

## **Developing Regional Tourism: Business Networks for Competitive Advantage**

*Special reference to Eastern Province*

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### ***Abstract***

Tourism is regarded as one means of fostering regional economic development and ameliorating these inequalities. Many destinations possess natural advantages that could form the basis for regional competitive advantage through local and global networking, but have experienced difficulty in drawing both domestic and international visitors away from the popular destinations. The development of local and global networking for tourism firms is a way of fostering competitive advantage in regional Sri Lanka. Tourism sector requires network linkages due to having strong complementarities due to the characteristics it include. This paper considers the potential for activating regional tourism networks and gaining competitive advantage over other regions in the country. This is especially relevant with recent development initiatives in the eastern province. There is much work to be done at a micro-business level in fostering network development between tourism institutions such as hotels, travel agencies, tour operators, airlines, tourism associations, and supportive tourism activities. It was proposed that activating business networking is a suitable means of fostering a structure within which related and supporting industries can interact. Through business network initiatives local communities can be enabled to contribute to their own development. A more self-sufficient 'bottom-up' approach to regional development with horizontal linkages incorporating private/public sector partnerships and partnerships between international, national and locally owned businesses seems desirable in developing regional tourism. The activation of business networks could support linkages between related and supporting industries in gaining competitive advantages. In recommending networking strategies the attitudes towards competitive advantage, competitive behavior and intention of networking between tourism firms were measured among the main and supportive actors of tourism in the region. Therefore, the successful tourism firms are the one which have strong innovative local and global networks.

**Keywords:** Networking for tourism firms, Competitive advantage

## **1. Background of the Study**

In most of the newly developing countries, the service sector, especially tourism is reckoned as a catalyst for local development at the centre of interest. Many cities invest heavily on tourism for promoting local development. Many argue on various critical success factors that determine competitiveness and economic development of a region / country. However, tourism business networks are considered as one of the crucial and critical success factors that contribute to the socio economic development.

Tourism sector requires network linkages with strong complementarities and characteristics that include. This sector requires strong local networks and external linkages compared with other business sectors since its production and consumption links are more related with the external environment. Existence of local networks covering collaborative and competitive type of relationships of small and medium sized firms is important to sustain competitive advantage (Cooke, 1998). Beside the importance of nature's attractive capacities such as quality environment and services, networking capacities can be considered as important quality for the promotion of tourism development. Firms and organizations and types and levels of networking play an vital role in local development (Porter, 1990; Morgan, et.al. 2000). Thus, it becomes necessary to activate its local and global networks for gaining benefits of network externalities to be lucrative and more competitive.

It is worthwhile to explore Tourism sector in Sri Lanka. Sri Lanka Tourism attracted a record of one million tourists to the country for the first time in history in 2012. Tourist arrivals surpassed its target of 950,000 to record 1,005,605 arrivals in 2012. The foreign exchange earnings too increased substantially by 44.1 percent from 2011 to 2012 (SLTDA, 2012). The arrivals recorded in 2013 were 1,274,593, an increase of 26.7 percent over last year. Comparing the tourist arrivals in 2013 up to June (583,573) and 2014 up to June (727,353) there is a 24.6 percent increment. A target arrival at the end of 2014 will be 1.6 million (SLTDA, 2014). Further, there is a boom in domestic and foreign tourism in the Eastern Province with the restoration of peace in the country aligning with the raise of arrivals to the country.

The natural advantages and tourism attractions in the East part of the country are unmatched elsewhere in Sri Lanka enabling it to produce a unique tourism product and comparative advantage. The initiatives of Eastern Province development programme, 'Kilakkin Udhayam' was intended to foster regional development leading to the creation of more broad opportunities in the tourism business sector. Consequently, there has been rapid development of transportation infrastructure with the establishment of highways and recently constructed bridges connecting Trincomalee-Kinniya-Mudur-Batticaloa provide extensive road network connecting the entire Eastern Sri Lanka and to the major cities in the coastal belt. There are domestic airports in Ampara, Batticaloa and Trincomalee. Despite the fact that many constructions of hotels have been completed and are in operation, especially

Passikudah alone expects 968 rooms (SLTDA, 2014); widespread expressway connecting major cities and other essential tourism infrastructure development has yet to be completed.

The East attractions such as the lagoon, lake, sandy beaches along East coastal belt especially well known beaches like Arugam Bay, Nelaveli and Passikudah, and heritage sites, unique cultural attractions, exotic east cuisine (grabs, prawn, honey and curries), the varying cultures represented by the ethnic groups of East Sri Lanka, and an abundance of historical and archaeological sites, safari, bird watching, well known religious worship temples and kovils, provide greater potentials to enhance and expand the existing tourism products such as beach tourism (sun, sand, sea), cultural and heritage tourism, agro-tourism, lagoon based soft adventure tourism, and ecotourism.

The following tourism related direct, supportive and ancillary services, and associations can be found in the province: travel agents, tour operators, tour guides, accommodation providers (hotels, Guest house, resorts, home-stays), associations (three wheel associations, hotel association, chamber of commerce), tourist information center (tourism promotion bureau and other web-based promotional groups), ministry and other local government authorities, training institutions (universities, tourism training agency, hotel schools), public and private transportation, restaurants, daily needs, shops owners, handicraft producers private caregivers culture and art clubs, recreation groups, fisheries group, cashew corporation, farmers, bike and skate board club etc. Across the districts in the province, the presence of related and supporting industries varies. However, in general they are well endowed with a heterogeneous range including accommodation, food and beverage outlets, and natural attractions, festivals, agricultural and horticultural enterprises, transport and tour organizers, handicrafts and souvenirs plus a range of service industries to support these tourism-related businesses. At a micro-level, however, the linkages between these tourism organizations are quite weak and there were very lack of effort have been taken to activate networks among these organizations as the researchers have discussed in the results of the primary data collection.

## **Review of Literature**

The concept of inter firm cooperation was introduced by Alfred Marshall in 1890. In the 90's Michael Porter argued that at regional level economic agglomeration of business activities and interconnected activities could determine a maximization of potential technology, new markets opportunities or a reinforcement of competitiveness.

The network concept can be defined as patterned relationships among individuals, groups and organizations (Dubini and Aldrich, 1991). The cooperation inside of a network is a voluntary arrangement between two or more firms that involves durable exchange, sharing, or co-development of new products and technologies (Groen, 2005). Networking is valuable to small business sector due to the particularity of a supportive inside environment which encompasses their vulnerability and can be seen as facilitating or constraining the action of people and groups. Szarka (1990) notes that

networking gives small firms alliance opportunities and a competitive advantage from that. They can become specialized in areas of the value chain that they are good in, while in other areas they can rely on the strengths of network's partners.

Tourism network structures within a destination tend to exist only based on complementary product, e.g., activities, accommodation, transport and food, whereby clients are referred from one organization to another to provide a comprehensive tourist experience (Grefe, 1994). Jackson and Murphy (2006) found that business networks are eminently suitable for application to tourism industry, especially in regional areas.

Further, studies have shown that the formation of networks is clearly important for the competitiveness of firms. Storper (1997) and Scott (1998) argued that networks of relational assets and geographical proximity particularly at the local and regional scales are often tied to specific interdependencies in economic life. According to Novelli *et al.* (2006), networks are vital for regional development increasing the productivity, performance, and innovative capacity. Moreover, it is claimed that the success of local and regional economic development is closely related with the strength of institutional capacity within an area (Gibbs *et al.*, 2000). In this competitive dynamic environment, firms have to react with speed and flexibility. According to Morgan *et al.* (2000), competitiveness is seen to be achieved by the role of networking. It is implied that intense levels of inter firm collaboration, networking and technological innovations offer some of the key factors for growth and competitiveness (Porter, 1991). These relationships come into influence by inter firm coordination and cooperation that allow for the creation of mutual networks. In that view, the strong linkage between local and global networks is crucial in global environment. In the guidance of this the level of networks (local-global) can be emphasized as the umbrella components of local development to promote competitiveness.

### **Statement of Research Problem**

Yeung (2000) explained the networks as both a governance structure and a process of socialization through which disparate actors and organizations are connected in a coherent manner for mutual benefits and synergies. Networking as a system, binding firms together in to a relational contracting, collaborative product development and multiplex inter-organizational alliances. Participation in a network enables a firm to concentrate on core capabilities, and provides access to resources such as knowhow, technology, financial means products, assets, market etc. this helps them to improve the competitive position.

Network relations are differentiated according to their characteristics and meanings. Formal and informal, loose and strict, vertical and horizontal. Similarly, Capello (1996) differentiated based on three main streams: cooperation agreement among firms, local/global development of places, and new management of territory by firms. By looking at the previous literature the networks can be in two types: collaborative networks and complementary networks. Although growing amount of literature focusing on networking, tourism case has not been covered enough yet in these debates. Limited discussions are observed in tourism literature

on the contributions made by the level of networking to the competitiveness of tourism institutions (firms/organization).

Although the Eastern province has the necessary structure and capacities to organize and activate networks to cooperatively develop and promote their product, the tourism industry in Eastern province shows a weak and lack of networks between tourism firms. Networking among those involved in the development of tourism can bring certain benefits to all the participants: networks help decrease transaction costs and allow an exploitation of the economies of scale and scope in various activities (Tremblay, 2000), networking potentially avoids the cost of resolving adversarial conflicts among stakeholders in the long term, as the sharing of ideas among the participants of a network results in a richer understanding and learning of issues, and leads to more innovative activities (Roome, 2001). Learning-based networks are important for increasing the capabilities of firms through rules that guide the behaviour of interacting entities (Kogut, 2000). Hence, collaborative networks improve the coordination of policies and related actions, and promote the consideration of the economic, environmental, and social impacts of tourism in development strategies.

Moreover, networking enables a large number of small actors with limited resources to be a part in the decision-making process, especially those that cannot pursue sustainable development independently. Tourism firms should have combined to jointly develop a product incorporating a tourist route connecting them. The creative promotion of a more substantial product is one means of surmounting factor of disadvantages.

Therefore, this paper considers the potential for activating regional tourism networks and gaining competitive advantage over other regions in the country. The role of different types of local and global networks of tourism firms also analyzed with respect to the tourism firms in Eastern Province. This is especially relevant with recent development initiatives in the Eastern province. There is much work to be done at a micro-business level in fostering network development between tourism institutions such as hotels, travel agencies, tour operators, airlines, tourism associations, and supportive tourism activities.

In this context, the research question of this study formulated as follows:

To what extent do local and global networks affect the success of tourism firms?

### **Objectives of the Study**

1. To examine the present networks structure in the Eastern province.
2. To examine the attitudes of actors of tourism firms towards competitive advantage, competitive behavior and intention of networking.
3. To explore the potential for activating business networks and propose strategies for possible networks between tourism firms.

## Methodology

This paper examines to what extent do local and global networks impact the success of tourism firms? The secondary data sources, a literature search and a survey with local industry leaders were done to collect the necessary data. This was done to establish the pre-conditions for converting comparative advantage to competitive advantage. Eastern provinces was chosen as a focus for the primary data collection because there is huge potential for activating networks between tourism firms and reap the competitive advantages but, still the networking is very weak and lacking. The primary data collected based on a structured questionnaire. Survey conducted with 85 members of the local tourism industry from the accommodation, food and beverage, travel and tours, and regional tourism offices in Eastern province of Sri Lanka. The attitudes towards competitive advantage, competitive behavior and intention of networking between tourism firms were measured among the representatives of main and supportive actors of tourism in the region, using 7-point Likert type scales. The respondents were selected randomly based on the registered list of firms and associations of tourism with the Tourism Associations in each of the district in the Eastern province.

Limitations of this study were imposed by the variability of the secondary data sources. For the primary data collection, in the absence of comprehensive databases of members of the local industry, and personal contacts etc. This is evidenced with lack of representation of smaller tourism operators, and also those interviewed representing only a limited range of tourism-related industries. Future studies would extend this primary data collection to other regions and to a wider group of industries. However, the survey conducted was in considerable depth, providing useful insights and quite rich data.

## Results

### *Potential for network formation*

There are indications of support for the notion of networking at the industry local level as evidenced by the survey with representatives of local tourism-related businesses including accommodation, food and beverage, travel and tours, and local tourism organizations. The following themes were discerned.

### *Developing regional competitive advantage*

Recalling to those responded as far as making the region more competitive in terms of networking in the tourism industry, rated as most important the links to national or international tourism organizations, and links between tourism related businesses locally. Conditions that they rated as relatively less important were Involvement of government in tourism development and strong local leadership in the industry (see Table 1). The desire at this level appears to be for vertically integrated national or international tourism businesses, rather than an industry that is horizontally and locally linked and supported by local tourism leaders. What is desired locally is links between the tourism organizations rather than the government's role and local leadership in developing local tourism.

Table 1: Attitudes to developing regional competitive advantage in terms of networking

<b>How important are the following in making your region more competitive in the tourism industry</b>	<b>Mean response</b>	<b>Standard deviation</b>
Links with national or international tourism business organizations	6.3	0.8
Links between tourism related businesses locally	6.17	1.6
Innovative tourism developments or initiatives	5.33	1.9
Involvement of government in tourism development	3.3	2.9
Strong local leadership in the tourism industry	4	2.2

*Source: Survey Data*

### ***Understanding of the competition and competitive behavior***

In assessing attitudes to competition, respondents rated, as most important to becoming more competitive by networking, co-operating with other local businesses and working with national tourism businesses. Initiatives considered least important were joining to limit entry of others (see Table 2). These responses reflect an attitude to competition that is consistent with that necessary for network formation, with competition being based on innovation and differentiation rather than doing alone or by limiting entry to the market.

Table 2: Attitudes to competition and competitive behavior in terms of networking

<b>My own business could become more competitive by</b>	<b>Mean response</b>	<b>Standard deviation</b>
Working cooperatively with other, similar, businesses	6.2	0.8
Joining with other businesses to limit entry to the local market	1.4	0.8
Working cooperatively with other local businesses in the tourism industry	6.8	0.4
Participating in local tourism rganizations involved in selling the destination	5	1.2
Building relationships with local suppliers	6.4	0.5
Working cooperatively with other national businesses in the tourism industry	6.8	0.4
Tying up with travel agents and tour advisors	6.2	0.5
introducing variety of innovative tourism product through linkages	7	0
Increasing joint advertising and promotions	6	0.7

*Source: Survey Data*

### ***Personal relationships, trust in sustained collaboration and local leadership***

The response from members of the sample with respect to interacting with other members of the industry is shown in Table 3. Respondents regarded themselves as competing strongly with other businesses and while they generally agreed about their degree of co-operation with other businesses, believed that there was potential to increase linkages with other tourism businesses. They expressed relatively less interest in obtaining supplies only from those they knew well or in having local organisations or individuals managing linkages rather than governments. It was revealed that the respondents have fairly good interest in interacting with other people and associations.



Table 3: Interaction with other businesses

Regarding interaction with other local businesses	Mean response	Standard deviation
Where possible I take the opportunity to work cooperatively with other local tourism related businesses to sell the destination first	5.6	1.5
I compete strongly with other similar local businesses	7	0
I am a member of local tourism/business organisation	5.8	2.7
I regularly attend industry functions and activities	4.8	3
I prefer to do business with people I know well	2.8	2.6
I think that there is the potential to increase linkages with other tourism related businesses in this region	7	0
The local industry needs help to develop and maintain these linkages	5.4	2.6
Development and leadership of such linkages should be managed by local organisations rather than governments	4.2	1

*Source: Survey Data*

### Discussion of Findings

The preconditions for competitive advantage of factor endowment, related and supporting industries and domestic demand conditions are all present in the study region. Support for greater co-operation between tourism businesses and network formation was evidenced by the survey. However, individual businesses appear to be a lesser appreciation of the value of horizontally linked local networks with strong local leadership supporting linkages between businesses. In spite of a sophisticated understanding of an appropriate competitive behaviour amongst members of the industry, the evidence from Eastern province is that firm structures are likely to hamper network development in the medium term, with an industry is still dominated by vertically constructed, nationally and internationally owned businesses. A possible solution to the disinterest at individual business level may be provided by local government officials who have often been the driving forces behind local economic development. These officials could play a vital role in activating local tourism networks in fostering local collectives, such as those based on minority group handcrafts and also privately owned tourism SMEs. Additionally, they have a role in identifying and drawing out a dynamic private sector leadership, in institutionalizing concepts, relationships and linkages by supporting the strengthening of local tourism trade associations and ensuring a wide involvement of network participants and associated institutions. There is also a role in the activation of tourism business networks for national and provincial government authorities such as the Eastern Provincial Tourism Ministry. They can also provide the appropriate context including coordination and transportation, information, communication, legal, educational and economic infrastructure for tourism network development.



## **Strategies of Networking of Tourism Firms**

### ***Strategic Alliances and Business Partnerships***

Collaborating and cooperating with partners through the formation of strategic alliances has long been a feature of business strategy, cooperative and collaborative marketing initiatives are widely discussed in tourism literature. Alliances such as joint ventures, franchises or common marketing agreements are based on varying degrees of integration covering vertical and horizontal ones.

In this context, network operations have come to predominate in hotels, airlines, travel agencies, tour operators and restaurant chains. Information technology for instance, computer reservation systems (CRS) has also fundamentally changed the nature of the industry. They also link major firms offering transport, lodging and entertainment and therefore the separate components of tourism have become much more closely tied together. The co-ordinated distribution channel in the process of hotel product distribution, linking producers with wholesalers and retailers, can also be designed to achieve operating efficiencies and marketing effectiveness.

### ***Inter-Firm Networks in Tourism Industry***

Tourism firms have relationships with suppliers, distributors, competitors and other organizations carrying out complementary activities. The establishment of cooperative relationships with other firms is increasingly regarded as a crucial factor for organizational performance and survival. To maximize the efficiency of collective resources, there must be a contact between sector specific organizations and other support organizations such as large and small firm lobbies, function specific producer service agencies, trade unions, chambers of commerce, and local authorities. Hoteliers are seeking ways to increase revenues by working with travel agencies to expand sales in a cost effective fashion. Transport, accommodation, entertainment, food and beverages are closely integrated through the consumption patterns of travelers. Horizontal mergers within each of tourism's component sectors (for example, between different hotel companies) and, vertical mergers across these component sectors (for example, between hotels and airlines) can be implemented.

### ***Networks of Hotels***

The hotel industry comprises of a unique economic activity. Transnational alliances have shown the diversity of contractual arrangements (franchises, management contracts, leases, and other sharing arrangements over facilities, technology, or marketing services); and share holding for collaborative efforts involving some ownership participation. The prime motive behind the propensity of many hotels to join a group lies in hotel brand names signaling a level of service, a type of facility or a bundle of attributes. Such signals reduce the transaction costs associated with information asymmetries faced jointly by firms and tourists.

### ***Networks of Travel Agencies***

Travel agencies are different to other distributors, since they have no product stock of their own and no economic or financial interests in the products that they market. Travel agencies

main objective is to distribute the products created by accommodation firms and tour operators. The travel and tourist organizations play a fundamental role in making the sector more competitive. IT's help decrease distribution costs, improve customer services, and result in a competitive advantage.

### **Conclusion**

In recognition of the importance of tourism activity to regional economic development, the existing regional inequalities and changing business climate, this paper set out to explore the possibilities of activating networks between tourism firms. It was proposed that business networks might be a suitable means of fostering a structure within which related and supporting tourism industries can interact which is appropriate for the emerging intersection of economic paradigms and its distinctive social and cultural heritage. Through business network initiatives local communities can be enabled to contribute to their own development, rather than relying on government largesse and direction. The network approach to regional development with horizontal and vertical linkages incorporating private/public sector partnerships and partnerships between international, national and locally owned businesses seems desirable in developing regional tourism.

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