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# Impact of Entrepreneurial Orientation on Entrepreneurial Performance of Tourism Enterprises – A Study with reference to Southern Province of Sri Lanka

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### Abstract

Entrepreneurship is recognized as one of the most powerful economic weapons in any developing country. Sri Lanka, has recognized the Tourism Sector as one of the most pressing business sector which can have multiplier effect on local community. Tourism is considered as one of the main foreign exchange earning source of any country and it is a significant contributor to the social and economic development of the country. The succession of any firm depends on the entrepreneurial behavior of the business (Lumpkin and Dess, 1996). The main focus of this study was to identify the impact of entrepreneurial orientation on firms' performance of tourism enterprises. Galle, Matara and Hambanthota districts (Southern province, Sri Lanka) have been selected as the research site of this study. As the study population, the researcher has selected the tourism entrepreneurs who were registered at the Chamber of Commerce and Industries of Matara, Galle and Hambanthota districts. Out of the total population, 120 tourism entrepreneurs were selected for the sample using systematic probability sampling technique. Self administered questionnaire was used to collect primary data and secondary data sources were also used. Pearson correlation and regression analysis were applied to analyze the data. The study reveals, there is small to medium relationship between entrepreneurial orientation and tourism entrepreneurial performance ( $r=0.312$ ). Risk taking, innovativeness, proactiveness and competitive aggressiveness are the key factors which affect entrepreneurial performance whereas autonomy has very little role. The study identified the necessity of introducing awareness and stimulation programs towards entrepreneurship for the youth groups. Facilitating entrepreneurs with financial and non-financial resources would stimulate them towards entrepreneurial activities. Creating linkages between local tourism and local goods manufactures will benefit local community. The government needs to create a legal platform to protect local small and medium scale Tourism Entrepreneurs from large scale direct investments.

**Keywords:** Entrepreneurial Orientation (EO), Firm Performance, Tourism Enterprises

**JEL Classification:** L26, L89, Z32

**Paper Classification:** Research Paper



## Introduction

The entrepreneurship field has attracted much attention throughout the world, even in the European countries during last three decades (Rusu et al. 2012). The entrepreneurship is widely recognized, regardless of the domain; the entrepreneurship is about all in businesses (Dana et al. 2014). It does not limit itself to any particular sector but addresses everything everywhere in the world. Encouraging the entrepreneurship region wise is very important for sustainable development.

Tourism is one of the main business sector identified as one of the most attractive and profitable business sector throughout the world. Tourism Sector has been identified as a strategic weapon in creating various economic and social developmental opportunities. (Lebe at al. 2014). Many studies have outlined the importance of tourism for the economic and social development of rural territories (Dana et al. 2014). The tourism sector is significantly contributing to the development of agriculture, transportation, retailing and manufacturing sector of any country (Lebe at al. 2014). Usually, Tourism Sector act as catalyst that increases the demand for goods and services which accelerates economic growth. In developing countries, Tourism Sector is a major source of foreign exchange for the country. Most of the time, tourism sector has created a platform to increase foreign reserves of a country (Stenvall, 2014). Tourism Sector has opened up opportunities for entrepreneurs to diversify into new areas. Accordingly, their performance level might be higher than they expected.

In the complexity of today's business environment, Entrepreneurial Orientation (EO) is considered as one of the most important factor that determine the success of any business. Entrepreneurial Orientation, as well, is forcing to find out new entrepreneurial opportunities through innovations and risk taking and being proactive (Lumpkin and Dess, 1996). Accordingly, any entrepreneurial venture has to be innovative by introducing novel ideas for the business in comparison to the competitors. Moreover, firms have to be more involved with innovative products, services and processes, and have to be more proactive compared to competitors in all aspect and be risk-oriented (Arshad et al., 2013).

## Research Problem

In Sri Lanka, a large number of SMEs have been established in different sectors. SMEs are playing a significant role in socio-economic development of Sri Lanka. According to statistical data provided by the Central Bank of Sri Lanka (2013), SMEs have contributed to the national Gross Domestic Product (GDP) by 70%. The higher rate of GDP clearly explains the importance of entrepreneurship to the Sri Lankan economy.

As one of the booming sectors, the Tourism has a vital role in Sri Lanka. Accordingly, the sector has a significant role in creating wealth and employment for the nation. Sri Lankan National Economic data reveals that tourism was the fifth largest earners of Foreign Exchange in the year 2012 ( Sri Lanka Tourism Development Authority, 2012). According to the census and statistical data produced by the Central Bank of Sri Lanka, the contribution from the Hotel and Restaurant sector to the GDP was recorded as Rs. 44,254 million in the year 2012. The statistical data further reveals that 15.6% of individuals are working at the trade and tourism sector. Both direct and indirect employment generated in the sector was increased by 17.4% to 162,869 in the year 2012. Further, the contribution of tourism to the total foreign exchange earnings increased up to 5.2% (in 2012) from 4.3% compared to the previous year. Hotels and Restaurants' contribution to the Service sector of the GDP is 11.5%. Earnings from tourism increased up to US\$ 2.4 (41.7%). Tourist arrivals in 2014 were increased by 19.8% to 1,527,153 compared to the previous year (Central Bank of Sri Lanka, 2014). Southern province Tourism has generated around 210,000 direct

and indirect employment opportunities by the year 2011. This is around 2.7% out of the total employment generation on Sri Lanka.

As Lindelof & Lofsten revealed in 2006, powerful and competitive performance of entrepreneurial ventures is encouraged by the entrepreneurial behavior of firms. The entrepreneurial behavior can be identified by following the Entrepreneurial Orientation of a firm (Lumpkin and Dess, 1996). Therefore, it is necessary to study the entrepreneurial behavior of tourism entrepreneurs with higher performance, in order to see the developments in the tourism sector. Identification of entrepreneurial behavior of tourism ventures is more important since tourism has been identified as one of the strategic weapons where sustainable development can be achieved. Accordingly, this study is focused to identify the impact of Entrepreneurial Orientation on entrepreneurial performance of tourism enterprises.

## **Objectives of the Study**

The main objective of this study was to identify the relationship between entrepreneurial orientation of tourism entrepreneurs and firm performance.

## **Literature Review**

### **Entrepreneurial Behavior**

Entrepreneurial behavior can be recognized through the actions taken by an entrepreneur to achieve desired goals and objectives in their organizations. By examining the entrepreneurs' actions under his or her own control; it is easy to understand the entrepreneurial behavior of an entrepreneur. The entrepreneurial behavior is not inspired by third parties' enforcement. Entrepreneurial Orientation is a well known assessment method to evaluate the entrepreneurial behavior of any entrepreneur (Kuratko and Hodgetts, 2007).

### **Entrepreneurial Orientation**

The concept of entrepreneurial orientation is widely used by scholars to measure or understand the entrepreneurial behavior of any organization. Entrepreneurial orientation has taken a significant place in strategy developing process (Mintzberg, 1973). According to Hart (1992), strategy making incorporates planning, analysis, decision making, and many aspects of an organization's culture, value system, and mission. Strategy making is important in terms of the actions taken; future obligation and prospects and resources committed settings (Mintzberg et al., 1976). The entrepreneurial orientation emphasises the policies and practices for entrepreneurial decision making process and the basis for its related actions. According to Coving and Slevin (1991), entrepreneurial orientation is considered the strategy-making process that is used by decision makers in order to legitimize their firm's organizational purposes, sustain its vision, and create competitive advantage. By reviewing literature, it is possible to identify key dimensions that are used by scholars to measure the entrepreneurial orientation.

The phenomenon of entrepreneurial orientation has been understood by Cahill (1996) as the state of fragmentation that exists in entrepreneurship research. Some literature reveals that the entrepreneurial orientation is derived from the entrepreneurial behavior, unique values and attitudes of an individual or an organization (Cunningham and Lischeron, 1991).

An entrepreneur is recognized as one who is bearing risk (Carland, Hoy & Carland 1988) as well as the one who combines resources in an innovative manner (Schumpeter 2002).



Garner (1988) says the entrepreneurship as the creation of a venture. The entrepreneurial orientation consists of several entrepreneurial skills, attitudes and characteristics. Therefore the entrepreneurial orientation determines the entrepreneurial behavior at large.

Miller in 1983, identified entrepreneurial orientation as a phenomenon consisting of three main dimensions; Innovativeness, risk taking, and proactiveness. Five components of dimensions have been introduced by Lumpkin and Dess in 1996 to define the entrepreneurial orientation. According to Lumpkin and Dess innovativeness, autonomy, proactiveness, competitive aggressiveness and risk-taking propensity were suggested in order to identify the entrepreneurial orientation.

The most important dimensions of entrepreneurial orientation usually show high correlation with each other (Blair and Fottler, 2000; Tan and Tan, 2005). Most studies combined these dimensions into one single factor (Walter et al., 2006). Entrepreneurial orientation suggests that firms have to be more innovative to introduce innovations in existing products, services and processes, have to be more proactive compared to competitors in all aspects and be risk-oriented. Lumpkin and Dess (1996) have introduced five dimensions to identify the entrepreneurial orientation of an entrepreneur or an enterprise. Recently, many scholars have followed the five dimensions of entrepreneurial orientation model presented by Lumpkin and Dess.

Many scholars have used the concept of entrepreneurial orientation as a crucial factor to ensure the success of a business (Arshad et al., 2013). In literature, there has been a huge debate on entrepreneurial orientation. Some scholars have discussed about the entrepreneurial orientation as a one-dimensional concept (Covin and Slevin, 1989; Knight, 1997). Further they argued that different dimensions of entrepreneurial orientation must relate to performance of an enterprise in similar ways. More recent theories suggest that the dimensions of entrepreneurial orientation may occur in different combinations (Lumpkin & Dess, 2006). As a result of this, all these entrepreneurial dimensions may relate differently to firm performance (Stetz, et al., 2000).

Thus, the research has adapted five Entrepreneurial Orientation dimensions introduced by Lumpkin and Dess in 1996 for the purpose of this study.

## **Firm Performance**

Managers and business owners are using different self reported measurements to measure the business performance of any firm (Smart and Conant, 1994). Many empirical studies have proven that self-reported measures used to measure business performance data are more reliable (Knight, 2000). Moreover, Yang (2008) emphasized that public information is unreliable as most of the firms are privately managed and they do not have legal obligation to disclose information. According to Wiklund (1999), growth, financial and non-financial performance are common performance measurement criterions. Thus, the researcher will adopt financial and non-financial performance measurements in this study.

## **Entrepreneurial Orientation and Business Performance**

The entrepreneurial orientation positively affects the overall firm performance (Miller and Bromiley, 1990). Zahra (1991) observed a positive relationship between entrepreneurial orientation and firm profitability and its growth. In addition, a positive correlation between entrepreneurial orientation and firm performance has been studied by Smart and Conan in 1994. Therefore the entrepreneurial orientation is an important determinant for business (Unger et al, 2005). Covin and Slevin (1989) studied the dimensions of entrepreneurial orientation such as innovation,

risk-taking, and pro-activeness and its relationship with the performance. Zhang et al., (2007) found that entrepreneurial orientation has a positive effect on firm performance. Gurbuz and Aykol (2009) proved the positive relationship between entrepreneurial orientation in small and medium scale firm growth in Turkey. Chow (2006) as cited by Roslan et al, (2014) confirms the relationship between entrepreneurial orientation and firm performance in China and confirms that entrepreneurial orientation had a significant effect on firm profitability and several other key performance factors. Arshad et al., (2013) also revealed that there is a medium to small correlation between entrepreneurial orientation and entrepreneurial performance. According to Irshad (2013) innovativeness, proactiveness, competitive aggressiveness and risk taking are the most influential dimensions in determining the entrepreneurial behavior of an entrepreneur. Autonomy is not considered as an important factor by Rishad. According to Lumpkin and Dess (2001), both proactiveness and competitive aggressiveness are highly correlated with firm success and these two dimensions make unique contributions to firm performance. Autonomy as a newly introduced dimension for the entrepreneurial orientation (Lumpkin and Dess, 1996) has a negative relationship with the organizational performance. It indicates that there is no improvement of entrepreneurial performance with the effect of autonomy. On the other hand, it implies that in the research context autonomy is not given for entrepreneurs to utilize their entrepreneurial abilities, thus it has no effect on better performance. The literature suggest that there is a positive relationship between risk taking and financial performance (Aktan and Bulut, 2008; Shamsuddin et al, 2012).

## **Tourism and Tourism Enterprises**

Tourism is the activities of people, travelling to and staying in places outside their usual environment for leisure, business or other purposes for not more than one consecutive year [International Labor Organization (ILO), 2000]. Tourism is a unique industry that faces entrepreneurial ventures in form of small to medium enterprises and huge corporations. Tourism is considered one of the main foreign exchange earnings stream for any country and it has been recognized as a significant contributor for the economic development of the country as well. Tourism means just travelling for pleasure or entertainment. Different environmentally valued places, historically valued places and places where human beings can be recreated are visited by people to make their lifestyle free. Tourism can be done through several components; tourism attractions, accessibility, accommodation facilities, tourism activities etc. Tourism supports to enhance the economic, social and welfare development as well as employment generation in peripheral regions (Saarinen, 2014).

Sinclair and Stabler (1997) have defined the tourism enterprise as “a composition of products involving transport, accommodation, catering, natural resources, entertainment and other facilities and services, such as shops and banks and other tour operators”. According to Sinclair and Stabler, a tourism enterprise may be directly or indirectly related to the tourism hotel and restaurants or supportive services provided to the tourism sector. It may be a kind of infrastructure facility or auxiliary service or guiding for guest or a small by-roads boutique. It should not always be a large scale business or it should not be a physically constructed business. Virtual tourism related service providers or just tour guiding are also considered as kinds of tourism enterprises.

## **Tourism Entrepreneurs**

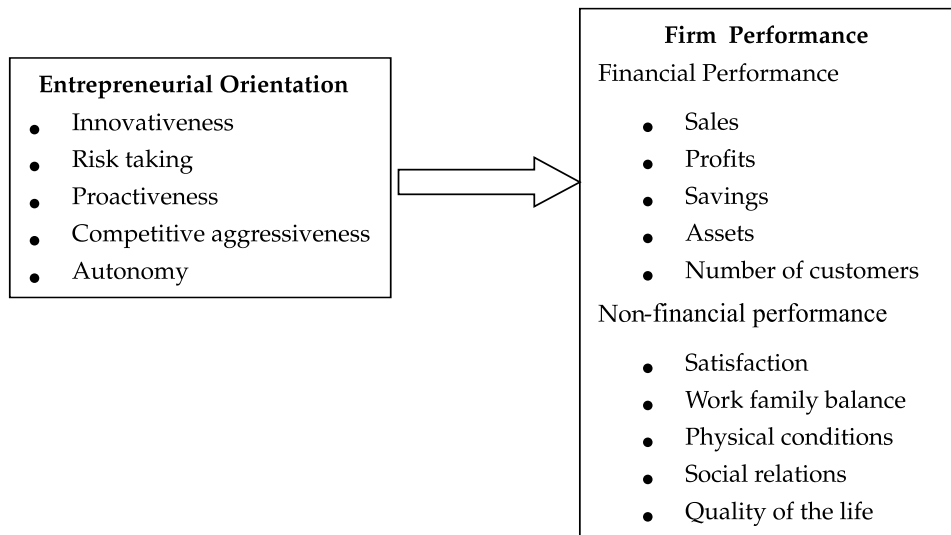
According to Baumol (2004), tourism entrepreneur is an “individual who creates a business with some component of originality in provision of a product, service or experience for tourists”.

Tourism entrepreneurs are key agents of change, whose innovative activities lead first to their own survival in business and contribute to the survival of their communities in second. Since entrepreneurs are always alert to identify opportunities (Kirzner, 1997); tourism business people are also waiting for new opportunities. They are following practices for the purpose of developing tourism businesses with their entrepreneurial thoughts and behaviors (Clichy et al. (2009). Clichy et al. (2009) has identified six entrepreneurial characteristics, traits, attributes and skills. Some of them are inherent while others require necessary skills developments and trainings. According to Bowen et al. (2009) tourism business people are called tourism entrepreneurs since they exhibit many entrepreneurial skills and characteristics. According to Sinha (nd.), tourism entrepreneur can be defined as; *“professional application of knowledge, skills and competencies and/or of monitoring a tourism related new idea, by an individual or a set of people by launching an enterprise new or diversifying from an existing one (distinct from seeking self-employment as in a profession or trade), thus, to pursue growth while generating wealth, employment and social good”*.

### Research Methodology

This study undertakes the descriptive and analytical methods of study. Southern province of Sri Lanka was considered as the research site and the study population represented the small and medium scale tourism ventures. The population for the study was identified from the registered Small and Medium scale tourism entrepreneurs at Chamber of Commerce and Industries in Galle, Matara and Hambanthota Districts.

Figure 1. Conceptual Framework



Source: Literature Review, 2016

Out of the population (593), 120 Small and Medium scale tourism ventures were selected for the sample by following systematic sampling technique under the probability sampling method. Personal observations together with a self-structured questionnaire were used to gather primary data for the study. The questionnaire was prepared after having several discussions and interviews with the local community and tourism entrepreneurs. The researcher made several personal site visits to the tourism popularity areas to gather relevant information to justify the questions included in the questionnaire. Secondary data sources such as empirical findings, books, magazines and institutional publications were also referred to get a clear understanding about the

scope of the study. Using SPSS as the analysis tool, correlation and regression techniques were used to analyze data.

Based on the conceptual framework of the study, following hypotheses were tested from this study.

- H<sub>1</sub>: Innovativeness is positively correlated with firm performance.
- H<sub>2</sub>: Risk-taking is positively correlated with firm performance.
- H<sub>3</sub>: Proactiveness is positively correlated with firm performance.
- H<sub>4</sub>: Competitive aggressiveness is positively correlated with firm performance.
- H<sub>5</sub>: Autonomy is positively correlated with firm performance.

### Result and Discussion

As shown in the Table 1, there is a positive relationship between entrepreneurial orientation and entrepreneurial performance. However, there is no strong positive relationship between entrepreneurial orientation and entrepreneurial performance of tourism entrepreneurs ( $r = 0.312$ ,  $p = 0.037$ ). Relationship between financial performance and entrepreneurial orientation is  $r = 0.280$  where  $p \geq 0.05$  (0.032). The correlation between non-financial performance and entrepreneurial orientation is  $r = 0.289$  which is significant at the 95% confidence level. Further, Table 1 depicts the correlation analysis between the five dimensions of entrepreneurial orientation and entrepreneurial performance of tourism entrepreneurs. It is evident that the Pearson correlation between entrepreneurial performance and risk taking is significant at  $r = 0.507$  (99% confidence level) is followed by innovativeness at  $r = 0.372$ , proactiveness at  $r = 0.134$  and competitive aggressiveness at  $r = 0.122$ . However, no correlation was found between autonomy and entrepreneurial performance ( $r = 0.013$ ). Comparing with other entrepreneurial orientation dimensions (Table 1), risk taking is highly correlated with both financial ( $r = 0.465$ ) and non-financial performance ( $r = 0.461$ ) at 99% significance level. Autonomy does not perform strong correlation with both financial and non-financial performance by any means.

**Table 1: Entrepreneurial orientation and entrepreneurial performance**

| Constructs                  |                     | Entrepreneurial orientation | Innovative-ness    | Risk taking        | Proactive-ness | Comp. aggressiveness | Autonomy |
|-----------------------------|---------------------|-----------------------------|--------------------|--------------------|----------------|----------------------|----------|
| Entrepreneurial performance | Pearson Correlation | .312 <sup>*</sup>           | .372 <sup>*</sup>  | .507 <sup>**</sup> | .134           | .122                 | .013     |
|                             | Sig. (2-tailed)     | .037                        | .012               | .000               | .049           | .025                 | .034     |
| Financial Performance       | Pearson Correlation | .280                        | .285               | .465 <sup>**</sup> | .162           | .058                 | .010     |
|                             | Sig. (2-tailed)     | .032                        | .048               | .001               | .026           | .004                 | .046     |
| Non-financial performance   | Pearson Correlation | .289                        | .388 <sup>**</sup> | .461 <sup>**</sup> | .088           | .158                 | .031     |
|                             | Sig. (2-tailed)     | .004                        | .008               | .001               | .044           | .031                 | .041     |

<sup>\*\*</sup> Correlation is significant at the 0.01 level (2-tailed).

<sup>\*</sup> Correlation is significant at the 0.05 level (2-tailed).

Source: Author estimations, 2016

The results of multiple regression analysis on the five dimensions of entrepreneurial orientation with entrepreneurial performance are shown in Table 2. The R square value is 0.548 (where  $P = 0.004 < 0.005$ ) which means that 54.8% of variance in entrepreneurial performance of tourism enterprises has been significantly explained by all five entrepreneurial orientation dimensions.

**Table 2: Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |               |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|---------------|
|       |                   |          |                   |                            | R Square Change   | F Change | Sig. F Change |
| 1     | .590 <sup>a</sup> | .548     | .264              | .43712                     | .548              | 4.162    | .004          |

a. Predictors: (Constant), Autonomy, Innovativeness, Competitive aggressiveness, Proactiveness, Risk taking  
Source: Author estimations, 2016

Table 3 depicts the results regarding the strength of individual component on entrepreneurial orientation against entrepreneurial performance of tourism entrepreneurs. The coefficients show which among the five independent variables influence most the variance in entrepreneurial performance. According to table 3, risk taking is statistically significant to the model where t-value is greater than 2.00.

**Table 3: Coefficients<sup>a</sup>**

| Model                      | Unstandardized Coefficients |            | Standardized Coefficients | T      | Sig. |
|----------------------------|-----------------------------|------------|---------------------------|--------|------|
|                            | B                           | Std. Error | Beta                      |        |      |
| (Constant)                 | 3.202                       | .677       |                           | 4.726  | .000 |
| Innovativeness             | .156                        | .135       | .208                      | 1.156  | .035 |
| Risk taking                | .398                        | .132       | .548                      | 3.012  | .005 |
| Competitive aggressiveness | .102                        | .139       | .153                      | .737   | .045 |
| Proactiveness              | .095                        | .088       | .159                      | .457   | .022 |
| Autonomy                   | -.233                       | .111       | -.036                     | -0.009 | .465 |

a. Dependent Variable: Entrepreneurial performance  
Source: Author estimations, 2016

The column Beta under Standardized Coefficients shows that the highest number in the beta is 0.548 for risk taking which is significant at the 0.005. Innovativeness was ranked second with beta 0.208 at the significant 0.035 followed by autonomy with beta 0.153 at the significant 0.045 and competitive aggressiveness with beta 0.059 and significant at the level 0.022. All four dimensions are the only predictors which affect business performance of tourism enterprises in the Southern province of Sri Lanka. Proactiveness ( $\beta = -0.336$ ,  $p = 0.465$ ) showed no significance with entrepreneurial performance.

According to the study results,  $H_1$ ,  $H_2$ ,  $H_3$  and  $H_4$  hypothesis are accepted and  $H_5$  is rejected. Innovativeness, Risk taking, Competitive aggressiveness and Proactiveness are showing strong positive relationship with firm performance while Autonomy shows poor relationship with the firm performance of tourism entrepreneurs.

## Conclusion

Correlation analysis of the study showed that there was a medium to small correlation between Entrepreneurial Orientation and firm performance. Risk taking, innovativeness, proactiveness and competitive aggressiveness are the most powerful Entrepreneurial Orientation dimensions in determining the firm performance of tourism entrepreneurs (Arshad et al., 2013). However, they do not consider autonomy as a key factor for the succession of their ventures (Lumpkin and Dess, 1996; Arshad et al., 2013). Study results suggested that firms have to be more innovative to introduce innovations in existing products, services and processes, have to be more

proactive compared to competitors in all aspects and be risk-oriented. They are always trying to introduce new things into the market place with their businesses. They are always looking for the future of the business while developing new strategies to meet the challenges posed by neighbor competitors. It evidently proves that there is a very good platform for the betterment of the entrepreneurial behavior in tourism sector in Southern province of Sri Lanka. Hence, it is needed to motivate and empower entrepreneurs to engage with more tourism businesses. Especially, the government and other relative bodies who are responsible for the development of tourism are need to take action to encourage tourism culture within Sri Lanka. Accordingly, developing a strategic policy framework to empower and promote poor entrepreneurs towards tourism businesses is essential. Especially, it is necessary to develop entrepreneurial behavior of entrepreneurs. To achieve these purposes, the study suggests to introduce outreach based awareness programs and workshops where entrepreneurs can be stimulated towards gaining benefits from the available opportunities in tourism sector. Especially, this study promoted young crops into tourism sector by organizing exposure visits into tourism polarity areas and letting them understand the available opportunities in tourism sector. The government and other relevant policy making bodies also should develop their policies in relation with the tourism sector and they should introduce new concessionary packages for new entrants into the tourism sector.

### Limitations and Future Research

Geographically, the study was limited to the Southern province of Sri Lanka for the convenience of employing this study within a short period of time. Accordingly, the study was focused only on the small and medium scale tourism ventures and their entrepreneurial behavior. While selecting the respondents for the sample of the study, the researcher highly concentrated on the coastal areas of the Southern region where the tourism is highly dispersed as a business. Further, the researcher has selected a very small number of tourism entrepreneurs for the study as respondents.

According to this study, the entrepreneurship and tourism literature provide inspiration in the following areas for future developments,

- Entrepreneurial opportunities within the framework of tourism and its development
- Entrepreneurial characteristics of tourism ventures
- Entrepreneurial behavior of small tourism ventures and their performance
- Types of tourism entrepreneurship and implications for venture development

Finally, this study suggests conducting a research on the similar study objective, based on the local community as respondents of the study. They will have separate perspectives than the study results given by this study.

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