

**RELATIONSHIP BETWEEN INNOVATIVENESS
AND PERFORMANCE: A STUDY OF TOURISM
ENTREPRENEURS IN LANGKAWI**

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AND PERFORMANCE: A STUDY OF TOURISM
ENTREPRENEURS IN LANGKAWI**

by

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**HUBUNGAN ANTARA PERLAKUAN INOVATIF DAN PRESTASI:
KAJIAN USAHAWAN PELANCONGAN DI LANGKAWI**

ABSTRAK

Pelancongan adalah komponen terbesar dalam sektor perkhidmatan dan merupakan penyumbang terbesar kepada keluaran dalam negara kasar (KDNK) Malaysia. Prestasi industri pelancongan merudum disebabkan oleh pelbagai masalah seperti krisis ekonomi global dan persaingan yang kuat dari negara-negara lain. Usaha inovatif diperlukan untuk mempromosikan industri ini untuk meraih manfaat dan potensi sepenuhnya. Inovasi sememangnya menjadi salah satu faktor penting dalam meningkatkan perusahaan pelancongan. Berdasarkan permasalahan yang telah dinyatakan, tujuan kajian ini adalah untuk mengkaji hubungan antara tiga pemboleh ubah inovatif dan prestasi. Di samping itu, peranan penyederhanaan rangkaian politik dan sokongan institusi juga akan dikaji. Berdasarkan maklum balas dari 126 usahawan bidang pelancongan, kajian ini melakukan analisis permodalan persamaan struktur sebahagian kuadrat untuk menguji semua hipotesis. Di samping itu, kajian ini juga mengendalikan wawancara kualitatif separuh berstruktur untuk memahami secara terperinci cabaran yang dihadapi oleh usahawan. Pada umumnya, inovatif pasaran, inovatif strategik, rangkaian politik dan sokongan institusi secara positif mempengaruhi prestasi. Tambahan pula, rangkaian politik menyederhanakan hubungan antara semua pembentukan inovatif (pasaran, tingkah laku dan strategik) dan prestasi. Walau bagaimanapun, sokongan institusi hanya menyederhanakan hubungan antara inovasi pasaran dan prestasi. Selain menyediakan beberapa bukti penting baharu berkaitan inovatif usahawan berkaitan pelancongan, kajian ini juga

memberi implikasi penting kepada para pengurus dan pembuat dasar sambil mendedahkan skop yang sebagai cadangan untuk penyelidikan masa depan.

**RELATIONSHIP BETWEEN INNOVATIVENESS AND
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LANGKAWI**

ABSTRACT

Tourism is is the largest component within the service sector which in turn the largest contributor to Malaysia's gross domestic product (GDP). Tourism industry is in a downward spiral due to various reasons such as global economic crisis strong competition from other countries. Innovative efforts are necessary to further promote this industry to reap the full benefits and potential. Innovativeness remains one of the important factors in enhancing tourism enterprises. In view of the above, the purpose of this study is to examine the interrelationship of three innovativeness variables and performance. In addition to that, the moderating role of political networking and institutional support will also be studied. Based on responses from 126 tourism related entrepreneurs, this study conducted partial-least-square structural equation modeling analysis to test all the hypotheses. Additionally, this study also conducted semi structured qualitative interviews to understand in detail the challenges faced by entrepreneurs. In general, market innovativeness, strategic innovativeness, political networking and institutional support positively influence performance. Furthermore, political networking moderates the relationship between all there innovativeness constructs (market, behavior and strategic) and performance. However, institutional support only moderates the relationship between market innovativeness and performance. Apart from providing some new evidence in the important area of innovativeness of tourism related entrepreneurs, this study has also important

implication for managers and policy makers while revealing considerable scope for future research.

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Tourism is an important contributor to Malaysian economy. It is the largest component within the service sector which in turn the largest contributor to Malaysia's gross domestic product (GDP) (10th Malaysia Plan 2011- 2015, 2010). On the basis of its contribution to the economy, tourism has been included as one of the agenda in the National Key Economic Areas. The tourism industries employ 1.7 million workers (16% of total employment) in 2008. From 2006 to 2009, revenue from the tourism industry increased 67.1% to RM53.4 billion and tourist arrivals increased 43.6% to 23.6 million.

Despite these achievements, several issues need to be addressed, including the need to develop vibrant and iconic tourism products, improve maintenance of existing tourism sites and adopting focused tourism promotions. During the 10th Malaysia Plan period, the target is to improve Malaysia's position to be within the top 10 in terms of global tourism receipts and increase the sector's contribution by 2.1 times, contributing RM115 billion in receipts and providing 2 million jobs in the industry in 2015.

To achieve the 2015 target, the focus will be on attracting a larger share of high spend travelers and capturing a higher share of high growth segments, particularly from Russia, India, China and Middle East, in addition to increasing the number of tourist arrivals. The strategies to achieve the targets are as follows:

1. Promoting differentiated strategies;

2. Improving tourism products through the creation of focused tourism clusters (Langkawi (the Geopark and Pulau Payar Marine Park), Pulau Pinang (Georgetown UNESCO World Heritage Sites), Sabah (Sipadan Island and Kinabalu Park UNESCO World Heritage Sites) and Sarawak (Sarawak Cultural Village and Gunung Mulu National Park UNESCO World Heritage Sites));
3. Develop new iconic tourism products through the private sector and public-private partnership;
4. Improve maintenance of tourist sites;
5. Realign promotional and advertising activities and physical presence of Tourism Malaysia offices overseas; and
6. Introduce certification of tourism products and activities.

Apart from all the strategies listed above, innovativeness remains one of the important factors in enhancing tourism enterprises. Datuk Mirza Mohammad Taiyab urged tour agents “to get innovative and creative” (“RM40bil targeted from local tourism: Tour agents told to get innovative and creative to woo the public,” 2010). Furthermore, Datuk Seri Ng Yen Yen, Tourism Minister, told the tourism industry to be “more innovative and creative in exploiting and capitalizing on product” (“Be more innovative and creative, tourism players told,” 2010). Therefore there is a need for a research looking at innovativeness of tourism based enterprises.

1.1.1 Malaysian Tourism

Tourism is the largest component within the service sector (which in turn the largest contributor to Malaysia’s gross domestic product). On the basis of its

contribution to the economy, tourism has been included as one of the agenda in the National Key Economic Areas (10th Malaysia Plan 2011- 2015, 2010). The tourism industries employ 1.7 million workers (16% of total employment) in 2008. Table 1.1 listed employment in the tourism industry.

Table 1.1 Employment in the tourism industry, No. of Persons ('000)

| Year | Accommodation services | Food and beverage serving services | Passenger transport services | Travel agencies and other reservation services | Cultural, sports and recreational services | Retail sale of automotive fuel | Retail trade | Country-specific tourism characteristic services | Total |
|------|------------------------|------------------------------------|------------------------------|--|--|--------------------------------|--------------|--|--------|
| 2005 | 130.7 | 501.3 | 155.2 | 23 | 65 | ... | 447.6 | 188.7 | 1511.5 |
| 2006 | 128 | 555.6 | 145.2 | 26.9 | 58.5 | ... | 455.3 | 185.1 | 1554.6 |
| 2007 | 139.7 | 579 | 130.9 | 27.8 | 60.6 | ... | 444.9 | 185.9 | 1568.8 |
| 2008 | 162 | 592.4 | 152.6 | 28.2 | 63.3 | ... | 469.1 | 210 | 1677.6 |
| 2009 | 156.3 | 613.9 | 151.1 | 34.7 | 65 | ... | 505.1 | 233.4 | 1759.5 |
| 2010 | 176.2 | 647.6 | 143.5 | 22.8 | 84.3 | 23.2 | 669 | 328 | 2094.7 |
| 2011 | 176.1 | 743.4 | 139.5 | 33.5 | 81.1 | 30 | 884.4 | 390.5 | 2478.4 |
| 2012 | 188.7 | 746.4 | 152.9 | 28 | 80.3 | 36.2 | 926.8 | 406.2 | 2565.7 |
| 2013 | 180.8 | 831.7 | 153.5 | 31.7 | 75.5 | 32.3 | 951.4 | 419.1 | 2676 |
| 2014 | 231.2 | 900.7 | 154.6 | 37.4 | 87.9 | 36.1 | 979.4 | 432.6 | 2860 |
| 2015 | 199 | 912.7 | 159.2 | 32.7 | 75.6 | 32.9 | 992.5 | 509 | 2913.7 |

Source: Department of Statistics Malaysia (2017).

From 2006 to 2009, revenue from the tourism industry increased 67.1% to RM53.4 billion and tourist arrivals increased 43.6% to 23.6 million. The tourism industry is currently Malaysia's third most important industry in terms of foreign exchange earnings after the manufacturing and palm oil sectors. Its contribution to GDP growth is about 7.2%, suggesting that the industry is still in its infancy and therefore offers much scope for future growth. Furthermore tourism industry has been recognized as important economic activities especially during the current economic crisis. Malaysian government announced as part of the Mini Budget tabled in parliament on 10th March 2009 that RM200 million will be allocated to various tourism related programs

During the 10th Malaysia Plan period, the target is to improve Malaysia's position to be within the top 10 in terms of global tourism receipts, to increase the sector's contribution by 2.1 times, contributing RM115 billion in receipts and to provides 2 million jobs in the industry in 2015. To achieve the 2015 target, the focus will be on attracting a larger share of high spend travelers, capturing a higher share of high growth segments, particularly from Russia, India, China and Middle East and increasing the number of overall tourist arrivals.

1.1.2 Langkawi Island

Langkawi Island comprises archipelago of 99 islands located in the Andaman Sea, around 30 km off the mainland coast of northwestern Malaysia. The island is characterized by a sunny, hot, and humid tropical climate.

Langkawi Island, because of the abundant natural resources and untapped potential has become one of the most popular destinations for the expansion of the

tourism industry in Peninsular Malaysia (Ismail, 2009). The island can be found in the northwestern part of the peninsula. Tourists come from all over the world to enjoy the island's beautiful beaches, abundant marine life, tropical weather conditions, lush rainforests, freshwater lakes, and the island's karst landscape.

Langkawi Island's transformation from a picturesque tropical island populated by farmers and fishermen to a tourist island has been significant as tourism has become the island's primary economic activity. The influx of visitors is now one of the most important sources of revenue for the island, as the growth of related industries like food and beverage, lodging, and entertainment is dependent on it (Halim et. al, 2022; Hashim, Aziz and Aziz, 2011).

Tourism plays a substantial role in the development of a small island like Langkawi. There are rapid investments by both the federal and state government as well as the private sector in developing Langkawi (Hanafiah et. al., 2016). The Langkawi Development Authority (LADA) is the local governance agency responsible for expanding and supporting tourism development in Langkawi. LADA is involved in the social, economic and physical development of Langkawi. LADA also involved in preserving the natural resources and offering a conducive environment for tourism business activities. With such development, the growth of tourism on Langkawi Island has been dramatic during the past decades. Visitor arrivals in Langkawi increased as presented in Table 1.2.

Langkawi Island has undergone significant economic transformation due to tourism (Omar, Othman & Mohamed, 2014). The development of Langkawi as a tourist destination is given a much-needed boost by being a tax-free island (Hanafiah, Azman, Jamaluddin & Aminuddin, 2016). Malaysian Government declared the island

a duty-free port in order to stimulate tourism development (Jaafar, Rasoolimanesh & Ismail, 2017).

Table 1.2 Tourist Arrival to Langkawi, No. of Persons ('000)

| Year | Jetty Terminal | | | | Airport | | Langkawi Port | Total |
|------|----------------|---------------|---------|-------|-----------|---------------|---------------------|-----------|
| | Domestic | International | Cruise | Yacht | Domestic | International | Car Passenger Ferry | |
| 2014 | 2,177,701 | 132,355 | 158,546 | 5,730 | 1,019,435 | 85,830 | 20,914 | 3,600,511 |
| 2015 | 2,066,924 | 155,089 | 197,021 | 5,608 | 1,055,438 | 85,820 | 58,249 | 3,624,149 |
| 2016 | 2,077,571 | 135,621 | 57,801 | 5,270 | 1,171,913 | 119,515 | 66,826 | 3,634,517 |
| 2017 | 1,920,408 | 125,582 | 157,304 | 5,021 | 1,206,339 | 139,435 | 125,069 | 3,679,158 |

Source: Kedah State Government (2018).

1.2 Problem Statement

Successful performance or growth of tourism entrepreneurs is largely determined by the distinctive competencies and competitive advantages that have been earned or developed by the tourism entrepreneurs. According to Barney (1991), for a resource to be a potential source of competitive advantage it must allow the firm to adept and implement strategies that will improve its efficiency and effectiveness. Therefore, tourism entrepreneurs need to explore how their resources can be transformed into competencies and competitive advantages that will put them in an

advantageous position against their competitor. In pursuing the process of exploration and transformation of resources into competencies and competitive advantages, tourism entrepreneurs face diverse challenges and problems (Hilmi, 2017). The major stimulus for this study is to investigate the factors that can lead to improving the performance of tourism entrepreneurs in Malaysia by focusing on innovativeness characteristics that will enable them to face those challenges and problems.

The performance of tourism entrepreneurs, which are mostly SMEs will have a huge impact on the economy of this country (Kruja, 2013). Strong and successful SMEs will definitely benefit the Malaysian economy. However, SMEs are facing huge challenges (Soomro, Shah and Mangi, 2018). Currently, SMEs are very vulnerable towards the changes taking place in the world economy and there is an urgent need for SMEs to enhance their competitive advantages (Mahmood and Hanafi, 2013; Shen-Li, 2005). Furthermore, it is vital to build a strong SME's base if Malaysia is serious in creating home bred Multinational Corporations (MNC). A strong local business environment will also help to attract more joint ventures between Malaysian and foreign companies (Hilmi et. al, 2010). It has becomes mandatory for SMEs to exploit their distinctive competencies (Hilmi and Ramayah, 2008), to gain sustainable competitive advantages and to seek different ways to improve performance. One way to develop and enhance competitive advantages is through proper utilization of resources and enhancing their innovativeness (Jayaraman and Luo, 2007). In addition to that, SMEs provided an important contribution to economic growth and economic growth stems from innovation (Mahemba and De Bruijn, 2003). Even though every business entity understands the need to properly utilize its resource in achieving its business objective and superior performance, not many of them are successful at actually doing it.

The travel and tourism industry is currently experiencing a downward trend as a result of a number of factors, such as the ongoing economic crisis around the world and the intense competition from other countries (Ritchie et. al, 2010). Innovative efforts are required to promote this industry so that it can realise its full benefits and potential, giving it a competitive edge over Thailand, Hong Kong, and Singapore. The development of competitive tourism products or services should be prioritised in order to increase foreign exchange earnings and savings. Creativity and other innovative approaches are essential for success.

There are studies linking innovativeness (Durmusoglu et al., 2018; Hilmi, 2017; Ganglmair-Wooliscroft and Wooliscroft, 2016; Mohd Bukhari and Hilmi 2012; Phankhong, Bakar and Poespowidjojo, 2020), political networking (Bousset et al., 2007; Ribeiro et al., 2021) and institutional support (Choy and Kamoche, 2021; Lerner and Haber, 2001; Sikora and Nybakk, 2012) to performance of tourism related entrepreneurs.

Looking into 60 hotels in Thailand, Phankhong, Bakar and Poespowidjojo (2020), investigated the impact of market innovativeness on performance. Behavioral innovativeness was found to be an important factor influencing tourist ethical behavior (Ganglmair-Wooliscroft and Wooliscroft, 2016). Mohd Bukhari and Hilmi (2011) synthesized the scope and role of strategic innovativeness as the determinant of effectiveness of tourism related entrepreneurs.

Sikora and Nybakk (2012) found that institutional support did not influenced businesses in Poland. Studying 556 women tourism entrepreneurs in Ghana and Nigeria, Ribeiro et al. (2021) indicate that establishing strong ties with government

agencies leads women-owned tourism businesses to acquire more resources than establishing strong ties with suppliers.

However, successful performance or growth of entrepreneurs are determined by the distinctive innovativeness as its resources that have been developed and exhibit by the entrepreneurs (Lee, Shin and Park, 2012). According to Barney (1991), for a resource to be a potential source of competitive advantage it must allow the firm to adept and implement strategies that will improve its efficiency and effectiveness. Therefore, entrepreneurs need to explore how their resources can be transformed into competencies and competitive advantages (Yatim, Rusuli and Yatim, 2019) that will put them in an advantageous position against their competitor. Strong and successful entrepreneurs will definitely benefit the Langkawi tourism economy.

Market innovativeness, behavioral innovativeness and strategic innovativeness are important antecedents of performance of tourism related entrepreneurs. The novelty of a market-oriented approach is at the heart of market innovativeness. (Hilmi and Ramayah, 2008). Strategic innovation is the ability to manage an organization's lofty goals and match them with the resources it already has. (Wang and Ahmed, 2004). The willingness and adaptability to change are central to behavioural innovativeness. (Hilmi et. al, 2010).

Businesses operating in a dynamic environment are influenced by various factors. Within such ecosystem, institutional support play a major role in creating laws, regulations and policies. Institutional support play an important role in increasing the innovativeness of entrepreneurs. Therefore, institutional support enhances the impact of innovativeness on entrepreneurial performance.

In addition to institutional support, political networking also enhances the impact of innovativeness on entrepreneurial performance. Networking with people with political influence are important extraorganizational strategies to secure resources and influence. Management ties are critical to the success of a company (Peng and Luo, 2000). In addition, the importance of political networking cannot be overstated in economies in development like Malaysia's (Anwar, Rehman and Shah, 2018). Bankers and government officials' political connections have been used by businesses to get over institutional restrictions (Musacchio and Read, 2007).

The ability to use resources more effectively through political networking can lead to increased profitability in the long run (Kotabe, Jiang and Murray, 2017). As a result, the relationship between innovativeness resources and performance is moderated by political networking (Su, Xie and Wang, 2015).

The major stimulus for this study is to investigate the factors that can lead to improving the performance of tourism related entrepreneurs in Langkawi, Malaysia by focusing on innovativeness characteristics that will enable them to face those challenges and problems. This study attempts to synthesize the scope and role of innovativeness in the determination of effectiveness of tourism related entrepreneurs.

1.3 Research Questions

There are seven major research questions which this study attempts to answer.

- Research Question 1: Does market innovativeness influence performance?
- Research Question 2: Does behavioral innovativeness influence performance?
- Research Question 3: Does strategic innovativeness influence performance?
- Research Question 4: Does political networking influence performance?

- Research Question 5: Does institutional support influence performance?
- Research Question 6: Does political networking moderate the relationship between market innovativeness, behavioral innovativeness, strategic innovativeness and performance?
- Research Question 7: Does institutional support moderate the relationship between market innovativeness, behavioral innovativeness, strategic innovativeness and performance?
- Research Question 8: What are the challenges faced by the tourism related entrepreneurs?
- Research Question 9: What are the responses to the challenges faced by the tourism related entrepreneurs?

1.4 Research Objective

The objective of this study is to examine the relationship between innovativeness and performance of tourism related entrepreneurs in Langkawi. In addition to that, this study also examine the moderating role of political networking and institutional support. Specifically, this study is comprised of the following objectives:

- i. To examine the relationship between market innovativeness and performance.
- ii. To examine the relationship between behavioral innovativeness and performance.
- iii. To examine the relationship between strategic innovativeness and performance.
- iv. To examine the relationship between political networking and performance.

- v. To examine the relationship between institutional support and performance.
- vi. To examine if political networking is a moderator between market innovativeness, behavioral innovativeness, strategic innovativeness and performance.
- vii. To examine if institutional support is a moderator between market innovativeness, behavioral innovativeness, strategic innovativeness and performance.
- viii. To determine the challenges faced by the tourism related entrepreneurs.
- ix. To determine responses to the challenges faced by the tourism related entrepreneurs.

1.5 The scope of the Study

The scope of this study will center on market innovativeness, behavioral innovativeness, strategic innovativeness, political networking, institutional support and their relationship to performance. The objective of this study is to examine the antecedents to performance of tourism related entrepreneurs operating in Langkawi, Malaysian.

1.6 Significance of the Study

This study can be appreciated from two significant perspectives which are theoretical contribution and practical implication. These are elaborated below. At the end of this study, the researcher hopes that the findings of this study will give some benefits and assistance to several parties through the development of new knowledge.

This in-depth knowledge would enable researchers, practitioners, and policymakers to produce strategies that can benefit them.

1.6.1 Theoretical Significance

Using the Resource-Based-View Theory (RBV) as the underpinning theory, this study attempts to develop a cohesive theoretical research framework that synthesises market innovativeness, behavioral innovativeness, strategic innovativeness, political networking, institutional support and performance.

This study is also an attempt at bringing about a semblance of justice to the existing literature on innovativeness which at the present moment is heavily skewed towards large firms. Furthermore, much of the literature on innovativeness is focused on product innovativeness and process innovativeness.

1.6.2 Practical Significance

This study is anticipated to be useful to entrepreneurs, scholars and government policy makers in Malaysia as it reveals the relationship of market innovativeness, behavioral innovativeness, strategic innovativeness, political networking, institutional support and performance. Such knowledge will facilitate the decision making process to engage in innovativeness.

In the case of government policy makers, this study will assist them to define appropriate intervention, awareness and assistance programmes for the SMEs. By being better informed of the nature and extent of innovativeness practice among

entrepreneurs, government agencies can strategies and prioritize their plans and actions.

In the case of entrepreneurs, this study may be the first step in exposing them to the concept of market innovativeness, behavioral innovativeness, strategic innovativeness, political networking and institutional support. By being aware of the relationship between the variables mentioned, entrepreneurs would be more confident to adopt market innovativeness, behavioral innovativeness and strategic innovativeness in their business.

1.7 Definition of Key Terms

The definition of key terms of this study is provided below.

1.7.1 Performance

Performance refers to the outcome of organizational commitment measured along with its intended objectives. The firm's performance is measured using operational and financial indicators from the previous three years. (Alpay et. al, 2012).

1.7.2 Market Innovativeness

Market innovativeness refers to the novel approaches that businesses use to enter and exploit the targeted market, with an emphasis on the novelty of market-oriented approaches. (Hilmi and Ramayah, 2008; Wang and Ahmed 2004).

1.7.3 Behavioral Innovativeness

Behavioral Innovativeness refers to “an organization’s behavioral proclivity or willingness to change”. Individual, team, and management behavioural innovativeness enables the formation of an innovative culture, as well as overall internal receptivity to new ideas and innovation (Alpay et. al, 2012). Behavioral innovativeness is a key factor that influences innovative outcomes.

1.7.4 Strategic Innovativeness

Strategic innovativeness is “an organization’s ability to manage ambitious organizational objectives in order to stretch or leverage resources creatively” (Wang & Ahmed 2004, pp. 304–306). Strategic innovativeness refers to the development of new competitive strategies that create value for the firm as well as the organization’s ability to manage ambitious organizational objectives, and identify a mismatch of these ambitions and existing resources.

1.7.5 Political Networking

Political networking is the allocation of resources by a company to cultivate relationships with government officials, banks, administrative and other regulatory agencies. (Park and Luo, 2001).

1.7.6 Institutional Support

Institutional support is defined as policies, practises, and enforcement activities aimed at creating a prosperous business environment with appealing opportunities for new market participants (Hunt, 2015).

1.8 Summary and Organization of the Remaining Chapters

This dissertation is broken up into five different chapters. The history of the study is presented in Chapter 1, along with an explanation of the independent variables and the relationship between the independent variables, which helps to build the framework for the rest of the study. In addition, the research problem, research questions, and the objectives of the study are all laid out in detail in Chapter 1.

In Chapter 2, a literature review and a teoretical development are presented. These are based on the theoretical framework and the hypotheses of the study, respectively. In addition, this chapter will discuss the teoretical underpinning of this study. The literature review provides the foundation for the research framework presented at the end of the chapter.

Chapter 3 discusses the research methodology that is used in this study. The chapter discusses the resaerch desin, data collection methods, population sample, statistical instruments and measurements for the study questionnaires.

Chapter 4 reports the statistical result from the data analysis based on the questionnaire and findings of the study.

Chapter 5 highlights the findings of this study and its contributions, implication and limitation. This final chapter wraps up with conclusions, suggestions and directions for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature that is relevant to the study's theoretical framework. This chapter begins with a discussion on the theoreticals underpinning, followed by literature relating to the key constructs which outline the theoretical framework and hypotheses of this study. This chapter concludes with justifications for the contrsuction of the theoretical framework.

2.2 Theoretical Underpinnings

A focus on venture's resources introduces researchers to the resource-based view of the firm that suggests, each organization is equipped with endless amount of resources, some of which are rare, valuable, non-substitutible and difficult to imitate by others. These qualities inherent in some resources provide the firm with ability to gain competitive advantage (Barney, 1991). Each organization is endowed with different tangible and intangible resources, the combination of which produces the performance variance. The theory assumes ventures are heterogeneous and each is with its own combination of resources that bring competitive advantage (Kelliher & Reinl, 2009; Oliver, 1997). The theory stresses upon understanding of the internal capabilities of firm that can help secure competitive positions.

Innovativeness is the ability to create something new or bring about sound renewals and changes, acting in a way that utilizes this ability. In addition to that, innovativeness has been defined is many ways. One of them is as "an organization's overall innovative capability of introducing new product to the market, or opening up new markets, through combining strategic orientation with innovative behavior and

process” (Wang & Ahmed, 2004). Another definition is as a firm’s capacity to engage in innovation (Hult, Hurley, & GA, 2004). A much more comprehensive definition is as capabilities of introducing new product to the market, or opening up new markets through combining strategic orientation with innovative behavior and process. New products, new services, opening new markets, new sources of supply, and new ways of management practice (Hashim, Mahajar & Ahmad, 2003).

2.2.1 Resource-Based-View Theory

Resource-Based-View Theory (RBV) stress the positive outcomes of the firm by having benefits obtained from the sustainable resources that exist in the organisation. Resources that are blended in organisations can be in forms of strengths or weaknesses, tangible or intangible assets (Wernerfelt, 1984), company capabilities, marketing assets and capabilities, competitive positioning (Hooley et al., 1998), availability of factors controlled by the firm (Amit & Schoemaker, 1993), and input to the production process (Grant, 1991). The availability of firm resources is crucial in shaping the firm’s strategy and becoming a theory of competitive advantage (Priem & Butler, 2001). Barney (1991) emphasised three categories of possible firm resources; physical capital, human capital, and organisational capital. He also urged firms to enhance their resources by considering the unique attributes of resources in order to differentiate from competitors. Moreover, Madhani (2010) detailed the explanation of resources types based on resource categories by Wernerfelt (1984) in terms of tangible and intangible assets. Connor (2002) believed that tangible assets might be easy to imitate or acquire but the firm also needs the intangible assets in order to keep the resources long lasting and enhance its competitive advantage. This is due to the elements of intangible assets, which come primarily from competent individuals who used their competence to

enhance value through transferring and converting their knowledge externally or internally to their organisation (Sveiby, 2001).

Resources can be categorised in terms of its attributes. It is crucial to determine the unique characteristics that might influence sustainable competitive advantage (SCA) of a firm. This study looks at the four attributes of resources as suggested by Barney (1991). This includes firm resources that need to be:

1. Valuable: The term valuable refers to how firm resources are able to improve its effectiveness and efficiency, and these resources also become a strategy to exploit opportunities and eliminate threats to the organisations.
2. Rare: This refers to the exclusivity of resources possessed by the firms and enables them to have a competitive advantage which is not simultaneously implemented by others.
3. Imperfectly Imitable: This includes resources with unique historical conditions, are causally ambiguous, and socially complex.
4. Substitutability: A firm's resources must have no other equivalent resources. This also refers to two forms of non-substitutable resources; hard to imitate and different.

2.3 Innovation in Tourism

Innovativeness is the ability to create something new or bring about sound renewals and changes, acting in a way that utilizes this ability. In addition to that, innovativeness has been defined in many ways. One of them is as "an organization's overall innovative capability of introducing new product to the market, or opening up

new markets, through combining strategic orientation with innovative behavior and process” (Wang & Ahmed, 2004). Another definition is as a firm’s capacity to engage in innovation (Hult, Hurley, & GA, 2004). A much more comprehensive definition is as capabilities of introducing new product to the market, or opening up new markets through combining strategic orientation with innovative behavior and process. New products, new services, opening new markets, new sources of supply, and new ways of management practice (Hashim, Mahajar & Ahmad, 2003).

One of the prominent researchers on innovation in tourism is Anne-Mette Hjalager. She has conducted and published more than 100 researches on this topic. She defined and described innovation in tourism. She also postulated that “Innovativeness in tourism is more likely if welfare-based sectors are well connected with other sectors.” (Hjalager, 2006). In 2009 she published a case study on cultural tourism event focusing on innovation system (Hjalager, 2009a). Another research that she published in 2009 explored the relationship between innovation and developments in medicines on tourism (Hjalager, 2009b). Her recent articles listed 10 ways and approaches for research on tourism innovation (Hjalager, 2010). She also summarized ten gaps in tourism innovation research:

1. Innovation process
2. Driving forces
3. Barriers to tourism innovation
4. Innovation and economic performance
5. Technological innovations

6. Diffusion of innovation
7. The role of entrepreneurship
8. Policy studies and evaluations
9. Academia and innovation
10. Developing tourism innovation theories

Innovation and tourism has been investigated from various perspectives. The intensity of innovation in tourism has been confirmed. There is also constant renewal of knowledge bases and their role in the definition of new uses of innovation and knowledge (Aldebert, Dang & Longhi, 2010). By leveraging virtual communities, tourism firm might be able to build strong customer relationships (Baglieri & Consoli, 2009). There is a substantial separation between tourism policy and innovation policy might be due to lack of recognition of tourism in innovation policy. One reason for such perspective is the perception that tourism industry is not innovative (Hall, 2009). Even though the formation of clusters can be a great opportunity for collaboration, involvement in government initiatives, successful business operations and sector management, consideration should be given to the process rather than to the outcomes (Novelli, Schmitz & Spencer, 2006).

The development of the Internet has dramatically changed the market conditions for tourism organizations. Information and Communication Technologies (ICTs) evolve rapidly providing new tools for tourism marketing and management (Buhalis & Law, 2008). One way to use ICTs is as a means of improving knowledge and skills. Since there is a limited professional development for owner of small tourism operation, ICT can increase professionalism and innovation in the tourism industry through

education (Holden, Foley, Lynch & Hussey, 2010). Many tourism firms did not make any effort to utilize the attractor or collaborate with other firms even though collaboration among individual entrepreneurs and organizations are crucial in the innovation system (Mattsson, Sundbo & Fussing-Jensen, 2005). Based on an investigation of the influences of entrepreneurial attitude on innovativeness and performance of tourism enterprises in Norway, there is a positive connection between entrepreneurial attitude and innovation in nature-based, tourism micro-enterprises (Nybakk & Hansen, 2008). Qualitative single case-study method has been used to studied how existing resources can be configured to create innovative products and to understand how a winter resort succeed in tourism industry (Paget, Dimanche & Mounet, 2010). Size, professionalism, entrepreneurship, varied innovation networks and supportive innovation systems are important determinants of innovation (Sundbo, Orfila-Sintes & Sørensen, 2007). Knowing the factors of innovation potential of tourism firms, destinations or tourism clusters or an entire tourism sub branch will enable the firms to predict future areas of change in tourism production, product development and marketing (Weiermair, 2006).

Empirical verification of an innovation behavior model in the hotel industry that reveals four types of innovation such as management, external communication, service scope and back-office (Orfila-Sintes & Mattsson, 2009). Framework and rationale for service innovation policies has been proposed stating that specific service characteristics and specific service innovation needs may re-quire specific solutions (Rubalcaba, 2006). Typology of innovation output has been recommended which comprises drivers of innovation, innovation outputs, and their connections with business performance (Sipe & Testa, 2009). Summary of reviewed articles are presented in Table 2.1.

Table 2.1 Overview of Research on Innovation in Tourism

| Author | Summary |
|--|---|
| Aldebert, Dang & Longhi (2010) | Highlights the intensity of innovation activity, evolution of tourism industry and impact of ICT. |
| Baglieri & Consoli (2009) | Investigate the role of virtual communities in building customer relationship, information provider and collaborative innovation for tourism firms. |
| Buhalis & Law (2008) | Reviewed and analyzed articles on eTourism. |
| Hall (2009) | Innovation is significant in tourism policies of Australia and New Zealand. Innovation is a significant part of tourism's economic but tourism was not recognized in innovation policy. |
| Hjalager (2002) | Define and describe innovation in tourism. |
| Hjalager (2006) | "Innovativeness in tourism is more likely if welfare-based sectors are well connected with other sectors." |
| Hjalager (2009) | Explores the relationship between innovations and developments in medicines on tourism. Innovation may affect the way tourism and tourism economics develop. |
| Hjalager (2009) | An illustrative case study of a cultural tourism event, focusing on the concept of innovation system. |
| Hjalager (2010) | Listed 10 ways and approaches for research on tourism innovation. |
| Holden, Foley, Lynch & Hussey (2010) | Limited professional development for owner of small tourism operation. |
| Mattsson, Sundbo & Fussing-Jensen (2005) | Individual entrepreneurs and organizations are crucial in the innovation system. |