

Profiling Entrepreneurs Inclinations Towards Networking: A Case of Small and Medium-Sized Tourism Enterprises (SMTEs) in Terengganu, Malaysia

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Purpose – To identify the importance of formal and informal networks in business learning through the profiles of entrepreneurs and SMTEs. **Design/methodology/approach** – Descriptive analysis was conducted to compare the characteristics of entrepreneurs and SMTEs across the four-different tourism sub-sectors of hotels and resorts, travel agencies, handicrafts and restaurants. Mann-Whitney U and Kruskal-Wallis were performed to differentiate entrepreneurs and SMTEs that preferred formal or informal networks as an important source of knowledge. **Findings** – The distinctive characteristics of entrepreneurs and SMTEs from the inter-sectoral perspective manifest in 7 different dimensions. Years of previous working experience was found to have a statistically significant relationship with the importance of informal networks in SMTEs learning. This contrasts with the 6 dimensions of characteristics of entrepreneurs and SMTEs that have statistically significant relationships with the importance of formal networks. **Practical implications** – The findings can be used as a crucial framework to develop and enhance training programmes and policies that cultivate networking and learning behaviours among entrepreneurs. **Originality/value** – This study is the first to provide empirical linkages between the characteristics of entrepreneurs and SMTEs and networks through a tourism inter-sectoral perspective in Terengganu, Malaysia.

Key words: *Formal network, informal network, characteristics of entrepreneurs, small and medium-sized tourism enterprises, learning.*

Introduction

Small and medium-sized tourism enterprises (SMTEs) have been very important for the livelihood and success of the tourism sector (Hallak, Brown & Lindsay, 2012). Scholars have considered them as the economic engines of the tourism sector and the key components in conditioning the destination's development (Getz, Carlsen & Morrison, 2004; Shaw, 2014). This heightened the importance of the SMTE's performance in contributing to the market growth of the tourism sector (Hallak *et al.*, 2012). However, in the midst of a rapid and competitive business environment, SMTEs operational sizes mean that they always need to navigate around the issues of insufficient resources and knowledge (Schoonjans, Cauwenberge & Bauwhede, 2013). These issues include the lack of formal and external business capital that led to the constraint of growth and prevent the smaller firms from reaching their optimal size (Beck & Demircuc-Kunt, 2006; Elston, Chen & Weidinger, 2016).

Considering this, the characteristics of the entrepreneurs are crucial in the strategic design of the business (Ayala & Manzano, 2014). This is clearly translated by the inclusion of entrepreneurs' characteristics in past studies as one of the indicators of their likely business successes in the tourism sector (Ahmad, Jabeen & Khan, 2014; Reijonen, 2008). Specifically, entrepreneurs play a vital role in the operation of the businesses and it has been strongly argued that their characteristics may influence the outcomes of their ventures (Ucbasaran, Westhead & Wright, 2001). In addition to this, the relationships that exist between entrepreneurs and other various stakeholders are crucial in the provision of services, infrastructure, primary and secondary tourist products in a successful destination's development (Zee & Vanneste, 2015; Russell & Faulkner, 2004). These relationships are vital for SMTEs to reach economies of scale and become competitive without having disadvantages during the implementation of large-scale operations (Schoonjans *et al.*, 2013; Watson 2007).

Through networking activities, they have access to resources and knowledge that are vital for business sustainability, competitiveness and development (Davidsson, Achtenhagen & Naldi, 2005; Lopez-Ortega *et al.*, 2016). In this sense, the most important benefits gained from a network in the tourism sector are learning and the exchange of knowledge (Morrison, Lynch & Johns, 2004). Thus, the capabilities of SMTEs to learn and exchange knowledge are dependent on the inclinations of entrepreneurs to commit to networking activities. In fact, these inclinations to network can be linked to the role of the entrepreneurs as an agent of change in a specific destination, which can influence the evolution of the tourism sector. This emphasises the importance of entrepreneurial characteristics as a dimension of success (Jaafar *et al.*, 2011; Lewis & Green, 1998; Russell & Faulkner, 2004).

Literature Review

Definitions of Entrepreneurs and SMTEs

Reviewing past literature, there is a conflict regarding the definition of entrepreneurship, and the sub-types derived from the concept itself (Getz & Petersen, 2005; Ucbasaran *et al.*, 2001). Most scholars linked entrepreneurship with the exploitation of business opportunity, creativity, innovation, resilience, risk taking propensity, the desire to achieve economic gains, and a willingness to grow (Baron, 1998; Busenitz & Barney, 1997; Russell & Faulkner, 2004; Stokes, 1998). In contrast, many small business owners avoid taking risks due to the issues of cash flow, company size, uncertainty in a new market, and trust in the capacity of staff in shouldering responsibilities (Jaafar *et al.*, 2011). However, the setting up of a firm or founding of a business can also be considered as comparable to innovation in the development of products or services in its purest forms (Thornton, 1999; Timmons & Spinelli, 2003; Reynolds, 1991). Due to the lack of universal consensus among the commentators, the differences between small business owners and entrepreneurs are not always evident in the research stream of entrepreneurship and small business. This is because both concepts are used interchangeably (see for instance, the studies of Costa *et al.*, 2015, Jaafar *et al.*, 2011 and Mazzarol *et al.*, 1999).

Similarly, the definitions of the term ‘small and medium enterprise’ (SME) differ vastly between countries generally and industries specifically. For instance, there are at least 40 different definitions that can be found on a study of member countries in the Organisation for Economic Cooperation and Development (OECD) (Atkins & Lowe, 1997). According to Fuller (2003), numerous definitions on the term SME also include the utilisation of micro-enterprises, self-employers or sole proprietors. Despite the differences, most of the definitions are based on the objective measures of size, namely the number of employees, sales turnover, profitability or net worth (Storey, 2000). In the context of Malaysia, the Central Bank issued a new definition for SMTEs in 2013. Accordingly, micro-size tourism enterprises are defined as having a sales turnover of less than RM300,000.00 or, for full-time employees, less than five. As for small-size tourism enterprises, the sales turnover must be from RM300,000.00 to less than RM3 million or, for full-time employees, from 5 to less than 30. Meanwhile, medium-size tourism enterprises are defined as having a sales turnover from RM3 million to RM20 million or, for full-time employees, 30 to 75.

Profiles of Entrepreneurs and SMTEs in Relation to Networking

The demographic profile of the entrepreneurs are the essential segment of the studies on SMEs as many scholars research the popular components of the profile such as age and sex (Avcikurt, 2003; Jaafar *et al.*, 2011; Szivas, 2001), education (Getz & Carlsen, 2000; Glancey & Pettigrew, 1997), marital status (Chen & Elston, 2013; Getz & Petersen, 2005) and previous

work experience (Ahmad, 2015; Lashley & Rowson, 2010). In studying the relation between the profiles of entrepreneurs and SMTEs with networking, components such as ownership can be crucial as most SMTEs in many countries are owned by individuals or families, and are predominantly managed by men (Ahmad, 2015; Jaafar *et al.*, 2011). This uneven distribution of business ownership is unsurprising given the influence of culture and the entry barriers faced by women, who lack access to finance and credit facilities (Ahmad, 2015; Itani, Sidani & Balbaaki, 2009). Nevertheless, it also can be observed that most entrepreneurs of SMTEs use their own personal savings to finance their businesses and were likely to turn to their informal network of contacts such as families and friends for further support (Andriotis, 2002; Glancey & Pettigrew, 1997; Page, Forer & Lawton, 1999).

In terms of previous experience, not all business people have the necessary background and knowledge in the tourism sector. According to Szivas (2001), two-thirds of the entrepreneurs were from different sectors, namely agriculture, retail, and education (Szivas, 2001). In fact, a study by Lashley and Rowson (2010) noted that entrepreneurs who have previous hotel or business experience were only involved in a retail business or a pub, as very few of them have the experience to run an actual tourism business. Due to the lack of any prior experience and knowledge in the tourism sector, they mostly learnt the needed skills in running their daily operation on the job (Szivas, 2001). It is also reported that some of the entrepreneurs are committed in joining the formal one-to-two-week short vocational training courses organized by the local authorities (Ahmad, 2015). Importantly, it is from this kind of formal tourism training courses that entrepreneurs found the opportunity to network with people with mutual business interests (Ateljevic *et al.*, 1999). According to Frazier and Niehm (2004), this type of networking was utilised by small firm entrepreneurs as a source of knowledge to improve the operations and marketing of their businesses.

Despite these assertions, tourism owner-managers believed that they do not need formal training because they have better knowledge of their business compared to anyone else (Dewhurst, Dewhurst & Livesey, 2007). They are more inclined to participate in job training than formal training as it will provide the opportunity for their staff to learn while they are working (Jaafar *et al.*, 2011). This explains the fairly low levels of involvement in training or development programmes of the tourism sector (Schroeder, 2003). However, without any work experience, prior knowledge and any formal training, entrepreneurs or owner-managers will likely lack the required tools and knowledge to enable them to run and manage their business properly, thus limiting the prospects of their businesses (Ahmad, 2015, Jaafar *et al.*, 2011; Morrison, Carlsen & Weber, 2010). For this reason, the connections established by networking activities can be the platform for entrepreneurs of SMTEs to transfer and share knowledge. These connections can be: (1) formal in the shape of associations, joint ventures, trading groups or buyer-supplier agreements, or (2) informal in the form of relationships among families, relatives and friends (O'Donnell *et al.*, 2001; McLeod, Vaughan & Edwards, 2010; Saxena,

2005). As for the network participants, they can be managers, entrepreneurs or a group of individuals such as an organisation, an association, community or public agency (Johannisson, 2000). Both formal and informal connections can form a complex system of ‘networks’, which comprises of complementary products of activities, accommodation, transport and food that co-exist together with support activities and infrastructures (Pavlovich, 2003).

Differences of Formal and Informal Networks

In classifying these relationships as formal and informal networks, McLeod (2010: 58) asserted that both would provide a structural dimension to a network, where it can be ‘*a way of analysing where people fit within their group*’. There are differences in terms of which networks entrepreneurs of SMTEs are keen to develop and thus, provide more benefits to their businesses. The benefits for entrepreneurs to participate in a network can range from better access to a new market by collaborating with local partners, sharing expertise in terms of research and development, marketing and production to the sharing of finances and risk with other network contacts (Ebers, 1997; Schoonjans *et al.*, 2013; Snehota & Hakansson, 1995). In the context of SMTEs, the most important factor in networking is the opportunity for them to learn and exchange knowledge in a very cost-efficient manner as this activity can also be a crucial tool for businesses to learn, secure and appropriate their required skills (Badaracco, 1991; Dyer, 1996; Kreiner & Schultz, 1993; Morrison *et al.*, 2004; Shaw & Williams, 2009; Hamel, 1991). Therefore, it is crucial for SMTEs to create a conducive environment for learning and knowledge exchange from the selection of networks.

Interestingly, past literature suggested that informal networks are the preferred choice among small businesses as they seek advice from their peers rather than professional consultants as they will not be burdened by legal contracts and ownership – market and hierarchy (Grant & Baden-Fuller, 2004; Lewis, 2002, Zehrer & Raich, 2010). This means that entrepreneurs can have access to resources such as customer contacts and cheaper suppliers through an informal network (Witt, 2004). Despite this, scholars put more importance for small businesses to employ formal networks in the shaping of strategic business networks such as strategic alliances, joint ventures, long term-buyer and supplier partnerships, and a host of similar ties (Gulati, Nohria & Zaheer, 2000; Hakansson & Snehota, 1997; Shaw & Williams, 2009). This is because informal networks are unable to generate substantial benefits or impacts on an organisation’s performance (Lechner, Dowling & Weipe, 2006). This contrasts with formal networks in the form of inter-organisational ties where they are held to be enduring and focused on strategic significance to the businesses (Gulati *et al.*, 2000).

After thorough consideration, both networks should serve to address SMTE development since entrepreneurs may take the opportunity to make use of networks in retrieving information on the market, potential partnerships, financing opportunities and the environment in which they

are based (Grossman, Yli-Renko & Janakiraman, 2012; Novelli, Schmitz & Spencer, 2006; Solvoll, Alsos & Bulanova, 2015). Based on this premise, the understanding of SMTEs' entrepreneurs' profile could provide vital insights into the designs of networking activities or programmes that are valuable for the growth and development of tourist destinations and businesses. The aim of this study is to characterise the importance of networks in business learning through the profiles of entrepreneurs and SMTEs from the four different sub-sectors of hotels and resorts, travel agencies, restaurants and handicrafts in Terengganu, Malaysia. The selection of the four different sub-sectors is innovative, as it allows a detailed inter-sectoral comparison since few studies have taken such a comparative approach within tourism studies. The following objectives are:

- 1) To examine the characteristics of networks used by entrepreneurs and SMTEs.
- 2) To identify the relationships between the characteristics of entrepreneurs and SMTEs and the importance of formal and informal networks in the process of business learning.

Methodology

This research was conducted in Terengganu, which is one of the 14 states in Malaysia. Terengganu was chosen as the setting of this study as it has immense potential for tourism to grow and contribute to the local economy. This can be seen in the commitment of the Terengganu Government as they implement a policy where tourism is central to the state's economy (The Malaysian Reserve, 2017). With this commitment, the number of tourists' arrivals to the state has recorded impressive growth in the last decade with an increment of 44.9%, with the number rising to 4.9 million in 2017 from 2.7 million tourists in 2007 (Terengganu State Economic Planning, 2017). Based on these developments, the business environments in Terengganu should provide a thriving platform for local entrepreneurs and strengthened network relations among various stakeholders. Two districts of Kuala Nerus and Kuala Terengganu were chosen for data collection. Both areas constitute the crucial and greater part of tourism business activities (based on the sampling frame provided by Tourism Terengganu, 54% of SMTEs are situated within these locations).

In terms of the questionnaire design, there were three main sections, which consist of networking, characteristics of entrepreneurs, and characteristics of SMTEs. There were 17 questions: 2 questions related to networking and 15 questions related to the characteristics of entrepreneurs and SMTEs. A 5 point-Likert scale was used to measure the importance of formal and informal networks in the operation of businesses, while categorical scales were implemented for questions regarding 15 different dimensions of the characteristics of entrepreneurs and SMTEs. The population for this research are the entrepreneurs or owners of SMTEs (hotels and resorts, travel agencies, restaurants, handicrafts). A list of the respective businesses was obtained through a 2015 statistical report by Tourism Terengganu and

TripAdvisor. Overall, only the SMTEs that are independently owned by individual or joint owners were approached. SMTEs that are part of a corporate group or are government owned were excluded. Through this criterion, convenience sampling was adopted.

The survey was carried out from February 2017 to April 2017 and a total of 120 usable questionnaires were collected. The 120 questionnaires were issued to 17 hotels and resorts, 10 travel agencies, 36 restaurants and 41 handicraft suppliers. From this, descriptive analysis in the shape of frequency was used to provide the inter-sectoral characteristics of entrepreneurs and their SMTEs. As for inferential analysis, Mann-Whitney U and Kruskal-Wallis were used to characterise the key group of entrepreneurs and SMTEs that inclined toward formal or informal networks as a more important source of knowledge in the process of business learning. These two non-parametric methods were chosen since there is a large number of characteristics were measured using categorical scales and less stringent requirements compared to the parametric statistics. For the Kruskal-Wallis test, Bonferroni adjustment was employed with the revised alpha values of .017. Follow-up Mann-Whitney U tests were conducted along with the post-hoc test and effect size through the utilisation of Cohen's (1988) criteria of .1=small effect, .3=medium effect and .5=large effect.

Results and discussion

Inter-Sectoral Characteristics of Entrepreneurs and SMTEs

Based on the descriptive results, 7 different dimensions highlight the distinctiveness of each sub-sector of hotels and resorts, travel agencies, restaurants and handicrafts. These dimensions are (1) education, (2) years of previous working experience, (3) years working in tourism sector, (4) formal business training and (5) specific training in tourism, (6) years of business operations and (7) existence of a business plan. Looking at education, most entrepreneurs in hotels and resorts (65.2%) and travel agencies (61.6%) received education at university, either at the undergraduate or postgraduate level. This is different in the context of restaurants and handicrafts as their highest qualification is high school at 63.4% and 67.4% respectively. These findings are similar to restaurants in China, where 91.7% of entrepreneurs only finished their primary, junior, high and vocational schools and some of them were illiterate (Chen & Elston, 2013). The differences of the distribution can be attributed to the higher technical knowledge required in the operations of two sub-sectors of hotels and resorts, and travel agencies as they involve bookings, ticketing, finances and marketing in order to be competitive in the market.

Although the lack of education should further heighten the importance of previous working experience, it is notable that most of the handicraft (61.0%) and restaurant (88.4%) entrepreneurs in this study do not have considerable years of experience (1 to 5 years) when compared to the working experience accumulated (6 or more years) by owners of hotels and

resorts (56.4%) and travel agencies (46.2%). Despite this, a higher percentage of entrepreneurs in handicrafts (60.4%) and restaurants (41.5%) had devoted themselves for a considerable number of years working in their respective sub-sector (more than 6 years) as compared to the entrepreneurs of hotels and resorts and travel agencies (up to 5 years of experience). The pattern of these distributions clearly demonstrated the importance of practical culinary or crafting skills among the restaurants and handicrafts entrepreneurs, as the skills and expertise can be improved with the accumulation of working experience in their respective sub-sectors.

As for formal business and tourism training, most of the restaurant entrepreneurs are not interested as their participation rates are the lowest for such activities with 14.6% and 31.7% respectively. Instead, both types of training are more common among the entrepreneurs of hotels and resorts (43.5% in business training and 52.2% in tourism training). In the same vein, a considerable number of travel agencies (46.2%) and handicrafts' (51.2%) entrepreneurs also participate in formal business training. The relatively high participation rates among hotels and resorts and travel agencies in formal training programmes can be linked with the number of years in business operations and having a business plan.

It is revealed that the majority of hotels and resorts (30.3%) and travel agencies (46.2%) are relative newcomers in terms of business operations (up to 6 years) as compared to the majority of handicrafts and some of the restaurants. A considerable number of handicrafts (51.2%) and a few of the restaurants (24.4%) in Terengganu have been in operation for generations and are more than 25 years old. For this reason, the operations of handicrafts and few of the restaurants are more traditionalistic and a majority of them (63.4% of restaurants and 60.5% of handicrafts) were found not to have any business plan. This is in contrast with the more contemporary approach adopted by the entrepreneurs of hotels and resorts and travel agencies as most of them seems to have the intention to apply for business capital from various public agencies. This is in line with 82.6% and 76.9% of entrepreneurs of hotels and resorts and travel agencies that were found to have a proper business plan.

Characterising Formal and Informal Networks

The results of the Mann-Whitney U and Kruskal Wallis tests indicate that 6 out of the 15 characteristics had significant relationships and differences with the perceived importance of the use of formal networks in SMTEs learning. This is different in the context of the perceived importance of informal networks, as only the years of previous work experience appear to have significant differences and relationships. Evidently, entrepreneurs with up to 2 years of previous work experience are more appreciative of the importance of informal networks ($M=59.49$) in their business learning as compared to entrepreneurs with more than 6 years of previous work experience ($M=43.61$) with medium effect size ($r=.3$), $U=924.50$, $z=-2.77$, $p<0.01$. This can be attributed to the dependency of entrepreneurs, who are lacking on relevant

previous work experience, on the help and support of the more experienced informal contacts of families and friends in the operations of their businesses (Chen & Elston, 2013). As for the group of entrepreneurs that perceive a greater degree of importance for formal networks with small effect size ($r=.2$), the results show that the ones who are involved themselves with formal tourism training ($M=72.40$) are more approving of these formal connections than the entrepreneurs who have not had any formal tourism training ($M=55.80$), $U=1057.50$, $z=-2.48$, $p<0.01$. Likewise, this level of approval ($r=.2$) is also shared by the group of entrepreneurs and SMTEs that have a business plan ($M=66.80$) as compared to those who not ($M=53.98$), $U=1415.00$, $z=-2.12$, $p<0.05$.

Since this group of entrepreneurs is likely to have a plan to obtain capital from formal contacts such as banks or other government agencies, it explains why SMTEs with capital sourced from personal savings ($M=55.85$) are not as appreciative of the use of formal networks as those who have not ($M=75.79$) with medium effect size ($r=.3$), $U=860.00$, $z=-2.79$, $p<0.01$. This is also the same with the group of entrepreneurs that sourced their business capital from families as they do not highly approve the role of formal networks in SMTEs learning ($M=50.15$) as compared to those who gained their capital from different sources ($M=71.20$). Apart from the business capital sources, the nature of the findings on formal tourism training and business plans are also consistent with the age of the entrepreneurs. Interestingly, the younger generation of entrepreneurs below 40 years of age ($M=38.37$) have a more positive perception on the importance of formal networks in their business learning as compared to the group of entrepreneurs of 56 years of age and above ($M=24.98$), ($r=.4$), $U=299.50$, $z=-2.86$, $p<0.001$.

This contrasts with the findings of Yusoff (2011) who suggested that young entrepreneurs in Kelantan, Malaysia are less likely to engage with potential formal contacts for information relating to advisory and support programmes by government training agencies. Despite this, it appears that entrepreneurs with at least 3 to 8 years of working experience in the tourism sector ($M=49.93$) are more approving of formal networks in SMTEs learning as compared to those with shorter working experience within the sector (up to 2 years) ($M=35.70$), ($r=.3$), $U=461.00$, $z=-2.37$, $p<0.01$. Thus, it is important to note the positive regard for formal networks among younger entrepreneurs in this study. Working experience in tourism sector is also pivotal in explaining this relationship.

Conclusion

Through the participation of four different tourism sub-sectors, the novelty and importance of the current study is highlighted through the extensive number of dimensions of entrepreneurs and SMTEs' characteristics. Accordingly, a detailed and comprehensive comparison from an inter-sectoral perspective in profiling the importance of formal and informal networks based on characteristics of entrepreneurs and SMTEs can be achieved. The findings derived from the

characterisation of both networks are important, given that there were about 800 SME development programmes implemented through various public agencies over the period of 2011 to 2015 (Chin & Lim, 2018). Although the nature of these programmes is quite comprehensive as it entails human capital development, market access, access to financing, innovation and infrastructure, most of entrepreneurs and SMTEs in Terengganu are perceived as being stagnant in terms of their development (Abdul-Halim *et al.*, 2012). For this reason, the nature of the findings in this study is crucial in providing the opportunities for relevant policymakers to develop training programmes, organisational initiatives, efforts and policies, as well as cultivate and promote networking and learning behaviours among entrepreneurs in Terengganu.

Reviewing the findings, it can be concluded that there are several inter-sectoral differences in terms of the characteristics of entrepreneurs and SMTEs. From these differences, there are 4 similar dimensions that are crucial in characterising the importance of both networks in their learning. These similar dimensions comprise years of previous work experience and work in the tourism sector, involvement in formal tourism training and the existence of a business plan. However, it is important to note that there is no significant relationship or difference between the dimensions of 4 different sub-sectors and the importance of formal and informal networks. Despite the nature of this finding, 7 dimensions were found to have a statistically significant relationship and difference with the importance of both networks in SMTEs learning, which are crucial in providing the opportunity for policymakers to identify and work with entrepreneurs that can benefit from formal networks. Sector intervention by formal networks such as the public agency is crucial in creating learning networks to increase SMTEs competitiveness (Kelliher & Reinl, 2011).

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