Accordingly, the hypothesis that organizational culture moderates the relationship between the entrepreneurial characteristics and sustainable growth of the entity is rejected.

## **Discussion of Findings**

The argument was that the growth of the firm is influenced by entrepreneurial characteristics, and that the relationship was moderated by strategy-making, employee commitment, employee competency and organizational culture. According to the data analysis, only employee commitment and organizational culture did not influence the growth of the entity.

The positive relationship between entrepreneurial characteristics and the sustainable growth of the entity is congruent with Penrose (1959) as cited by Zhang (2011), on the argument that the entrepreneur's skills, experience, and other personal characteristics are key resources and more specifically demonstrate that the entrepreneur's personal characteristics influence their strategic choices, which in turn influence the firm's

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performance. A clear connection between entrepreneurial characteristics and the sustainable growth of the entity was revealed in the discussions with entrepreneurs in the tourism industry. The owner of the Castle Bay Hotel, Midigama, pointed out that his need for achievement and controlling internal factors drive the sustainable growth of his hotel ( March 23, 2013). The same idea was confirmed by other hotel owners in discussions with them that need for power drives the sustainable growth of their hotel (the owner of the Neptune Hotel, Weligama, March 9, 2013).

The argument of Kazanjian et. al. (2002), as cited by Dhliwayo et al. (2011), that strategic planning and entrepreneurship cannot be isolated to achieve high growth was confirmed in this study as well. The study shows that not employing strategy-making will hinder the relationship between entrepreneurial characteristics and the sustainable growth of the entity. Also, there is a lot of literature that supports the relationship between strategic planning and growth (Greenley, 1994 and Thune & House, 1970, as cited by Glaister et. al., 2008). These were supported in the present study as well. The literature that stated that there is no relationship between strategic planning and growth (Shrader, 1984 as cited by Glaister et al., 2008) was rejected by the results of this study.

The literature considers HRM as a factor that enables or disenables the growth of an entrepreneurial firm (Keating and Olivares, 2007 as cited by Sanchez & Soriano, 2011). Employee commitment being an outcome of HRM (Anthony, 1994 as cited by McGunnigle & Jameson, 2000) can be assumed to have the same relationship for the entrepreneurial firm. The insignificance of the relationship can be due to the behaviour of the industry in the study. As all over the world the tourism industry relies on seasonal employment, employee commitment can be at a minimal in these firms.

In the balance scorecard model, Kaplan and Norton included competences and resources in the innovation and learning perspective, indicating that they lead to higher levels of performance in other aspects. Competencies were identified as one of the resources that drive performance (Fernandes et al., 2005). The literature considers HRM to be a factor that enables or disenables the growth of an entrepreneurial firm (Keating and Olivares, 2007, as cited by Sanchez & Soriano, 2011). Knowledge, skills and abilities or competency (McGunnigle & Jameson, 2000) are outcomes of good HRM practices. Therefore, it is evident from the theory and empirical results that employee competency has a relationship with the firm's performance and entrepreneurial characteristics.

The recruitment processes employed by the entities in the study showed only a moderating effect. This was in line with some other empirical studies carried out in the SME sectors that showed that the SMEs showed poor HR practices relating to recruitment and selection even though it is necessary for the growth of the entity (McEvoy, 1984 as cited by Barret and Mayson, 2007). Training and development of the employees were also not very visible. Previous studies also support this observation that owners of SMEs show little interest in training as it involves high costs, and they underestimate the benefits of training (Storey and Westhead, 1997, as cited by Barret and Mayson, 2007).

It is evident from the study that most of the owners attach little importance to training and developing their employees. The main reason for this is linked to temporary employment. They prefer to recruit trained and skilled employees rather than train them in-house.

Ming-Yi (2006), referring to Hofstede's research (1984), suggested that work-related cultural values in a specific culture are not static and can change over time. When the political, societal, and economic environments change, people's cultural values also change. As per the research of Lee & Yu, (2004), culture has been examined with performance and effectiveness (Reichers and Schneider, 1990 as cited by Lee & Yu, 2004).

Saffold (1988), as cited by Lee and Yu (2004), discussed culture as having a strong sense of mission and being adaptable, reflecting Kotter and Heskett's (1992) discussion on adaptable culture. These results suggest that culture can affect organizational performance if it is "strong" (wide consensus, deeply internalized and socialized) and appropriate to its environment (relevant to its industry and business conditions). According to the findings of the survey, it is evident that there are no strong cultural values within the employees of SMEs. This is due to the temporary and seasonal nature of the employment of staff. As it takes a long time to develop cultural values within the employees, this shuffling of staff hinders the possibility of promoting a strong culture. Therefore, the culture of SMEs didn't show a significant moderating effect on the relationship between entrepreneurial characteristics and the growth of the firm.

### ***Theoretical Implications***

As cited by Gorman (2001), another research carried out by Jouirou (2004), showed that there should be a match between an organization's system and its strategy in order to enhance performance. An appropriate organizational practice will depend on the specific circumstances of the organization since there is no universally appropriate system which applies equally to all organizations, according to Contingency Theory (Gorman, 2001). Thus, SMEs need to demonstrate a high degree of strategy-making and entrepreneurial characteristics as well as to adjust to the conditions of the external environment to gain competitive advantage in the industry. This research proposes a useful new integrated model as there is insufficient study of the factors affecting the performance of SMEs in the tourism industry so as to expand knowledge regarding the factors affecting SME growth and their mutual connections.

### ***Managerial Implications***

Sustainable growth is inseparable from competitiveness. It depends on government policies and the business environment which determine the ability to act and react within a competitive environment, and the potential of managers for implementing the necessary strategic changes. The policies of the government aimed at promoting competitiveness should focus on minimizing risks and providing a sound business environment in which enterprises can choose from a vast range of options to improve their competitiveness.

One major implication of this research is that the findings will give existing, new or potential entrepreneurs of SMEs in the tourism industry an optimal understanding of the factors that will affect their business performance. This is to ensure that their business will continue to grow and ultimately contribute to the development of the economy of Sri Lanka. The results of this study provide clues for recommending the strategic behaviour of SMEs to be used as a basis for benchmarking and improvement of SMEs in the tourism industry. Firstly, entrepreneurs should have sufficient prior work experience and education on the well-being of SMEs to search for the most favorable growth opportunities within the market (Gorman, 2001).

Whether known or unknown to entrepreneurs or managers, every tourist firm is internationalized since their customers can be from foreign countries, which calls for special skills in management of the business and strategic planning. It benefits immensely by allowing an organization to be more proactive and dynamic and to

initiate its own path and empower people while employees become committed to the organization (Greenley, 1986, as cited by Aldehayyat et al. 2011). Further, as this service is an internationalized activity, the different cultures of the potential customers should be deeply studied to give them maximum satisfaction. Every employee should be made aware of this aspect for them to change their attitudes towards different customers from time to time.

The role of the government has to be one of facilitating, regulating and monitoring, planning and integrating such planning in relation to tourism into the overall economic and social framework. Therefore, the firms in the industry should be able to develop without much government involvement.

This study is important and can be applied by the SMEs in order to help their entrepreneurs to adopt strategy-making in the daily operations of their business. This will ultimately lead to improvement, effectiveness and efficiency in management. This is supported by several other studies, where the results found that most of the successful SMEs were characterized by qualities such as innovativeness, specialization and networking in their daily operations (Pasanen, 2003, as cited by Gorman, 2001).

In the research, it was found that employee competency was a constraining factor for SMEs. Therefore, it would be prudent to evaluate the progress made in the development of HR by the statutory bodies set up under the new Tourism Act (Central Bank Annual Report, 2007).

The use of integrated marketing information and appropriate human resources might also have a consequential impact on SMEs' growth probabilities (Gorman, 2001). Hotel management should try to understand its employees, and ensure a good working culture within the organization to achieve high productivity. Employee empowerment can be a possible solution to ensure the desired organizational outputs, namely, higher employee affective commitment to the organization (Kazlauskaite et al., 2006). Another organizational area to be developed is employee encouragement and involvement in decision-making in work-related aspects, which is positively related to employee affective organizational commitment (Kazlauskaite et al., 2006).

### **Limitations and directions for future research**

This study has its limitations. First, owing to time constraints it used a convenient sample. This might restrict the validity of the findings. Southern Province SMEs in the tourism sector were considered for the study. If SMEs in the tourism sector of the whole island were selected it might strengthen the findings. Second, although we used only validated scales and conducted a thorough factor analysis, we still had to amend the scales. Since our research was focused on SMEs, we eliminated some items from the existing scales that applied mainly to large organizations. This inhibits comparing our findings cleanly with previous studies.

Another limitation is the common method variance that exists in the data set collected from the survey. Although the data was collected from the owners of the entity and the employees to minimize the common method variance, there still exists some common method variance.

Respondents may have been biased towards the questionnaires provided and due to their different background and different level of experience they may have answered the questions based on their own perceptions. Future researchers can expand their researches by expanding the sample size in the study so as to enhance the range of perceptions.

This study could be broadly applied to SMEs in other sectors of the Sri Lankan economy. Then, the findings would be strong enough. This study revealed that there is a relationship between strategy-making entrepreneurial characteristics and the firm's performance. Moreover, it also revealed that HRM is linked to entrepreneurial characteristics and to the firm's performance. Therefore, we suggest continuing this study with a broad distribution of SMEs in Sri Lanka to discern these relationships.

In this study only five variables that can affect sustainable growth were examined. Factors like government policies, use of market information effectively and use of technology need to be studied in relation to SME growth.

### **Conclusion**

To sum up, this study has achieved its research objectives. The hypotheses and theoretical framework were designed to achieve the research objectives. Some determinants that significantly affect the performance of SMEs were identified.

Based on the results, entrepreneurial characteristics, appropriate human resources management and strategy-making are significantly related to the sustainable growth of the firm. The findings of the study support the conclusion that there is a strong relationship between entrepreneurial characteristics and sustainable growth of an entity, supporting much of the existing literature (Zhang, 2011). The moderating effects of strategy-making and employee competence are also proven in this study (Kazanjian et al., 2002 as cited by Dhliwayo et al., 2011; Keating et al., 2007 as cited by Sanchez et al., 2011). The moderating effects of employee commitment and organizational culture were not proven as some existing literature has cited. With the right use of management tools, the growth of any entity can be increased and sustained. This rule applies to SMEs in general as well. Since the tourism industry has been given a significant place in economic growth in recent government policies, the results of this study have many implications for entrepreneurs in the tourism industry as well as for policy makers in the industry.

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