

A Conceptual Framework of the Impact of Entrepreneurial Competencies on Small and Medium Enterprises Business Performance in the Malaysian Hospitality and Tourism Industry

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— *Review of* —
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ABSTRACT

This paper is set out to achieve two objectives. First is to identify the impact of entrepreneurial competencies on the business performance or success of small and medium enterprises (SMEs) in the Malaysian hospitality and tourism industry (HTI). The second objective is to develop a framework for the SMEs entrepreneurial competencies and business performance indicators in the HTI. This is important because the bulk of the existing and new entrants into the HTI are mainly from the SMEs. To do so, this paper has adopted content analysis to analyse the existing studies on entrepreneurial competencies, business performance, and SMEs in HTI. Findings indicate that very few of these SMEs are successful while a large percentage are operating at survival stage and others are on the verge of collapsing due to lack of entrepreneurial competencies which impact negatively on their business performances. Findings also show that the SMEs' performance would depend greatly on internal and external factors, including financial and non-financial measures. The theoretical contribution and managerial implications are also suggested.

Keywords: Entrepreneurial Competencies; Business Performance; SMEs; HTI

1. INTRODUCTION

The hospitality and tourism industry (HTI) is regarded as one of the services economic sector in Malaysia (Siti-Nabiha et al., 2010). According to Ottenbacher & Gnoth (2005), services are defined as intangible goods, and services sector is known as the tertiary sector which involves the provision of services to businesses as well as final consumers or users. The hospitality and tourism industry is an important sector of the Malaysian economy. In 2010, Malaysia was ranked 9th most visited tourism country in the world after recording 24.7 million tourist arrivals and receipts of RM58.3 billion or US\$19.3 billion (United Nations World Tourism Organisation [UNWTO], 2011), more than triple the number of tourist arrivals in 1999 at 7.9 million (Tourism Malaysia, 2011). Likewise, Malaysia recorded an increase in the number of tourist arrivals of 25.1 million and receipts of RM60.6 billion or US\$20.2 billion in 2012 (Tourism Malaysia, 2013). This increase in the number of tourist

arrivals and receipts has led to calls to improve the quality of hospitality (hotel sector) because it plays an important role in attracting potential tourists and repeat visitors (SitiNabiha et al., 2010). This growth continued in 2013 with tourist arrivals of 25.7 million and receipts of RM67.3 billion or US\$21.018 billion (UNWTO, 2014), and also in 2014 the number of tourist arrivals in Malaysia increased to 27.3 million but the tourist receipt reduced to RM60.6 billion (UNWTO, 2014, Tourism Malaysia, 2014, 2015). It should be noted that the services sector is also growing because it contributes about 60% of the Malaysian small and medium enterprises (SMEs) gross domestic product (GDP) (SMECorp Malaysia, 2014).

2. LITERATURE REVIEW

2.1 THEORETICAL FRAMEWORK ON SMES

A review of the extant literature work indicates that there are different definitions of SMEs from different economies of the world. It has been observed that some countries use the term micro, small and medium enterprises (MSMEs) to refer to SMEs (Kushnir, 2010). Likewise, the variables used to explain MSMEs or SMEs include the number of employees, annual sales turnover, assets, capital investment and these vary from industry to industry (Kushnir, 2010). The National SME Development Council (NSDC) - which is the highest policy making authority on SME development in Malaysia - has grouped Malaysia SME's into three groups which are micro, small and medium. NSDC also standardize the use of common definition of SMEs based on two criteria, namely full-time employees and annual sales turnover (Rashid et al., 2013).

Since 2005, a common definition for SMEs endorsed by the National SME Development Council (NSDC) has been adopted across ministries and agencies, financial institutions and regulators involved in SME development programmes. The SMEs definition is summarised and presented in Table 1.

Table 1. SME Definition

Industry	Micro enterprise	Small enterprise	Medium enterprise
Manufacturing: manufacturing-related services and agro-based industries	Sales turnover of less than RM250,000 OR full-time employees less than 5	Sales turnover between RM250,000 and less than RM10 million OR full-time employees between 5 and 50	Sales turnover between RM10 million and RM25 million OR full-time employees between 51 and 150
Services: agriculture and ICT	Sales turnover of less than RM200,000 OR full-time employees less than 5	Sales turnover between RM200,000 and less than RM1 million OR full-time employees between 5 and 19	Sales turnover between RM1 million and RM5 million OR full-time employees between 20 and 50

Source: National SME Development Council (2005)

However, in 2013 the NSDC categorised SMEs by size of operation category. Microenterprises across all sectors are those with sales turnover of less than RM300,000 or less than 5 full-time employees. Given that there have been many developments in the economy since 2005 - such as price inflation, structural changes and change in business

trends - a review of the definition was undertaken in 2013 and a new SME definition was endorsed by the NSDC Meeting in July 2013 (SMECorp Malaysia, 2014). The new definition is presented in Table 2.

Table 2: Definition by Size of Operation

Category	Small	Medium
Manufacturing	Sales turnover from RM300,000 to less than RM15 million OR full-time employees from 5 to less than 75	Sales turnover from RM15 million but not exceeding RM50 million OR full-time employees from 75 but not exceeding 200
Services & Other Sectors	Sales turnover from RM300,000 to less than RM3 million OR full-time employees from 5 to less than 30	Sales turnover from RM3 million but not exceeding RM20 million OR full-time employees from 30 but not exceeding 75

Source: SME Corporation Malaysia (2014)

Small and medium enterprises' (SMEs) participation in the hospitality and tourism industry in Malaysia is important to the development of the national economy. This is because, in general, SMEs are believed to be the backbone of the economic development of a country (Rashid et al., 2013). For example, in Malaysia, SMEs account for over 90% of business establishments in the five economic sectors, namely manufacturing, construction, agriculture, mining and quarrying, and services which include hospitality and tourism services (SME Annual Report, 2011). The SMEs in the hospitality and tourism industry would also have a huge impact on the economic growth and development of Malaysia.

2.2 SMEs BUSINESS ACTIVITIES IN THE HOSPITALITY AND TOURISM INDUSTRY

Small and medium-sized hospitality and tourism enterprises are usually managed by their owners who are, in most cases, married couples, using the term 'copreneurs' to represent the kind of family business (Morrison, 2002; Main, 2002; Rashid et al., 2013). This is because in the hospitality and tourism industry, there are many opportunities for SMEs to mushroom due to the small amount of start-up capital, and barriers to entry appear to be relatively low (UNESCAP, 2005). This claim is consistent with several studies were undertaken over the years, that there are opportunities in the HTI (Hanqin & Morrison, 2007; Sharma & Upneja, 2005; Rogerson, 2004; Thomas, 2000).

The SME businesses in the hospitality and tourism industry include local restaurants that provide for the needs of the tourists; accommodation in the form of homestays, longhouses, budget hotels and boutique hotels; transportation; and other necessities (Rashid et al., 2013; Konrad & Ekiem, 2011). Othman & Rosli (2011) classified SME business activities in the hospitality and tourism into food and accommodation services, retail and souvenir, travel agent, transport and tour guide,

and other services which are the requests of the visitors. Likewise, SME business activities also include the provision of accommodation, particularly the small bed-and-breakfast category (Rogerson, 2004); small hotels and restaurants (Sharma & Upneja, 2005); lodges and the handicraft industry (Mbaiwa, 2003). However, it appears that previous studies have focused more on the interrelation between hospitality, tourism and SME business activities (Shaw, 2004; Thomas et al., 2011), and accommodation services (Mshenga & Owuor, 2009). The entrepreneurial competencies of the owners of these SMEs have received lesser academic interest and how competencies impact on the SME's performances in the HTI.

2.3 ENTREPRENEURIAL COMPETENCIES

Bird (1995) states that competency refers to the quality of entrepreneur's action that contributes to venture outcomes. The entrepreneurial competencies are associated with the formation, survival and venture's growth (Bird, 1995; Colombo & Grilli, 2005). There is evidence that an entrepreneur's skills lead to venture performance, expansion or growth (Bird, 1995; Lerner & Almor, 2002). Furthermore, research has shown that entrepreneurial skills of entrepreneurs also contribute towards profitability and growth of business (Chandler & Jansen, 1992). Moreover, the literature focuses on different mechanisms whereby competencies can impact on performance. First, the competent entrepreneurs seek for better venture opportunities. Second, management competencies of entrepreneurs are related to formulate venture strategy that better fit within their businesses.

Freel (1999) notes that management deficiencies within small firms - for example, poor planning, inadequate delegation, insufficient marketing, and lack of functional expertise and discontinuity of management staff - were related to the failure of small businesses. Personal qualities, self-confidence, leadership, innovativeness (innovation?) and risk-taking abilities are essential for entrepreneur success (Martin & Staines, 1994). Man et al. (2002) have identified ten areas of entrepreneurial competencies, namely opportunity, relationship, innovative, analytical, operational, commitment, human, strategic, personal and learning competencies. Such competencies have either a direct or indirect influence on SME performance. Entrepreneur's skills keep on changing as the firm moves from one stage of development to another (Churchill & Lewis, 1983). Therefore, it is vital to understand the changes that result from venture's growth because entrepreneur's skills and capabilities for one stage will not be suitable for another (Mitchelmore, & Rowley, 2010). Training can be used to develop essential entrepreneurial competencies, and managerial competencies are important to develop among entrepreneurs because they have to manage all business activities. Thus, the management development programs should be implemented in the small business sector to enhance the firm's ability to compete successfully in the market place to create greater economic value. Management development refers to the process of learning and improving the manager's abilities to plan, organize, lead and coordinate activities and resources in the businesses (Gabrielsson & Tell, 2009). On top of that, other studies have argued that the success or performance of SMEs is determined by both internal and external factors (Rogoff, Lee & Suh, 2004; Smallbone & Welter, 2001). Therefore, in line with the aim of this paper, the methodology adopted is presented in the next section.

3. METHODOLOGY

Content analysis is found to be a useful technique that can be used to analyse any kind of text (Esterberg, 2002). For the purpose of achieving the aim of this paper, qualitative content analysis (QCA) was adopted to analyse the extant literature work reviewed in this paper. These studies include SMEs, hospitality and tourism enterprises, marketing, entrepreneurship, competencies, business performances, and growth. More importantly, the criteria used to select the literature include the title of the journal articles must predominantly be scoped within the fields of research spectrum reviewed in this study as mentioned above as well as the subtitles of these journal articles. Moreover, the eight steps in QCA recommended by Schreier (2012) were adopted as outlined. These include: (1) deciding on your research questions; (2) selecting your material; (3) building a coding frame; (4) dividing your material into units of coding; (5) trying out your coding frame; (6) evaluating and modifying your coding frame; (7) evaluating and modifying your coding frame; and (8) interpreting and presenting your findings. Likewise, the five checklists suggested by Schreier (2012) were also applied, which include: (a) when you are dealing with rich data that requires interpretation; (b) on verbal data, (c) on visual data; (d) on data that you have sampled from other sources (documents, internet, etc.); and (e) on data that you have collected yourself (interviews, focus groups, etc.). It should be noted that content analysis has been used in the past studies on hospitality and tourism research. These studies include case studies in tourism research (Xiao & Smith, 2006), and power in destination branding (Marzano & Scott, 2009) just to mention a few. This is followed by the findings and discussion section.

4. FINDINGS AND DISCUSSION

4.1 SMEs ENTREPRENEURIAL COMPETENCIES FACTORS AND BUSINESS PERFORMANCE

The results of the review of existing literature sources show that the SMEs business performance in terms of success or failure in hospitality and tourism industry would depend on several entrepreneurial competencies factors as presented in the following Table 3.

Table 3. Entrepreneurial Competencies Factors and Business Performance Indicators of SMEs

Sources	Factors and Indicators
Kaur & Sandhu (2013)	<p>Entrepreneurial competencies factors</p> <p>Individual-specific factors: background of founder/manager, entrepreneurial orientation</p> <p>Firm-specific factors: unique resources, networking ability</p> <p>External factors – globalisation forces, government support</p>
Ferreira et al. (2011); Storey (1994)	The entrepreneur's characteristics; the small firm's characteristics; and the firm's development strategies
Mitchelmore & Rowley (2010)	Entrepreneur's demographic and behavioural attributes

Garney et al. (2006); Rogoff et al. (2004)	Success and failure depends on internal and external factors
Smallbone & Welter (2001)	
Sharma & Upneja (2005); Basu & Goswami (1999)	Educational level of the owners, previous business experience, family background, informal sources of finance, bank finance at start-up
Wijewardena & Tibbits (1999);	Individual entrepreneurs, firm-specific attributes, and external factors
Chandler & Jansen (1992)	Entrepreneurial skills, technical skills and managerial role
Business Performance Indicators	
Saad & Patel (2006); Maes et al. (2005)	Financial measures – turnover or sales, profit, productivity, return on investment
	Non-financial measures – number of employees, stakeholder's satisfaction, learning, communication, trust and competitive advantage

Source: Developed for this study

Many empirical studies in the field of entrepreneurship have used growth rate or profitability, or both, to measure the performance of venture performance (Lee & Tsang, 2001; Jo & Lee, 1996; Stuart & Abetti, 1990; Begley & Boyd, 1987). Also in the literature of entrepreneurship, the business performance is usually measured by growth in employees or sales, and/or by the increase in profits (Chandler & Hanks 1994; Box et al., 1993; Covin & Covin 1990; Gales & Blackburn 1990). The growth and profitability measure different aspects of performance. For instance, sometimes the growth is achieved at the expense of profitability in the short run (Zahra, 1991). Thus, it may not be suitable to combine profitability and growth rate to create a single measure of firm performance (Chandler & Jansen, 1992). Lee & Tsang (2001) also state that most of the entrepreneurial firms are of small or medium size that are privately held, and are not required legally to disclose information regarding their performance. Therefore, the most sensitive matter for SMEs is to disclose their financial performance but the business growth data may be a less sensitive matter for them (Lee & Tsang, 2001). Chandler & Hanks (1993) found better internal consistency and content validity in self-reported data regarding business growth compared with self-reported data about performance of ventures.

According to Brinckmann (2008), the growth is measured by employment growth or annual sales growth of the venture. These both dimensions can be assessed by the objective data and are frequently used to measure the growth (Baum & Silverman, 2004; Wiklund, 1999). In the existing literature, there is no consensus on the most appropriate performance measures of small firms and previous researchers focused only on those variables of performance measures for which information was easy to get (Cooper, 1993). However, past studies have advocated growth as an important measure of performance in the context of small firms (Brush & Vanderwerf, 1992; Chandler & Hanks, 1993; Fombrun & Wally, 1989; Tsai et al., 1991). Wiklund (1999) argues that growth is an easily accessible indicator of

performance and more accurate as well compared to the accounting measures and other measures regarding financial performance. But an alternative view exists regarding performance, according to which it is multidimensional in nature where the integration of different performance dimensions will be more beneficial in empirical studies (Lumpkin & Dess, 1996; Cameron, 1978). The growth and financial performance reveal unique and important information but both dimensions are regarded as different aspects of performance (Wilklund, 1999; Zahra, 1991).

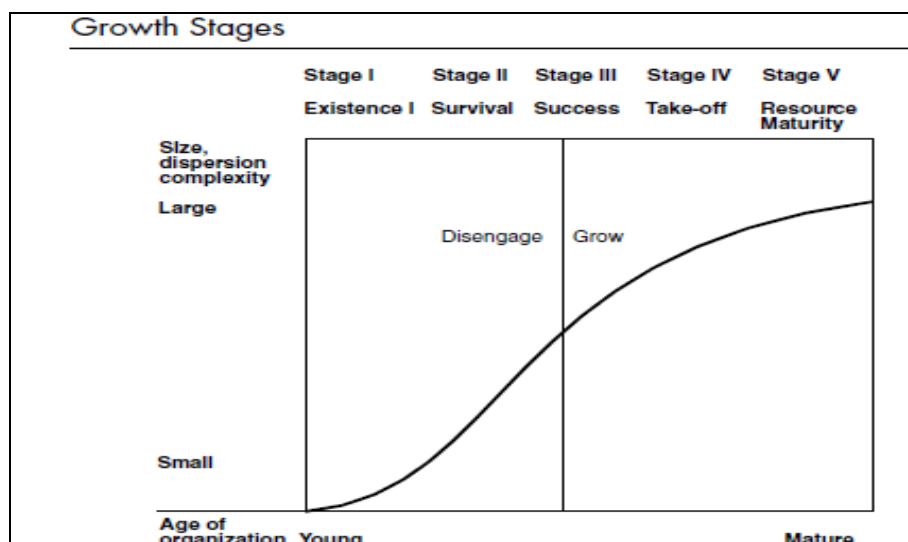
Thus, the combination of growth and financial performance give detailed description of the firm's actual performance as compared to each given separately (Wilklund, 1999). The researchers agree that sales growth is the best measure of growth. It describes short-term as well as long-term changes in the firm and can be easily obtained as well. Employment growth and firm's assets are other aspects to measure the firm's growth (Wilklund, 1999). The growth of firm's assets is considered as problematic in the service sector (Weinzimmer et al., 1998). This measurement of growth in firm's assets is a main accounting problem. Whereas the intangible assets may expand in the growing service firms but that is not shown in the company's balance sheets. Thus, it is difficult to get data regarding growth of assets in the service industry (Wilklund, 1999). Also, the comparison of performance with the competitors gives supplementary information regarding the firm's performance (Wilklund, 1999; Birley & Westhead, 1990). In summary, the existing literature suggests that the performance measures should consider both financial performance and growth. Also the firm's performance should be compared with the competing firms. Sales expansion, employment growth and assets provide important and complementary information.

4.2 THE FIVE STAGES OF SMALL BUSINESS GROWTH

Small businesses vary in size and have different growth capacity as well. It is vital to understand what different entrepreneurial competencies are needed at different stages of business growth. Many researchers have developed different models to examine businesses but were criticized due to their limitations. For example, according to Churchill and Lewis (1983), the previous models are inappropriate for small businesses due to three reasons: firstly, they were based on the assumption that the company must grow and pass through all development stages. Secondly, the models were not acceptable due to their failure in capturing the company's early stages of origin and growth. Thirdly, such framework characterized companies by their size, either based on annual sales or number of employees, and ignored other factors such as value added, product technology and so on. Thus, Churchill and Lewis (1983) proposed another model that is characterized by size, diversity and complexity and described by management style, extent of formal systems, strategic goals, organizational structure and owner's involvement in business.

Due to suitability of this model to examine small businesses, this research will investigate the relationship of entrepreneurial competencies with the following stages of growth in small businesses as presented in Figure 1.

Figure 1: Stages of growth in small businesses



Source: Adopted from Churchill & Lewis (1983)

The five stages of small business growth are summarised as followed:

(i) Existence

At this first stage, the businesses mainly focus on attracting customers and delivering service or products on time according to contract. The company's main goal is to survive. If the companies fail to get the sufficient customers or product capability, then the businesses have to cease at this stage and the owners quit the businesses due to the inability of the business to survive (Churchill & Lewis, 1983).

(ii) Survival

This is the second stage of an enterprise. The businesses have enough satisfied customers. However, the systems development and formal planning is minimal as the main aim of business is still survival only. From here, the enterprise may grow in profitability and size and can move towards the next stage, or can just maintain its survival stage. However, the enterprise faces major challenges such as cash generation to cover replacement of capital assets and generation of cash flow to stay in business or grow to a larger size (Churchill & Lewis, 1983).

(iii) Success

At this third stage, the owner of business has to decide whether to expand the company's business or to maintain its stability or profitability only. There are two possibilities for success of company at this stage. Firstly, it is called "Success-Disengagement Sub-stage" in which the company might gain economic success through its size and product-market penetration and earn average or above average profits. The second possibility of any company in success stage is referred to as "Success-Growth Sub-stage"; at this stage, the most important concern is to maintain the business at high profitability. Managers are hired by focusing on the company's future rather than its current situation (Churchill & Lewis, 1983).

(iv) Take Off

The main problems are concerned with the rapid growth and financing of the company. The major issues are regarding delegation and cash. For instance, it has to be decided whether the owner can delegate the responsibility to others in order to improve managerial effectiveness of a rapid growing company, and whether there would be sufficient cash available to meet the growth demands. Thus, the key

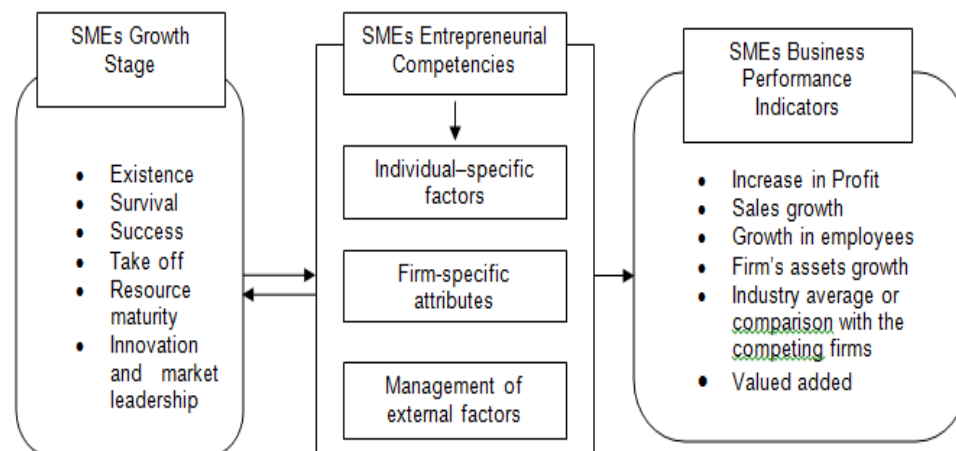
managers must be very competent to handle the growth stage of the company. The company is mainly dominated by the owner's presence. It is an important period in the company's life. If the company successfully overcomes the financial and managerial challenges, then it may become a big business; otherwise, it can be sold out at profit if the owners recognise their limitations. This is because most of the businesses become unsuccessful at stage four when the owners try to grow the business rapidly and run out the cash. If the company cannot grow, then either it drops back to stage three, survival stage or even fail. For stage four, the strategic competency of the entrepreneur is required to meet the challenges (Churchill & Lewis, 1983).

(v) Resource Maturity

The company is concerned with the consolidation and control of financial gains as well as to maintain the advantages of being small size at this stage. The company has to hire more management staff to enhance the company's rapid growth. Besides this, the company has to fully utilize its staff and financial resources for operational and strategic planning. At this stage the management is well experienced and decentralized, all systems are well developed, but owner and business are financially and operationally separated. The company has advantages of size, managerial talent and financial resources. More importantly, after this stage individual SMEs need to develop innovative strategies to remain as a market leader (Churchill & Lewis, 1983).

Based on the findings of this paper, a framework for SMEs entrepreneurial competencies and business performance indicators in the HTI is derived. The conceptual framework is illustrated in Figure 2.

Figure 2. Conceptual Framework for SMEs entrepreneurial competencies and business performance indicators



Source: Developed for this study

5. IMPLICATIONS AND CONCLUSION

As mentioned in the previous section, findings show that the SMEs business performance would depend greatly on internal and external factors, including financial and non-financial measures. Similarly, entrepreneurial competencies would impact on the performance of SMEs in the HTI from the combination of the following important features: (a) the entrepreneur's characteristics; (b) the small firm's characteristics; and (c) the firm's development strategies (Ferreira et al., 2011; Storey, 1994, cited in Ferreira et al., 2011). From the context of Malaysia, studies on

entrepreneurial competencies of SMEs performance on HTI are still lacking. This is consistent with the previous study that, in Malaysia, academic research on the impact of tourism on SMEs business performance is very limited or non-existent (Othman & Rosli, 2011).

The main theoretical contribution of this paper is that it has developed a framework for SMEs' entrepreneurial competencies and business performance indicators for HTI. It has established the facts that internal factors such as individual SMEs entrepreneurs, firm-specific attributes, limited access to human, financial and organisation resources are entrepreneurial competencies that are still lacking among the SMEs operators in the Malaysian HTI. In addition, based on the previous work, most of the SMEs in the HTI in Malaysia (Othman & Rosli, 2011) are operating on the survival level of the stage two of growth in small businesses (Churchill & Lewis, 1983).

Similarly, from the managerial implications, findings indicate the framework developed in this paper can be applied by the SME operators in HTI. Practical implication indicates that the management of external factors (including perceived risks, security and assurance), and globalisation forces and government support (Kaur & Sandhu, 2013) are beyond the control of SMEs in terms of demonstrating their entrepreneurial competencies for better performance. These findings are in harmony with Smallbone & Welter (2001) that external environment is beyond the control of entrepreneurial competencies of a business and can be either hostile or in favour of small businesses (Othman & Rosli, 2011).

In conclusion, this study relies heavily on the extant literature work. Therefore, based on the findings from this paper, it is suggested that the future studies should involve empirical research that would involve qualitative research purposely to explore views and experiences of SMEs entrepreneurs. This is important in order to elicit detailed information of entrepreneurial competencies on SMEs' performance in the HTI, specifically in Malaysia. Likewise, quantitative methodology is also important for the purpose of gathering large quantity of data for further analysis and comparison between the potential findings from the exploratory research.

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