

Innovation in SMEs in the Tourism Industry

M D S Perera
Travis Perera

Abstract

The importance of innovation in Small and Medium Enterprises (SMEs) has encouraged researchers to inquire into the factors that influence it. This study attempts to discuss two aspects related to innovation in SMEs operating in the tourism sector. One is to identify whether entrepreneurial orientation influences innovations, and the other is to understand the role played by knowledge management in the relationship between entrepreneurial orientation and innovation. A qualitative research method has been used, and the selected sample consists of fourteen hotel entrepreneurs. In-depth interviews have been conducted with the entrepreneurs in order to collect data. The study reveals that entrepreneurial orientation influences innovations, and that knowledge management plays an important role in this relationship. One important finding was that knowledge management practices are being implemented in small and medium hotels. Thus, knowledge management plays a moderating role in the relationship between entrepreneurial orientation and innovation. A significant finding of this study is that while knowledge management practices are being implemented in small and medium hotels they have a positive influence on entrepreneurial orientation and innovation in Sri Lankan hotels

Keywords: Innovation, Entrepreneurial orientation, Knowledge management, SMEs, Tourism sector, Hospitality industry

Ms. M D S Perera is a Partner - Overseas Education Services. E-mail: shamalka_02@yahoo.com

Dr. Travis Perera is a Senior Consultant, Postgraduate Institute of Management, University of Sri Jayewardenepura, Sri Lanka.

Introduction

Tourism is a part of people's lives at present and it is important to every country, since it has a positive economic impact on the balance of payments (Creaco & Querini, 2003). The impact of tourism on the economy of Sri Lanka is immense, as it is in the 6th position as far as contribution to the economy is concerned, and one of the largest earners of foreign exchange (SLTDA, 2011). The culture, natural resources and coastline around the island contribute tremendously to the tourism industry (Ranasinghe & Deyshappriya, 2010), and the beachfront is in high demand (Ghaffoor & Coorey, 2012).

The government anticipates 2.5M tourists to visit our country by 2016, and the key objectives to achieve the target have also been set up (Ministry of Economic development, 2011). Sri Lanka being a great tourist destination, this goal is not unrealistic (CBSL, 2011). Yet, there is a gap in the number of available rooms that exists in Sri Lanka (Ghaffoor & Coorey, 2012; Capital Alliance Securities, 2011). SMEs make up a large part of Sri Lanka's economy, accounting for about 80% of all businesses (NHREP, 2013; International Finance Corporation, 2006/2007) and the tourism industry consists of many SMEs in Sri Lanka. Therefore, small and medium hotels are necessary to fill the room gap (De Silva, 2010; Rajapakse, 2013 as cited by Perera 2013).

SMEs around the world face difficulties due to various reasons (OECD, 2004), and it is noticed that the situation in Sri Lanka is not very different (NHREP, 2013). Likewise, SMEs in the tourism sector find it difficult to grow (NHREP, 2013; Ramawikrama, 2011; RAM, 2011). Therefore, researchers and practitioners have been looking for factors that determine the growth of SMEs, and innovation has been identified as one of the main factors. (Levy & Powell, 2005; Lopez, 2009).

Previous studies have found that entrepreneurial orientation (EO), and knowledge management (KM) influence innovation (Madhoushi et al, 2011; Khalili et al, 2013; Nonaka & Takeuchi, 1995), and Madhoushi et al (2011) have noted the important role of KM in the EO-innovation relationship. However, since none of those are industry-specific factors, the purpose of this study is to find out the effect of EO on innovation and the moderating role played by KM in innovation in the hospitality industry in Sri Lanka.

Although innovation has received a fair amount of attention from researchers globally, a lack of research on innovation in the tourism field is observed (Andrea, 2012). The importance of innovation was noticed when it was studied in the tourism and hospitality sector in the 2000s (Andrea, 2012). These studies have focused mainly on consultancy firms (Taminau et al, 2007), manufacturing firms (Lopez, 2009), knowledge-intensive service firms (De Jong & Hartog, 2007), and other industries with less emphasis on the SMEs in the tourism and hospitality sector in the Sri Lankan context. The review paper by Andrea (2012) on tourism and hospitality innovations reveals some important factors that influence innovation in tourism and hospitality viz. hotel size, category and chain structure, employee involvement and commitment, managements' orientation and empowerment. This review is evidence that such a research has not been conducted in the local context focusing on SMEs.

Furthermore, Rauch et al (2009) suggested that it is time to open up research on EO and to further examine the role of moderators. In addition, Parkman et al. (2012) proposed that an in-depth description on the relationship between EO and innovation is useful. Tigu et al. (2013) have noted that research on innovation in the hospitality industry is still in its beginnings. Hence, it is evident that there is a lack of studies in tourism innovation. Moreover, Iorgulescu (2013) has mentioned that innovation in the hospitality industry needs to be studied further. Therefore, having noted the demand for more research on innovation in the tourism industry in the literature, this study has been set up to address these concerns.

The study is significant due to the contextual differences between Sri Lanka and the countries which have been the subjects of previous research studies. For instance, western culture and the local culture have little commonality (Hirt, 2012). Hofstede (1991) introduced five cultural dimensions, namely, power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance and long term orientation/short term orientation in which to study contextual influence. Sri Lankan culture is collectivistic and its orientation is medium (Suraweera & Liew, n.d.), while its power distance is high (Wang, 2007 as cited by Suraweera & Liew, n.d). In the West, however, the culture is individualistic, masculinity is high and the power distance is low. Since work ethics in a society are largely influenced by its culture, it has a direct relationship to its value systems (De Alwis & Senathiraja, 2003). Therefore, culture certainly has an effect on innovation (Naranjo-Valencia et al, 2011). Thus, this study contributes to knowledge on SME innovations in the tourism sector.

Innovation in SMEs in the Tourism Industry

The objectives of this study are (a) to explore how entrepreneurial orientation affects innovation in the tourism industry in Sri Lanka, and (b) to explore how knowledge management moderates the relationship between EO and innovation in the tourism industry.

The study mainly contributes to knowledge by revealing how EO affects innovation in a knowledge sharing environment in SMEs of the hospitality sector. Considering the fact that more studies on innovation implementation are necessary (Raymond et al., 1998), studying innovation in the tourism and hospitality industry will be beneficial. It has been identified by Gopal and Shetty (2008) that hospitality service providers would become 'obsolete' without innovation. Further, these authors assert that the lack of innovation would ultimately drive the service providers out of business or force them to hand the business over to more efficient and innovative entrepreneurs. According to Parkman et al (2012) more qualitative research on the interplay between EO and innovation is useful. Hence, a knowledge gap has been filled by conducting this study in the local context.

Both SMEs and the tourism sector contribute to the economy of Sri Lanka, and the government has identified the tourism industry as one of the most important contributors to the economy. As a result the government anticipates 2.5M tourists by 2016 (Mahinda Chinthana, 2010). Therefore, this study will be important for SMEs operating in this sector as it will help entrepreneurs to identify the innovation aspects. Having noted that innovation is an important factor which influences the growth of SMEs, entrepreneurs would be able to improve on many aspects of innovation (Hanna & Walsh, 2002; Metcalf et al, 2003 as cited by OECD, 2004).

Innovation is a broad area, and factors that affect innovation are many, such as leadership (de Jong & Hartog, 2007), commitment, understanding (Humphreys et al, 2005) and culture (Naranjo-Valencia et al, 2011). Currently, innovation is found to be affecting the business performance of SMEs significantly (Najib & Kiminami, 2011). In spite of these links, the relationship between innovation and performance, growth and other influencing factors will not be covered due to practical difficulties. Furthermore, EO has several dimensions such as autonomy, innovativeness, proactiveness, aggressiveness and risk-taking (Covin & Slevin, 1989; Miller, 1983; Madhoushi, 2011), and there are differences regarding KM processes in the literature (Karim et al, 2012). For this reason, this study is limited to studying innovativeness, proactiveness and risk-taking, in EO, and the SECI spiral of KM (Nonaka & Takeuchi,

1995), and the effect of these factors on innovations of products/services of SMEs in the hospitality sector.

This paper is organized into five sections. Next, the paper reviews the literature in order to highlight the importance of innovation. The independent variable and the moderator are also covered in this section. The concept indicator model is then followed by the methodology. Thereafter, data derived from interviews with entrepreneurs was analyzed and the results are presented. Finally, key conclusions of the study are presented.

Literature Review and Theoretical Framework

Innovation and SMEs

It is reported that many SMEs fall in their first few years of operation due to various reasons (Tambunan, 2011). The introduction of new productive combinations and innovation is the driving force that continuously creates new competitive advantages (Metcalf et al., 2003). Moreover, opportunities for profit and growth and many studies have shown that individual innovation helps attain organizational success (Van de Ven, 1986; Amabile, 1988; Axtell et al., 2000; Smith, 2002; Unsworth & Parker, 2003).

An innovation is the generation, acceptance and implementation of new ideas, products, services, or processes that are new or perceived as new by its developers (Van de Ven, 1986; Kanter, 1983). This study takes the definition by Ruiz-Jime'nez and Fuentes-Fuentes (2013) who have defined innovation as the transformation of knowledge that the firm possesses into new products/processes which brings significant changes to processes/products.

SMEs should be more innovative in order to succeed when dealing with their consumers as customers' preferences keep changing, and their competitors are constantly honing their ability to compete with others (Najib & Kiminami, 2011). SMEs are often good at encouraging employees to be innovative, since it is easier to put ideas forward. On the contrary innovative ideas in small and medium firms could also be limited to ideas without any action, due to financial constraints (Mezgar et al, 2000) and a lack of necessary skills of the entrepreneur.

Innovation in SMEs in the Tourism Industry

As Drucker (1999) states, innovation is almost an obligation strategy for survival. This is more valid for SMEs, since many SMEs have taken an innovation initiative at some point (Humphreys et al, 2005). The argument put forward by Beer et al. (1993) is that the way to bring about innovation-based change is to first change behaviour, which will consequently lead to the desired changes in attitudes and values; and the entrepreneur should play the role of facilitator in encouraging employee participation (Culkin & Smith, 2000). Therefore, it is useful to note that the entrepreneur of an SME plays a major role in the innovation of products/services. It could be pointed out that, innovation is the knowledge basis for entrepreneurship (Hougaard, 2005) as entrepreneurs' behaviour certainly influences the innovative capability of employees, and thus the innovative capability of the organization (De Jong & Den Hartog, 2007).

Entrepreneurial Orientation (EO)

EO is defined as the strategy-making processes that provide organizations with a basis for entrepreneurial decisions and actions (Rauch et al., 2009). It is obvious that EO is very useful for business entrepreneurs of SMEs, since EO is reported as having an influence on a firm's performance, profitability, growth and product innovation in entrepreneurial firms (Wiklund & Dean, 2003; Avlontis & Salavou, 2007; Moreno & Casillas, 2008; Tang et al., 2008 as cited by Bolton & Lane, 2012).

EO was first described by three dimensions (innovativeness, risk-taking, proactiveness) that were developed based on strategy and entrepreneurship literature by Covin and Slevin (1989) and Miller (1983). EO was then augmented by Lumpkin and Dess (1996) as cited by Bolton and Lane (2012), and two more dimensions, namely, competitive aggressiveness and autonomy, were introduced.

The definitions of the dimensions according to Rauch et al. (2009) as cited by Bolton and Lane (2012) are as follows: (a) Innovativeness - Predisposition to creativity and experimentation through introduction of new products and services as well as technological leadership via R & D in new processes. (b) Proactiveness - An opportunity-seeking, forward-looking perspective characterized by new products and services ahead of the competition and acting in anticipation of future demand. (c) Risk taking - Taking bold action by venturing into the unknown, borrowing heavily and/or committing significant resources to venture into uncertain environments

EO and Innovation

For the purpose of this study only three dimensions (innovativeness, proactiveness, risk-taking) of EO are studied as the majority of researches on EO have used these dimensions and the other two dimensions have been studied less. Khalili et al. (2013) have proved that EO has an impact on innovation but not proactiveness, whereas Su and Lin (2012) argue that all three dimensions of EO (innovativeness, proactiveness, risk-taking) may affect innovativeness of new products/services.

Although literature which addresses the involvement of all three dimensions of EO in innovation is limited, innovativeness as the engagement in creativity and experimentation of new products/services as well as technological leadership via R&D in new processes (Rauch et al, 2009) certainly has an impact on innovation, as the definition itself stresses on new products/services. Hult et al. (2004) have mentioned in their study that innovativeness produces new processes, products and ideas, and innovativeness is believed to be the essence of entrepreneurship that provokes an entrepreneur to grab new opportunities (Walter et al., 2006). The term innovativeness is explained as the willingness of firms to pursue new ideas, and to explore and experiment with them creatively (Lumpkin & Dess, 1996). Kropp et al., (2008) define it as problem solving, finding creative solutions, and developing new products/services. Therefore, introduction of new products/services would be facilitated in the organization as a result of this entrepreneurial dimension. Sundbo et al. (2007) refer to it as the technological aspect in the literature related to the tourism sector. Further, synergy theory of technological and management innovation (Vickery et al., 1999) indicates that, processes and results of technological innovation may stimulate a change in management patterns or methods, and facilitate adoption and implementation of new practices. Vandecasteele and Geuens (2008) argue that the intention to innovate is transformed into actualized innovative behaviour as a result of innovativeness. However, Schillo defined (2011) innovativeness in the context of EO narrowly, emphasizing the importance of technological leadership and changes in the product line.

Proactiveness stems from extroversion, need for achievement and openness to experience (Lumpkin & Dess, 2001; Claes et al., 2005 as cited by Bolton & Lane, 2012). It is being ready for the future by “seeking new opportunities which may or may not be related to the present line of operations, introduction of new products ahead of competition, strategically eliminating operations which are in the mature

Innovation in SMEs in the Tourism Industry

or declining stages of the life cycle” (Venkatraman, 1989 as cited by Vora et al, 2012). This is thinking ahead of competition and strategically removing barriers. In order to avoid competition, innovation must take place and at this stage proactiveness is required to act on future needs by seeking new opportunities (Lumpkin & Dess, 1996). Although Khalili et al. (2013) have mentioned that this dimension does not have an effect on innovation, its relevance in the context of tourism in Sri Lanka has been researched here, since their study has been conducted in a petrochemical company in Iran, and the present study focuses on the tourism sector in Sri Lanka. It was found by Craig et al. (2014) that proactive family firms influence their innovation output more positively than proactive non-family firms. Sandberg (2007) argues that proactiveness in firms helps innovation at the idea generation stage as new opportunities in markets are searched by firms.

Business is always a risk (Lumpkin & Dess, 1996; Stam & Elfring, 2008), and risk means commitment to experimentation in the face of uncertainty (Voss et al, 2005). Lumpkin & Dess (1996) have explained risk-taking as a tendency to take bold actions, such as venturing into unknown new markets, committing a large portion of resources to ventures with uncertain outcomes, and/or heavy borrowing. Thus the risk-taking dimension of EO implies engaging in uncertain ventures. Khalili et al. (2013) argue that it is essential for a firm to take balanced risks, and that very high risk may lead to failure. It is stated that firms that take risks in products and marketing strategies frequently are able to innovate (Miller & Friesen, 1982 as cited by Rauch et al, 2009). However, Craig et al., (2014) state that risk-taking does not affect innovation output in family firms, compared to non-family firms. Yet, Nelson et al., (2014) confirms that a risk supportive culture is required for innovation in firms, and that leadership plays a major role in it. This study argues that this is the most important aspect of EO as far as innovation is concerned.

Even though the impact of various dimensions of EO on innovations differs, taken as a whole EO has an impact on innovation in firms. This phenomenon has been asserted by the authors of previous studies, such as Wong, 2012; Khalili et al., 2013; and Madhoushi et al, 2011; Su & Lin, 2012. Therefore, it could be identified that the above-mentioned dimensions of EO influence innovation, and thus leads to the proposition given below:

P1: Entrepreneurial orientation (innovativeness, proactiveness and risk-taking) affects innovation in SMEs in the tourism industry

Knowledge Management

Knowledge management (KM) is defined as any intentional and systematic process/practice of acquiring, capturing, sharing, and using productive knowledge, wherever it resides, to enhance learning and performance in organizations (Bozbura, 2007). Despite the fact that there are discrepancies regarding KM processes in the literature (Karim et al., 2012), knowledge creation and sharing have been given special attention among KM processes (Lee & Choi, 2003). For this reason, the SECI spiral of Nonaka and Takeuchi (1995) is referred to as KM in this study.

The SECI spiral by Nonaka and Takeuchi (1995) explains the interchange of tacit knowledge and explicit knowledge. The interchange is explained by four modes which are socialization, externalization, combination and internalization, (a) Socialization: Sharing of tacit knowledge through face-to-face communication or shared experience, (b) Externalization: Trying to convert tacit knowledge into explicit knowledge, by developing concepts and models which are in understandable and interpretable form, (c) Combination: Compiling externalized explicit knowledge to broader entities and concept systems to analyze and organize, (d) Internalization: Understanding explicit knowledge happens when explicit knowledge transforms to tacit knowledge and becomes a part of an individual's basic information. The cycle continues in the spiral of knowledge back to socialization when an individual shares his tacit knowledge silently and the body of knowledge grows.

There is a continuous interchange of tacit and explicit knowledge (Werr & Stjernberg, 2003) and Taminiau et al (2009) assert that the innovation process can go back and forth through formal and informal knowledge sharing activities and in that way an idea can pass through the different hierarchical layers in the organization. Metin and Vurgun (2013) argue that acquiring required information to achieve knowledge conversion through internalization (explicit to tacit) is becoming increasingly crucial for SMEs.

Entrepreneurial Orientation, Knowledge Management and Innovation

A firm with a KM capability will use resources more efficiently, and will be more innovative in order to perform better (Darroch, 2005). Thus, KM can promote knowledge creation and innovation through continuous learning and sharing. The important roles of KM in innovation are studied (Basadur & Gelade, 2007)

Innovation in SMEs in the Tourism Industry

by integrating KM, creativity and innovation into a single framework. Du Plessis (2007) identifies the drivers and values of application of KM in innovation. An integral approach towards KM can help to maximize innovation performance for the competitive advantage of a company (Gloet & Terziovski, 2004). The KM process is proven to enhance a company's ability to move forward successfully in innovative ways (Coombs et al, 1998).

Innovation is dependent on the availability of knowledge and, therefore, the complexity created by the explosion of the richness and reach of knowledge has to be identified and managed to ensure successful innovation (Adams & Lamont, 2003; Cardinal et al., 2001; Darroch & McNaughton, 2002; Pyka, 2002; Shani et al., 2003). It is the duty of the entrepreneur to facilitate KM in SMEs as leaders influence employee behaviour (De Jong & Hartog, 2007).

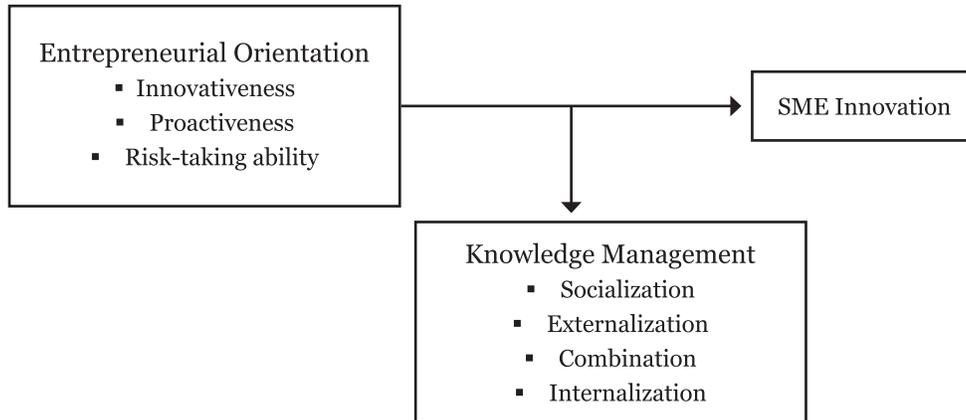
Notably Parlbly and Taylor (2000) are of the opinion that KM is about supporting innovation, about the generation of new ideas and the exploitation of the organization's thinking power. Moreover, Nonaka and Takeuchi (1995) assert that a knowledge creating company fuels innovation.

Knowledge sharing is said to moderate the relationship between entrepreneurial orientation and innovative behaviour (Li, 2013). Further, if firms are to benefit from EO, knowledge is considered a resource of high importance (Bausch & Schwenker, 2009). Kraus et al., (n.d.) have identified that the availability of knowledge supports the relationship between innovation and proactiveness which is an important dimension of EO.

P2: Knowledge Management moderates the relationship between EO and innovation in SMEs in the tourism industry

Figure 1 depicts the concept indicator model and shows how the present researcher has conceptualized the relationship between EO and innovation. It is argued that KM moderates the relationship between the independent variable EO and the dependent variable innovation.

Figure 1: Concept indicator model



Methodology

A qualitative approach was taken since it provides an opportunity to analyze the information in depth as story-telling is embedded in the interaction between the narrator and researcher, and it is essential to grasp the narrator's communication (Denzin & Lincoln, 2011). The qualitative method is a naturalistic approach that seeks to understand phenomena in a context-specific setting where it unfolds naturally (Patton, 2001). The method provides an understanding and description of people's personal experiences of phenomena which was an essential requirement of this study. A qualitative study also enables the researcher to study an individual's experience, beliefs, and ideas which can be grasped easily (Patton, 2002).

In order to collect primary data, a semi-structured interview guide was prepared which covered the variables of the study such as innovation, EO and KM and demographics of entrepreneurs. Questions were prepared by referring to previous studies which state the attributes of the variables of this study. The sample required for this study was entrepreneurs of small and medium hotels. Henceforth, a description such as the number of employees of the hotel (between 5 to 149), ownership by an individual owner and innovative offering by the hotel was given to the Negombo Hoteliers Association (NHA), and a list of hotel owners was obtained. The initial sample selection was based on purposive sampling, which was followed by snowball sampling since information on innovative hotels is not freely available in published records, and snowball sampling, enables the researcher to locate information-rich

Innovation in SMEs in the Tourism Industry

cases (Mack et al, 2011). A background check was conducted to obtain information on the hotel type, number of employees and some basic information regarding the owner. The ages of participants varied from thirty eight to sixty with the majority being in the fifties. Most of them have several years of experience of working in bigger hotels.

In order to ensure trustworthiness of data, multiple methods were used for data collection such as observation, interviews and recording, since these lead to more valid, reliable and diverse construction of realities (Golafshani, 2003). In total, thirty-three entrepreneurs were approached and seventeen entrepreneurs agreed to participate in the study. Out of the seventeen interviews that were conducted, one was rejected and two others were used for the pilot study. The unit of analysis in this study is the hotel. All interviews were tape recorded with prior consent of the participants. The participants represent the same industry with varying age groups and experiences.

A code was given to each hotel to identify the entrepreneur by assigning 'S' to small hotels and 'M' to medium hotels followed by a number representing the order of interviews conducted. The interviews were transcribed since the analysis of qualitative data focuses on narrative pieces of the transcripts (Nohl, 2006 as cited by Trautrim, 2012). Each transcription was checked with the recording to ensure the interviewee was well-captured. Transcribed data was then read through several times to identify the codes for the data obtained. Similar codes were put together as sub themes, and themes were allocated to similar sub themes. Finally, themes were categorized according to the characteristics of each variable.

Results

Innovation

It was noticed that irrespective of the size of the hotels, the entrepreneurs were willing to innovate. This is one of the attributes of innovation (Ruiz-Jiménez & Fuentes-Fuentes, 2013). Entrepreneurs also make efforts to offer different experiences to customers by introducing novel products/services, and admit that innovation is important to overcome competition. As Griffin & Moorhead (2010) state, it is the entrepreneur who should initiate innovation in the organization. The entrepreneurs of S5 explains,

Sri Lankan Journal of Management

Vol. 20, Nos. 1 & 2, January - June, 2015

“Now I do a city tour that nobody else does. Nobody else does it and I don’t even tell anybody about it. Guests are very happy and it is not a usual city tour. All of them show the fish market, clock tower, shops and the temple. So I do something different, because other things can be seen anywhere else, so this is a special tour. This was my idea and the guests are happy.” (S5)

Willingness to use the latest technological innovations in new products/services is another characteristic of innovation and it was evident that technology is considered as an important aspect by the entrepreneurs. Most of the operations in hotels are handled by computerized systems, and customers are able to make bookings using these online systems, and the entrepreneurs showed an interest in adapting the latest systems to improve their functions. The owner of M2 states,

“As a small hotel, we are totally computerized, whole system from all indicators kitchen to all rooms... So that helps and with the new Apps coming in ... So that we should be able to use it for brimful and things like that” (M2)

The speed of development of new products/services was visible by the statements of respondents as the majority of medium entrepreneurs agreed that speedy implementation of new products/services is necessary to overcome competition. However, this was not popular among small entrepreneurs. For example the entrepreneur of M2 states,

“I am one of the first. I was the 1st one to introduce Wi-Fi in 2009 in this hotel when we started. Free WiFi to tourists and the rest of the hotels in Negombo followed me” (M2)

The final attribute of innovation is the number of new products/services that the firm has introduced. This was answered by explaining the innovative activities entrepreneurs have performed. Although it was difficult to state the number of new ideas they have come up with, they explained various innovative ideas they have attempted as below,

“we used to have a fish market. Say in the evening you know like in Negombo town a woman would have the fish, you go and order it, she cuts it and gives. So we used to do it to the tourists those days. So it’s the sort of a ... we call it the fish market. So you select the fish, our

Innovation in SMEs in the Tourism Industry

guys cook it for you and the traditional way the woman would be on the ground seated with that log. So those are things that you invent you know. Innovative ideas? Innovative yeah.” (M1)

As explained by Van de Ven (1986) innovation is a product, service, or process that is new or perceived as new by its developers. Certain products/services are perceived as novel by the entrepreneurs and they take pride in explaining and exhibiting them. Some entrepreneurs have called for quotations to implement solar systems, the latest computer systems and photographs of several activities that were held in hotels were also presented.

Entrepreneurial Orientation

Innovativeness

The first dimension of EO is innovativeness, and Bolton and Lane (2012) have identified the indicators for this dimension after referring to the definition by Rauch et al. (2009). The first indicator is the willingness to try new and unusual activities that are not necessarily risky. Accordingly, entrepreneurs showed a willingness to go the extra mile for the customer. Free services, additional benefits and various other offers were provided to customers. In certain hotels customers were able to select the room they prefer and early check-ins and late check-outs were not charged. The owner of M1 states,

“I mean those days the beaches were not very clean. So we go early, we clean it up and keep it ready. Now all that involves work but at the end of the day customer satisfaction and the customer returning back to the country and to us is guaranteed. So it’s willingness, it’s not cost” (M1)

A willingness to place a strong emphasis on unique projects is the next indicator and the respondents mentioned that they prefer to do things their own way. They confirmed that they used their experience to carry out unique projects, and that they didn’t copy others, as the entrepreneur of S5 states,

“We are hoping to do something different when compared to other places. We don’t need to copy anybody else, we can put our ideas... both of us were in the hospitality trade, so we wanted to do something different, without copying others to use our ideas. Certain things we

have to follow the trend but if we add something, it's a new experience for the guests as well." (S5)

The willingness to try a unique way of learning new things was partially identified. Several respondents claimed that their experience taught them, but also admitted that they learn from others by visiting and observing competitors which was contrasted to learning on their own. The observation method was explained by the entrepreneur of the M2 hotel.

"I visit most of the countries, I learn from the other countries also, what others do. So we bring some new ideas into the bar. So we are renovating the hotel, come back as a new property, new ideas" (M2)

The final indicator which is willingness to favour experimentation and original approaches to problem solving was visible as entrepreneurs mentioned their unique methods of problem solving. The respondents stated that they used their experience to resolve most problems, and whatever they learnt from seminars also seemed to contribute towards problem solving. Many medium entrepreneurs agreed that the method of solution depended on the situation, and that experiments were also necessary. The entrepreneur of S3 explains a situation,

"... last week there are big issues, there are no Wi-Fi here. And most guest coming to use the internet. Normally they have... because we have 2/3 rooms that lounge they get. They, you know want to use the Wifi and use the... do their business work and everything and I checked with that because I thought it was a technical problem, it was not a technical problem and first I ... first thing I do is I gave them some dongles with the connections. And till that problem solved out and used it" (S3)

According to the data, innovativeness seems to play a major role in innovation, since hotels that are big on innovation are owned by entrepreneurs who possess characteristics of innovativeness. However, not all indicators of innovativeness were strongly visible as some respondents admitted to copying competitors in order to get new ideas.

Innovation in SMEs in the Tourism Industry

Proactiveness

The second dimension of EO is Proactiveness, and Bolton and Lane (2012) have identified the indicators. The ability to act in anticipation of future problems, needs or changes being the first indicator was noticeable, as risk-wise certain entrepreneurs are ready for the future by taking precautions for potential problems and by recruiting employees who could contribute to the success of the organization. As a practice, some review the past to forecast the future and are prepared in advance. The entrepreneur of M5 states,

“We are proactive, before things happen, we are around. We ... to be around. See that before something happens. Then people know that everybody is on their toes seeing that the guest is happy. So we can be ready for that type of thing and guests’ needs.” (M5)

The tendency to plan ahead on projects was captured as the entrepreneurs have already identified future customer needs by talking to the guests and getting their feedback. As opposed to small hotels, certain medium hotels have teams that would concentrate on finding out customer needs. The entrepreneur of S3 says,

“By the past experience and the present. You know that we, most of the customers need that you know that most they expect that cleanliness, courtesy and the food, taste of the food and most of the customers expecting that. Now we are planning” (S3)

The willingness to prefer to “step-up” and get things going on projects, rather than sit and wait for someone else to do it is the final indicator of proactiveness and respondents admitted that they prefer to get involved personally in most of the projects. Small hotel owners confessed to being involved in construction work as well. Medium hotel owners preferred to oversee the project themselves. The owner of M6 explains,

“Yeah, I do. As I told you just now. There’s a project that is already started, now you got to finish it off. Once you start a project you got to end it. It’s halfway through. You have to plan it out bit better and ... I get involved in a lot of projects.” (M6)

Indicators of proactiveness are clearly noticeable in entrepreneurs. Innovation is positively influenced by this dimension of EO, as entrepreneurs who are proactive

have innovated new products/services in their hotels. Hence, the indicators show that proactiveness encourages innovation.

Risk-taking

The third dimension is risk-taking and the willingness to take bold action by venturing into the unknown, the willingness to invest a lot of time and money on something that might yield a high return. Further, this tendency to act “boldly” in situations where risk is involved, are the indicators identified by Bolton and Lane (2012). The entrepreneurs admitted that risk is necessary, and that without taking risks, businesses cannot survive. Investing money seemed to be the biggest risk in the hospitality industry. The entrepreneur of S3 states,

“That’s the only risk, risk is the money. Investment!” (S3)

Data shows that respondents are ready for risks and that taking risks guarantee better results. When they were asked about investing time and money for high returns, most of them stated that they are willing to invest for quick returns. Returns are important to them and the entrepreneur of M5 states,

“Financial risk you know sometimes you can’t take. May be you do a budget, you may not achieve the revenue target but marketing wise we’ve scored on that, on the other side. So which is you can’t get, that is tangible, you can’t say by, you can’t measure it, you should see the figures. Now this is what we’ve estimated, this is the revenue we have got. Normally we don’t lose.” (M5)

Most entrepreneurs fail to take bold decisions, and confessed that they think carefully before deciding on investments. They always tend to find out the result before deciding to take the risk. Thus the situation is analyzed before taking the risk. As opposed to that which most authors have mentioned in the literature, Sri Lankan hotel entrepreneurs are not necessarily bold decision makers. The entrepreneur of S2 says,

“No we think so many times but have a ... whether it will be success or not... So keep on thinking so many times and about so many angles.”
(S2)

Innovation in SMEs in the Tourism Industry

One entrepreneur (M1) admitted that he divides the risk by investing in several different industries without depending on the tourism industry only. Risk-taking affects innovation as previous studies have concluded. Even though bold decisions are not taken, entrepreneurs are willing to take risks when there is a demand for certain novel ideas and/or when the return seems high.

Characteristics of EO are clearly visible in entrepreneurs who own hotels that show much innovation. As an innovative hotel, the owner of S3 states,

“we go to that well experienced person about bio gas and you know sewage system. So they are completely 100% eco-friendly, they never use electricity” (S3)

Knowledge Management

Socialization

Karim et al., (2012) have operationalized KM in their study to find out the intention to be involved in the SECI process of KM after referring to the definition by Bozbura (2007). The attributes for socialization are the intention to be involved in gathering information and experiences from others within the organization, and the intention to be involved in sharing information and experiences.

The respondents explained that regular meetings took place in almost all the small hotels. They preferred to have meetings regularly and encouraged employees to come up with suggestions during these meetings. The entrepreneur of M4 says,

“Employees, we do have some sort of meetings right. One day housekeeping, one day accounts likewise, departmental wise we have the meetings. We find their shortcoming, needs and all that. As well as on their part, whatever it is we have to inform them, we used to” (M4)

Knowledge sharing is considered as an important practice. Ideas and knowledge are shared among the employees, and past experiences and mistakes are discussed to improve future outcomes. The owner of S1 states,

“the knowledge we are sharing. Past experience, we have a good experience in the hotel industry” (S1)

There is an effect on innovation when ideas are shared in hotels. The hotels that have an environment of socialization seem to be high on innovation. Hence, knowledge sharing and idea sharing improves innovation in small and medium hotels.

Externalization

Since employees could easily approach the owner to give their suggestions, they were also involved in the planning process in small hotels. For example, from the kitchen helper to the departmental head, employees at every level were involved in the planning process. This is related to the 'intention to use deductive and inductive thinking for strategy' formulation proposed by Karim et al. (2012) for externalization. The entrepreneur of M6 explains,

“it's not myself getting involved, I'll get the front office manager also to sit with me and tell now which is the market, which one do you think will have a better mix here” (M6)

The second attribute which is the intention to use metaphors in dialogue for concept creation was supported since the entrepreneurs of both small and medium hotels shared knowledge through demonstration, communication, training and documents. The owner of S3 says,

“I do it myself and you know it's a ... if he can't arrange a buffet, you know, and I can explain it to him like that but if he doesn't have an idea about that, I get involved and I do it with help from them and I'll do it myself. That's the method I use from the front office to the kitchen.”
(S3)

Externalization seems to have a partial effect on innovation. Not all the innovative hotels show indicators of externalization yet, although externalization does play a role in innovation.

Combination

According to Karim et al., (2012) the characteristics of combination are the intention to use published literature, computer simulation and forecasting to formulate strategies, the intention to create documents and databases on products/services. The interest that entrepreneurs take to gather information was visible. Customer

Innovation in SMEs in the Tourism Industry

reviews were used to plan strategies and entrepreneurs use the internet for information gathering. The entrepreneur of M2 states,

“you read, you come to know about the world, you come to know about the systems, you come to know about new ideas, what are the new gadgets coming into the country or what are the new gadgets coming into the world” (M2)

The intention to create documents and databases on products/services was confirmed by small entrepreneurs. In medium hotels documents and databases both for products/services were available. The owner of M3 states,

“Oh yeah! We have mainly the soft copies. We’ll forward it and send the standard operating procedure, we have the job descriptions. All have a written set of documents. **Do you have databases on products/services? Yeah!**” (M3)

Innovation is influenced by combination since the use of documents and databases enables knowledge accumulation. Knowledge sharing is facilitated by practices such as documenting knowledge, creating databases and using external information to improve the hotel. Documents related to knowledge gathering such as feedback and comment sheets of customers and records of special incidents that occurred were kept for future reference. This enables easy access to information at all times.

Internalization

The two characteristics of internalization are the intention to be involved in searching and sharing new values and thoughts with colleagues and the intention to share and understand management vision through communications with colleagues (Karim et al, 2012). In small hotels vision is communicated through discussions. In medium hotels vision is communicated through formal and informal discussions. The first indicator was only supported in data collected from medium hotels, as values are shared among staff members at all times through orientation programs. The entrepreneur of S3 says,

“Normally I work with them I’m not in the office, I don’t have any office actually. And I work, if there are any documents, I go to my office and I do and I use my laptop and normally I talk ... Always I talk to them” (S3).

Internalization definitely has an effect on innovation since those hotels that show the indicators pertaining to this mode seem to be more innovative than others. Sharing of values and vision improves the innovation capability of the hotel.

The relationship between EO, KM and Innovation

Although EO was found to be encouraging innovation according to the ratings given during the analysis, it was noticeable that the increase of EO alone does not encourage innovation. Certain hotels which were low on innovation had entrepreneurs that scored high for EO, and some that had better KM practices were high on innovation, since the relationship between EO and innovation worked well. Hence, it is evident that KM is important for the EO-innovation relationship. The entrepreneur of M1 hotel which scored high for innovation states the following on KM,

“What happens when you go for a conference or what happens when you go for a workshop on a specific subject. You take it back home and adapt it to your establishment. Which means you’re using those modules” (M1)

This statement shows the intention to gather knowledge and share that knowledge. Interestingly, this hotel scored high for EO which ultimately resulted in high innovation. Similarly, some hotels which did not have proper KM practices were not very high on innovation despite having scored high for EO.

It could thus be concluded that EO seems to be playing a crucial role in improving innovation in hotels. Regardless of the size of the hotel and the educational qualification of the entrepreneur, innovation seems to be improving with the increase of EO. KM also plays an important role in the relationship between EO and innovation. In spite of the size, hotels eagerly share information and knowledge. However, some emergent factors also seem to have effects on innovation, as they hinder/ improve innovation in hotels.

Discussion

Entrepreneurs of hotels that are highly innovative show high qualities of EO, and more KM practices were followed by them. As Cottam et al., (2001) suggest, encouraging innovation helps growth and sustains performance in firms. The results

Innovation in SMEs in the Tourism Industry

of this study point out the factors that affect innovation in the hospitality sector in Sri Lanka, and innovation in hotels is not affected by the hotel size or the demographic factors of the entrepreneur. The study by Lo''fsten (2014) also confirms that firm size does not affect innovation.

EO is proven to have a positive interaction with the entrepreneur (Mousa & Wales, 2012) who is the key person for the innovativeness of firms . As De Jong and Hartog (2007) show, the leaders' behaviour influences the innovative behaviour of employees. The dimensions of EO as explained by Lumpkin and Dess (1996) as cited by Bolton & Lane (2012) and Colvin and Mess (1999), have a positive effect on innovation. The results are similar to those of past studies by Madhoushi et al. (2011) and Su and Lin (2012).

Characteristics of innovativeness were visible in entrepreneurs who have a tendency to prefer uniqueness in projects, the willingness to learn new things and the willingness to solve problems. These were identified in many entrepreneurs with additional qualities such as willingness to make an extra effort to satisfy the customer. These are the characteristics that are used as attributes which indicate innovativeness (Bolton & Lane, 2012).

Proactiveness was also noticeable in entrepreneurs since they were willing to act in anticipation of future demands, tended to plan ahead and were willing to get involved in projects. Although Khalili et al., (2013) had stated that this dimension does not have an effect on innovation, the results of the present study are in line with previous studies by Madhoushi et al., (2011) and Su and Lin (2012). According to Bolton and Lane (2012), these indicators measure proactiveness, and in this study entrepreneurs admitted to having practised all these in hotels.

Characteristics of risk-taking were partially visible as entrepreneurs preferred to take risks when the result is known and avoid bold decisions. Nevertheless, entrepreneurs of hotels that scored high on innovation showed a willingness to take risks as they considered them important. The reason for avoiding bold decisions could be due to uncertainties in the environment. Risk-taking includes the willingness to take bold action by venturing into the unknown, willingness to invest a lot of time and/or money on something that might yield a high return, and the tendency to act "boldly" in situations where risk is involved (Bolton & Lane, 2012).

Further, KM is also important in the EO-innovation relationship as the modes of KM seem to have effects on innovation. According to Gavrilova and Andreeva (2012) the more a firm elicits tacit knowledge from employees and shares it, the more innovative it would be. Even though the present researcher argued that SMEs might not be aware of KM practices, the results proved that small hotels also had KM practices in place. Socialization is highlighted by practices such as getting involved in information gathering from others in the organization, and sharing information and experiences with others in the organization (Karim et al, 2012). Entrepreneurs of hotels share knowledge, information and experiences during meetings and briefings. According to the characteristics introduced by Karim et al. (2012), externalization is visible in entrepreneurs as they use training and demonstrations to transfer knowledge, and tend to plan together by using the suggestions given by employees.

In order to identify practices of combination, attributes such as the use of documents for planning, creation of documents/databases (Karim et al, 2012) were used. Many hotels, including the small ones, use documents for information gathering and create databases/documents to store information. Practices such as sharing customer comment sheets and having teams to find out about competitors' moves are part of building a knowledge base. Karim et al., (2012) have explained the attributes that measure KM as the intention to be involved in sharing new values/thoughts with colleagues and the intention to share management vision through communications. Both these characteristics were visible in entrepreneurs of medium hotels, as small hotel owners only focused on sharing the vision and the mission.

Theoretical Implications

The findings of this study show the importance of EO in innovation in the Sri Lankan context. The results are similar to the previous study conducted in China by Su and Lin (2012) which has proven the EO-innovation relationship in a different context. However, it can be seen that proactiveness is important in innovation, in contrast to findings by Khalili et al. (2013). Furthermore, the risk-taking dimension partially influences innovation, as entrepreneurs tend to avoid risks, probably due to the environment in Sri Lanka.

The role of KM in the EO-innovation relationship has been mentioned in previous studies by Li (2013) and Madhoushi et al. (2011). According to literature, innovation is encouraged by KM practices (du Plessis, 2007; Gloet & Terziovski, 2004), and the

Innovation in SMEs in the Tourism Industry

findings of this study also show similar results, as hotels that are high on innovation have proper KM practices. Nonaka and Takeuchi (1995) also confirmed that firms that have a high interaction among individuals encourage innovation as knowledge is interchanged continuously. Hence, the findings of this study further establish the relationships stated in past studies, namely, that EO encourages innovation and KM plays a major role in facilitating this process (Li, 2013; Madhoushi et al, 2011).

Managerial Implications

Fostering innovation has managerial implications, given that the hospitality industry requires product innovation (Bharwani & Butt, 2012). This is essential for firms that operate in the global market, since the competitive pressure demands have to be addressed creatively. Hence, entrepreneurs are required to respond innovatively to overcome the challenges in the hotel sector. In addition to EO and KM, experience and leadership skills of the entrepreneur also seem to affect innovation. Entrepreneurs should focus on these areas to improve innovation in hotels.

Innovativeness, proactiveness and risk-taking aspects of EO certainly improves innovation, and as Nonaka and Takeuchi (1995) have mentioned, KM practices in firms support innovation, and the results show that in order to improve innovation more KM practices such as documenting knowledge and sharing knowledge are important. Entrepreneurs of hotels should be innovative, proactive, willing to take risks and should also adopt more KM practices in order to improve the innovation of products in hotels.

Limitations and Future Research

One of the limitations of this study is the sample selected, since both purposive sampling and snowball sampling methods were used. The small area which was chosen to pick the sample is another limitation, as an island-wide study could have brought different results. Hence, the applicability of this study does not necessarily encompass the entire population of entrepreneurs in the hotel sector in Sri Lanka. Since the study focused on the hospitality context, it may have overlooked factors that may be important in other sectors (Parkman et al., 2012).

The focus of this study can be extended to the effect of innovation on growth of companies, and its link to EO and KM. Understanding EO at individual levels is valuable for future businesses (Bolton & Lane, 2012). Studying these relationships at different levels of organizations and different occupational groups could be interesting areas of research. Moreover, the same topic can be investigated in other industries such as manufacturing, construction and FCMG. The effect of demographic factors on innovation could be investigated in other industries as well.

During the study, some factors that play important roles in innovation emerged from the data. Those factors are financial constraints, experience, change, government policies and leadership skills. The speed of implementation of new ideas is highly affected by the first factor as entrepreneurs fail to plan properly due to high financial commitments. While experience seemed to have an influence on EO, respondents also admitted that change in the environment affects innovation. Further, government policies such as high government taxes and government rules seemed to affect hotels as well. Entrepreneurs stated that with high interest rates and strict rules, planning the future of hotels is at risk. It was noticeable that entrepreneurs of both small and medium hotels had good leadership skills. Thus innovation is supported by good leadership skills of entrepreneurs. Therefore, future research could be carried out to test the effect of each of these factors on innovation in depth.

Conclusion

This study was conducted with the aim of understanding the relationship between entrepreneurial orientation and innovation. The study also examined the involvement of knowledge management in the relationship between entrepreneurial orientation and innovation. Based on data from the sample the findings indicated that entrepreneurial orientation is positively related to innovation, and that knowledge management moderated this relationship. There is a tendency for emergent factors such as financial constraints, experience, change, government rules and leadership skills of entrepreneur to affect innovation. However, the main objectives of this study, namely, to explore how entrepreneurial orientation affects innovation in the tourism industry, and to explore how knowledge management interacts with the relationship between EO and innovation in the tourism industry, were attained. It can then be concluded that, the moderating effect of knowledge management is essential in shaping the relationship between entrepreneurial orientation and innovation in Sri Lankan hotels.

Innovation in SMEs in the Tourism Industry

References

- Amabile, T.M. (1988). A model of creativity and innovation in organizations. In B.M. Shaw & L.L. Cummings (Eds.), *Research in Organizational Behavior*, 10. Greenwich, CT: Jai Press
- Andrea, N. (2012). A review of tourism and hospitality innovation research, *Annals of Faculty of Economics*, 1 (2): 364-370.
- Avlontis, G. J., & Salavou, H. E. (2007). Entrepreneurial orientation of SMEs, product innovativeness, and performance. *Journal of Business Research*, 60(5): 566-75.
- Axtell, C. M., Holman, D. J., Unsworth, K. L., Wall, T. D., Waterson, P. E., & Harrington, E. (2000). Shopfloor innovation: Facilitating the suggestion and implementation of ideas. *Journal of Occupational & Organizational Psychology*, 73, 265-85.
- Basadur, M., & Gelade, G. A. (2007). The role of knowledge management in the innovation process. *Creativity and Innovation Management*, 15(1): 45-62. doi: 10.1111/j.1467-8691.2006.00368.x
- Bausch, A., Schwenker, B. (2009). *Handbook Utility Management*. Berlin, Heidelberg: Springer Berlin Heidelberg.
- Beer, M., Eisenstat, R. A., & Spector, B. (1993). Why change programs don't produce change, In C. Mabey, & B. Mayon-White, (Eds.), *Managing change* (pp. 99-107). London, LDN: Paul Chapman
- Bharwani, S., & Butt, N. (2012). Challenges for the global hospitality industry: an HR perspective. *Worldwide Hospitality and Tourism Themes*, 4(2): 150-162. doi: 10.1108/17554211211217325
- Bozbura, F. T. (2007). Knowledge management practices in Turkish SMEs. *Journal of Enterprise Information Management*, 20(2): 209-21. doi: 10.1108/17410390710725788
- Capital Alliance Securities. (2011). *Sri Lanka Tourism Sector Summary Overview - 2011-2020*, Colombo.
- Cardinal, L. B., Alessandri, T. M., & Turner, S. F. (2001). Knowledge codifiability, resources, and science based innovation. *Journal of Knowledge Management*, 5(2): 195-204.
- Central Bank of Sri Lanka. (2011). *Annual Report*. Colombo.
- Claes, R., Beheydt, C., & Lemmens, B. (2005). Unidimensionality of abbreviated proactive personality scales across cultures. *Applied Psychology: An International Review*, 54(4): 476-89. doi: 10.1111/j.1464-0597.2005.00221.x
- Coombs, R., & Hull, R. (1998). *Knowledge management practices for innovation: an audit tool for improvement*, Centre for Research on Innovation and Competition. The University of Manchester, Working Paper No 6

Sri Lankan Journal of Management

Vol. 20, Nos. 1 & 2, January - June, 2015

Cottam, A., Ensor, J., & Band, C. (2001). A benchmark study of strategic commitment to innovation. *European Journal of Innovation Management*, 4(2): 88-94. <http://www.emeraldinsight.com/journals.htm?issn=14601060&volume=4&issue=2&articleid=872503&show=html&>

Covin, G., & Slevin, D. (1989). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal*, 10(1): 75-87. doi: 10.1002/smj.4250100107

Craig, J. B., Pohjola, M., Kraus, S., & Jensen, S. H. (2014). Exploring relationships among proactiveness, risk-taking and innovation output in family and non-family firms. *Creativity and Innovation Management*. <http://dx.doi.org/10.1111/caim.12052>

Creaco, S., & Querini, G. (2003). *The role of tourism in sustainable economic development*. <http://ideas.repec.org/p/wiw/wiwsa/ersa03p84.html#author>

Culkin, N., & Smith, D. (2000). An emotional business: a guide to understanding the motivations of small business decision takers. *International Journal of Qualitative Marketing Research*, 3(3): 145-57.

Darroch, J., & McNaughton, R. (2002). Examining the link between knowledge management practices and types of innovation. *Journal of Intellectual Capital*, 3(3): 210-22. doi: 10.1108/14691930210435570

De Alwis, W. P. G., & Senathiraja, R. (2003). The impact of socio – cultural background of the entrepreneur on management and business practices of selected small and medium scale businesses in Sri Lanka, 9th International conference on Sri Lanka Studies, 28th–30th November 2003, Matara, Sri Lanka

De Jong, J. P. J., & Hartog, D. N. D. (2007). How leaders influence employees' innovative behaviour. *European Journal of Innovation Management*, 10(1): 41-64. doi: 10.1108/14601060710720546

De Mel, S. (2013). Association of small and medium enterprises in tourism, interview.

Denzin, N. K., & Lincoln, S. Y. (2011). *Handbook of qualitative research*. California, CA: Sage Publications.

De Silva, C. (2010, September 12). Tourism entrepreneurs cry foul over shoddy treatment by authorities. *The Sunday Times*, Retrieved from <http://www.sundaytimes.lk/100912/BusinessTimes/bt20.html>

Drucker, P. (1999, September 23). Innovate or die. *The Economist*, Retrieved from <http://www.economist.com/node/242082>.

du Plessis, M. (2007). The Role of Knowledge Management in Innovation. *Journal of Knowledge Management*, 11(4): 20-9. doi: 10.1108/13673270710762684.

Gavrilova, T., & Andreeva, T. (2012). Knowledge elicitation techniques in a knowledge management context. *Journal Of Knowledge Management*, 16(4): 523-537. doi: 10.1108/13673271211246112.

Innovation in SMEs in the Tourism Industry

- Ghaffoor, A., & Coorey, S. (2012). Sri Lanka - Tourism, IIFL Institutional Equities, Colombo.
- Gloet, M., & Terziovski, M. (2004). Exploring the relationship between knowledge management practices and innovation performance. *Journal of Manufacturing Technology Management*, 15(5): 402-9. doi: 10.1108/17410380410540390.
- Golafshani, N. (2003). Understanding reliability and validity in qualitative research. *The Qualitative Report*, 8(4), <http://www.nova.edu/ssss/QR/QR8-4/golafshani.pdf>.
- Gopal, R., & Shetty, K. (2008). Innovative entrepreneurship - the key dna for a successful turnaround in the hospitality business. Paper presented during the 11th Annual Convention of the Strategic Management Forum. Indian Institute of Technology Kanpur: Kanpur
- Griffin, R.W., & Moorhead, G. (2010). *Organizational Behaviour* (10th ed.). Mason, OH: Cengage
- Hanna, V., & Walsh, K. (2002). Small firm network: a successful approach to innovation? *R & D Management*, 32(3): 201-7. doi: 10.1111/1467-9310.00253
- Hirt, C. (2012). Technology transfer in Asia: challenges from a cross-cultural perspective. *Journal of Technology Management in China*, 7(1): 4-21. doi: 10.1108/17468771211207312
- Hofstede, G. (1991). *Cultures and organizations: software of the mind*. London, LDN: McGraw-Hill Publishing.
- Hougaard, S. (2005). *The business idea, the early stages of entrepreneurship*. Frederiksberg, Springer Berlin Heidelberg.
- Hult, G. T. M., Hurley, R. F., & Knight, G. A. (2004). Innovativeness: its antecedents and impact on business performance. *Industrial Marketing Management*, 33(5): 429-38.
- Humphreys, P. McAdam, R., & Leckey, J. (2005). Longitudinal evaluation of innovation implementation in SMEs. *European Journal of Innovation Management*, 8(3): 283-304, doi:10.1108/14601060510610162
- International Finance Corporation. (2008). *Results of the Banking Survey of the SME Market in Sri Lanka – 2006-07: Cross Sectoral Report*. Colombo.
- Iorgulescu, M. (2013). Developing creativity and innovation in the hospitality industry in Romania by improving the human resources management practices. *Cactus Tourism Journal*, 4(1): 30-32.
- Kanter, R. M. (1983). When a thousand flowers bloom: structural, collective and social conditions for innovation in organization, In R. Swedberg, (Eds.), *Entrepreneurship: The Social Science View*, (pp. 167-210). New York, NY: Oxford University Press Inc.
- Karim, N. S. A., Razi, M. J. M., & Mohamed, N. (2012). Measuring employee readiness for knowledge management using intention to be involved with KM SECI processes. *Business Process Management Journal*, 18 (5): 777-791. doi: 10.1108/14637151211270153

Sri Lankan Journal of Management

Vol. 20, Nos. 1 & 2, January - June, 2015

Khalili, H., Nejadhussein, S., & Fazel, S. (2013). The influence of entrepreneurial orientation on innovative performance: study of a petrochemical company in Iran. *Journal of Knowledge-based Innovation in China*, 5(3): 262-278. doi: 10.1108/JKIC-09-2013-0017

Kraus, S., Pohjola, M., Velema, D., Craig, J., & Filser, M. (n.d.). Relating Risk-Taking and Proactiveness to Innovation Output: A Comparison between Family and Non-Family Firms, www.kmuhs.ch/rencontres2012/resources/Topic_B/Rencontres_2012_Topic_B_Kraus_Kraus_Pohjola_Velema_Craig_Filser.pdf.

Kropp, F., Lindsay, N. J., & Shoham, A. (2008). Entrepreneurial orientation and international entrepreneurial business venture startup. *International Journal of Entrepreneurial Behavior & Research*, 14(2): 102-117. doi: 10.1108/13552550810863080.

Lee, H., & Choi, B. (2003). Knowledge management enablers, processes, and organizational performances: An integrative view and empirical examination. *Journal of Management Information Systems*, 20(1): 179-228.

Levy, M., & Powell, P. (2005). *Strategies for growth in SMEs: The role of information and information systems*. Burlington, MA: Elsevier

Li, Chia-Ying (2013). Does Self-Efficacy Contribute to Knowledge Sharing and Innovation Effectiveness? A Multi-Level Perspective. PACIS 2013 Proceedings. Paper 3. <http://aisel.aisnet.org/pacis2013/3>

Loftsten, H. (2014). Product innovation processes and the trade-off between product innovation performance and business performance. *European Journal of Innovation Management*, 17(1): 61-84. doi: 10.1108/EJIM-04-2013-0034

Lopez, A. (2009). Organizational innovation and productivity growth: Assessing the impact of outsourcing on firm performance, Paper to be presented at the summer conference

Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *The Academy of Management Review*, 21(1): 135-72. doi: 10.5465/AMR.1996.9602161568.

Madhoushi, M., Sadati, A., Delavari, H., Mehdivand, M., & Mihandost, R. (2011). Entrepreneurial orientation and innovation performance: The mediating role of knowledge management. *Asian Journal of Business Management*, 3(4): 310-316.

Mahinda Chinthana. (2010). Colombo.

Mack, N., Woodsong, C., MacQueen, K. M., Guest, G., & Namey, E. (2005). *Qualitative Research Methods: A data collector's field guide*. Family Health International.

Metcalf, J. S., Ramlogan, R., & E. Uyarra. (2003). Economic development and the competitive process, paper delivered at conferência internacional sobre sistemas de inovação e estratégias de desenvolvimento para o terceiro milênio, November, p. 1-31.

Innovation in SMEs in the Tourism Industry

- Metin, F., & Vurgun, L. (2013). The Linkage Between Knowledge Intensive Innovation and Export in SMEs: An Empirical Study Based on Turkish Manufacturing SMEs, *Sosyoekonomi*,1/130109.
- Mezgar, I., Kovacs, G. L., & Paganelli, P. (2000). Co-operative production planning for small and medium-sized enterprises. *International Journal of Production Economic*, 64(1): 37-48.
- Miller, D. (1983). The correlates of entrepreneurship in three types of firms. *Management Science*, 29(7): 770-91. Available at SSRN: <http://ssrn.com/abstract=1504526>.
- Miller, D., & Friesen, P. H. (1982). Innovation in conservative and entrepreneurial firms: Two models of strategic momentum. *Strategic Management Journal*, 3, 1-25.
- Ministry of Economic development. (2011-2016). *Tourism Development Strategy*. Colombo.
- Moreno, A., & Casillas, J. (2008). Entrepreneurial orientation and growth of SMEs: a causal model. *Entrepreneurship Theory and Practice*, 32(3): 507-28. doi: 10.1111/j.1540-6520.2008.00238.x.
- Mousa, F., T., & Wales, W. (2012). Founder effectiveness in leveraging entrepreneurial orientation. *Management Decision*, 50(2): doi: 10.1108/00251741211203588.
- Najib, M., & Kiminami, A. (2011). Innovation, cooperation and business performance: Some evidence from Indonesian small food processing cluster. *Journal of Agribusiness in Developing and Emerging Economies*, 1(1): 75-96. doi: 10.1108/20440831111131523.
- Naranjo-Valencia, J. C., Jime'nez-Jime'nez, D., & Sanz-Valle, R. (2011). Innovation or Imitation? The Role of Organizational Culture. *Management Decision*, 49(1): 55-72, doi:10.1108/00251741111094437.
- National Human Resources and Employment Policy*. (2012). Colombo.
- Nelson, H. Soken, B., & Kim Barnes, (2014). What kills innovation? Your role as a leader in supporting an innovative culture. *Industrial and Commercial Training*, 46(1): 7-15. doi: 10.1108/ICT-09-2013-0057.
- Nohl, A. (2006). Interview und dokumentarische Methode—Anleitungen für die Forschungspraxis (Interview and Documentary Method – Manuals for the Research Practitioner), VS Verlag für Sozialwissenschaften, Wiesbaden.
- Nonaka, I., & Takeuchi, H. (1995). *The knowledge creating company: how Japanese companies create the dynamics of innovations*. New York, NY: Oxford University Press.
- Organisation for Economic Cooperation and Development. (2004). 2nd OECD conference of ministers responsible for small and medium-sized enterprises (SMEs) promoting entrepreneurship and innovative SMEs in a global economy, Towards a more Responsible and Inclusive Globalisation, Istanbul.
- Patton, M. Q. (2002). *Qualitative research and evaluation methods* (3rd ed.). Thousand Oaks, CA: SAGE Publications.

Sri Lankan Journal of Management

Vol. 20, Nos. 1 & 2, January - June, 2015

Parkman, I. D., Holloway, S. S., & Sebastiao, H. (2012). Creative industries: aligning entrepreneurial orientation and innovation capacity. *Journal of Research in Marketing and Entrepreneurship*, 14(1): 95-114. doi: 10.1108/14715201211246823.

Parlby, D. & Taylor, R. (2000). *The power of knowledge: a business guide to knowledge management*. available at: www.kpmgconsulting.com/index.html.

Perera, J. (2013, October 10). *Tourism Industry, LMD*. Retrieved from <http://lmd.lk/2013/10/10/tourism-industry/>.

Pyka, A. (2002). Innovation networks in economics: from the incentive-based to the knowledge based approaches. *European Journal of Innovation Management*, 5(3): 152-63. doi: 10.1108/14601060210436727.

RAM Ratings Lanka. (2011). *Clearer Skies, Hotel Sector Report*, Colombo.

Ramawikrama, J. (2011). *Role of Small and Medium Enterprises (SMEs) Towards Sustainable Development in the Southern Province of Sri Lanka*.

Ranasinghe, R. & Deyshappriya, R. (2010). *Analyzing the significance of tourism on Sri Lankan economy: an econometric analysis*. <http://www.kln.ac.lk/fcms/ICBI2012/images/ICBM/dccs/TRM001.pdf>.

Rauch, A., Wiklund, J., Lumpkin, G.T., & Frese, M. (2009). Entrepreneurial orientation and business performance: an assessment of past research and suggestions for the future. *Entrepreneurship Theory and Practice*, 33(3): 761-87. doi: 10.1111/j.1540-6520.2009.00308.x

Raymond, L., Bergeron, F., & Rivard, S. (1998). Determinants of business process reengineering success in small and large enterprises: an empirical study in the Canadian context. *Journal of Small Business Management*, 36(1): 72-85.

Ruiz-Jime'nez, J.M., & Fuentes-Fuentes, M.D.M. (2013). Knowledge combination, innovation, organizational performance in technology firms. *Industrial Management & Data Systems*, 113(4): 523-540. doi: 10.1108/02635571311322775.

Sandberg, B. (2007). Customer-related proactiveness in the radical innovation development process. *European Journal of Innovation Management*, 10(2): 252-267, doi: 10.1108/14601060710745288.

Schillo, S. (2011). Entrepreneurial orientation and company performance: Can the academic literature guide managers? *Technology Innovation Management Review*. November 2011: 20-25.

Shani, A. B., Sena, J. A., & Olin, T. (2003). Knowledge management and new product development: a study of two companies. *European Journal of Innovation Management*, 6(3): 137-49. doi: 10.1108/14601060310486217

Smith, G. P. (2002). *The new leader: Bringing creativity and innovation to the workplace*. Conyers, GA: Chart Your Course

Innovation in SMEs in the Tourism Industry

- Sri Lanka Tourism Development Authority. (2011). *Tourism Annual Report*. Colombo.
- Stam, W., & Elfring, T. (2008). Entrepreneurial orientation and new venture performance: the moderating role of intra- and extra industry social capital. *Academy of Management Journal*, 51(1): 97-111.
- Su, J., & Lin, H. (2011). Three-dimension decision model of introduced management innovation. *Journal of Knowledge-based Innovation in China*, 3(2): 119-135.
- Sundbo, J., Orfila-Sintes, F., & Sørensen, F. (2006). The innovative behaviour of tourism firms – Comparative studies of Denmark and Spain. *Research Policy*, 36(1): 88-106.
- Suraweera, N., & Liew, C.L. (n.d.) E-learning in information management education in Sri Lanka: Discussion of a Research Model.
- Tambunan, T.T.H. (2011). Development of small and medium enterprises in a developing country: The Indonesian case. *Journal of Enterprising Communities: People and Places in the Global Economy*, 5(1): 68-82. doi: 10.1108/17506201111119626
- Taminiau, Y., Smit, W., & De Lange, S. (2009). Innovation in management consulting firms through informal knowledge sharing. *Journal of Knowledge Management*, 13(1): 42-55. doi: 10.1108/13673270910931152
- Tang, J., Tang, Z., Marino, L., Zhang, Y., & Li, Q. (2008). Exploring an inverted U-shape relationship between entrepreneurial orientation and performance in Chinese ventures. *Entrepreneurship Theory and Practice*, 32(1): 219-39.
- Tigu, G., Iorgulescu, M., & Răvar, A. S. (2013). The impact of creativity and innovation in the hospitality industry on customers. *Journal of Tourism Challenges and Trends*, 6(1): 9-34
- Trautrimis, A., David B. Grant, Ann L., Cunliffe, & Wong, C. (2012). Using the “documentary method” to analyse qualitative data in logistics research”. *International Journal of Physical Distribution & Logistics Management*, 42(8/9): 828 – 842. doi: 10.1108/09600031211269776.
- Unsworth, K. L., & Parker, S. K. (2003). Proactivity and innovation: promoting a new workforce for the new workplace. in T. Holman, T.D. Wall, C.W. Clegg, P. Sparrow, & A. Howard, (Eds.), *The new workplace: A guide to the human impact of modern work practices* (pp. 175-96). Chichester, NH: John Wiley & Sons.
- Van de Ven, A., Polley, D., Garud, R., & Venkatraman, S. (2008). *The innovation journey*. New York, NY: Oxford University Press.
- Vandecasteele, B., & Geuens, M. (2008). Motivated consumer innovativeness: concept and measurement. Working Paper Series, Universiteit Gent.
- Venkatraman, N. (1989). Strategic orientation of business enterprises: the construct, dimensionality, and measurement. *Management Science*, 35(8): 942-62.

Sri Lankan Journal of Management

Vol. 20, Nos. 1 & 2, January - June, 2015

Vickery, S., Droge, C., & Germain, R. (1999). The relationship between product customization and organizational structure. *Journal of Operations Management*, 17(4): 377-91. [http://dx.doi.org/10.1016/S0272-6963\(98\)00053-9](http://dx.doi.org/10.1016/S0272-6963(98)00053-9)

Vora, D., Vora, J., & Polley, D. (2012). Applying entrepreneurial orientation to a medium sized firm. *International Journal of Entrepreneurial Behaviour & Research*, 18(3): 352-379. doi: 10.1108/13552551211227738.

Voss, Z.G., Voss, G.B., & Moorman, C. (2005). An empirical examination of the complex relationships between entrepreneurial orientation and stakeholder support, *European Journal of Marketing*. 39(9/10): 1132-1150. doi: 10.1108/03090560510610761.

Walter, A., Auer, M., & Ritter, T. (2006). The impact of network capabilities and entrepreneurial orientation on university spin-off performance. *Journal of Business Venturing*, 21, 541-567.

Wang, M. (2007). Designing online courses that effectively engage learners from diverse cultural backgrounds. *British Journal of Educational Technology*, 38(2), 294-311. doi:10.1111/j.1467-8535.2006.00626.x.

Werr, A., & Stjernberg, T. (2003). Exploring management consulting firms as knowledge systems. *Organization Studies*, 24(6): 881-908. doi: 10.1177/0170840603024006004

Wiklund, J., & Dean, S. (2003). Knowledge-based resources, entrepreneurial orientation, and the performance of small and medium-sized businesses. *Strategic Management Journal*, 24 (13): 1307-14. doi: 10.1002/smj.360.

Wong, S.K.S. (2012). The influences of entrepreneurial orientation on product advantage and new product success. *Journal of Chinese Entrepreneurship*, 4(3): 243-262. doi: 10.1108/17561391211262175.