

# An Evaluation of Potential Adoption of Web Based Marketing in Hotel Industry – A Case Study of Arugambay Based Hotels

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**Abstract:** The main aim of the study is to evaluate the potential adoption of web based marketing by the hotels in the Arugambay, South Eastern Sri Lanka. In order to achieve this, 83 hotels were selected from Arugambay region. The data were collected through questionnaires. The methodology adopted for this study is case study research approach for which the data gathered were qualitative as well as quantitative. Findings show that there are three factors positively affect the nature of adoption namely; individual factors, firm resources, innovation attributes. This indicates that when it comes to make decision of whether to adopt the web-based marketing, perceived innovation attributes come into play and exerts an influence. The research results show that these factors are relevant to sophisticated levels of adoption of web-based marketing. Therefore it can be concluded that there is a potential for web-based marketing adoption in hotel industry in Arugambay, South Eastern Sri Lanka.

**Keywords:** Web Based Marketing, Adoption, Individual Factors, Firm Resources Innovation.

## Introduction

Arugambay is located at the “end of the corner” on the South East Coast of Sri Lanka. The Arugambay is located at 5 km away from South of Pottuvil town and on the edge of Yala East National Park. Arugambay is a place for surfers, watersports freaks and wildlife aficionados with cheap to reasonable priced hotels and guesthouses. Arugambay is on its way to become a major destination for tourist in post-conflict period. Arugambay is listed as one of the top ten surf points in the world.

An evaluation of potential adoption of web-based marketing in hotel industry is the concern of this study. It is necessary to mention that this study is interested to find out in the real time use of the information and communication technology or information system for web based marketing purpose in developing business transaction and managing customer relationship.

The globalization of the world economy highlights the need of modern information and communication technology as the backbone of the national economy. Successful adoption of web based marketing may provide sustainable competitive advantages to the hotel business. It is important to understand the past, present and future of web based marketing adoption and strategies.

The aim of this study is to evaluate future adoption of web based marketing in hotels which are located in Arugambay, Sri Lanka. This research provides a clear-cut idea on the status and perception of web based marketing adoption among the hotels. This research also contributes to the hotel business industry by giving advantages and disadvantages of the adoption of web based marketing and by investigating the crucial factors that determine the adoption of web based marketing.

At present, it is observed that the hotels are practicing web-based marketing adoption at different level and too much focus on traditional consumer based marketing in contrast to organizational web-based marketing adoption. Shortage on innovation and adoption from a different levels and a need to identify the critical factors that affect each level of adoption.

Hence, this paper has been divided in to six sections. After the brief introduction, second the literature reviews which are related to this study. Third section highlights aim and objectives and fourth section represent for the methodology. Fifth section discusses the results and final section reflects the conclusion of this study.

## Literature Review

The internet is a very vital tool to have sustainable market in business the world over. Several hotels have made attempts to capture some of the growth potential of the internet, by creating their websites and are using the internet for various purposes. It is used mostly as a sales and marketing tool (Murphy et.al, 1996; Walle 1996).

The internet has increased the productivity and efficiency of hotels' marketing effort (Porter, 2001). Hotels will lose their competitive edge where they do not have a significant presence on the internet (Van Hoof & Combrink, 1998). According to Anckar & Walden, (2001) hotels that do not have a web presence cannot bridge the gap between their existing and potential customers and also become competitively disadvantaged. It is argued by Migiro & Ochalla, (2005) that the advantages that the internet offers such as cost reduction, improved efficiency among other things can be equally enjoyed by smaller accommodation facilities in developing countries.

Web-based marketing has been defined in different ways by different authors. According to Ngai, (2003) Web-based marketing is "The process of building and maintaining customer relationships through online activities to facilitate the exchange of ideas, products, and services that satisfy the goals of both buyers and sellers"

There is rising demand for hotels that meet global standards particularly in the developing markets. In addition, there is vital need for players in Sri Lanka to adopt the use of the internet as a inclusive marketing tool in order to survive in the market.

The use of ICT and the internet in the hotel industry can be considered a relevant innovation that helps increase the competitiveness of the firms because it facilitates the relationship with customers, through better and easier information flow that helps them evaluate and contract the services (Rohm et al., 2004).

Buhalis, (1998) state that "Marketing on the Web is multidimensional content marketing that requires the following paradigm shifts: from traditional advertising to interactive marketing; and from developing and managing one-way information flows to computer-mediated empowerment of users, consumers, and entrepreneurs who will be engaged in electronic commerce in the information age" According to Laudon & Traver, (2002) "Internet marketing is to use the Web – as well as traditional channels – to develop a positive, long-term relationship with customers (who may be online or offline) and thereby create a competitive advantage for the firm by allowing it to charge a higher price for products and services than its competitors can charge"

Hotels have existed and operated in Ghana since independence. Hotels come in a variety of ranges, from low budget to high-end accommodation. Hotel class is essentially a measure of both the quality and the number of services provided by the hotel (Fortanier & van Wijk, 2010).

## Research Question

From the background of the study and the brief literature review, research problem appears on potential adoption of web-based marketing in hotel industry. Based on the research problem, the research question arises as follows; "***Whether there is a potential adoption of web-based marketing in hotel industry or not?***"

## Research Aim and Objectives

The primary aim of this study is to evaluate the potential adoption of web-based marketing in hotel industry. Based on this aim the following objectives were adopted to this study.

1. To understand and evaluate the present web-based marketing practices in the hotel industry.
2. To understand the perceptual views of the adoption of web-based marketing in hotels.
3. To evaluate the potential adoption of the web-based marketing in hotels.

## Methodology

This study was conducted in Arugambay region in South Eastern part of Sri Lanka. The population of this research was managers and owners of Hotels in Arugambay region who is in business regard tourism such as hotels, guesthouses, and home based stay, etc. Convenient sampling technique was used in this study. Four criteria were used to choose hotels that was formed the sample of this survey as follows:

1. Hotel size
2. Location of business
3. Hotel services
4. Web based marketing adoption status

The data were collected from 83 respondents which consist of 01 star hotel, 20 “A” grade hotels, 19 guest houses, 13 resorts, and 30 home stays by using a questionnaires. A questionnaire was developed based on the brief literature review and other empirical findings. Researchers directly had several visits and meetings with most of these managers and owners in the Arugambay, Sri Lanka for data collection.

## Research Framework

The theoretical framework explains the factors affecting on the potential adoption of web based marketing by hotels in Arugambay of Sri Lanka. Roger’s model of innovation adoption has been taken as a source for new theory frame work development in this study. This theoretical framework proposes that there are three major groups of factors: (i) Individual Factors: Attitude toward change, Response to risk, Top management support; (ii) Firm Resources: Size of the organization, Employees’ IT Knowledge, Organizational learning; (iii) Innovation Attributes: Compatibility, and Complexity.

Attitude toward change can be used to refer the attitude of managers who will involve in decision making in an organization toward change. Response to risk indicates the attitude of decision makers toward risk associated with the adoption of an innovation in marketing process. Top management support is another important factor for creating a supportive and committed organizational climate for the adoption of new technology (Premkumar& Roberts, 1999).

Size of the Organization is one of the factors that have been frequently associated with the adoption of

new technology. The organization size will reflect the resources (both physical and human) owned by the firm. Employees’ IT Knowledge is used to refer to either the knowledge of the manager or the employees in the organizations. This factor is directly or indirectly involves the creation and innovation in marketing. Organizational learning refers to organizational culture of creating and using knowledge to enhance competitive advantage (Calantone et al., 2002).

Compatibility refers the degree, to which the innovation is consistent with current operational methodology, previous experiences in the industry and existing values of potential adopters. Perceived compatibility of innovation has been found to positively affect the rate of adoption. (Rogers, 1962, Tornatzky and Klein, 1982).Complexity refers to the degree to which the potential adopters perceive the innovation to be difficult to understand and implement (Rogers, 1962).

The below figure 1 demonstrates the proposed theoretical model. In order to obtain seminal information about the present status and future adoption of web based marketing, the proposition framed for this research was as follows. “Hotels are operating in a traditional way and have little web based applications for their business and lack efforts on potential adoption of web based marketing in future”.

## RESULTS AND DISCUSSION

### a) The present status of web site usages.

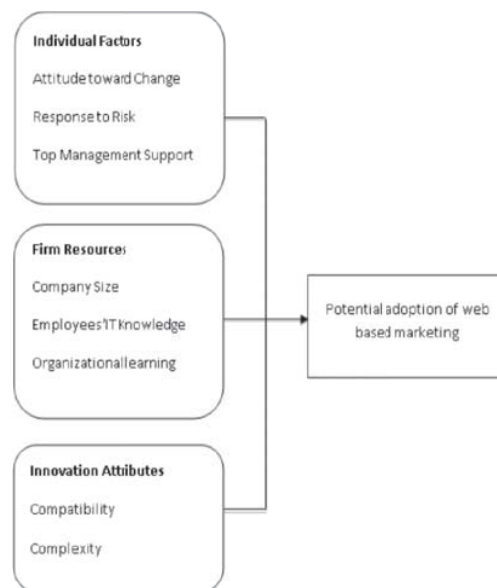


Figure 1 Theoretical Framework

## Result and Discussion

**Table 1: The present status of web site usages**

	Star Class Hotels		A Grade Hotels		Guest Houses		Resorts		Home Stays		Total	
Number of Hotels	1		20		19		13		30		83	
Number of Hotels with Web Site	1	100.00%	16	80.00%	9	47.37%	5	38.46%	2	6.67%	33	39.76%
Number of Hotels without Web Site	0	0.00%	4	20.00%	10	52.63%	8	61.54%	28	93.33%	50	60.24%

(Source: Survey Data)

Table 1 shows that the number of hotels using website, in the Arugambay region. Researchers have categorized the hotels in following manner that Star Hotel, A Grade Hotel, Guest House, Resorts, Home Stays. Among them 39.76 percent of respondents use their own website and 60.24 percent of the respondents do not own website. It shows considerable hotel, resort, and home stays owners were not interested in the use of website.. And also none of the respondents have web-based system to carry on their business transaction via online. This shows that there is a significant potential for the web-based marketing in future in the Arugambay based hotel industry.

### b) The perceptual views of the adoption of web-based marketing in hotels.

The Star hotels have 100 percent and A Grade Hotels have 90 percent positive attitude toward change. Guest houses, resorts and home stays have 84.21 percent 69.23 percent 63.33 percent respectively. It indicates that they have positive response attitude toward change to transfer their business on web-based marketing.

Towards risk, the Star hotels have 100percent and A Grade Hotels have 60percent of the respondents positively answered the questions regarding the risk. And Guest houses, resorts have 57.89percent, 61.54percent of the positive response respectively. It shows are ready to face the risk on web-based marketing.

Table 2 shows that, Star hotels have 100 percent and A Grade Hotels have 80percent Top Management Support. Guest houses, resorts and home stays have 78.95 percent, 53.82 percent, 80.00 percent respectively. It reveals that all entities have higher positive response for top management support. It indicates that they have positive response from the top management to

carry on web-based marketing.

The survey results show star hotels recruit employees who have Information Technology knowledge and their people able to operate future web-based operating system to market their products and services. But the figure shows most of the A Grade Hotels, Guest houses, resorts and home stays respondents have negatively answered because they do not recruit or have IT staff yet. This will be the barrier to operate future web-based operating system to market their products and services.

The results show that the Star hotels, A Grade Hotels, Guest houses respondents have answered positively 100 percent, 70 percent, 68.42 percent respectively, that they have positive organizational leaning on web-based marketing. But resorts and home stays respondents answered negatively 53.85 percent, 63.33 percent respectively because they do not have growth learning in future to market their products and services via the web-based marketing.

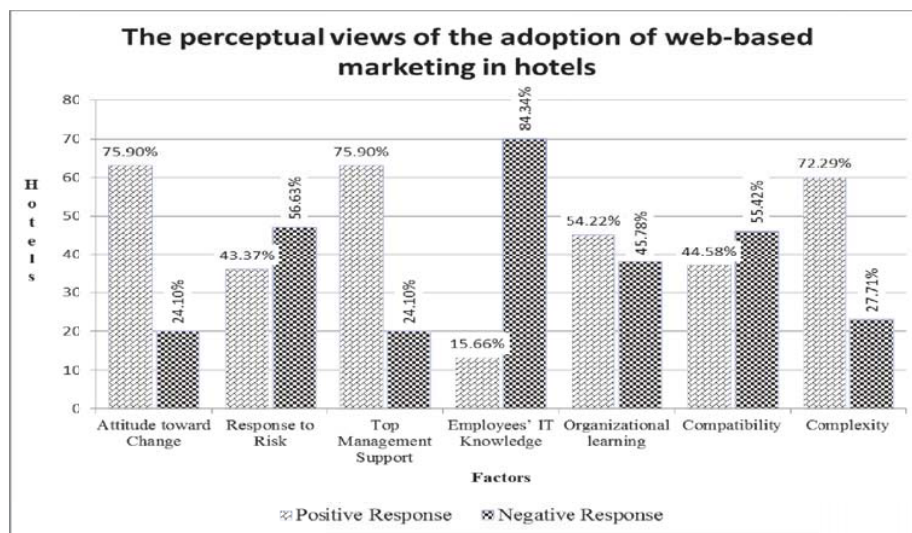
Further, the Star hotels, A Grade Hotels, Guest houses and resorts respondents have answered positively 100 percent, 65 percent, 52.63 percent and 53.85 percent respectively that they have no compatibility problem and their business will be fitted to do business on web-based marketing. But 80 percent of the home stays respondents answered negatively because they have compatibility issues in marketing their existing products and services via web-based marketing system.

Finally, the Star hotels, A Grade Hotels, Guest houses resorts and home stays respondents have answered negatively indicates that all the hotels, resorts, and home stays have high level of complexity in transforming their existing business to web-based marketing systems.

**Table 1: The perceptual views of the adoption of web-based marketing in hotels**

	Attitude toward Change	Response to Risk	Top Management Support	Employees' IT Knowledge	Organizational learning	Compatibility	Complexity
<b>Positive Response</b>	63	36	63	13	45	37	60
	75.90 %	43.37 %	75.90 %	15.66 %	54.22 %	44.58 %	72.29 %
<b>Negative Response</b>	20	47	20	70	38	46	23
	24.10 %	56.63 %	24.10 %	84.34 %	45.78 %	55.42 %	27.71 %

(Source: Survey data)



**Figure 2: The perceptual views of the adoption of web-based marketing in hotels**  
 (Source: Survey data)

Table 2 and Figure 2 show the overall summary of how the eight factors which will contribute to evaluate the potential adoption of web - based marketing in hotel industry. 75.90 percent of the hotel industry respondents in Arugambay have top management support and positive attitude to adapt to web-based marketing. Since the Arugambay is one of growing hotel industries in Sri Lanka, it has good and (54.22 percent) positive organizational growth learning, considerable level (43.37 percent) of risk facing in adapt to web-based marketing. And also 44.58 percent hotels have good compatibility with existing system and web-based marketing system. But 84.34 percent of the hotel industry respondents in Arugambay do not have IT knowledge employees and high (72.29 percent) complexity to understand the future web-based marketing system. So these two

factors are critical to implement a web-based marketing system in hotel industry in Arugambay. But all other six factors results show there is a future potential for the web-based marketing. Therefore Information Technology industry can concentrate to push IT employees to the hotel industry and sort out or make understand the clients to reduce the complexity issues and they can build or sell new dynamic web-based tools in hotel industry in Arugambay.

C) Potential adoption of the web-based marketing in hotels

Table 3: Potential adoption of the web-based marketing in hotels

Type of Hotels	Number of Hotels	Willingness to adopt	Reluctance to adopt
Star Hotels	1	1 100.00 %	0 0.00 %
A Grade Hotels	20	13 65.00 %	7 35.00 %
Guest Houses	19	12 63.16 %	7 36.84 %
Resorts	13	7 53.85 %	6 46.15 %
Home Stays	30	11 36.67 %	19 63.33 %
<b>Total</b>	<b>83</b>	<b>44</b>	<b>39</b>

(Sources: Survey Data)

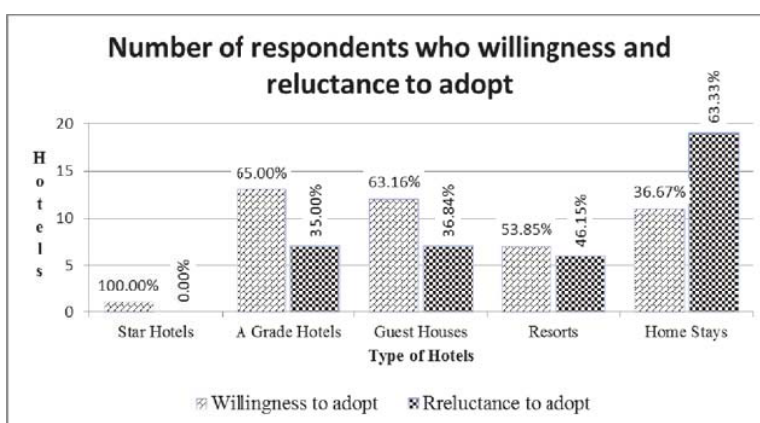


Figure 3 : Potential adoption of the web-based marketing in hotels  
(Sources: Survey Data)

Table 3 and Figure 2 show the number of respondents who is willingness and reluctance to adoption web-based marketing. Star hotels in Arugambay completely agree to adoption of web-based marketing. There are many tourists visit to these star hotel and the star hotel owners feel they can increase their marketing capabilities and shares in future by adopting web-based marketing. So there is a high potential adoption of web - based marketing in star hotel industry in Arugambay, South Eastern Sri Lanka. 65 percent of A Grade Hotels and 63.16 percent Guest Houses, 53.85 percent of the Resorts respondents are like to carry on web-based marketing in future. Since the Arugambay is too far from the city area of the Sri Lanka, A Grade Hotels and Guest Houses, and Resorts management need to market their type and quality of products and services worldwide to attract more tourists in the seasonal time (April-October) as well as

other time. But 63.33 percent of Home Stays are reluctance to web-based marketing adoption. Therefore there is a potential for web-based marketing adoption in hotel industry in Arugambay, South Eastern Sri Lanka.

## Conclusion

This paper has attempted to enhance current understanding of the adoption of innovations with a particular focus on the factors that might influence hotels to adopt the web for marketing purposes. This research represents an extension to the rather limited literature on organizations' adoption of innovations and focuses in particular ones. The research context, Sri Lanka, is of particular interest given that the innovation -web- is still at a relatively early stage of development.

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This study found that three factors positively affect the nature of adoption namely; individual factors, firm resources, innovation attributes. This indicates that when it comes to make decision of whether to adopt the web-based marketing, perceived innovation attributes come into play and exerts an influence. Additionally, whether management supports the idea or not has an important influence on the likelihood of adoption.

As for perceived risk, this study found that for more advanced levels of adoption which include selling on the web, more risks are associated with making online payment and securing the full transaction online. Thus, those considering more advanced levels of adoption are aware of these risks and it has a negative impact on them. The research results show that this factor is relevant to sophisticated levels of adoption since a significant positive relation between marketing capabilities and the level of web adoption was found.

## Limitation and Future Research

The selected sample is a convenience sample and in spite of the advantages of selecting such a sample, it places some limitations in terms of generalizability of the results. Secondly, the data and findings in the analysis were derived from research in a single geographical region and a single sector which is the hotel sector. This raises questions as to the generalizability of the results of this research to different region in island wide.

The area of web marketing and in particular the adoption of the web by organizations is considered important and still needs more conceptual and empirical contributions. Hence, a number of directions for future research exist in this study.

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# Empirical investigations on Business Success of Small and Medium Scale enterprises in Sri Lanka

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**Abstract:** The purpose of this paper was to investigate the business success of Small and Medium Enterprises (SMEs) and set a light on various factors with the intention to eliminate the fear over investing on SMEs ventures in the Eastern province of Sri Lanka. Data for this study was collected using a self-administered questionnaire from a representative sample of 100 entrepreneurs from each of three districts in the province. The collected data was analyzed using SPSS 16 version and the interpretation was made using several data analysis techniques. The impact of education, experience on the success of these businesses was investigated. Findings showed clear evidence that experience had a positive effect on the success of the business. Thus, the most SMEs relied heavily on prior knowledge and experience of the entrepreneurs.

**Keywords:** Small and Medium Scale enterprises (SMEs), Education, Experience, Business success, Eastern Province

## Introduction

Small and medium enterprises (SMEs) have been identified as vital strategic sector for promoting growth and social development of Sri Lanka. Over the years, SMEs have gained wide recognition as a major source of employment, income generation, poverty alleviation and regional development. The SMEs cover broad areas of economic activity such as agriculture, mining, manufacturing, construction and service sector industries. Although SMEs encompass agriculture,

manufacturing and service sector establishments, reliable data are available only for the manufacturing sector. Within the manufacturing sector, small and medium scale enterprise account for about 96 per cent of industrial units, 36 per cent of industrial employment and 20 per cent of value added. However, the total contribution of SMEs to the national economy cannot be estimated due to paucity of information.

Many factors both internal and external have been found to impact on SME's success including education, training and prior experience and various sub categories within these areas (Mike Simpson-2004). This research focuses on the issues critical to the entrepreneurs such as experience, education. Harada (2002) suggested that there was evidence an entrepreneur's previous experience in the industry, previous knowledge of the market and related business experience all have a positive effect on business success of entrepreneurs. Aldrich and Martinez (2001) posit that the prior knowledge of the business could be obtained either through training, experience or formal education. Research conducted by Cunningham showed that success is closely connected with behavioral attributes, education level (Bowen & Robert in Staw, 1991; as well as experience (Duchesneau et al. in Staw, 1991; Hasweel et al., Wood in Zimmerer & Scarborough, 1998).

The purpose of this study was to determine factors affecting business success of small and medium scale enterprises, using variables selected from the literature. There are two variables: experience and education.



## Literature Review

### Defining SMEs in Sri Lanka

There are several definitions for SMEs adopted by various institutions in Sri Lanka and this has led to confusion in identifying SMEs for various supportive measures. In other developing as well as developed countries where there are strong SME sectors have very clear definitions for SMEs. So, it is imperative to have a clear definition for SMEs in the attempt of developing the sector for various purposes.

The researcher has presumed number criteria for defining the small and medium scale industry in this research. Accordingly industry with fewer than 50 employees was considered as a small and medium scale industry.

### Business Success of SMEs

Previous research into the relationships between various factors and small and medium business success has been lacking a comprehensive theoretical framework, and many small and medium business owners are aiming to discover various factors as most closely linked to small and medium business success (Gadenne, 1998).

In this study, business success is examined from three perspectives, namely growth and sustainability, financial, and internal business process which are strongly driven by the theoretical frame work. Growth and sustainability is measured by competitive advantage: O'Gorman (2001) found that growth depended on two major managerial choices: where to compete and how to compete, the combination of which enabled sustained growth core-competency (Porter, 1985; Fiol, 2001), the financial aspect is measured by increases in company assets, and the internal business process is measured by increase of production volumes, improvement of physical working condition, and business expansion.

### Experience and business success

Individuals with previous management experience are generally found to own more successful firms, although the relationship was insignificant in two of the studies shown. The results are more mixed for entrepreneur with previous industry experience (prior work experience in firms which provide the same products or services as does the current firm).

Harada (2002) suggested that there was evidence an entrepreneur's previous experience in the industry, previous knowledge of the market and related business experience all have a positive effect on success. Staw (1991) asserts that experience is the best predictor of business success, especially when the new business is related to earlier business experiences. Entrepreneurs with vast experiences in managing business are more capable of finding ways to open new business compared to employees with different career pathways.

The importance of experience for small-scale business success is also underscored by other experts. Van de Ven, Hudson, and Schroeder (1984) found a significant, negative relationship between prior small and medium business experience and firm growth. Haswell et al. (in Zimmerer & Scarborough, 1998) note that prominent reasons behind business failures are managerial and experiential incapability. Thus, to develop a fuller understanding of the impact of experience on business success, the researcher hypothesizes and empirically tests the proposition that experience can significantly influence business success. So the following hypothesis is developed.

*H1: There is a positive relationship between perceived experience of the entrepreneur and business success of SMEs*

### Education and business success

There are numerous studies on various links between entrepreneurship, education and the success of entrepreneurs (Chandler and Hanks, 1994; Evans and Leighton, 1990; Holtz-Eakin et al., 2000; Mosakowski, 1993). A study conducted by Kim (in Meng & Liang, 1996) involving entrepreneurs in Singapore disclosed that successful entrepreneurs have higher education levels compared to that of unsuccessful entrepreneurs ( $p = 0.01$ ). Seventy percent of successful entrepreneurs are university graduated, while 23% are not.

In general, higher education level of entrepreneur should improve the growth opportunities of their firms. It is possible; however that higher education does not necessarily increase the rate of survival and success of the small and medium scale business. Thus to investigate the contribution of level of education

with the business success, the researcher developed the hypothesize as under;

*H2: There is a positive relationship between perceived level of education of the entrepreneur and business success of SMEs*

### Research question

*What are the factors identified by the small and medium business entrepreneurs to be most critical to the success of their business in Sri Lanka?*

The following questions are specifically identified based on the literature review for investigation;

Q1-Does experience has positive effect on business success of SMEs in Sri Lanka?

Q2- Does education has positive effect on business success of SMEs in Sri Lanka?

Q3- Which of these constructs will have more significant effects on business success of SMEs in Sri Lanka?

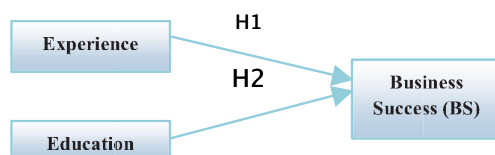
### Research Objectives

The following objectives are set out to achieve through this research.

- To identify the factors affecting the business success of SMEs.
- To explore the effect of experience on business success of SMEs
- To assess the effect of education on business success of SMEs

## Methodology

Research model



## Research Design

The followings are the research design set to carry out this research work successfully.

### Population and samples

The target population comprised of Small and Medium Scale enterprises located in the Eastern province which includes three districts namely Trincomallee, Batticaloa, and Ampara. There are a large number of small industrial units in these districts based mainly on agriculture, fisheries, livestock, and tourism sectors. In the each district around 100 entrepreneurs from SMEs were selected as representative samples for this research.

### Questionnaire

Having identified the variables, and operationally defined them the researcher chosen a Self-administered questionnaire for the collection of data. Further the five point Likert scale ranging from “strongly agree” to “strongly disagree” was used.

### Validation of Measurement Reliability

The researcher opt internal reliability measure to measure the inter-item consistency of set of questions in the instrument. The Cronbach's Coefficient Alpha is used to test the degree of inter- item consistency of the instrument and how well it positively correlated to one another. Closer the Cronbach's alpha is to 1 the higher the internal consistency reliability (ibid: 307).The Cronbach's alpha of the independent variable: experience was 0.749, Education was 0.391, and the dependent variable of Business Success was 0.739. In overall Cronbach's alpha for all the variables in the instrument was 0.871 suggesting that the instrument's internal consistency reliability was higher and satisfactory.

## Data Analysis

Data were analyzed by using a statistical software namely SPSS 16. Factor analysis was considered to validate the instrument. Hence to reduce the data, a confirmatory factor analysis was used with Principal Component Analysis (PCA). Further the reliability and validity test carried out to ensure the relevance of the instrument with the research problem.

The simple regression analysis was carried out to see the relationship of each independent variable separately. In addition multifactor regression analysis also was done since it's involve more than one independent variable and cross correlation to measure the internal relationships of variables.

**Data Presentation and Analysis**  
**Factor analysis**

A confirmatory factor analysis was done on the items of Experience and Education. The factor analysis was done using Principal Component Analysis (PCA) method with *Varimax* Rotation as an extraction method and Eigenvalues was set at 1. The data set for the business success constructs was appropriate for conducting factor analysis, because it satisfied overall measure of inter correlation that include number of correlation exceeding 0.30. The bartlett's test of sphericity was statistically significant. The overall Kaiser-Meyer-Olkin(KMO) was 0.837, which is considered as appropriate for the factor analysis (Saffu, 2007).

**Table: 1 shows the factor loading for the analysis:**

**Table: 1 Factor Loading**

Variables	Experience	Education	Business success
Awareness	.735		
Relevant skills	.958		
Startup procedure	.724		
Tenure of service	.772		
Tenure of business existence	.876		
Learning attitude		.745	
Application of knowledge		.746	
School education		.626	
University education		.982	
Professional qualification		.734	
Increasing production volume			.745
Favorable business environment			.746
Business expansion			.626

**Correlation Analysis Bivariate Pearson correlation**

The correlation analysis results indicated that the independent variables, EXP, EDU are positively correlated with BS (p <0.05). Correlations of all variables with business success as under;

**Table 2: Correlation matrix between independents variable and dependent variables**

Independent Variable	BS	
	Correlation Value(r)	Test of Significance (p)
EXP	0.420	0.0000
EDU	0.304	0.0000

Table 2 shows the correlation between the dependent and independent variables, Experience (r = 0.420) and Education (r = 0.304).

**Table 3: Correlation matrix between dependent variable and indicators of independent variable**

Independent variable	Indicators	BS	
		Correlation Value(r)	Test of significance (p)
EXP	Awareness	.258**	.000
	Relevant skills	.297**	.000
	Startup procedure	.186**	.001
	Tenure of service	.294**	.000
	Tenure of business existence	.391**	.000
EDU	Learning attitude	.192**	.001
	Application of knowledge	.238**	.000
	School education	.264**	.000
	University education	-.171**	.003
	Professional qualification	-.162**	.005
	Increasing production volume		
	Favorable business environment		

Correlation is significant at the 0.01 level (2-tailed), Source: Survey data

**Table 4: Correlation matrixes between dimension of dependent variable and independent variable**

independent variables	Dimension of Dependent Variable					
	D1	Sig	D2	Sig	D3	Sig
EXP	.415**	.000	.140*	.015	.017	.767
EDU	.294**	.000	.135*	.020	.014	.809

\*\* . Correlation is significant at the 0.01 level (2-tailed).(DV- Dependent variable; business success, D1-Dimension 1; sustainability and competitiveness, D2-Dimension 2, Financial aspect, D3 – Dimension 3; internal business process),

Source: Survey data

The above table shows that how the independents variables related with the dimension of business. Among three dimensions such as sustainability and competitiveness, financial aspects and internal business process, the Experience has higher correlation with sustainability and competitiveness( $r = 0.415$ ) of the SMEs, Education also has high correlation with sustainability and competitiveness( $r = 0.294$ ).

### Regression Analysis

Reduced factors were used to analyze the factors for the Business Success of SME's. The dependent variable was formed by summing up the measures of indicators. The regression analysis was conducted to reveal how different factors affect the business success. First the single regression analysis was done separately for each independent variable with reduced data through factor analysis to see the fitness. Several independent variables may include the information we thrive to predict. In such a case, it may be worthwhile to formulate a model that allows us to consider the relation of our variable of interest with a set of independent variable. Since several independents variables are included in a regression equation, the model is called a Multiple Regression Model. In this analysis, further test is important for determining which variables are essential. The F test tells us whether a relationship exists between Y and at test on of the Xi and  $k$  ensuring  $t$  tests tell us which of the variables are important and should be included in the regression equation.

### Linear Regression – Enter method

The  $R^2$  in the table explains the fit for the overall model. The coefficient  $R^2$  is an extension to the multiple regression of the coefficient of determination  $r^2$  in simple linear regression. This coefficient is a measure of how well the regression equation fits the data. Here, the  $R^2$  is 0.517 (52 percent), shows that regression equation has fit with the data. It could be predicted that 52% of the variance in dependent variable (Business Success) has been significantly explained by the two independent variables (Experience and Education). Here,  $P = 0.0001 < 0.05$  and ANOVA table shows the F value of 79.040 is significant at the 0.0001 level. So the model is significant and exists. When the individual variables are focused Experience  $p = 0.0001 < 0.05$ , hence it is significant to the model, Education  $p = 0.0001 < 0.05$ , hence it is significant to the model, with F value = 180.

**Table 5 Model Summary**

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.719 <sup>a</sup>	.517	.511	.7862729

a. Predictors: (Constant), EP, EDU, Source: Survey data

**Table 6: Analysis of variance (ANOVA)**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	195.457	4	48.864	79.040	.000 <sup>a</sup>
	Residual	182.376	295	.618		
	Total	377.834	299			

Source: Survey data

### Coefficient of the variables

The coefficient table indicates the important independent variables among two that influence most of the variance in BS. The coefficient of Experience shows the beta value 0.104 so it has necessity to improve business success. The coefficient of Education shows the minimal beta value 0.050. This also indicates that the variable predict the business success to some extent.

**Table 7: Coefficients with variables**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.028	.430		7.042	.000
	EXP	.123	.060	.104	2.056	.041
	EDU	.106	.101	.050	1.047	.096

a. Dependent Variable: BS, Source: Survey data

Thus, the following model fit regression equation is derived;

$$Y = 3.028 + 0.123 X1 + 0.106 X2$$

Y = Business Success

X1 = Experience

X2 = Education

### Hypothesis Testing

Following the analysis of the data, hypotheses were tested to make sure the assertion in the light of the data analyzed. The two hypotheses were tested and explain one by one. The most common policy in statistical hypotheses testing is to establish a significant level, denoted by  $\alpha$ , and reject  $H_0$  when the p - value falls below it. When this policy is followed, one can be sure that the maximum probability of the type I error is  $\alpha$  (policy: when p value is less than  $\alpha$ , reject  $H_0$ ). Here, the hypotheses were tested at 5% confidence level ( $\alpha = 0.05$ ). P values are denoted 'Sig' in the Table 7 above.

Given the null hypothesis and sample evidence with sample size n , the p- value is the probability of getting a sample evidence with the same n that is equally or more unfavorable to the null hypothesis while the null hypothesis is actually true. The p- value is calculated giving the null hypothesis the maximum benefit of the doubt. The following table shows the rejection and acceptance of hypothesis

**Table 8: Hypothesis testing**

Variables	Hypothesis (Null + Alternative)	P- Value	$\alpha = 5\%$	$H_0$	$H_A$
EXP	$H_{10}, H_{1A}$	0.041	0.05	Rejected	Accepted
EDU	$H_{20}, H_{2A}$	0.096	0.05	Accepted	Rejected

Source: Survey data

### Experience

The first hypothesis in the model is between perceived experience and Business Success. The hypothesis is as under;

*H<sub>1A</sub>: There is a positive relationship between perceived experience of the entrepreneur and business success of SMEs*

*H<sub>10</sub>: There is no relationship between perceived experience of the entrepreneur and business success of SMEs*

Based on the above rule in accepting or rejecting the null hypothesis, as the p value for variable Experience is 0.041 which is less than 0.05, the null hypothesis is rejected and thereby alternative hypothesis is accepted (Table 8). This means that perceive experience of the entrepreneur has much impact on determining the business success of SMEs.

### Education

The second hypothesis is developed as stated below:

*H<sub>2A</sub>: There is a positive relationship between perceived level of education of the entrepreneur and business success of SMEs*

*H<sub>20</sub>: There is no relationship between perceived level of education of the entrepreneur and business success of SMEs*

Here the null hypothesis is accepted since the p value is greater than  $\alpha$  value (table 8) this means that the perceived education regarding the entrepreneurships has less impact upon the business success of SMEs. So it is obvious that to become

successful entrepreneurs it is not necessarily essential to have either degree or professional qualifications. Table 9 shows that 50% entrepreneurs have A/L qualification, 22% O/L qualifications and 28% of entrepreneurs have 6-10 grades in school education.

The table 10 shows that only 4 % entrepreneurs have the degree whereas 96 % of Entrepreneurs have no degree; out of 300 entrepreneurs were surveyed. Table 11 shows that only 9% entrepreneurs have certificate level or diploma level qualification in any stream.

**Table 9: School Education**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	6-10	84	28.0	28.0	28.0
	OL	66	22.0	22.0	50.0
	AL	150	50.0	50.0	100.0
	Total	300	100.0	100.0	

Source: Survey data

**Table 10: University Education**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	288	96.0	96.0	96.0
	Yes	12	4.0	4.0	100.0
	Total	300	100.0	100.0	

Source: Survey data

**Table 11: Certificate or Diploma Qualification**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	273	91.0	91.0	91.0
	Yes	27	9.0	9.0	100.0
	Total	300	100.0	100.0	

Source: Survey data

## Conclusion and Recommendations

The important contribution of the SMEs to the growth and development of a country had been extensively addressed in the Literature review. This research is aimed to measure the business success of

such industries. This was achieved by addressing the broader questions relating to the factors affecting the business success of SMEs.

Research question was: *what are the factors identified by the small and medium business entrepreneurs to be most critical to the success of their business in Sri Lanka.* This research focused on some independent variable such as Experience, Education among these except Education the other variable were highly impact upon the business success. This means the variables like Experience has significant high involvement in success.

## Research Objectives

The major objective of this study was to investigate the factors influencing on the business success of the SMEs. This was reached diligently by the researcher through various analysis and techniques opted in this study. The other objectives were also well thought out and achieved through this study. These achievements of objectives are explained below;

The investigation of business success of SMEs in the Eastern province of Sri Lanka is discussed with its two main types of construct such as Experience and Education.

### Experience and Business success of SMEs

The hypothesis ( $H_1$ ) related to this variable has proved that there is a statistically significance positive relationship with business success ( $r = 0.420$ ,  $p=0.0001$ ), and the coefficient of Experience showed the Beta value 0.104 so it has variance in explaining or predicting the business success. It is means that the level of experience is so much important factor reflecting the SMEs success. The construct EXP measured with five dimensions (D1-Awareness, D2 - Relevant skills, D3- Startup procedure, D4- Tenure of service, D5- Tenure of business existence), all indicators in each dimensions were positive and significant. It was found that each dimensions correlate with dependent variable; Business success of SMEs. (D1  $-r = .258^{**}$ ,  $p = 0.000$ , D2-  $.297^{**}$ ,  $p = .000$ , D3-  $.186^{**}$ ,  $p = .001$ , D4 -  $.294^{**}$ ,  $p = 0.000$ , D5-  $.391^{**}$ ,  $p = 0.000$ ). Among these D5- Tenure of business existence and D2-Relevant skills are highly constitute

with the main variable Experience for determine the business success.

The researcher also seen the correlation between the main construct EXP and the dimensions of dependent variable D1-Growth and sustainability, D2-Financial aspects, D3- Internal business process. Out of three dimension of dependent variable, EXP was highly correlated with D1-growth and sustainability (creating core competency and competitiveness) ( $r = 0.415$ ,  $p = 0.000$ ), and also correlate with other dimension as well. See Table 4. The EXP showed the correlation with the D2 – Financial aspects too, which also proved by the previous studies that individuals who finance new ventures weigh the owners' experience significantly when making financing decisions (Goslin and Barge 1986).The direct relationship between experience and business success had found mixed results. Reuber, Dyke, and Fischer (1990) argue that such mixed findings may be due to the fact that various kinds of experience are relevant to entrepreneurship, and that the relevance of a specific kind of experience may vary in different contexts. This study found that the direct relation between Experience and business success exist to certain level.

### **Education and Business success**

Education showed insignificant relationship with business success ( $p=0.096 > 0.05$ ), and the coefficient of Education showed the minimal Beta value 0.050 so it has also less variance in explaining or predicting the business success. It is means that when the level of education increasing it is not necessarily important for increasing SMEs success according to the sample and location chosen.The construct EDU is measured with five dimensions (D1- Learning attitude, D2 - Application of knowledge, D3- School education, D4- University education, and D5- Professional qualification); all indicators in except dimensions, D4, D5 were positive and significant.

The correlation between the main construct EDU and the dimensions of dependent variable D1-Growth and sustainability, D2- Financial aspects, D3- Internal business process showed that Out of three dimension of dependent variable, EDU was highly correlated with D1-growth and sustainability (creating core competency and competitiveness) ( $r = 0.294$ ,  $p =$

0.000), and also less correlate with other dimension as well. See table 4.

A study conducted in Singapore disclosed that successful entrepreneurs have higher education levels compared to that of unsuccessful entrepreneurs Kim (in Meng& Liang, 1996). Seventy percent of successful entrepreneurs are university graduated, while 23% are not. But here only 4% of entrepreneurs are graduates and 9% of entrepreneurs had professional qualifications.

In conclusion, the Tenure of business existence and Relevant skills in the level Experience, Learning attitude, Application of knowledge, and School education in the in the level of Education, are recommended for improving the business success of SMEs. Among them the experience of the entrepreneurs for SMEs success in the Eastern Province of Sri Lanka should be given high consideration as it is showed higher correlation with Business success of SME's.

Two hypotheses were proposed to investigate the influence of business success, and results of hypotheses test were proved to accept one hypothesis and reject one. Accordingly, experience had a positive effect on the success of the business. This result provided valuable insights for understanding the business success.

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