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# Links Between Entrepreneurial Culture and Business Performance: A Study of Small and Medium-Sized Tourist Hotels in Sri Lanka

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The tourism industry of Sri Lanka is inevitably dominated by small and medium-sized enterprises (SMEs). Notwithstanding the poor development of economic health in Sri Lanka, accommodation and food service activities have historically shown a positive sectoral distribution. Moreover, small and medium-sized tourist hotels are currently recognized as one of the fastest-growing segments. Hence, an argument can be made that such hotels have a substantial impact on the sociocultural and socioeconomic development of Sri Lanka. As a distinct cultural typology, entrepreneurial culture has not been commonly exposed to academic research. However, few scholars have previously investigated the links between entrepreneurial culture and business performance in some market sectors and yielded positive results. Thus, the purpose of this study is to uncover the links between entrepreneurial culture and business performance of small and medium-sized tourist hotels in Sri Lanka. This study is a survey-based, cross-sectional quantitative study. Employing simple random sampling, a total of 59 one-star and two-star hotels have been selected as the sample from the 159 classified tourist hotels listed by the Sri Lanka Tourism Development Authority. The findings reveal that a conducive entrepreneurial culture improves the business performance of such hotels by anticipating new market trends and favorable opportunities. This empirical study has a national significance in terms of theoretical and practical perspectives.

*Keywords:* business performance, entrepreneurial culture, Sri Lanka, small and medium-sized enterprises, small and medium-sized tourist hotels, tourism

## Introduction

Small and medium-sized enterprises (SMEs) are the backbone of sustainable economies (Gibson & van der Vaart, 2008). They account for the sustainable development of many economies worldwide, contributing to the growth of Gross Domestic Product (GDP), embarking on innovations, introducing new business methods and solutions, creating employment opportunities, reducing poverty, generating income, and contributing to global economic development. Sri Lanka is no exception (Rathnayake & Bogahalande, 2022). Consistent with the Ministry of Industry and Commerce (2016), the contribution of SMEs to the economic health of Sri Lanka is

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multidimensional, in terms of approximately 52% of total GDP, 90% of total enterprises, and 45% of employment opportunities spread across all sub-sectors, including urban, rural, and estate sectors.

Even though the Sri Lankan economy grew by 5% in 2024 (Central Bank of Sri Lanka, 2024), the GDP growth for 2023 was 2.3% negative compared to the contraction of 7.3% in 2022 (Central Bank of Sri Lanka, 2022; 2023). Such adverse variations in GDP growth since 2019 were mainly due to the impact of the global COVID-19 pandemic, the Easter Sunday bombings, long-term political uncertainty, and other macroeconomic vulnerabilities, including a sharp rise in foreign debt. This economic drawback has a substantial negative effect on domestic economic activities, in particular the tourism industry (Ministry of Finance, 2019b). However, substantial growth has been recorded in accommodation and food service activities during 2022-2024 with the opening of borders, notable exchange rate depreciation, and tourism promotion campaigns (Rathnayake & Bogahalande, 2025). Thus, accommodation and food service activities are recognized to be a promising segment for upholding the economic health of Sri Lanka.

Tourism is one of the largest foreign exchange earning sources in Sri Lanka with a contribution of above 14% of the total foreign exchange earnings. Though the revenue from tourism and tourist arrivals was reduced to US$507 million and 0.194 million in 2021 (Sri Lanka Tourism Development Authority, 2021), respectively, it has witnessed remarkable growth in 2024, generating revenue exceeding US$3.1 billion, with cumulative tourist arrivals reaching 2.05 million. When concerning the accommodation capacity, 48.81% of classified tourist hotels registered with the Sri Lanka Tourism Development Authority (SLTDA) are one- and two-star hotels that operate with 26.08% of the total room inventory (Sri Lanka Tourism Development Authority, 2023). These hotels are considered the small and medium-sized tourist hotels (SMTHs) for the study.

In agreement with Schein (2010) and Teece (2009), entrepreneurial culture fosters the abilities of entrepreneurs, which in turn enables firms to remain more competitive and perform at a high level. However, empirical evidence on the links between entrepreneurial culture and business performance is minimal (Rathnayake & Bogahalande, 2022), and specifically the perused studies have not been sufficiently able to explain such links associated with the SMEs in Sri Lanka. Despite SMTHs being considered a promising segment for upholding the economic health of Sri Lanka, precise knowledge on the impact of entrepreneurial culture on the business performance of such hotels is a long-standing deficiency in current literature. This deficiency in contextual and theoretical knowledge reveals the importance of understanding this area of research. Moreover, an argument can be made that a conducive entrepreneurial culture improves the business performance of SMTHs.

## Literature Review

### Entrepreneurial Culture

Entrepreneurial culture is one of the least addressed subtypes of organizational culture (Wong, 2014). Consistent with Irland, Hitt, and Sirmon (2003), entrepreneurial culture is a concept in which new ideas and creativity are expected, risk-taking is encouraged, failure is tolerated, learning is promoted, product, process, and administrative innovations are championed, and continuous change is viewed as a conveyor of opportunities. Prabhu (2005) and Conrad (1999) identified entrepreneurial culture as a type of organizational culture. Simultaneously, Dulcic (2003) argues that entrepreneurial culture is a mix of elements that form the personality of an entrepreneur.

A positive entrepreneurial culture supports a relatively high number and quality of start-ups while overcoming the challenges of the external environment (Fritsch & Wyrwish, 2017). It encourages the

improvement of entrepreneurial competencies, which in turn helps in increasing and maintaining the competitiveness and performance of businesses (Teece, 2009). Moreover, entrepreneurial culture assists employees in adopting appropriate behavior patterns for achieving superior performance and formulating workable strategies in the process of innovation (Yarbrough, Morgan, & Vorhies, 2011). It further promotes the behavior patterns of firms to anticipate market trends and new opportunities (Leal-Rodr ́guez, Albert-Morant, & Martelo-Landroguez, 2017).

Consistent with the personality orientations and psychological understanding of the action process of entrepreneurs, Stephan (2009) found six entrepreneurial cultural factors to assess the conduciveness of entrepreneurial culture, namely, openness/seeking opportunities, valuing entrepreneurial traits, capability beliefs, taking responsibility, entrepreneurial motivation, and entrepreneurial fears.

- **Openness/seeking opportunities**: According to Barbosa, Marinho De Oliveira, Fayolle, and Vidal Barbosa (2010), the term "seeking opportunities" refers to searching for new challenges, tapping into small markets, exploring numerous solutions to a problem, and perceiving uncertain situations as opportunities. It is a vital entrepreneurial character that leads to identification and taking advantage of business opportunities (Cardon, Gregoire, Stevens, & Patel, 2013).
- **Valuing entrepreneurial traits**: Barbosa et al. (2010) and Douglas (2013) argue that the entrepreneurial skills of an individual, such as autonomy, personal initiative, and willingness to take risks, encourage their entrepreneurial intention.
- **Capability beliefs**: In agreement with Barbosa et al. (2010), the capacity to deal with unforeseen circumstances and the ability to find solutions to challenging and complex problems assist entrepreneurial intention. Do Pa ço et al. (2011) reveal that the tendency for new business creation can be expected through managerial skills such as self-confidence and leadership capacity.
- **Taking responsibility**: Marti, Courpasson, and Barbosa (2013) found that fostering a culture of commitment and responsibility has a favorable impact on entrepreneurial culture.
- **Entrepreneurial motivation**: In agreement with Shane, Locke, and Collins (2003), the need for achievement, a person's locus of control, desire for independence, vision, passion, drive, goal-setting, and self-efficacy are the most significant factors of entrepreneurial motivation.
- **Entrepreneurial fears**: The fear of taking responsibility generally limits the propensity for self-employment (Marti et al., 2013). Moreover, Barbosa et al. (2010) emphasize that the fear of managing a business is influenced by the fear of taking responsibility, fear of change, avoidance of uncertain situations, hesitation to take risks, and doubt in their abilities.

**Business Performance**

Many scholars have investigated the business performance of SMEs to date (Alasadi & Abdelrahim, 2008; Jarvis, Curran, Kitching, & Lightfoot, 2000; Thomas, Theresa, & Ed, 2008). Smith and Reece (1999) define business performance as the operational ability of an entity to satisfy the desires of major shareholders. Moreover, business performance is a subset of the overall concept of organizational effectiveness (Venkatraman & Ramanujam, 1986).

Since there is no agreement among the scholars on the types of measurements, both subjective and objective measures have been employed to measure business performance. Viji and Bedi (2016) identified service quality, customer satisfaction, employee satisfaction, employee turnover, product innovation, process innovation, and

product quality as widely used subjective measures. Return on assets, return on sales, earnings per share, return on net worth, sales growth, and asset growth are the common objective measures. However, profit is not a better performance indicator to measure the business performance of SMEs (Viji & Bedi, 2016).

Notwithstanding its widespread availability, objective performance data often do not fully represent the actual performance of a firm, as business owners could manipulate such data for various reasons (Dess & Robinson, 1984; Sapienza, Smith, & Gannon, 1988). Since SMEs frequently exhibit strong reluctance to publicly disclose their actual objective financial performance, the data available to a researcher may not be compatible with the intended level of analysis (Wall et al., 2004). Thus, researchers are often encouraged to evaluate business performance through general subjective measures (Wall et al., 2004; Zulkiffli & Perera, 2011), considering the possibility of gathering more complete information (Covin & Slevin, 1989). Zulkiffli and Perera (2011) identified market performance, supplier performance, process performance, people performance, and customer relationship performance as a superlative mix of subjective measures for measuring the business performance of SMEs.

**Entrepreneurial Culture and Business Performance**

Limited empirical studies exist on the relationship between entrepreneurial culture and business performance (Haar, Taylor, & Wilson, 2009; Leal-Rodriguez et al., 2017), and no specific theoretical frameworks were found in the perused literature. In agreement with several studies, entrepreneurial culture fosters the abilities of entrepreneurs, which in turn enables firms to remain more competitive and perform at a high level (Schein, 2010; Teece, 2009). Relatively few scholars have found that entrepreneurial culture has a positive effect on business performance (Antoncic & Prodan, 2008; Chow, 2006; Covin, 1991; Covin & Slevin, 1991; Zahra, 1995). Consistent with Haar et al. (2009), firms that operate with a strong entrepreneurial culture are more likely to have superior financial performance.

Entrepreneurial culture comprises several internal and subjective factors that link to the entrepreneurial orientation of firms. These factors encourage employee behavior to choose suitable strategies for achieving higher performance and innovation (Yarbrough et al., 2011). Moreover, business entities prioritize their culture with a view to gaining a competitive advantage (Wei, Samiee, & Lee, 2014). Considering the above empirical evidence, two main hypotheses have been established.

$H_1$: There is a significant effect of entrepreneurial culture on the business performance of SMTHs in Sri Lanka.

$H_2$: There is a significant relationship between entrepreneurial culture and the business performance of SMTHs in Sri Lanka.

Moreover, five additional hypotheses have been developed in line with *entrepreneurial cultural factors.*

$H_3$: There is a significant relationship between seeking opportunities and the business performance of SMTHs in Sri Lanka.

$H_4$: There is a significant relationship between capability beliefs and the business performance of SMTHs in Sri Lanka.

$H_5$: There is a significant relationship between taking responsibility and the business performance of SMTHs in Sri Lanka.

$H_6$: There is a significant relationship between entrepreneurial motivation and the business performance of SMTHs in Sri Lanka.

$H_7$: There is a significant relationship between entrepreneurial fears and the business performance of SMTHs in Sri Lanka.

Note: In view of improving the consistency of scales, indicators of valuing entrepreneurial traits have been removed from the main study.

**Structural Research Model**

Entrepreneurial culture constitutes the independent variable, while business performance represents the dependent variable of the study. The below structural research model explains the links between entrepreneurial culture and business performance.

This structural research model consists of 1 statistically significant original positive path, 20 statistically significant additional positive paths, and 10 non-significant positive paths.

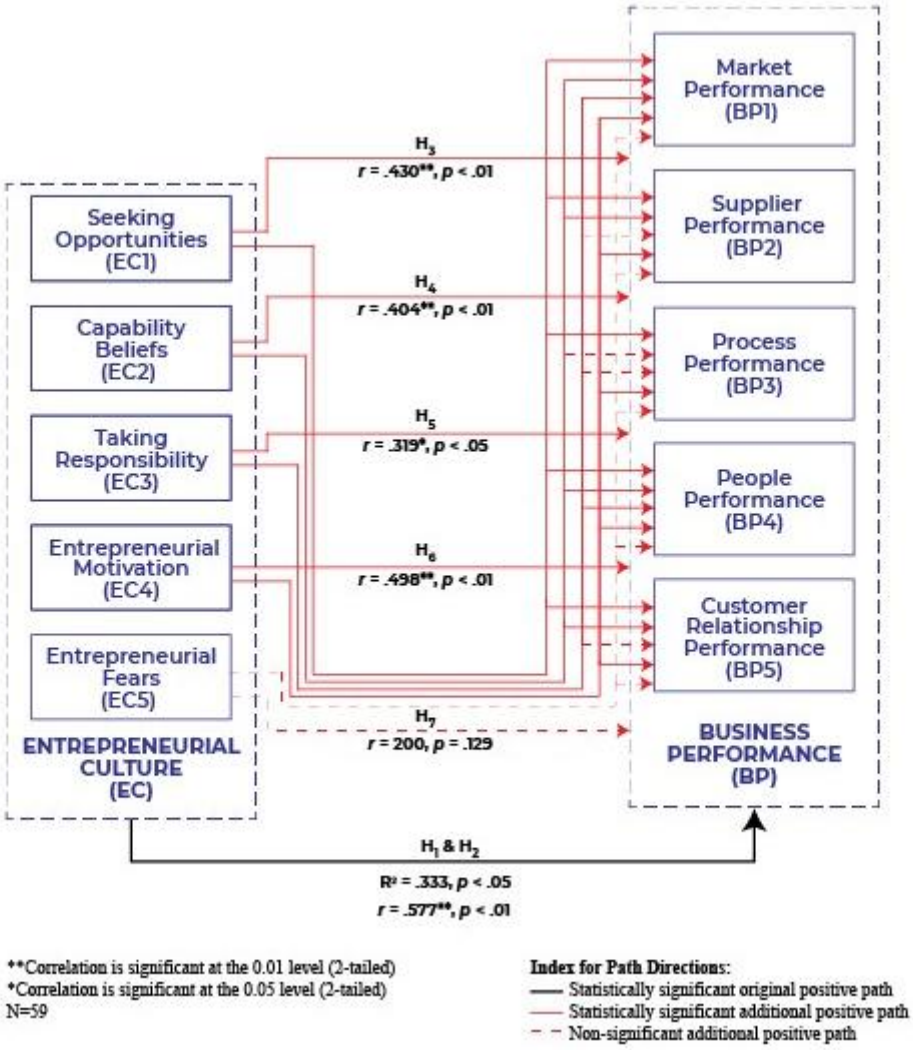


*Figure 1.* Structural research model.

## Methodology

This empirical study has been designed as survey-based, cross-sectional quantitative research. The classified tourist hotels registered with SLTDA have been selected as the finite population for the study, totaling 159 units

at the time of finalizing the data collection process (Sri Lanka Tourism Development Authority, 2021). Since there is no proper definition available for SMTHs in Sri Lanka, the definition devised by Ingram, Jamieson, Lynch, and Bent (2000) *was adopted in this study. Accordingly, hotels* having up to 100 rooms and employing fewer than 250 employees have been recognized to identify such SMTHs. This definition has been further employed by Ahamed and Arif (2016) for an exploratory study on SMTHs in the United Arab Emirates. Consistent with the above definition and the defining criteria for SMEs in Sri Lanka, 68 and 59 registered one- and two-star hotels with SLTDA have been identified as the sampling frame and sample, respectively. As shown in Table 1, the size of the sample was determined according to Krejcie and Morgan (1970). Such hotels are distributed in all provinces of Sri Lanka. According to Extraordinary Gazette No. 1963/28 dated April 20, 2016, both one- and two-star hotels are basic, well-maintained standard hotels with a minimum of 10 rooms. Considering the similarities, simple random sampling has been selected for data collection.

Table 1

*Determination of Sample Size*

| Description | No. of hotels |
|---|---|
| Classified tourist hotels registered with SLTDA 2021 | 159 |
| Tourist hotels that met the criteria set by Ingram et al. (2000) (Listed one-and two-star hotels) | 80 |
| (-) Closed or inoperative hotels | (12) |
| Sampling frame | 68 |
| Sample size determined according to Krejcie & Morgan (1970) | 59 |

**Questionnaire Development**

Entrepreneurial culture and business performance are the two main research constructs of this study. A self-reporting questionnaire, consisting of 41 five-point Likert scale questions, 10 multiple-choice questions, and six open-ended questions, was employed as the main research instrument. Table 2 presents the structure of the questionnaire employed in the study.

Table 2

*The Composition of the Research Instrument*

| Sections | | Measurement items |
|---|---|---|
| Section 01 | Entrepreneurial culture | 25 statements |
| Section 02 | Business performance | 16 statements |
| Section 03 | Hotel information | 11 questions |
| Section 04 | Demographic information of business owners | 5 questions |

The back-translation method has been employed to translate the questionnaire into *Sinhala*, the native language of the respondents. The survey instrument was first presented to a smaller group of 10 respondents to collect their feedback on filling out the questionnaire. Based on their feedback, the measurement items have been slightly modified without impairing the essence of the original statements.

A 25-item scale associated with six dimensions used by Stephan (2009) has been adopted to measure entrepreneurial culture along with an unchanged five-point Likert anchor: 1—Completely false, 2 —Somewhat false, 3—Neutral, 4—Somewhat true, and 5—Completely true. However, all three items associated with valuing entrepreneurial traits have been removed to improve the consistency of scales based on the feedback received during the pilot study. Thus, reliability and validity tested 22 measurement items associated with five dimensions

have been employed for the analysis: (i) Seeking opportunities (EC1)—four items; (ii) Capability beliefs (EC2)—five items; (iii) Taking responsibility (EC3)—three items; (iv) Entrepreneurial motivation (EC4)—five items; and (v) Entrepreneurial fears (EC5)—five items. The term "people" in the original questions has been changed to "employees", ensuring the expected outcome of the research.

Zulkiffli and Perera (2011) measured business performance using a 16-item scale associated with five dimensions, supported by a seven-point Likert anchor: 1—Worst in the industry, 2—Worse in the industry, 3—Bad in the industry, 4—Neutral, 5—Good in the industry, 6—Better in the industry, and 7—Best in the industry. To be consistent with the above measurement scales, two points have been removed to convert the scale into a five-point Likert anchor: 1—Worst in the industry, 2—Bad in the industry, 3—Neutral, 4—Good in the industry, and 5—Best in the industry. Accordingly, reliability and validity tested 16 measurement items associated with five dimensions have been employed for the analysis: (i) Market performance (BP1)—two items; (ii) Supplier performance (BP2)—three items; (iii) Process performance (BP3)—three items; (iv) People performance (BP4)—three items; (v) Customer relationship performance (BP5)—five items.

**Operationalization**

Table 3

*Operationalization of Entrepreneurial Culture*

| Dimensions | Indicators | Source |
|---|---|---|
| Openness / Seeking opportunities | Most employees like to find various solutions to a problem. | Stephan (2009) |
| | Most employees try to exploit open situations as opportunities and act accordingly. | |
| | Most employees consider how they can exploit gaps in the market. | |
| | Most employees look for new challenges. | |
| Valuing entrepreneurial traits | *Most employees place a high value on independence and autonomy. | Stephan (2009) |
| | *Most employees place a high value on personal initiatives. | |
| | *Most employees place a high value on their willingness to take risks. | |
| Capability beliefs | Most employees can solve difficult and complex problems. | Stephan (2009) |
| | Most employees can actively cope with unexpected situations. | |
| | Most employees believe in their own capabilities. | |
| | Most employees remain calm when facing difficulties in their work because they can rely on their own abilities. | |
| | Most employees can easily improvise when unexpected changes occur. | |
| Taking responsibility | Most employees feel that it is their responsibility to do high-quality work. | Stephan (2009) |
| | Most employees are used to taking responsibility for the things that they are doing. | |
| | Most employees like taking on responsible tasks, even if it means extra work. | |
| Entrepreneurial motivation | Most employees consider investing in small or medium-sized enterprises and their management as a desirable career choice. | Stephan (2009) |
| | Most employees start their own businesses because they want to be free and independent. | |
| | Most employees start their own businesses because they have good ideas and want to realize them. | |
| | Most employees start their own businesses to be better off financially. | |
| | Most employees start their own businesses because they want to be successful. | |
| Entrepreneurial fears | Most employees would not start and try to run a business because they fear change. | Stephan (2009) |
| | Most employees tend to avoid uncertain situations. | |
| | Most employees would not start and try to run a business, because they hesitate to take risks. | |
| | Most employees would not start and try to run a business because they doubt their abilities. | |
| | Most employees would not start and try to run a business because they fear responsibility. | |

*Note.* *These three items associated with valuing entrepreneurial traits have been removed to improve the consistency of scales.

Table 4

*Operationalization of Business Performance*

| Dimensions | Indicators | Source |
|---|---|---|
| Market performance | Market-share growth<br>Sales turnover | Zulkiffli & Perera (2011) |
| Supplier performance | Supplier product quality<br>Supplier communication<br>Supplier delivery performance | Zulkiffli & Perera (2011) |
| Process performance | Work-in- process inventory<br>Order fulfillment lead time<br>Product and service quality development | Zulkiffli & Perera (2011) |
| People performance | Performance appraisal results<br>Skill level of employees<br>Departmental communication | Zulkiffli & Perera (2011) |
| Customer relationship performance | Resolution of customer complaints<br>Customer loyalty and retention<br>Quality reputation and award achievement<br>Product return rate/booking cancellation rate<br>Speed of order handling and processing | Zulkiffli & Perera (2011) |

**Data Collection**

The response rate of the study was 90.7%. The business owners have been identified as the unit of analysis. However, general managers and hotel managers, being the operational heads, have been approached for data collection when the business owners were not contactable.

Methodological triangulation has been employed: literature review, survey, and structured interview. Questionnaires were delivered to the respondents by way of e-mails or Google Forms when physical interactions had not materialized. Structured interviews were carried out with respondents during physical visits. Moreover, necessary qualitative data were collected through focus group discussions using Zoom technology.

**Goodness of Data**

10 business owners, or the operational heads covering 17% of the sample, have been piloted for data collection. The validity of the questionnaire was determined through factor analysis. The KMO values of entrepreneurial culture and business performance were found to be 0.664 and 0.885, respectively. After removing three measuring items associated with valuing entrepreneurial traits, the consistency of measurements was found acceptable ($\alpha > 0.7$).

**Data Analysis Methods**

SPSS Version 26 has been employed as the statistical technique for data analysis. Hypotheses were tested using simple linear regression and the Pearson correlation coefficient. Prior to administering statistical tests, the collected data were tested for statistical assumptions.

## Results and Discussion

**Demographics Characteristics of Respondents**

The majority of the business owners of SMTHs in Sri Lanka are educated, middle-aged males with over 21 years of previous work experience. Perusing the literature (Ahmad, Jabeen, & Khan, 2014; Chen & Elston, 2013; Jaafar et al., 2011), several consistent patterns with current findings have been observed in both developed and developing countries. In relation to Jaafar et al. (2011), the majority of the owners of SMTHs in Malaysia are

middle-aged and older males with secondary and upper levels of education with no prior specialization or knowledge of tourism. Ahamed and Arif (2016) identified a comparatively high number of entrepreneurs aged 26 to 45 during their exploratory study on SMTHs in the UAE.

Table 5

*Demographic Profiles of Respondents*

| Variable | Frequency | % | Variable | Frequency | % |
|---|---|---|---|---|---|
| Age | | | Level of Education | | |
| Adolescence | 0 | 0 | School education | 16 | 27.2 |
| Young adulthood | 8 | 13.6 | Professional/ vocational training | 15 | 25.4 |
| Middle adulthood | 44 | 74.5 | Tertiary education | 17 | 28.8 |
| Late adulthood | 7 | 11.9 | Postgraduate | 11 | 18.6 |
| Total | 59 | 100 | Total | 59 | 100 |
| Gender | | | Previous work experience (years) | | |
| Male | 52 | 88.1 | Less than 10 | 16 | 27.1 |
| Female | 7 | 11.9 | Between 11-15 | 13 | 22.0 |
| Total | 59 | 100 | Between 16-20 | 9 | 15.3 |
| | | | Above 21 | 21 | 35.6 |
| | | | Total | 59 | 100 |

**Entrepreneurial Culture and Business Performance**

**The effect of entrepreneurial culture on the business performance.** A simple linear regression was calculated to predict the business performance of SMTHs in Sri Lanka based on entrepreneurial culture. A significant linear regression equation was found with an R-squared value of .333. Thus, 33.3% of the variation in business performance is explained by the movements of entrepreneurial culture.

Direction: Increase, Explanatory power ($R^2$): 0.333, Relationship (R): 0.577, Significance of regression (F): 28.475, Degrees of freedom: 1, 57, Probability value ($p$): < 0.05.

These findings concur with Antoncic and Prodan (2008), Chow (2006), Covin (1991), Covin and Slevin (1991), Poon, Ainuddin, and Junit (2006), and Zahra (1995), who have identified entrepreneurial culture as a positive influence on firm performance.

**The relationship between entrepreneurial culture and business performance.** A Pearson correlation coefficient was calculated for the relationship between entrepreneurial culture and business performance (Table 6). A moderate positive correlation was found ($r = 0.577$, $p < 0.01$), indicating a statistically significant linear relationship between two variables. The correlation is significant at the 0.01 level.

Table 6

*Pearson Product-Moment Correlation Matrix: Entrepreneurial Culture and Business Performance*

Correlations

| | | BP | EC |
|---|---|---|---|
| Business performance (BP) | Pearson correlation | 1 | |
| | Sig. (2-tailed) | | |
| | N | 59 | |
| Entrepreneurial culture (EC) | Pearson correlation | 0.577** | 1 |
| | Sig. (2-tailed) | 0.000 | |
| | N | 59 | 59 |

*Note.* **. Correlation is significant at the 0.01 level (2-tailed).

Consistent with Haar et al. (2009), firms that operate with a strong entrepreneurial culture are more likely to have superior financial performance. Sachin (2010) and Teece (2009) further suggest that entrepreneurial culture enables the capabilities of entrepreneurs to build and maintain superior business performance. Thus, an argument can be made that a conducive entrepreneurial culture has a positive correlation with business performance.

The correlations between seeking opportunities (EC1), capability beliefs (EC2), taking responsibility (EC3), entrepreneurial motivation (EC4), and entrepreneurial fears (EC5) with business performance (BP) have been further examined. In line with Table 7, business performance indicates statistically significant moderate positive relationships with EC1, EC2, and EC4 at the 0.01 alpha level. The bivariate correlation between EC3 and BP is low ($r = 0.319$, $p = 0.014$) and statistically significant at the 0.05 alpha level.

Moreover, it is worth reporting that entrepreneurial fears (EC5) and business performance illustrate a non-significant, negligible, but positive relationship ($r = 0.200$, $p = 0.129$) compared to the statistically significant, moderate or low, positive relationships of other entrepreneurial culture-related dimensions employed in the current study. Perusing Table 8, correlations between entrepreneurial fears and market performance ($r = 0.089$, $p = 0.502$), supplier performance ($r = 0.157$, $p = 0.236$), process performance ($r = 0.228$, $p = 0.082$), people performance ($r = 0.148$, $p = 0.264$), and customer relationship performance ($r = 0.191$, $p = 0.148$) were found to be positive but weak and non-significant. Simultaneously, EC2-BP3, EC3-BP2, EC3-BP3, and EC3-BP5 further illustrated similar correlations.

Both significant and non-significant original and additional paths between entrepreneurial culture and business performance in the structural research model have positive correlations (Figure 1).

Table 7

*Pearson Product-Moment Correlation Matrix: Entrepreneurial Culture and Business Performance*

| Correlations | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | BP | EC1 | EC2 | EC3 | EC4 | EC5 |
| Business performance (BP) | Pearson Correlation | 1 | | | | | |
| | Sig. (2-tailed) | | | | | | |
| Seeking opportunities (EC1) | Pearson Correlation | 0.430** | 1 | | | | |
| | Sig. (2-tailed) | 0.001 | | | | | |
| Capability beliefs (EC2) | Pearson Correlation | 0.404** | 0.448** | 1 | | | |
| | Sig. (2-tailed) | 0.001 | 0.000 | | | | |
| Taking responsibility (EC3) | Pearson Correlation | 0.319* | 0.370** | 0.759** | 1 | | |
| | Sig. (2-tailed) | 0.014 | 0.004 | 0.000 | | | |
| Entrepreneurial motivation (EC4) | Pearson Correlation | 0.498** | 0.456** | 0.384** | 0.224 | 1 | |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.003 | 0.089 | | |
| Entrepreneurial fears (EC5) | Pearson Correlation | 0.200 | 0.145 | 0.011 | -0.349** | 0.236 | 1 |
| | Sig. (2-tailed) | 0.129 | 0.274 | 0.936 | 0.007 | 0.071 | |

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

N = 59

Table 8

*Interitem Correlation Values: Entrepreneurial Culture and Business Performance*

| Correlations | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | EC1 | EC2 | EC3 | EC4 | EC5 | BP1 | BP2 | - BP3 | BP4 | BP5 |
| Seeking opportunities (EC1) | Pearson Correlation | 1 | | | | | | | | | |
| | Sig. (2-tailed) | | | | | | | | | | |
| Capability beliefs (EC2) | Pearson Correlation | 0.448** | 1 | | | | | | | | |
| | Sig. (2-tailed) | 0.000 | | | | | | | | | |
| Taking responsibility (EC3) | Pearson Correlation | 0.370** | 0.759** | 1 | | | | | | | |
| | Sig. (2-tailed) | 0.004 | 0.000 | | | | | | | | |
| Entrepreneurial motivation (EC4) | Pearson Correlation | 0.456** | 0.384** | 0.224 | 1 | | | | | | |
| | Sig. (2-tailed) | 0.000 | 0.003 | 0.089 | | | | | | | |
| Entrepreneurial fears (EC5) | Pearson Correlation | 0.145 | 0.011 | -0.349** | 0.236 | 1 | | | | | |
| | Sig. (2-tailed) | 0.274 | 0.936 | 0.007 | 0.071 | | | | | | |
| Market performance (BP1) | Pearson Correlation | 0.275* | 0.321* | 0.292* | 0.333* | 0.089 | 1 | | | | |
| | Sig. (2-tailed) | 0.035 | 0.013 | 0.025 | 0.010 | 0.502 | | | | | |
| Supplier performance (BP2) | Pearson Correlation | 0.368** | 0.270* | 0.227 | 0.323* | 0.157 | 0.537** | 1 | | | |
| | Sig. (2-tailed) | 0.004 | 0.038 | 0.083 | 0.013 | 0.236 | 0.000 | | | | |
| Process performance (BP3) | Pearson Correlation | 0.429** | 0.209 | 0.185 | 0.353** | 0.228 | 0.384** | 0.647** | 1 | | |
| | Sig. (2-tailed) | 0.001 | 0.112 | 0.161 | 0.006 | 0.082 | 0.003 | 0.000 | | | |
| People performance (BP4) | Pearson Correlation | 0.426** | 0.406** | 0.386** | 0.518** | 0.148 | 0.513** | 0.711** | 0.619** | 1 | |
| | Sig. (2-tailed) | 0.001 | 0.001 | 0.003 | 0.000 | 0.264 | 0.000 | 0.000 | 0.000 | | |
| Customer relationship performance (BP5) | Pearson Correlation | 0.313* | 0.406** | 0.242 | 0.473** | 0.191 | 0.566** | 0.613** | 0.651** | 0.702** | 1 |
| | Sig. (2-tailed) | 0.016 | 0.001 | 0.064 | 0.000 | 0.148 | 0.000 | 0.000 | 0.000 | 0.000 | |

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

N = 59

## Hypothesis Testing

Table 9

*Summary Results*

| Hypothesis | $R^2$ | *r*-value | *p*-value | Conclusion |
|---|---|---|---|---|
| $H_1$ | 0.333 | - | < 0.05 | There is a significant effect of entrepreneurial culture on the business performance of SMTHs in Sri Lanka—Accepted. |
| $H_2$ | - | 0.577** | < 0.01 | There is a significant relationship between entrepreneurial culture and the business performance of SMTHs in Sri Lanka—Accepted. |
| $H_3$ | - | 0.430** | 0.001 | There is a significant moderate positive relationship between seeking opportunities (EC1) and the business performance of SMTHs in Sri Lanka—Accepted. |
| $H_4$ | - | 0.404** | 0.000 | There is a significant moderate positive relationship between capability beliefs (EC2) and the business performance of SMTHs in Sri Lanka—Accepted. |
| $H_5$ | - | 0.319* | 0.014 | There is a significant low positive relationship between taking responsibility (EC3) and the business performance of SMTHs in Sri Lanka—Accepted. |
| $H_6$ | - | 0.498** | 0.000 | There is a significant moderate positive relationship between entrepreneurial motivation (EC4) and the business performance of SMTHs in Sri Lanka—Accepted. |
| $H_7$ | - | 0.200 | 0.129 | There is a negligible relationship between entrepreneurial fears (EC5) and the business performance of SMTHs in Sri Lanka. The relationship is non-significant—Not accepted. |

*Notes.* **Correlation is significant at the 0.01 level (2-tailed), *Correlation is significant at the 0.05 level (2-tailed). N = 59.

## Conclusion and Recommendations

### Conclusion

Despite the Sri Lankan economy currently enduring a slow growth, the sectoral distribution of GDP growth has been favorable for accommodation and food service activities for many years. Moreover, tourism is one of the largest foreign exchange-earning sources for economic health. Thus, the SMTHs can be recognized as one of the most promising segments to boost the national economy.

Relatively few scholars (Antoncic & Prodan, 2008; Chow, 2006; Covin, 1991; Covin & Slevin, 1991; Zahra, 1995) have previously investigated the links between entrepreneurial culture and business performance in some market sectors and yielded positive results. The findings of the current study further support the previous results, demonstrating positive links.

Even though entrepreneurial culture has extensively contributed to the recent emergence of developing countries, its effect on the business performance of SMTHs in Sri Lanka has not been comprehensively studied to date. In addition to such empirical deficiencies, this research uncovers the demographic characteristics of business owners attached to SMTHs in Sri Lanka.

Entrepreneurial culture contributes to developing new ideas, enabling experiments, and providing new solutions to problems by way of creative processes that ultimately control the strength of the innovativeness of an organization (Lee & Peterson, 2001). Organizations that adequately invest in an entrepreneurial culture typically have positive outcomes pertaining to new technologies, products, services, and procedures. Moreover, it improves the positive behavior of firms to anticipate market trends and favorable opportunities.

Mostly the positive links have been identified between entrepreneurial culture and the business performance of SMTHs during the study. However, entrepreneurial fears illustrate a non-significant, negligible but positive relationship ($r = 0.200$, $p = 0.129$) with business performance. Yet, the anticipated economic growth of Sri Lanka can be substantially attained by fostering a conducive entrepreneurial culture.

Women's contribution to economic development is a key to the success of many developing countries. In relation to the current research, 11.9% of females and 88.1% of males own SMTHs in Sri Lanka. The possible reasons for such uneven gender distribution may be the social stigma associated with women who work in the hospitality industry, early childhood experience, entrepreneurial competencies, external support, formal and informal learning, psychological characteristics (Ranasinghe, 2008), and the influence of traditional culture. Moreover, youth participation also remains considerably low.

According to Morrison and Teixeira (2004), education in tourism is crucial for business owners to succeed in the current knowledge-based tourism industry. However, the current study reveals that only 28.8% of business owners are operating their businesses with precisely the qualifications required for their jobs.

Improving industry performance has become extremely challenging due to the current rate of skilled worker migration. Insufficient carrier opportunities, reforms in taxation, poor working conditions, inadequate social protection, better employment opportunities in other countries, and social unrest are some of the uncovered reasons for skilled worker migration.

### Recommendations

The innovativeness of the business owners should be improved to enhance the business performance of SME-based tourist hotels in Sri Lanka. However, SMTHs that aim at promoting innovation and strengthening

business performance should first invest in fostering entrepreneurial culture**,** since it facilitates organizational innovativeness (Rathnayake & Bogahalande, 2025).

The findings of the current research would be a vital source of information for policymakers to improve the leisure sector in Sri Lanka. Hiring aspiring employees, empowering and encouraging employees, establishing a safer working environment to share ideas, and giving ownership of work to employees might enhance the entrepreneurial culture in SMTHs, which would increase their business performance and, by extension, the national economy. Current findings may further encourage researchers to conduct similar studies in different industries and market sectors while building upon the structural research model of the current study.

Precise reasons for the uneven gender distribution in SME-based tourist hotels in Sri Lanka have not been adequately uncovered to date. Hence, further comprehensive studies are recommended to identify such reasons. More specific training and development programs should be introduced for women at the national level to improve their competencies to accept industry-related challenges and the perceived risk. This study further recommends women to interact with necessary associations to improve their entrepreneurial skills. Moreover, the current educational system of Sri Lanka should be rationalized to produce more early-stage entrepreneurs.

The contribution of low-cost accommodation establishments to the national economy is further vital. Consistent with the average daily travel price per person, these establishments are now seen as more desirable for price-sensitive travelers, including backpackers and local guests. Moreover, homestays are important strategic business units since many Sri Lankans have converted their residential houses to homestays as an additional income source. Thus, similar research is recommended to improve the performance of such accommodation establishments.

Except for the SLTDA-registered accommodation establishments, the unavailability of an acceptable mechanism to identify non-registered SMTHs is a serious issue. Thus, it is recommended to initiate an annual survey to profile such hotels and the business owners to maintain an updated database. This effort may assist policymakers in understanding the short-term changes and long-term trend patterns in the tourism industry. Moreover, timely initiatives are needed to retain skilled workers within the industry.

## Implications of the Study

The current study has a national significance in terms of theoretical and practical perspectives. It examines the performance of SMTHs with a novel approach.

### Implications to the Body of Knowledge

Empirical studies on entrepreneurship have received little attention, despite the increased interest of SMEs, particularly in developing countries (Reynolds, Bygrave, & Autio, 2004). Moreover, as a growing industry and an important contributor to the national economy, SME-based accommodation establishments in Sri Lanka have not been widely studied to date (Deyshappriya & Nawarathna, 2020).

Even though Antoncic and Prodan (2008) and Chow (2006) identified entrepreneurial culture as a positive influence on the performance of a firm, the links between entrepreneurial culture and business performance have been poorly addressed by the current literature (Haar et al., 2009; Leal-Rodriguez et al., 2017). Hence, there are several aspects that demand further studies.

This study develops a model that examines the interactions between entrepreneurial culture and business performance. It illustrates one statistically significant original positive path, twenty statistically significant additional positive paths, and ten non-significant positive paths (Figure 1).

Entrepreneurial fears illustrate a non-significant, negligible but positive relationship ($r = 0.200$, $p = 0.129$) with business performance compared to the statistically significant, moderate or low, positive relationships of other entrepreneurial culture-related dimensions. Overall, a positive and moderate correlation and a significant linear regression equation have been identified between the two main research constructs of the study. Accordingly, this work has substantially addressed some long-standing deficiencies in empirical studies on the links between entrepreneurial culture and business performance.

**Implications for Policy Development**

Current policy initiatives to develop Sri Lanka tourism are focused on revitalizing the tourism sector through a multi-pronged approach. These include promoting sustainable and community-based tourism, enhancing infrastructure, streamlining regulations, and leveraging technology to improve efficiency and visitor experience. Additionally, the current National Policy Framework focuses on a tourism development program to increase the current annual tourist arrivals up to 7.0 million by 2030 (Ministry of Finance, 2019a). The outcome of this study may encourage these initiatives.

The current study reveals the importance of having a holistic understanding of the influence of entrepreneurial culture on business performance, which is associated with policy issues in the fields of business performance, entrepreneurial cultural issues, and the demographics of business owners. Simultaneously, an attentive mechanism is required to meet visitor needs within accommodation establishments. This work further invites policymakers to compare similar studies in other developing countries to strengthen the ongoing tourism-related strategies in Sri Lanka. Formulating new strategies is vital to improving tourist arrivals, revenue structures, occupancy ratios, average duration of stay, and travel and tourism competitiveness.

In general, policies for improving business performance require a more holistic scope than the current practice. Expectations of the policies should not be limited owing to the current macro-environmental weaknesses. Such policies should explore the common interests of stakeholders to improve business performance, regardless of the challenges of the current economy. Since all current policy issues are interrelated, the entire system should be identified holistically rather than in isolation.

**Implications for Practice**

As one of the main problems affecting SMEs in Sri Lanka is insufficient entrepreneurship (Fairoz, Hirobumi, & Tanaka, 2010), advancements in entrepreneurial firms, including SMTHs, are increasingly essential for improving the economic health. The current study offers compelling evidence of the significance of fostering an entrepreneurial culture to boost SME-based tourism in Sri Lanka.

Sri Lanka is currently facing with serious challenges in terms of deepening and broadening the availability of tourism-related information, increasing international tourist arrivals, reducing room prices in star-class hotels, human resource constraints, and brand destination. In an era where the macroenvironment is becoming stable but business activities are volatile, a conducive entrepreneurial culture in organizations is critically required.

Factors including the cost of accommodation, food, transportation, and activities influence the daily travel cost of visitors. Concurrently, in most instances, a comparatively higher escalation in international tourist arrivals was observed in countries with relatively lower average daily travel prices per person. Accordingly, accommodation establishments with a conducive entrepreneurial culture could lower their cost structures to reduce the average daily travel price per person. These efforts may further improve the current ranking in the Travel and Tourism Competitiveness Index.

## Limitations of the Research

Of the several elements that could influence business performance, only entrepreneurial culture has been considered with a view to conducting the study within manageable proportions and maintaining parsimony. Moreover, the SMTHs under certain categories have not been covered by the current study: not registered with SLTDA and registered after 2021.

Since there is no specific definition for SMTHs in Sri Lanka, identification of SMTHs for the research was based on the definition devised by Ingram et al. (2000) and the defining criteria for the SMEs in Sri Lanka. Following a reasonable effort to engage with business owners, operational heads of some hotels have been approached for data collection. Finally, the unavailability of timely and reliable data is another crucial issue associated with SME-based research in Sri Lanka.

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