The Influence of Personal Contact Networks (PCNs) on Marketing Capabilities in Small and Medium Enterprises (SMEs) in Saudi Arabia

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Abstract

The study is focused on the investigation of the effect of PCNs on SMEs in the Kingdom of Saudi Arabia. Accordingly, the objective of the study is to evaluate the use and development of PCNs and how they are shaped by culture in the Saudi Arabian context. Networking and establishment of interactions are crucial in determining a company’s success and effectiveness when managing, networking, or marketing. With respect to the international perspectives, social interactions are key elements when conducting international business. In every society or organisation, people’s behaviour is formed by certain practices that are etched in their culture. Business operations in the Arab world may lead to culture shock for researchers from outside the Middle East. The Arab world is a growing economic region, with export and investment opportunities across a variety of business sectors. Highly urbanised Arabian cities range from the world’s oldest cities in Egypt, to the recently developed states of Abu Dhabi and Dubai. Irrespective of the evident variations, Arab nations are unified by their practice of Islam, which makes them a culturally homogeneous region. This is relevant for international business interactions not just because of economic interests, but because of the way, business relationships in the form of PCNs affect operations. Based on the qualitative analysis of the interview responses of the selected SME managers, the study has generated the results that most of the people had influential association with respect to the development of PCNs. Besides, the networking association was also regarded as an interactive phenomenon that demanded the most important factors of trust and quality for the successful development of PCNs. In this regard, the role of cultural relationship has acquired significant support from the consumer sector. More specifically, the organizations or the firms are recommended to grasp over the examined factors of enhanced entrepreneur and networking capability and integrated culture, if PCNs are intended to be successfully developed within the SMEs.

Keywords: Personal Contact Networks (PCNs), PCNs in Small and Medium Enterprises (SMES), Culture, Marketing

JEL Classification: M31

Paper Classification: Doctoral Dissertation

Introduction

Personal Contact Networks (PCNs) are informal and formal linkages that small and medium enterprises (SMEs) use for business development, conduct business activities and make decisions (Birley, 1985). Much of the recent background literature on PCNs suggests that the related cluster
of concepts of personal networking, social networking, relationship building and partnership formation are viewed as contributing to the success of local and global businesses (McGrath & O’Toole, 2014; Klyver, Hindle & Meyer, 2008; Fletcher & Fang, 2006; Fletcher, 2004; Grath & O’Toole, 2014; Klyver, Hindle & Meyer, 2008; Fletcher & Fang, 2006; McGrath & O’Toole, 2014; Luczak, 2009; Fletcher, 2004). Gilbert and Tsao (2000) suggest that in Western marketing literature, management of networks is viewed as a key factor in strategic behaviour and the networking paradigm is seen as a means of understanding the totality of relationships amongst firms engaged in production, distribution, and the use of goods and services. Institutional theorist, Gao (2008) explored how networks influence institutions, suggesting that institutional theory deals with choices made in response to, or in compliance with, an organisation’s institutional environment (McGrath & O’Toole 2013). This is relevant for international business interactions not just because of economic interests (Loewe et. al., 2007), but because of the way business relationships in the form of PCNs affect operations. This research is critical to positioning my country to attract foreign direct investment by providing a roadmap to describe SME behaviour to external stakeholders.

Objectives

The overarching goal of the research is to understand and critically evaluate the effect of PCNs on SMEs in the Kingdom of Saudi Arabia. To achieve the study objectives, the research aims guiding the project are as follows:

• To examine and assess the literature on PCNs and SMEs to ascertain concepts and approaches relevant to identifying, describing and explaining the factors that determine the development of PCNs in SMEs.

• To identify the factors that either support or function as barriers to the development of PCNs in SMEs in Saudi Arabia.

• To empirically explore marketing decision making in a sample of Saudi SME’s to understand how managers develop and use PCNs in Saudi Arabia.

Literature Review

The Characteristics of PCNs

Generally, a PCN is defined as an alliance between individuals across a range of formality and informality for a specific purpose (Hill and Scott, 2004). Two positions emerge in the literature in relation to categorisation and classification of PCNs, one focused on relational behaviour and the other focused on formality. Gender Roles, Stability, and Diversity are the influential attributes (Tonge, 2010).

Culture can be defined as a system of values and norms shared by a society, or subsystem of a society, within a national environment. McGrath & O’Toole (2014) explored exactly this issue recently, when they examined entrepreneurial firms’ network capability development across different cultures. The study considered, in the entrepreneurial context, the relationship between national culture and network capability development. The authors carried out in-depth interviews in the Belgian and Irish micro-brewing industries, and analysed the findings related to network development in light of Hofstede’s five cultural dimensions. According to the analysis, the impact of culture on entrepreneurial networking varies according to the five dimensions. While Luczak (2009) argues that an entrepreneur’s cultural roots shapes his/her perspective of the market and influences the possible benefits of personal networking.
Small to Medium Enterprises (SME) definition varies from one country to another based on different factors. For the purpose of this paper, European definition is followed. As per the European definition of SME: “The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.” The former definition is close the one of OCED “Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases 5 workers, as both take number of employees as core factor for defining and segmenting SME’s.

Theoretical Framework of PCN Management in Entrepreneurship

Considering the attributes and characteristics of PCNs in general, this section explores the role of entrepreneurship in examining PCN behaviour within SMEs.

PCN Behaviour in Entrepreneurship The second aspect of the literature on PCNs and SMEs relevant to identifying, describing and explaining the factors that determine their development is to consider network management, particularly in the entrepreneurial sphere (Cooke, 2008; Hill, McGowan and Drummond, 1999).

Resource Dependence Theory Resource dependence suggests that the firm potentially makes use of connections and networks to identify optimal resources and create other possible combination as mentioned by (Das and Teng 2000; Pfeffer 1981).

Social Exchange Theory SET is the most influential concept paradigm to understand behaviour and different models of SET have emerged from social psychology (Homans 1958) to sociology (Adler and Kwon 2002; Blau 1964).

Theoretical Framework for This Study Whilst extant literatures focuses on the marketing gains derived from network participants, little evidence exists about the process of SME networking through personal contact network (PCNs) and how it affects the marketing orientation of SMEs. This study’s proposed theoretical framework argues that SMEs need to build a set of capabilities to use their network effectively. Such capabilities include dynamic capabilities and network capabilities that describe the process by which SMEs are connected through the personal contact networks (PCNs).

Entrepreneurial Success, PCNs, and Marketing

Zontanos and Anderson (2004) added an additional level of complexity regarding the impact of the entrepreneur on a PCN. It is appropriate to introduce network theory when discussing the issue-area of risk. In recent years, it has gained significant importance due to the increasing need of SMEs to be able to manage their financial risks and possible attendant human costs (Watson, 2007).

Collaborative Relationships in SME Performance Watson (2007) found a significant positive correlation between the networks of Australian firms (both formal and informal) and their growth, as well as survival. It is the case, then, that as Cooke’s programmatic initiative showed (2008) the effective exploitation of an entrepreneurial personal network could be of significant benefit to a business.
Establishing a SME competitive advantage Rocks, Gilmore & Carson (2005) discussed the importance for SMEs to build and use network structures in the retail sector in Northern Ireland after the entry of Safeway, Sainsbury, and Tesco into the local market.

Evolving Trends toward Success Research suggests that the ability to carry out the operations of a business efficiently and effectively means that managers need to identify the most useful and relevant network partners (Andersson, 2002; Lechner, Dowling and Welpe 2006).

Dynamic Capability Theory The concept of “dynamic capabilities” was developed towards the end of the 1980s, with innovatory theoretical research on the core competences of a MNC (Prahalad & Hamel, 1989) and the crucial importance for firms to develop as knowledge-creating companies (Nonaka and Takeuchi, 1995).

Research Perspective Of PCNs Within SME Context Eisenhardt & Martin (2000) focussed on dynamic capabilities from a resource-based view of firms, which argued that dynamic capabilities are a set of specific and identifiable processes including product development, strategic decision-making and alliancing (Eisenhardt & Martin 2000; McGrath and O’Toole, 2014).

Describing SMEs in Saudi Arabia

SME

Saudi Arabian Economic Drivers By the end of 2015, it was anticipated that investment in the SME sector in Saudi Arabia would grow to more than 70 billion USD, with forecasted growth in the number of licensed SMEs to about 2.5 million, thus helping to raise GDP to 37%.

The Culture of Saudi Arabia The social structure of Saudi Arabia consists a complex tribal network rooted in Bedouin traditions (Ali, 2009). According to Usunier and Lee (2009), Islamic law is fundamental to Muslim culture and business interactions and transactions in Saudi Arabia.

Saudi Business Culture Hutchings and Weir (2006) have proposed a set of cultural dimensions of the Arab world using Hofstede’s model.

Culturally-Based Norms Ali (2009) emphasises this does not belie a lack of seriousness but represents an opportunity to understand others well and build trust with them.

PCNs in Saudi Arabian SMES The growth and survival of entrepreneurial and small businesses is declining, with marketing orientation and lack of strategy being the major issue faced by the sector (Al-Saleh, 2012).

Research Gap and Contribution of the Study

Research results from the development and use of PCNs in SMEs are published everywhere. However, most of the firms underwritten in the previous studies are mainly Asian, European and American companies. Since research literature on the use of PCNs in SMEs in KSA do not exist, it is strongly believed that similar type of investigation from the KSA domain is needed and shall be a valued academic and business contribution. The closest publication related to this endeavour is from (Al-Saleh & Alsaleh, 2012).

The ultimate output of the study and scholarly contribution of this research is the establishment of a set of recommendations to optimize the function of SME PCNs in the Saudi Arabian market. Proposed relationships and findings provided an important contribution to the
study, as it is a more specific and richer study to evaluate the development of personal contact networks and how they are influenced by culture in the Saudi Arabian context. The study tries to suggest a more parsimonious view through resource dependence theory as a business lens and society exchange theory as a cultural lens to provide synergy to create a competitive advantage in the SMEs market.

Methodology

The research relies on a qualitative methodology, with the aim of understanding the perspective of the main actors - managers, both men and women, working for SMEs in Saudi Arabia, of which most are manager-owners. The academic motivation underlying this research objective is to systematically explore personal contact network development as a means of supporting the SME sector in Saudi Arabia. This research study sought an understanding of how the use of personal contact network (PCN) and cultural behaviour influence SME marketing in the Saudi Arabian context. Based on the specific aims of this research, in-depth interviewing was deemed most appropriate tool to gather the relevant data for analysis. The research is subjective, as the researcher believes that each participant has a different understanding of what we know.

The SME manager (owner) has developed both a face-to-face interpersonal PCN and, concomitantly, a personal communication network (PCN) online, which provides access to a wider range of business contacts, including international ones. The research has involved an enquiry into gender, network identity and PCNs and their influence on entrepreneurial activity and reputation building for an SME. Following is the depiction of the interview selection:

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry type</th>
<th>Number of Employees</th>
<th>Interviewee's name</th>
<th>Function</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Velvet Bakery</td>
<td>Cup Cakes and Cakes</td>
<td>26</td>
<td>Heba (Female)</td>
<td>Rajab</td>
<td>21:06</td>
</tr>
<tr>
<td>Custom Clearness</td>
<td>Custom clearance and transportation</td>
<td>15</td>
<td>Mohammad Almutarir</td>
<td>Owner</td>
<td>11:51</td>
</tr>
<tr>
<td>Ftoor Fares</td>
<td>Food</td>
<td>47</td>
<td>Fares Alturki</td>
<td>Owner</td>
<td>18:24</td>
</tr>
<tr>
<td>Oxgnizer</td>
<td>Oxygenated Water</td>
<td>5</td>
<td>Adeeb fada</td>
<td>Owner</td>
<td>28:58</td>
</tr>
<tr>
<td>Personal Training Centre</td>
<td>Gym</td>
<td>9</td>
<td>Fawaz Altasan</td>
<td>Owner</td>
<td>21:13</td>
</tr>
<tr>
<td>Dokkan Afkar</td>
<td>Online Business E-commerce</td>
<td>22</td>
<td>Abdullah Bajri</td>
<td>Owner and Marketing Manager</td>
<td>44:36</td>
</tr>
<tr>
<td>Munch Bakery</td>
<td>Cup cake and Pastry</td>
<td>280</td>
<td>Nasser Alshemimry</td>
<td>Owner and Marketing Manager</td>
<td>36:01</td>
</tr>
<tr>
<td>Hijazi House</td>
<td>Food</td>
<td>10</td>
<td>Alaa Rajab(Female)</td>
<td>Owner</td>
<td>20:04</td>
</tr>
<tr>
<td>Wagood</td>
<td>Service company and software development house</td>
<td>10</td>
<td>Abdullah Alaseri</td>
<td>Owner</td>
<td>17:07</td>
</tr>
<tr>
<td>DaaD</td>
<td>Audio Books</td>
<td>6</td>
<td>Manar Alaumari(Female)</td>
<td>Owner</td>
<td>26:58</td>
</tr>
<tr>
<td>Jeddah United Sport Company</td>
<td>Club</td>
<td>27</td>
<td>Lina Al-Maena</td>
<td>Owner</td>
<td>40:00</td>
</tr>
<tr>
<td>Waddeh</td>
<td>Private tutor</td>
<td>5</td>
<td>Wessam yagmor</td>
<td>Owner</td>
<td>35:00</td>
</tr>
</tbody>
</table>
Result and Analysis

The thematic analysis of the data obtained from interviews from the selected participants of the interview that are playing an important part in development of SMEs in Saudi Arabia is used for the determination of impact of different aspects on the development and use of PCN in SMEs. In addition to this, the thematic analysis is used to identify and understand the current implementation of PCN in Saudi Arabian SMEs and impact of culture on this development. Different factors that are identified to be directly associated with the development and use of PCN are analysed with the aid of themes generated via the application of Nvivo software.

Initial Stages for Interviews

All the 11 interviews were taken from the participants of the qualitative study were recorded so that these interviews can be transcribed for the purpose of analysis. The overall approach that is used for the analysis of the data collected from the participants is via the template analysis with the generation of different codes. The different variables and the factors affecting the research objectives are also used as themes. The main themes identified for the study are classified into sub-themes and used for the identification and analysis of more categories of the factors. For the initial stages of coding of the collected data, Nvivo was used which is a qualitative analysis package to develop the particular themes and to develop the link of research with nodes.

Generation of Themes and Coding

According to the research objectives, prime theme that was identified for the research is the factors affecting the use of PCN. The codes identified for this prime theme are; the basic information of the business and business owner, for instance, area of specialization of business, set-up of business, entrance to business, level of education, ideas to start business, size of the business in terms of employees, offices, facilities and sales; marketing based questions focused on marketing strategies, marketing plans, dealing with marketing, prime marketing problems; PCN based themes were the influence of people on business, information sharing, sharing of resources, role of family in business and financial help. In addition to this, the network based questions consisted of meaning of network, main competitors, working with competitors, support from business sector, changing of distributor or supplier etc. The culture is another theme, which is divided into relationship building, gender discrimination in the relationship building and networking, independence, decision making, re-joint problem solving etc. The concept map for the analysis is given below;

Figure 1: Concept Map Analysis
General Information about the Business Owner and Business: The analysis of the general questions about the business and business owner revealed that the specialization of the business conducted by different participants varied.

Figure 2: General Information about the Business Owner and Business

One question was asked about the education level of the interviewees and most of the participants had Bachelor’s degree, yet only few were working in their respective area. In SMEs, the size of business matters a lot and size varied from 2-22 members and 1-2 stores or business shops.

General Marketing: Some of the participants revealed that they run online marketing campaigns and target the customers they want. Another revealed the importance of social media for conducting effective marketing as, “We solely depend on social media, word of mouth, we consider our social media account is one of our assets as we have around 120 000 followers on Instagram, and we have 40000 followers on Twitter, and our account in Snapshot gets more than 20000 view per day”.

Figure 3: General Marketing

When the participants were asked about their business plan, some of them had no solid business plans, while some had detailed plan. The question regarding the dealing carried out
for the marketing of the products revealed that most of the owners of SMEs deal marketing of their products by themselves, while some of them deal the marketing of their products with other members of the team or family. There are different key marketing problems that disturb the integrity of the marketing of products and these problems are mentioned by the participants.

**Figure 4: Hierarchy for marketing**

![Hierarchy for marketing](image1)

**PCN-Based Questions**

The PCN-based questions were focused on different aspects and the key questions related to PCN are about the influential people in business, sharing of information, the role of family in the business, seeking advice from others, financial help for the business. The participants were asked about the most influential people of their business and most of them have their family, friends, or customers as influential people for PCN. For instance, one of the participants replied, “My relatives, and my friends, and my customers also. They get me to know and new customers also”. Most of them have contact with the help of e-mail or social media sites such as Facebook, Skype, whatsapp etc. One important question related to the role of the family in the business was asked from the participants. One of the participants replied, “They create awareness among whoever they know, but it’s not a major influence at all”. Regarding the financial help from PCN or family member, one participant answered, “No, financially I am the only one who’s financing this business”. The question related to the information or advice has shown that there is different kind of information, which is shared by the business partners and the other people in the business.

**Figure 5: PCN-Based Questions**

![PCN-Based Questions](image2)
Conclusion and Importance of the Research Framework

The current study has facilitated the understanding of the importance of entrepreneurship and networking capabilities of marketing management, and the relevant significance of cultural aspects, with respect to development of PCNs in SMEs. It has been established that the organisational settings have extensively adopted the development and advanced trends of technology deployment, rather than sticking to the traditional modes of marketing and communication. Little evidence exists about the process of SME networking through personal contact network (PCNs) and how it affects the marketing orientation of SMEs. PCN therefore provides a good avenue through which SMEs can market themselves to their target clients and build strong brand positions for themselves and their products/services. This study proposed theoretical framework and argues that SMEs need to build a set of capabilities to use their network effectively. Moreover, Strategic management is vital in marketing and networking for SMEs because of the emphasis on the acquisition and mobilization of resources with opportunities.

Most importantly, the cultural aspects have been observed to acquire enhanced significance, while the ever-increasing concern of gender-discrimination or male dominance has also decreased. Therefore, the study results are going to facilitate the SMEs in deploying the technological measures for sustained competitiveness, along with making the associated decisions adequately. Moreover, the research is also going to serve as a direction for further studies in future.

Scope for Future Research and Limitations of the Study

Meanwhile, the research is limited to specific geographical area, Saudi Arabia, which limit generalization of findings to similar cultures such as other Arab Gulf countries. Moreover, due to difficult research method used and limited number of observations, researchers believe a more in-depth study with wider sample is strongly recommended for further study taking in consideration wider geographical area that includes other Arab / Asian countries for more cross-sectional comparison and more generalized recommendations.

References


ualres.org/HomeInte-3516.html


APPENDIX I

Interview Questions

1. General questions about the business owner and he/her business
   - What does your business specialize in?
   - When did you set up your business?
   - Why did you enter this business?
   - How you get the idea to start this business?
   - Is this your first business or have you had another/others in the past?
   - What is the size of your business (number of employees, number of offices, facilities, sales)?
   - Why you set up Respondents profile, Job title, and responsibilities?
   - What is your highest level of education?

2. General marketing-based questions
   - How do you currently conduct your marketing?
   - Do you have a marketing plan for the business?
   - Who deals with the marketing of your products?
   - What is the biggest marketing problem you have faced?
   - In your opinion, what are the key marketing problems faced by your business?

3. PCN-based questions
   - Who are most influential people in your business?
   - How do you know each other? Do you share information – if so what kind.
   - How often did you meet them? (PCN’s)
   - How often you contact them?
   - Do you share resources– if so what kind?
   - What other benefits do you get from your PCN contacts?
   - What kind of information or advice do you seek from them?
   - Does your family play a role in the business? If so, what role do they play?
   - Have they had their own business? If so, what did you learn from them?
   - Have they helped with finance?

Authors’ Profile

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