

Peer-reviewed academic journal

**Innovative Issues and Approaches in
Social Sciences**

IIASS – VOL. 14 (2021)

Innovative Issues and Approaches in Social Sciences

IIASS is a double blind peer review academic journal published 3 times yearly (January, May, September) covering different social sciences: political science, sociology, economy, public administration, law, management, communication science, psychology and education.

IIASS has started as a Sldip – Slovenian Association for Innovative Political Science journal and is being published by ERUDIO Center for Higher Education.

Typeset

This journal was typeset in 11 pt. Arial, Italic, Bold, and Bold Italic; the headlines were typeset in 14 pt. Arial, Bold

Abstracting and Indexing services

COBISS, International Political Science Abstracts, CSA Worldwide Political Science Abstracts, CSA Sociological Abstracts, PAIS International, DOAJ, Google scholar.

Publication Data:

ERUDIO Education Center

Innovative issues and approaches in social sciences, 2021,
vol. 14

ISSN 1855-0541

Additional information: www.iiass.com

PERFORMANCE MEASURES IN HOSPITALITY ENTREPRENEURSHIP

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Abstract: The purpose of this paper is to explore how small hotel entrepreneurs measure performance of their small tourist accommodation business. Empirical research was carried out in Slovenia from May 2014 until June 2015. Data were collected in 62 in-depth semi-structured personal interviews with small hotel entrepreneurs and managers. Qualitative data were analysed by using the method of content analysis. The results show that when monitoring the performance and assessing the success of their small hotels entrepreneurs apply up to five performance measures and combine economic and noneconomic ones. Additionally, entrepreneurs perceive the success of their business also through their own satisfaction.

Key words: performance measures, SMEs in tourism, hospitality entrepreneurship, tourist accommodation, small hotels

INTRODUCTION

In business science, entrepreneurs and entrepreneurship are often related to the creation of new ventures, mainly small and medium sizes enterprises (SMEs). Entrepreneurial activity is actualised through SMEs, which are therefore understood as a tool for the fulfilment of entrepreneurs' visions and goals (Cerović, 2010).

Entrepreneurship in small and medium sized enterprises in tourism and hospitality (SMTE) gained on importance only in the last decade of the previous century (Page and Connell, 2014; Thomas et al., 2011). There are two reasons for that. First, due to the increased

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general attention regarding entrepreneurship, and second, due to the increased number of SMEs, belonging to the sector of hospitality and tourism (Lee-Ross and Lashely, 2009).

By policy-makers, SMTEs have been seen as the economic lifeblood of the sector (Thomas et al., 2011). Their economic activities create certain advantages in a wider social and economic environment (Getz et al., 2004). Due to their abundance, they play an important role in the development of tourist destinations and are an instrument for regional development. In the environment in which they operate, they fill the gaps in tourist offer. They make tourists easier to integrate into the local environment, foster their consumption, considerably contribute towards the diversity, authenticity and quality of destinations. Often, they are an integral part of value chains, clusters of products and services, which also foster guest satisfaction and accumulate multiplicative effects of tourist activities in a destination (ibid.).

The role of SMTEs is very relevant and especially important when responding to customers' most specific demands and providing them with the tourist services requested (Martinez-Roman et al., 2015). Due to their adaptability SMTEs are capable of ensuring personal services to the so-called »new« age group of tourists (Buhalis and Murphey 2009).

Historically, tourism depends on individuals, who transformed their ideas in tourism accommodation (TAC), food services and other tourism activities into business (Cerović, 2010). Successful businesses in TAC and food services sectors have always largely depended on entrepreneurs, their visions and goals, their entrepreneurial capacity and their ability to find and to pursue business opportunities (Page and Connell, 2014). In order to determine to what extent entrepreneurs achieve their goals in performance of their business entities they determine the way to assess their success of reaching goals and to determine how the results of their activities will be measured (Tekavčič and Megušar, 2008). Performance measures are therefore an indicator used in the process of performance measuring (Bergin-Seers and Jago, 2007).

This research is limited to performance measures in small hotels (SHs). We define SHs as business entities, classified as SMTEs. Jafaar et al. (2011, p. 827) describe SH as an "extension of the

entrepreneurial characteristics of the owners/managers of the hotels". We sought for an answer to the following research question: Which measures entrepreneurs use to assess the performance of their SHs in Slovenia?

Despite the fact that the majority of tourist facilities are run by SMTEs, literature review reveals that there are only few studies on tourism entrepreneurship and SMTEs (Jafaar et al., 2011). SMTEs are not a research subject frequently, and neither are SHs: entrepreneurs do not wish to disclose their tiny business world (Hall and Rusher, 2004) and usually hide information on their business activities (Bergin-Seers and Jago, 2007). Therefore, the researches on performance measures and related topics in SMTEs are very rare.

THEORETICAL FRAMEWORK

Neely (1999, p. 221) believes that, in the field of contemporary management, finding determinants of business performance is akin »Holy Grail: the researchers are offered a wide possibility for discussion, but the results do not bring any headway in the development of this multidimensional concept«. Although, firm performance remains one of the most popular concepts in organisational research comment that "firm performance remains a messy issue at best" still remain apt. (Sainaghi et al., 2017, p. 37).

The concept of tourism performance measurement has evolved from (Sainaghi et al., 2017):

- A number of perspectives: efficiency, competitiveness, tourism productivity, metrics in use etc. and
- Different disciplinary standpoints: of accounting and financial management, economics and strategy.

Various performance measures and performance models have been developed. The most commonly used are those of financial nature – traditional accounting measures (Lee and Kim, 2009), while other performance models combine financial and non-financial aspects (Ivankovič et al, 2010). Lodging sector has developed their own specific performance measures (USALI, 2013; Ivankovič et. al, 2010). Furthermore, different approaches on performance measures have been developed for assessment the performance of SMEs (e.g. Omerzel Gomezelj and Kušče, 2013; Reijonen and Komppula, 2007).

Based on the traditional theoretical assumptions of a successful business, long-term survival of the enterprise is related to its financial results (Tekavčič and Megušar, 2008). Thus, according to Kaplan and Norton (1992), the most important financial measures for assessing performance of business entities (including of hotels) – return on investment and profit – are usually related to the goals of the investors/owners (maximising yield).

Apart from the return on investment and profit, there are several other traditional accounting performance measures that can be used for measuring company's performance, based on data from financial statements (Lee and Kim, 2009; Kavčič et al., 2005). Decision makers can choose from the following measures, e.g. return on assets, return on income, short-term and long-term solvency, the ratio between ownership and debt sources of financing, rate of income growth, earnings before interest, taxes, depreciation and amortisation (EBITDA), salary growth, added value growth per employee, etc. However, accounting performance measures focus on the past periods and do not include factors of future operations (Sainaghi, 2010; Norreklit, 2010; Ivankovič, 2008; Kavčič et al. 2005) and are not appropriate for service sectors (Phillips and Louvieris, 2005). Furthermore, they are based on data from accounting reports of companies' operations, which do not necessarily reflect the actual situation (Sainaghi, 2010; Rowe and Morrow, 1999).

In real world, different stakeholders influence the preparation of accounting reports. Management and owners have the greatest influence because they follow their own interests (Sainaghi, 2010): the management of large companies wants to present better business results because of their higher rewards; their owners, on the other hand, wish to present a higher profit in order to pay higher dividends. The influence of owners of small hotels on accounting reports can be opposite: due to tax optimisation, they may aim to show extremely low profits (Medlik and Ingram, 2000). Thus, the accounting reports of SHs include the undisclosed financial resources of SH entrepreneurs and their families related to SHs financial performance (free meals, amortisation of hotel building, energy costs charged to the hotel, etc.). Undisclosed financial sources of an SH entrepreneur represent cost for the SH, which reduce SH profit (ibid.).

In addition to the goals of the owners, some performance measures take into account the goals of other interest groups within the company. Balanced Scorecard (BSC) model, introduced into literature in 1992, includes performance measures related to owners, buyers, suppliers and employees (Elbanna et al., 2015). It combines financial performance measures with non-financial ones (Norreklit, 2000). Despite its appealing rationale of capturing different aspects of performance, BSC has been rarely used or researched in hospitality business (Elbanna et al., 2015). Another performance measurement model that includes measures related to different stakeholders is EFQM performance model (The European Foundation for Quality Management). EFQM connects the performance measures with the relevant performance factors (Wongrassamee et al., 2003; EFQM n. d.).

Hospitality enterprises are still focussing on more traditional forms of performance measures which are narrow and easily quantifiable (Wadongo et al., 2010); however, they combine financial and non-financial performance measures (Sirilak and Lokman, 2016). Kim and Lee (2007) found out that financial measures in hotels still represent the most important performance measures (in 36 %) and from those the most often used measure is return on investment. This is followed by measures related to guests (31 %) with the most frequently used measure of guest loyalty. The measures of learning and growth take the third place with 18 % (most often employee satisfaction is used). The measures of internal processes are used only by 15 % of hotels. Among all measures, the most frequently used method is the percentage of room occupancy (ibid).

TAC business has also developed sector specific performance measures based on Uniform System of Accounts for the Lodging Industry (USALI) (Ivankovič, 2008). The measures comprise of the average price per sold room, the average revenue per available room (RevPAR), EBITDA, profit per sold or available room, cost per guest, cost per room, etc. (Srivastava and Maitra, 2016; Failte, 2013; Burgess, 2001). As a non-financial measure, hotels most commonly use the percentage of room occupancy. Hotel specific performance measures enable the comparison between similar hotels and the results of the comparable groups (Ivankovič, 2008). As hotel sector is highly customer focused and market-oriented marketing performance measures, e.g. customer satisfaction (McManus, 2013), usually supplement the hotels specific financial measures.

Due to specific features of SMEs and SMTEs, stemming from their size (Buhalis and Murphy, 2009), SHs cannot be treated as typical hotels. Waats et al. (2009) therefore suggest that the assessment of SMTEs performance should be done differently than the performance of big hotel corporations. Performance measures should also consider the motivation and goals of entrepreneurs in SMTEs and SHs, which are not always related to the classical concept of financial success (Pizam, 2010; Peters et al., 2009; Getz et al., 2004). In SMTEs, non-financial matters may prevail (e.g. entrepreneur, staff and guest satisfaction) over the financial measures, e.g. income, profit and return on investment, etc. (Haber and Reichel, 2005).

Researchers of SMTEs (Thomas et al., 2011; Lee-Ross and Lashley, 2009; Peters et al., 2009; Ateljević, 2007; Getz and Carlsen, 2000) advocate that SMTEs performance should not be assessed according to the criteria and measures of competitive, market or financial position of SMTEs. It should be rather defined from the point of view of performance measures defined by entrepreneurs (owner-managers) themselves (ibid.). Entrepreneurs measure and assess their success and performance of their SMTEs mostly on the basis of non-financial measures (Omerzel Gomezelj and Kušče, 2013; Reijonen and Komppula, 2007): the most important performance indicators for entrepreneurs in SMTEs are their own satisfaction with work and satisfied guests.

Due to many points of view from which the performance of SMTEs can be measured, there is no unique opinion on what the most reliable measures could be. Maline and Selta (2004) advocate that the measures should be adapted to goals (strategies) of entrepreneurs related to their SMTEs, should be diverse and complementing, exact and as objective as possible and should serve as a tool of strategic communication. Moreover, chosen measures should also (ibid.): take into account the special features of the environment of individual SMTEs; provide information to the entrepreneur that bring benefits to the SMTEs and represent support to the entrepreneur in decision-making processes.

Bergin-Seers et al. (2006) found that when measuring performance of small hotels in Australia, one-half of owners-managers determine business results of their SH simply by trusting their feelings.

METHODOLOGY

Empirical research was carried out in Slovenia from May 2014 until June 2015. For the research purpose, an SH was determined as being a privately owned (entrepreneurial) small TAC that offers hotel services (at least 10 and not more than 50 hotel rooms/accommodation units). Classification criteria were self-developed based on existing hotel literature. Extensive preliminary stage of research was carried out (review and comparison of various internet databases followed by on-site views of all potential TAC units) to determine which small TAC meets the criteria and can thus be included in the group of SHs. Identifying SHs was necessary to determine the population of SH entrepreneurs. 125 SHs were identified and consequently 125 entrepreneurs.

Each SH entrepreneur was invited to participate in research with the written invitation, delivered by the first author of this paper. The invitation contained the purpose and goals of the research, the method of data collecting, topic, duration of the meeting and anonymity assurance. An SH manager was invited to participate in the research only if we could not reach in person the SH entrepreneur after several attempts. With those who were willing to participate, the meeting was arranged. Our sample consists of 62 participants (49.6%) – SH entrepreneurs and managers.

Data were collected in in-depth semi-structured personal interviews, performed on natural settings of participants. The method was selected based on experience on entrepreneurship researches presented in existing literature. Firstly, it is difficult to collect enough data from a population with a rather small number of units. Secondly, entrepreneurs operate in their “private worlds”, which researchers can be let in only with carefully chosen communication approaches. Thirdly, the performance measurement issue is a rather delicate topic. Fourthly, the research goal was not just to collect the most commonly used performance measures in SH but also to find out the reason why entrepreneurs of SHs have selected them.

All interviews were conducted by the first author of this paper¹ in order to avoid different treatment of the interviewees (if the interviewees were approached by different interviewers) and in order

¹ The author of this paper has had several years of experience with hotel management and has adequate communication skills.

to avoid unethical treatment of the participants (by ensuring the protection of personal data). The measurement instrument was a reminder with four open-ended questions:

- How do you understand performance/success of your SH?
- How do you assess/measure/monitor performance of your SH?
- How do you perceive your hotel performance and yourself as an SH entrepreneur?
- To what extent do you relate SH with your own satisfaction (with regard to the business and personal goals met)?

During the interview, the conversation was guided with the help of the reminder. To make sure that the interviewee understood the topic some of the terms were explained before the start of the interview (e.g. performance, success, measures). The pace of the interview was adapted to the interviewees' communication skills and their capabilities to provide coherent answers.

The statements of interviewees were documented in written while the interview was being carried out. Particular attention was paid to make verbatim notes of the most interesting statements. While making notes the verbal and nonverbal contact with the interviewees was kept all the time. The interviewees were motivated to provide answers and helped to overcome embarrassments that appeared occasionally.

The analysis of qualitative data gathered from the interviews with SE entrepreneurs and SH managers was based on theoretical perspectives of the studied phenomena (suggested by Kumar, 2005; Altinay and Paraskevas, 2008 and Mason, 2014).

A part of the findings is presented in interviewee's own words. Most often, their comments, answers and points of view were paraphrased. Observations, data and answers were interpreted and certain patterns highlighted. Answers were compared and grouped according to similarities. Certain observations and answers were analysed with regard to the frequency and quantified by quantification of statements (Kumar, 2005). A neutral grammar form was used throughout the text: the masculine form was used for male and female participants. Anonymity of participants was granted.

Out of 125 SH entrepreneurs invited to participate in the research, we interviewed 50 or 40% of SH entrepreneurs and 12 managers of SHs, a total of 62 authorised persons in SH or 49,6%, situated in all parts of the country. The structure of interviewees by gender was uniform: 32 men and 30 women.

RESULTS

The majority of interviewees understand successful performance of their SHs as »a long-term survival on the market«, as »continuation of existence« of a business entity. Some of them emphasize »positive financial outcomes« or »financial sustainability«, »making profit«, »expansion of activities« or »continuous investments in the hotel«. One of the participants pointed out that SH performance should be viewed as a »long-distance run, which requires patience with regard to the results«. For him, running an SH can be viewed a »long-term job«, where »success does not come over night«. In SH, »financial results in a single year do not mean a lot«.

One tenth of interviewees understand that an SH performs well and is successful, if »its guests are satisfied«. Guests should perceive a successful hotel as »a hospitality establishment, known for its personal and professional approach towards guests«. Only rare interviewees emphasized that an SH is considered successful, »if people who work in it are satisfied, including the owner».

Two participants pointed out that financial success in SH needs to be measured without »special tables, statistics or calculations of complicated indicators«. Their statement represent the attitude of the majority of participants towards financial performance measures of SH: »in large systems one has to deal with numbers and statistics, but in small hotels we deal with guests«. What counts for one participant, is »measuring the financial performance of SH according my own measures and not according to classical financial measures; my own path is important and not a comparison with the others«.

As for the typical measures of financial performance – according to majority of participants – the most important measure of success is »current payment of bills« and »repayment of loans«. In their own way, interviewees express the performance measure, which is best described as cash flow from operations or EBITDA (in hotel business, this measure is the same as cash flow from operations).

Four interviewees indirectly point out the importance of the profit, by saying: »I find important that some money ‘stays on the account’«. One of them stated that SH “has to earn so much that you can refurbish the hotel in 10 to 15 years«, or »earn enough to survive«. Additionally, measures can be also that the SH’ operating result is a »positive zero«. Profit as a measure of financial success is also important for another participant, however he honestly admits that it is necessary »to organise business activities in a way that the profit is not shown«. For some interviewees profit is »not important« or it is »far from being a priority«. Due to »unsettled accounts from the past« for one SH owner it is not sensible »to monitor classical financial measures at all«.

Interviewees monitor current operational results – income, expenses and liquidity – but for them it is not relevant to compare current financial results with the results from previous periods. Entrepreneurs with »a longer mileage in SH« do not find it necessary to measure them, because they know »what is going on from experience and do not need special statistics and indicators«. Other group of entrepreneurs that have started with hotel business recently focuses on monitoring and measuring hotel liquidity, while in addition to liabilities from current operations they have to ensure financing the repayment of debts. A newcomer in SH business, admitted »that even after three years we cannot operate as we would wish to«. His colleague emphasized that »liquidity is the problem for small firms, particularly if they we have only started; in our SH we will need at least five years to overcome liquidity problems«. Monitoring of liquidity of business operations is particularly important due to the seasonal nature of their business while SH “needs to survive during the low season«, when »the hotel cannot earn enough to survive«.

In addition to the above mentioned financial measures, few interviewees use also other measures, e.g. the comparison of results with previous years,, share of cost in revenues, and break-even point.

As for the hotel specific financial measures according to USALI, 15 % of interviewees use price per room¹, only two revenue per room sold. The most often used measure of hotel performance in hotel business

¹ We did not ask any additional questions, as for instance, what price – gross or net – they were referring to or if »per room« means per room sold or per available room.

according to USALI is room occupancy. However, in SH this measure is used rarely; less than ten interviewees use it. One participant added that room occupancy is an unsuitable measure for small hotels. According to him, room occupancy »can be an indicator of operations in large hotels; but in SHs it does not help if the rooms are occupied, Only one hotel entrepreneur mentioned that he measured the number of nights spent.

The majority of the interviewees emphasized the importance of measuring guest satisfaction; however, the ways in which interviewees measured it, differs substantially. Tenth of Interviewees revealed that the “classical” methods of measuring guest satisfaction – questionnaires, book of praise, personal assessments when talking to their guests – are often combined by new methods: monitoring commentaries of guests posted on social networks or expressed through e-mail, monitoring reviews on online booking platforms (e.g. Booking. com, TripAdvisor etc.). As for the other marketing measures, only one mentioned monitoring web page visits.

Four interviewees mentioned measuring staff satisfaction, but not how they had done it. Two of them believe that employee satisfaction is an important performance indicator. They stated that staff in their SH function as a »large family«.

Interviewees did not mention using performance measures related to stakeholders in the local environment. Three of them mentioned them only in the sense »of being in good relationship with the stakeholders in their local environment«. None of the participants explicitly mentioned measures related to the environment protection either, although some SH have implemented certain sustainable and socially responsible business practices in their hotel operations.

Entrepreneur’s satisfaction as a performance measure was mentioned spontaneously by three interviewed entrepreneurs; the rest were reminded about this measure with an additional question. The majority of interviewed entrepreneurs believe that there is a correlation between their own satisfaction with running hotel business and SH performance. Opposite to SH entrepreneurs, the majority of interviewed SH managers did not consider satisfaction of SH entrepreneur in their SH »as an important issue«. They believe that for SH entrepreneurs, only financial results are important, while “one

could not work only because of satisfaction, because you cannot pay for merchandise in the shop with it«.

In relation to satisfaction, two things matter for the interviewed entrepreneurs: their satisfaction with financial results of SHs and their personal contentment in relation to SHs. »If an SH does not bring money, it is difficult to be satisfied«. »You can be satisfied because of the personal freedom, creativity, because you can fulfil the things others only dream about«. One participant thinks alike: »income is important, so that you can buy what you need for life: a car, holidays, investments etc.; personal satisfaction also matters – being your own boss, to go to your office without hesitation«. For another one, »personal contentment means a lot, because basically I need personal challenges and having money on my bank account is not a challenge«. Similarly, for another participant personal satisfaction is important, because he entered SH business from »emotional reasons«. Even for additional hotel entrepreneur, the most important is personal satisfaction with the hotel: »this is an adrenaline matter; to build a hotel nowadays is a success«. Opposite to previously mentioned approach, some hotel entrepreneurs do not think about satisfaction at all and believes that the satisfaction with the SH is not important.

Some interviewed entrepreneurs connected their personal satisfaction with the guest satisfaction. One participant perceived himself satisfied due to the »excellent relationship with the guests«. Another felt that his satisfaction is reflected in his guests.

CONCLUSIONS

The results of the research provide an in-depth information on how SH entrepreneurs understand a performance of their small accommodation businesses, which measures they use to assess the performance of SHs and what is the rationale behind that. As SHs are a subset of small TACs and from organisational perspective SMTEs, the results of this study are compared with the results of theoretical and empirical findings on SMTEs performance measures in existing literature.

The study reveals that SH performance is understood as an integration of goals of various SH stakeholders: goals of SHs entrepreneurs, which are in the first place, are followed by the goals of SHs guests. The goals of SH employees and the goals of other

stakeholders in the local environment, however, are not as emphasised as the goals of the first two groups. These findings indicate that – as suggested in existing studies on SMTEs – SH performance is understood as multidimensional phenomenon. In the first place, SHs performance and SHs success are judged from the perspective of a long-term survival of SHs on the TAC market.

Furthermore, SHs entrepreneurs use traditional accounting measures in combination with hotel specific financial performance measures, driven from USALI. Furthermore, the financial performance measures are supplemented by non-financial measures.

Most importantly, SH entrepreneurs do not use sophisticated performance management systems to assess the performance of their SHs. They assess it in a simplified manner, using mostly measures of profit and liquidity (EBITDA), in some cases price per room. From non-financial measures, they monitor guest satisfaction by monitoring their reviews and comments on reservation platforms (e.g. Booking. Com, TripAdvisor etc.) and on social media. For SHs, hotel occupancy rate seems to be a less important performance measure than for their “big brothers”.

Similar to existing empirical findings on SMTEs in other countries, the satisfaction of SHs entrepreneurs with their engagement in SHs is important and can be considered as a performance measure as well. Their satisfaction consists of two dimensions. One dimension is related to financial results of the SH – financial satisfaction of entrepreneur with the SH. The other dimension of the SH entrepreneur satisfaction is his personal satisfaction, related to work conditions, meeting personal challenges and enjoying relations with SH guests.

The results of the study contribute to existing, still very rare, empirical findings on performance measurement in SMEs and in SMTEs particularly. They reveal that hospitality entrepreneurs in Slovenia understand and measure performance of their small accommodation business similarly to their business colleagues abroad. As they are personally deeply engaged in small TAC day-to-day operations they know accommodation business well and do not need sophisticated accounting indicators for measuring its performance.

Types of small TAC (e.g. SHs, B&B, private rooms and apartments, villas etc.) are subject to certain technical and service standards; however, the core accommodation business is similar in all of them. Therefore, we believe that the results of this study are applicable also for other types of small TAC apart from SHs.

LIMITATIONS AND FURTHER RESEARCH

There is a small number of researches on SMEs and SMTEs performance measures and on related topics, which is a limitation of this research in setting theoretical perspectives of the studied phenomena, used for designing of the reminder and for the content analysis of the qualitative data.

Non-numerical data gathered in interviews reflected subjective points of view of participants. Thus, subjective data are the result of numerous factors, which have an influence on their quality. Consequently, subjective data can be considered a research limitation in addition to the quality of answers/data that was influenced by:

the interaction between the participants and the interviewer, because the communication with each interviewee slightly differs due to the necessary adaptation of the approach to individual participants;
the difference in the knowledge about the research topic of individual respondents, as well as by their opinions and beliefs about it;
the level of honesty of answers (e.g. hiding certain actions that the respondent did not want to reveal; the fear related to data confidentiality; the fear regarding their self-image; playing a »role«; providing answers for which they believed that the questioner would like to hear, etc.).

When carrying out the analysis of qualitative data the researcher followed the research idea and theoretical concepts but could not have completely avoided subjective judgements. Subjective judgements could be present in the interpretation of descriptions of interviewee knowledge/behaviour/actions, which can be another limitation of this research.

Two groups of authorised people participated as interviewees in this research: SH entrepreneurs and SH managers. The participants of the latest group represented the SH entrepreneurs, who are not so deeply engaged in their SHs and thus have a slightly different view

on the topic than the majority of SH entrepreneurs who actually own, manage and run day-to-day businesses. This is an additional limitation to the research.

The qualitative nature of the research could be – despite a confident sample of participants from the population – a limitation to the generalisation of the results to the whole population of SH or further, to the other types of small TAC.

Tourism and hospitality entrepreneurship has – in addition to general characteristics of entrepreneurship – some unique characteristics, related to the nature of the business. Those characteristics reflect in performance and success of SMTEs (lifestyle business, mortality rate etc.) which are worth to be a subject for further studies. This is the first study on SHs and SMTEs performance measures in Slovenia, which opens the broad space for further research on SMTE performance related topics.

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