

Journal of Asian Business Strategy



Beyond “Know-Who”: The Instrumental Role of Relationship Competency among SME Entrepreneurs

Noor Hazlina Ahmad and **Hasliza Abdul Halim** † (School of Management Universiti Sains Malaysia, 11800 Penang, Malaysia)

Citation: Noor Hazlina Ahmad and Hasliza Abdul Halim (2013). Beyond “Know-Who”: The Instrumental Role of Relationship Competency among SME Entrepreneurs. *Journal of Asian Business Strategy*, Vol. 3, No. 4, pp. 69-80.



Author(s)

Noor Hazlina Ahmad and
Hasliza Abdul Halim

School of Management Universiti
Sains Malaysia, 11800 Penang,
Malaysia

Beyond “Know-Who”: The Instrumental Role of Relationship Competency among SME Entrepreneurs

Abstract

This paper reports the findings of an exploratory empirical study that aims to primarily examine the instrumental role of relationship competency among SME entrepreneurs by utilising a comparative data from Australia and Malaysia. A sample of 20 SME entrepreneurs from Australia and Malaysia participated in this study. A series of interviews were conducted to probe into the behaviours that delineate relationship competency among these entrepreneurs. The results showed that SME entrepreneurs in both countries highlighted the importance of relationship (also referred to as social competency) in managing their ventures. This study provides entrepreneurs with knowledge about the way they should operate their business and encourages them to be conscious of the importance of relationship and networking in sustaining their business and increasing the odds of success. The study also demonstrates that entrepreneurs could reap a lot of benefits and at the same time overcome their limitations if they are able to equip themselves with relationship competency.

Keywords: Social capital, relationship competency, SME entrepreneurs, Malaysia, Australia

Introduction

The challenges posed by globalisation have forced entrepreneurs to redefine the “way of doing things” that are relevant to the new episode of intense competition. In order to cater for the challenges that are brought about by the dynamic and hostile commercial landscape, building relationships and establishing networks is seen by many as an important survival toolkit that could subsequently result in tangible bottom-line benefits (Shane & Venkataraman, 2000). Creating channels to share business know-how is critical to helping the entrepreneurs to overcome the limitations faced by most SMEs.

It appears that relationships and networks allow solving the problems of resources constraint and obtaining continuous business dealings. The sharing business knowledge that comes together with relationship building could contribute to the stability and growth of the businesses and more importantly, encourages innovation and resourcefulness. In addition, the building up or maintaining of informal relationships especially with people whose friendship could bring advantages such as job or business opportunities. In fact, entrepreneurs’ networking abilities are used to gather information about competitors, and keep them informed of the current affairs within the industry as a whole.

Beyond “Know-Who”: Social Capital and Relationship Competency

Researchers looking into identifying the factors that could determine entrepreneurial success has long established that networks or “know who” is very pertinent. “Know who” refers to the pool of networks that entrepreneurs have which is also referred to as “social capital”. Baron and Markman (2003, p. 43) distinguish between social capital as “the sum of the actual and potential resources individuals obtain from their relationships with others” and social competence (relationship competency) as entrepreneurs’ overall effectiveness in interacting with others. It has been argued that behaviours which could increase the likelihood of entrepreneurs sustaining in a business are those related to building and establishing relationships within the commercial spheres. In light of this, it can be surmised that social capital or “know who” is the resources important for entrepreneurial firms.

By owning and running a business, an entrepreneur practically exists within a network of many individuals. According to De Carolis *et al.* (2009), network activities were found to benefit potential entrepreneurs in the venture founding process as it enhances entrepreneurs’ thinking, reasoning and reaching decisions. Entrepreneurs should therefore be cognisant of the importance of the individuals around them, which could be key

players in the success of the entrepreneurs’ ventures. These individuals formed important resources to the organisation that is referred to as social capital.

Social capital (the “know who”) and relationship competency may play complementary function nevertheless, both are distinct in terms of its direct effect in determining entrepreneurial success. Abundance of literature has highlighted that the presence of good networks would enable entrepreneurs gain access to various business opportunities and other resources. Baron and Markman (2003) maintain that high social capital (extensive social networks, status, personal ties, and referrals) provides entrepreneurs with enhanced access to information and increased cooperation and trust from others.

According to Cope *et al.* (2007) entrepreneurs benefit from social capital through the development of networks, which offers access to external sources of information, support, finance and expertise. Having noted that, Baron and Markman (2003) contend that the possession of good networks or the “know who” is only part of the total picture of entrepreneurial success. While networks help the entrepreneurs to gain access to potential investors, potential customers and others, it requires good relationship competency (i.e., ability to convince others, ability to build and maintain good relationships) to determine as to

whether they are able to seal all the deals. On the basis of these considerations, it is conjectured that entrepreneurs’ relationship

competency may have a direct positive relationship with entrepreneurial success.

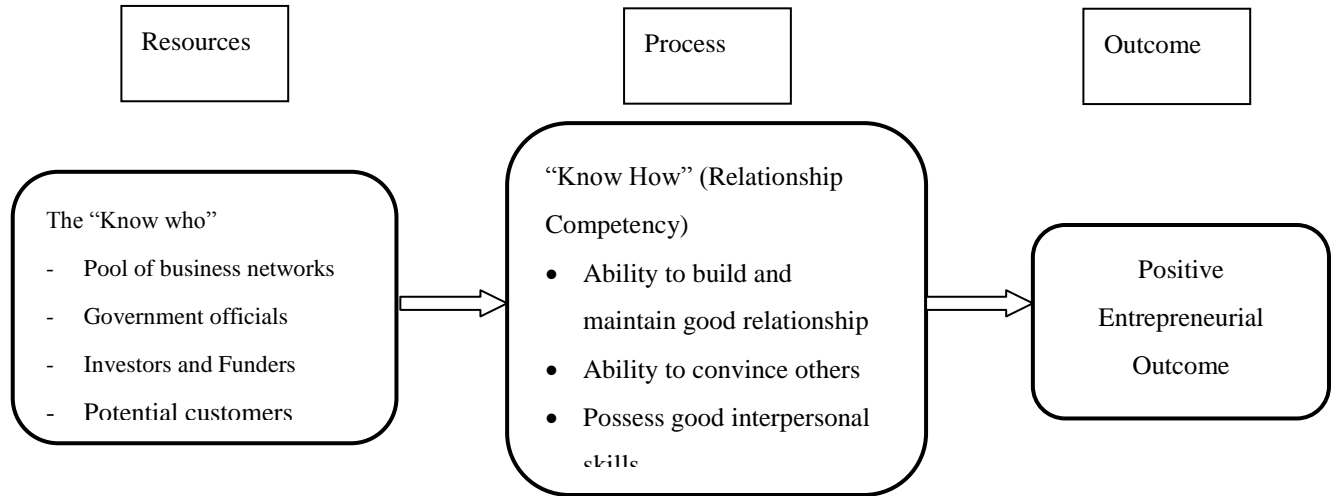


Figure 1: Transforming the “Know Who” into the “Know How”

Relationship Competency: Transforming the “Know-Who” into the “Know-How”

Relationship Competency refers to developing long term trusting relationship with others, negotiating with others, interacting with others, maintaining a personal network of work contacts, and communicating with others effectively. The Relationship Competency relates to skills in “person-to-person or individual-to-group-based interactions, such as building a context of cooperation and trust, using contacts and connections, persuasive ability, communication and interpersonal skill” (Man *et al.*, 2002, p. 132). In business, entrepreneurs are required to deal with many

people including suppliers, customers, employees, government authorities, competitors, and other stakeholders. This contact gives them access to information and other resources (Jenssen & Greve, 2002). Evidence suggests that small firms in particular are critically dependent on their networks, because it is through these that they gain advice and support from professionals and experts such as lawyers, accountants, and consultants (Ramsden & Bennett, 2005), government bodies, research and training institutes, and even suppliers and customers (Ritter & Gemunden, 2004). This is consistent with the resource dependency theory

(Barringer & Harrison, 2000), which suggests that entrepreneurs use their social relations to get the resources they need to support their business (Hansen, 2001; Jenssen, 2001). Entrepreneurs therefore, need to possess or acquire relationship competency to ensure that the networks they have can be utilised to achieve the tangible outcomes for their businesses.

Methods

The present study is undertaken to delve into the behaviours of Australian and Malaysian SME entrepreneurs that delineate relationship competency. Altogether, 20 entrepreneurs volunteered to participate in the study, in which the entrepreneurs were identified through snowball sampling method. Semi-

structured interviews were conducted on an individual, face-to face basis. In the interviews, respondents were asked to comment on various aspects of their approach to managing their businesses that they perceived to be important to the success of a business. The study was presented to the participants as being about practices for small business owners in managing their business. The main analysis involved the extraction of behaviours reflecting competencies that could potentially lead to business success, which were either consistent with or different from those identified in existing models. The profile of the respondents from Australia and Malaysia are exhibited in Tables 1 and 2 respectively.

Table 1: Profile of the Australian entrepreneurs

Participants	Gender	Current Age	Education Level	Start up Age	Previous occupation	Management / technical training prior to start up (Formal/ informal)
A	Female	28	Bachelor degree	25	Solicitor	Management (Formal)
B	Male	63	Certificate	26	Involved in other business	Management (Informal)
C	Male	37	Certificate	25	Involved in other business	Technical (Informal)

D	Male	40	Halfway through university	32	Electronic Technician	Technical (Informal)
E	Male	42	High School	27	Electrician	Technical (Informal)
F	Female	45	Masters degree	42	Company Director	Management and technical (Formal)
G	Male	56	High school	36	Store Manager	Management and Technical (Informal)
H	Female	23	Masters degree	21	Human Resource Advisor	Management (Formal)
I	Female	32	Certificate	30	Retail	Technical (Formal)
J	Female	24	Bachelor degree	22	Working with government	Technical (Formal)
<i>M</i>	39		28.6			
<i>SD</i>	13.19		6.54			

Table 2: Profile of the Malaysian entrepreneurs

Participants	Gender	Race	Current Age	Education Level	Start up Age	Previous occupation	Management/ Technical training prior to start up (Formal/ Informal)
K	Female	Malay	45	High school	40	Involved in other business	Management (Formal)
L	Female	Malay	40	Diploma	38	Bank officer	Management (Formal)
M	Male	Malay	44	Masters degree	39	General Manager in a public listed company	Management and Technical (Formal and informal)
N	Male	Malay	50	High school	20	NIL	Technical (Formal)

O	Male	Indian	43	High school	27	Factory worker	NIL
P	Male	Chinese	42	High school	25	Involved in other business	Technical (Informal)
Q	Male	Malay	41	High school	38	Factory worker & doing part time business	Technical (Informal)
R	Male	Chinese	35	Bachelor degree	26	Employed in a private company	Technical (Formal)
S	Male	Chinese	36	High school	29	Employed in a private company	Technical (Informal)
T	Male	Chinese	45	High school	30	Salesperson	Technical (Informal)
<i>M</i>			42.1	31.2			
<i>SD</i>			4.43	7.04			

Findings

The interviews revealed that the Relationship Competency was considered crucial by entrepreneurs because their daily routines required them to deal with many people. The behaviour that was most frequently cited (8 Australians and 9 Malaysians) was gaining the trust and confidence of customers. In the case of Australia, Entrepreneur C (the owner of a software development and computer related service company, Australia) indicated that

playing the role of “client liaison” was vital for his business. Other participants commented that it was important for them to be open and friendly with customers and to show customers that they were committed to “looking after” them. These behaviours were clearly identified by interviewees from Australia and Malaysia as impacting on their business’s performance. As depicted in Table 3, six clusters representing 38 behaviours reflecting the Relationship Competency were identified.

Table 3: Relationship competency domain: clusters and examples of relationship behaviours

Cluster	Examples of behaviours
Build trust and convince customers*	<ul style="list-style-type: none"> • Provide good customer service • Focus on customers satisfaction • Be open and friendly to customers • Be persuasive and convincing in selling ideas, product or services • Demonstrate to customers that they are being taken care of • Convince customers of your own expertise • Impress customers by being alert to their needs • Be patient when dealing with difficult customers • Show interest in customers needs

Cluster	Examples of behaviours
	<ul style="list-style-type: none"> • Give customers good impression to build trust • Speak politely to customers with a level of competence
Possess good interpersonal skills*	<ul style="list-style-type: none"> • Communicate effectively with others • Relate to others using good interpersonal skills • Be diplomatic and kind to others • Aware of others’ feelings when dealing with them • Mind your personality and attitude when dealing with people • Appreciate cultural differences • Avoid having bad perception of other people
Develop and maintain relationships*	<ul style="list-style-type: none"> • Build and maintain good relationship with staff • Develop good relationship with anybody you meet • Build and maintain good relationship with customers – take up the role of “client liaison”
Build network and contacts*	<ul style="list-style-type: none"> • Develop network with experts, advisors, government agencies and financial institutions • Surround yourself with supportive and knowledgeable people • Seek advice from experts when necessary • Select the right people for advice • Develop contacts to achieve recommendations or to gain more information • Meet the right people
Discuss and share (to create positive working climate)	<ul style="list-style-type: none"> • Get staff involvement in setting goals and plans • Get staff involvement in making decision • Discuss with employees on their works and problems • Create positive working climate through discussion and problem-sharing • Be open to staff and provide useful advice • Be open to criticism
Manage conflicts*	<ul style="list-style-type: none"> • Handle staff conflict • Encourage staff to discuss matters/problems openly • Manage crises effectively
Negotiate*	<ul style="list-style-type: none"> • Negotiate with customers • Negotiate with suppliers effectively

Note. * Clusters identified in Man (2001). Note that a cluster identified in this study that was not mentioned by Man (2001) is “discuss and share” (to create a positive working climate). Some behaviours representing this cluster however, were identified in Snell and Lau (1994) such as gaining staff commitment and maintaining good relationships with staff.

For Malaysian participants, the development of close personal relationships with customers seemed to be particularly important. For some, customers later became friends and an important source of referred custom. Expressions such as “treat customers as

friends” (entrepreneur Q, Malaysia) and “customers eventually become my close friends and source of reference” (entrepreneur R, Malaysia) denoted the importance that Malaysians attributed to the personal network. A very illustrative example of the value given

to personal relationships was provided by Entrepreneur S (the owner of a printing service company, Malaysia):

My relationship with customers is very close as if we are in a 'marriage relationship'. Never lose contact with your customers for more than 3 months or they will find other suppliers. ...so in business, our relationship with customers is like 'husband and wife'. Show them that you care and maintain close relationship (translation).

Another Relationship Competency that was identified was good interpersonal and communication skills (7 Australians and 9 Malaysians). Both Australian and Malaysian participants emphasised the importance of an ability to communicate effectively with others, to be able to connect with them, and to be diplomatic and kind. An interesting comment made by two Australian participants, not mentioned by any Malaysian participant, was the ability to appreciate cultural differences. This might reflect the multicultural nature of Australian society, where ethnic diversity appears to be significantly greater than in Malaysia. In Malaysia, there are three main racial groups who share a lot of commonalities, despite holding different religious beliefs (Abdullah & Lim, 2001).

Establishing long-term trusting relationships with others was also highlighted in the interviews with both Australian and Malaysian entrepreneurs. Thirteen of 20 entrepreneurs (6 Australians and 7 Malaysians) reported that developing good personal relationships could help them gather relevant information in order to expand their knowledge about the business. Australian participants stressed good relationships with suppliers and customers. Malaysian participants shared this view in addition to emphasising the need to establish good relationships with government agencies in order to secure projects, and with financial institutions, in order to apply for loans successfully. For example, Entrepreneur K (the owner of a cosmetics manufacturing company, Malaysia) claimed that her success in importing quality raw materials and exporting her products to other Asian countries was due to the good relationship that she had managed to establish with "the right people".

Building networks and contacts emerged as an important cluster of Relationship competencies in the data for both countries. As indicated by one of the Australian participants: "...if you have not got the right contacts, then you are not in the same game as your opposition" (Entrepreneur G, the owner of an electrical goods and furniture retail store, Australia).

Australian and Malaysian participants did appear to differ in their views about the need to get advice from "the experts" or from those who have a strong background in business.

Seven participants (5 females and 2 males) from Australia, compared with only two (females) from Malaysia, argued that it was essential to surround themselves with supportive and knowledgeable professionals including accountants, lawyers, and business mentors or consultants. Entrepreneur A (the owner of a handbag designing and manufacturing company, Australia) said that she was fortunate to have a “great team of mentors who had been fantastic in helping her to tap into the potential of her business”. She further commented:

It is very important for me to surround, you know, with people like lawyers and accountant because they are much more in tune with what you are trying to achieve.

Her observation is consistent with results of a study by Stanger (2004) that showed a high usage of external advisors, particularly among female entrepreneurs in Australia. Moreover, in this study, accountants and lawyers were identified as the most popular source of assistance. By contrast, the results of a study in Malaysia showed that nearly 70% of SME owners in their sample did not utilise external assistance in managing their business (Osman & Hashim, 2003).

Even though participants from both countries made reference to the importance of building

networks and contacts, there was a stronger focus on this competency among Australian women than Australian men. This evidence is seen as an endorsement of the findings of a study by Rosa *et al.* (1994) which showed that women entrepreneurs were more inclined than their male counterparts to use networking as a strategy. In Malaysia, both male and female participants stressed the importance of having networks and contacts with the right people. Five male participants from Malaysia emphasised the need to establish personal contacts with government officials and financial institutions for various sorts of support.

Being small in size has historically created problems for SME owners (Morris, 2001), particularly in the area of staff retention. Attractive remuneration packages offered by larger firms could be a threat to retaining effective staff, as argued by two participants from Malaysia. According to these participants, creating a positive working climate where every member in the organisation could discuss and share their concerns openly was one strategy for mitigating this threat.

In addition, the ability to negotiate with customers and suppliers and the ability to manage conflicts within the firm were also highlighted by Australian and Malaysian participants. However, both behaviours were emphasised more strongly by the Malaysian

entrepreneurs than their Australian counterparts. Interestingly, this may reflect differences in the cultural orientations of Australian and Malaysian entrepreneurs, whereby maintaining harmonious relationships and avoiding conflicts are more highly valued by those who espouse collectivist values.

In sum, even though participants from both countries demonstrated behaviours reflecting the Relationship Competency, their patterns were slightly different. Australians demonstrated more formal and less personal

relationships with customers, whereas the reverse was true for Malaysians. As mentioned earlier, Malaysian participants expressed informal and more personal relationships with customers. The higher tendency to negotiate and manage conflicts among Malaysian compared to Australian entrepreneurs may also indicate the influence of cultural differences between the countries. The number of people from each country who identified behaviours from one of the Relationship Competency clusters is depicted in Figure 1.

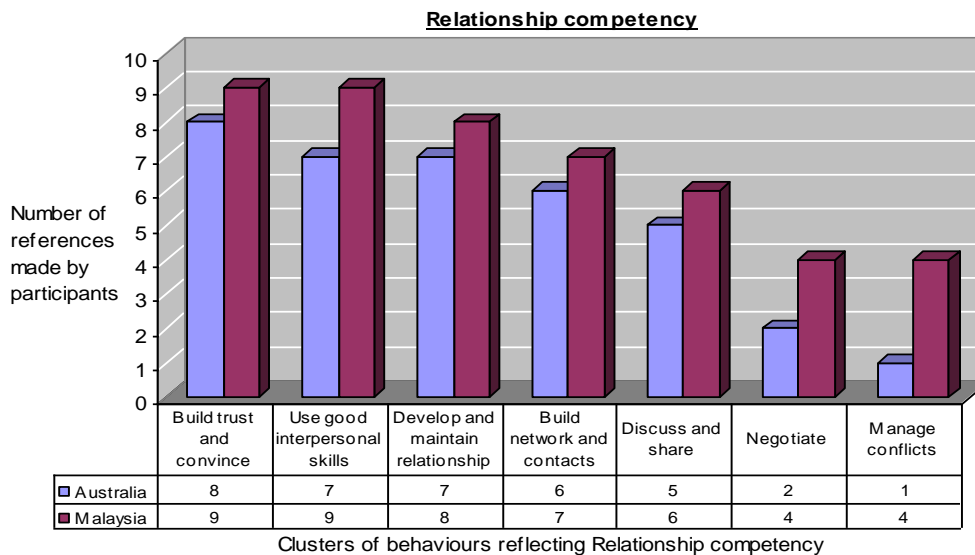


Figure 1: Clusters of behaviours that define relationship competency in Australia and Malaysia

Discussion and Conclusion

In general, the examination of the nature of the relationship competency identified by participants from both countries highlighted seven key elements of relationship competency that could increase the

likelihood of their business success which include (1) the ability to build trust and convince customers, (2) possession of good interpersonal skills, (3) the ability to develop and maintain relationships, (4) the ability to build network and contacts, (5) the ability to

discuss and share (to create positive working climate), (6) the ability to manage conflicts, as well as (7) the ability to negotiate. Interestingly, the findings demonstrated a broad coverage of relationship competency that encompasses maintaining relationships not only with the external stakeholders such as supplier, customers, and external experts but also the internal stakeholder that includes employees. The finding that entrepreneurs' relationship competency may play a role in their success concurs with a rapidly growing body of evidence suggesting that such competency could potentially be strong predictor of business success. From a practical standpoint, it seems possible that providing entrepreneurs with appropriate training in social skills might assist them in their efforts to exploit opportunities and launch successful ventures.

References

- Abdullah, A. & Lim, L. (2001). Cultural Dimensions of Anglos, Australians, and Malaysians. *Malaysian Management Review*, 36(2): 1-17.
- Baron, R. A. & Markman, G. D. (2003). Beyond Social Capital: the Role of Entrepreneurs' Social Competence in their Financial Success. *Journal of Business Venturing*, 18(11): 41 – 60.
- Barringer, B. R. & Harrison, J. S. (2000) *Walking a tightrope: Creating value through interorganizational relationships*. *Journal Management*, 26: 367-405.
- Cope, J., Jack, S. & Rose, M. B. (2007). Social capital and entrepreneurship: An introduction. *International Small Business Journal*, 25(3): 213-219.
- De Carolis, D. M., Litzky, B. E. & Eddleston, K. A. (2009). Why networks enhance the progress of new venture creation: The influence of social capital and cognition. *Entrepreneurship Theory & Practice*, 33(2): 527-545.
- Hansen, E. L. (2001). Resource acquisition as a startup process: initial stocks of social capital and organizational foundings. [http: www. babson.edu](http://www.babson.edu)
- Jenssen, J. I. & Greve, A. (2002). Does the degree redundancy in social network influence the success of busibness start-ups? *International Journal Entrepreneur Behaviour Resource*, 8: 254-267.
- Jenssen, J. I. (2001). Social networks, resource and entrepreneurship. *International Journal Entrepreneurship Innovation*, 2: 103-109.
- Man, T. W. T. (2001). Entrepreneurial competencies and the performance of the small and medium enterprises in the Hong Kong services sectors. PhD Thesis. Hong Kong Polytechnic University, Hong Kong

- Man, Thomas, W. Y., Theresa Lau. & Chan. K. F. (2002). The competitiveness of small and medium enterprises a conceptualization with focus on entrepreneurial competencies. *Journal of Business Venturing*, 17: 123–142.
- Morris, S. (2001). *The Growth and Transformation of Small Firms in India*. NewDelhi: Oxford University Press
- Ramsden, M. & Bennett, R. J. (2005). The benefits of external support to SMEs. *Journal Small Business Enterprise Development*, 125: 237-243.
- Ritter, T. & Gemunden, H. T. (2004). The impact of company business strategy on its technological competences, network competence and innovation success. *Journal Business Resource*, 57: 548-558.
- Rosa, P., Hamilton, D., Carter, S. & Burns, H. (1994). *The Impact of Gender on Small Business Management: Preliminary Findings of a British Study*. *International Small Business Journal*, 12(3): 25-32.
- Shane, S. & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of Management Review*, 25: 217-226.
- Snell, R. & Lau, A. (1994). Exploring local competences salient for expanding small business. *Journal Management*, 13, 4-15.
- Stanger, A. M. J. (2004). Gender-comparative use of small business training and assistance: A literature review. *Education and Training*, 46(8/9): 464-473.