

Effects of Informal Entrepreneurs on Operational Performance and Customer Bonding in Inbound Tour Operating Industry

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ABSTRACT

The informal economy is a field of study that has increasingly received significant attention from scholars. Notably, its effects on the country's economic growth have been widely studied. However, informal players' perceived threat to formal actors has received little attention in tourism and hospitality literature. Underpinned by the Resource Based View (RBV) and Disruptive Innovation theories, the present thesis examined the effect of informal players' perceived threat on operational performance and customer bonding and its indirect impact through service quality of the formalised tour operators. The partial least square structural equation modelling (PLS-SEM) analysed the data from a survey questionnaire collected from the inbound tour operators in Zanzibar. The study's findings demonstrated that the perceived threat of informal actors has an insignificant direct impact on customer bonding and a significant favourable effect on operational performance. In addition, the operating performance is positively linked to customer bonding.

Furthermore, the mediation analysis results have revealed that while service quality mediates the relationship between the perceived threat of informal entrepreneurs and customer bonding fully, it partially mediates the relationship between the perceived threat of informal players and operational performance. Finally, the present study's findings lay a foundation for theoretical implications, provide actionable managerial recommendations, and suggest areas for further research.

Keywords: Informal Economy, Informal Entrepreneurs, Operational Performance, Service Quality, Customer Bonding, Inbound Tourism, Zanzibar.

ÖZ

Kayıt dışı ekonomi, akademisyenlerden giderek daha fazla ilgi gören bir çalışma alanıdır. Özellikle, ülkenin ekonomik büyümesi üzerindeki etkileri geniş çapta incelenmiştir. Bununla birlikte, resmi olmayan oyuncuların resmi oyunculara yönelik algılanan tehdidi, turizm ve konaklama literatüründe çok az ilgi görmüştür. Kaynak Temelli Görüş (RBV) ve Yıkıcı Yenilik teorileri tarafından desteklenen bu tez, gayri resmi oyuncuların algılanan tehdidinin operasyonel performans ve müşteri bağları üzerindeki etkisini ve bunun resmi tur operatörlerinin hizmet kalitesi üzerindeki dolaylı etkisini incelemektedir. Zanzibar'daki dıştan turist getiren tur operatörlerinden anket yoluyla toplanan veriler, kısmi en küçük kareler yapısal modellemesi (PLS-SEM) ile analiz edildi. Çalışmanın bulguları, gayri resmi aktörlere yönelik algılanan tehdidinin müşteri bağları üzerinde doğrudan bir etkiye sahip olmadığını, operasyonel performans üzerinde ise anlamlı bir olumlu etkiye sahip olduğunu göstermiştir. Ek olarak, işletme performansının, müşteri bağlılığı ile olumlu bir şekilde bağlantılı olduğu ortaya çıkmıştır.

Ayrıca aracılık analizi sonuçları, hizmet kalitesinin kayıt dışı girişimcilerin algılanan tehdidi ile müşteri bağlılığı arasındaki ilişkiye tam olarak aracılık ederken, kayıt dışı oyuncuların algılanan tehdidi ile operasyonel performans arasındaki ilişkiye kısmen aracılık ettiğini ortaya koymuştur. Bu çalışmanın bulguları teorik çıkarımlar için bir temel oluşturmakta, eyleme geçirilebilir yönetim önerileri sağlamakta ve daha fazla araştırma için alanlar önermektedir.

Anahtar Kelimeler: Kayıt Dışı Ekonomi, Kayıt Dışı Giriřimciler, Operasyonel Performans, Hizmet Kalitesi, Müřteri Bađı, Yurt İine Yönelik Turizm, Zanzibar.

DEDICATION

To my lovely country Zanzibar

To all formalised tour operators who have always been suffering from unfair competition by the informal actors.

To my family.

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TABLE OF CONTENTS

ABSTRACT.....	iii
ÖZ	iv
DEDICATION	vi
ACKNOWLEDGEMENT	vii
LIST OF TABLES	xiii
LIST OF FIGURES	xiv
LIST OF ABBREVIATIONS	xv
1 INTRODUCTION	1
1.1 Background of the Problem	6
1.2 Statement of the Problem.....	7
1.3 Purpose of the Study	7
1.4 Importance of the Study	8
1.5 Limitations and Delimitations.....	8
1.6 Definition of Terms.....	9
2 LITERATURE REVIEW	12
2.1 Informal Economy Concept.....	12
2.1.1 Informal Economy in the Tourism Industry.....	17
2.1.2 Causes of the Informal Economy	19
2.1.3 The Legality of the Informal Economy	22
2.2 Informal Entrepreneur Concept	25
2.2.1 Informal Entrepreneurs in Tourism	26
2.2.2 Categories of Informal Entrepreneurs	28
2.2.3 The Perceived Threat of Informal Entrepreneurs	30

2.3 Efforts to Improve Service Quality	32
2.4 Operational Performance	36
2.5 Customer Bonding	40
2.6 Theoretical Framework	44
2.6.1 Disruptive Innovation	44
2.6.2 Resource-Based Theory	49
2.7 Hypothesis Development	50
2.7.1 The Perceived Threat of Informal Players on the Customer Bonding ...	50
2.7.2 The Perceived Threat of Informal Players on the Operational Performance	51
2.7.3 Effect of Operational Performance on Customer Bonding	52
2.7.4 The Perceived Threat of Informal Players on the Service Quality.....	53
2.7.5 Effect of Service Quality on Operational Performance.....	55
2.7.6 The Effects of Service Quality on Customer Bonding.....	57
2.8 Description of the Research Context	58
2.8.1 Historical Background of Zanzibar	58
2.8.2 Zanzibar Tourism Act.....	60
3 METHODOLOGY.....	62
3.1 Philosophical Position.....	63
3.2 Inductive and Deductive Reasoning	64
3.3 Qualitative, Quantitative, and Mixed Methodologies Research	65
3.3.1 Positivism, Interpretivism, and Critical Theory	65
3.4 Deductive Approach	68
3.5 Survey Methods	68
3.6 Participations and Procedure.....	69

3.7 Assessment of Common Method Variance.....	71
3.8 The Measuring Instruments	74
3.8.1 Measures.....	74
3.9 Analytic Strategy	75
3.10 Control Variable.....	75
4 RESEARCH FINDINGS	78
4.1 Characteristics of Sample	78
4.2 Measurement Model	79
4.3 Discriminant Validity.....	80
4.4 Common Method Variance: Statistical Remedies	83
4.5 Assessment of Structural Model and Hypothesis Testing	83
4.6 Mediation Analysis	85
4.7 Importance-Performance Map Analysis	85
4.8 Discussion of the Results	87
5 CONCLUSIONS, IMPLICATIONS, AND RECOMMENDATIONS	93
5.1 Conclusion	93
5.2 Theoretical Implications	94
5.3 Practical Implications.....	96
5.4 Limitations and Future Suggestions.....	99
REFERENCES.....	101
APPENDICES	161
Appendix A: Scientific Research and Publication Ethics Approval Form	162
Appendix B: Questionnaire.....	163
Appendix C: Additional Historical Background of Zanzibar	167
Appendix D: Partial Least Squares (PLS-SEM).....	172

LIST OF TABLES

Table 1: Legal and Illegal Shadow Activities	36
Table 2: Procedural and Statistical Remedies for Common Method Variance	73
Table 3: Measures of Constructs.....	76
Table 4: Descriptive Sample	78
Table 5: Assessment of Discriminant Validity	81
Table 6: Discriminant Validity Using Crossloadings	81
Table 7: Reliability Validity and Discriminant Validity.....	82
Table 8: R squares, Adjusted R Squared and Stone Gaesser's (Q^2) value.....	84
Table 9: Estimates of the Path Coefficients	84
Table 10: Results of Mediation Effects.....	85
Table 11: Comparison of CB-SEM and PLS-SEM	173

LIST OF FIGURES

Figure 1: Four Conditions by Disruptive Innovations Theory.....	45
Figure 2: Conceptual Framework	58
Figure 3: Map of Zanzibar Archipelago	59
Figure 4: Methodological Summary	62
Figure 5: Recommendations for Choosing Appropriate Procedural and Statistical Controls for Common Method Bias.....	72
Figure 6: Structural Model.....	83
Figure 7: Results of Importance Performance Analysis.	86

LIST OF ABBREVIATIONS

ANOVA	Average Variance Extracted
AVE	Analysis of Variances
B2B	Business to Business
BoT	Bank of Tanzania
CB	Customer Bonding
CMV	Dependent Variables
DMOs	Europe and Central Asia
DVs	Eastern Mediterranean University
ECA	Foreign Direct Investment
EMU	Gross Domestic Product
FDI	Heterotrait-Monotrait
GDP	International Labour Organisation
GDP	Importance Performance Map Analysis
GIZ	Informal Players Perceived Threat
HTMT	Independent Variable
ILO	Office of Chief Government Statistician
IPMA	Operational performance
IPT	Partial Least Square – Structural Equation Modelling
IQ	Revolutionary Government of Zanzibar
IV	Sustainable Development Goals
LAC	Statistical Package for Social Sciences
LDCs	Service Quality
OCGS	Tanzania Revenue Authority

OECD	United Nations Educational, Scientific and Cultural Organization.
OP	United Nations Children's Fund.
OQ	Zanzibar Commission for Tourism
PEC	Zanzibar Investment Promotion Agency
PLS-SEM	Deutsche Gesellschaft Fur
RBV	Sub-Saharan Africa
RGoZ	Latin America and the Caribbean
SDGs	Gross Domestic Product
SERVQUAL.	Least Developed Countries
SPSS	Organisation for Economic Co-operation and Development
SQ	Service Quality Scale
SSA	Interaction Quality
TFTB	Physical Environmental Quality
TRA	Outcome Quality
UNESCO	Resource-based View
UNICEF	Destination Management Organisations
VIF	Tanzania friendship Tourist Bureau
ZATO	Zanzibar Tourist Corporation
ZCT	Variance inflation Factor
ZCT	Common method Variances
ZIPA	Zanzibar Association of Tour Operators

Chapter 1

INTRODUCTION

As a field of study, the informal economy has recently received special attention from researchers worldwide. The concept is known by multiple names such as grey, shadow, black, unofficial, hidden, unregulated and underground economy (Alrawadieh & Alrawadieh, 2018; Çakmak, Lie, McCabe, 2018; Kelmanson et al., 2019). The shadow economy is considered a critical driver for the nation's development, income generation, job creation among unskilled personnel and business incubation (Ali, 2017). However, despite its contribution to the nation's economy, the black economy has been criticised for its unfavourable impact on states' economies (Smith & Henderson, 2008). For instance, research suggests that an unregulated economy has been shrinking business performance due to an unfair business environment between actors in the formal and informal economies.

Informality is also associated with tax evasion. While the formal players pay government taxes, the informal counterparts do not (La Porta & Shleifer, 2014). The tax evasion by informal actors reduces the operational costs among informal entrepreneurs (Mwesiumo et al., 2021). Despite the dominance of the shadow economy in developing nations, the economy is an existing feature globally. Thus, its effects are encountered in developed and developing nations (International Labour Organization [ILO], 2018; Lv, 2020). In other words, while the black economy is more prevalent in developing countries, the developed nations are not an exception

(Kelmanson, Kirabbaeva, Medina, Mircheva, and Weiss 2019). Considering its importance, the underground economy contributes 81% of all employment in developing countries and constitutes 15% of the developed nations (Bonnet et al., 2019).

While the data show the dominance of the shadow economy among developing countries, the dependency is minimal for the developed nations (Bonnet et al., 2019; Damayanti et al., 2017). As such, the economy benefits primarily a considerable amount of marginalised and poor people who lack the skills and competence to work in the formalised sector. In so doing, the hidden economy has allegedly emancipated the marginalised people in third-world countries and contributed significantly to the welfare of those people (Ohnsorge & Yu, 2021). Due to the lack of skills and required capital to establish formalised businesses, the marginalised people are forced to operate informally. While government structures and plans are vital for facilitating formal businesses to flourish, studies have highlighted that the informal economy thrives in places where the level of good governance is low (Çakmak, 2020).

Smaller fiscal supplies, little access to finance, lower labour productivity by private actors, and slower human and capital accumulations are among the other factors accelerating the informal sector (Docquier et al., 2017; La Porta & Shleifer, 2014). Thus, the shadow economy is associated with less progress toward sustainable development, increased economic disparity, and amplified poverty rates (Hoinaru et al., 2020). Moreover, the economy is characterised by reduced economic growth due to limited access to capital, markets, and services. It lacks economies of scale and reliance on low-skilled labour (Docquier et al., 2017).

Countries with an unregulated economy experience institutional inefficiency, reduced government revenue and expenditure, worse governance, and a demanding regulatory tax framework. Consequently, the governance and revenue collection flaws hinder the delivery of public services, resulting in worse development results and access to and quality of infrastructure. Moreover, due to informality, the budget constraints limit the government's ability to offer social safety nets during recessions, as exemplified by the onset of COVID-19. Overall, the widespread presence of informality is linked to a slew of development issues (Bonnet et al., 2019; Docquier et al., 2017).

A report by the World Bank (2019) noted that countries with higher levels of informality are less developed; they rely more on labour-intensive activities that employ unskilled and low-paid workers and have limited financial resources. As a result, these nations experience low life expectancy, maternal mortality, and other human development indicators. In addition, access to public utilities critical to economic development, such as electricity, is restricted. Generally, poor people's lives are frequently reliant on informal economic activity. This is due to the fact that informal-economy output accounts for almost one-third of GDP on average. In contrast, informal employment accounts for over 70% of total work (Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ), 2020). For instance, in Sub-Saharan Africa informal employment accounts for more than 90% of total employment (International Labour Organization, 2018).

In addition, unfavourable macroeconomic and development outcomes have been linked to a substantial informal sector. On average, economies with a large magnitude of informality have poorer productivity, slower physical and human capital

accumulation, less educated workforces, and fewer fiscal resources (Docquier et al., 2017). Moreover, the informal economy is linked to the reluctance to embrace technology and expansionism, making the actors in the informal economy uninterested in being more apparent to tax and other authorities (Dabla-Norris, et al., 2008). However, Pathak et al. (2016) argue that embracing technology depends primarily on the available institutional environment. Large informal sectors are frequently associated with underdevelopment, labour-intensive production, less educated and low-paid workers, restricted access to financial and medical services, and weak or non-existent social security coverage.

Informality is considered as a barrier to sustainable development (Deléchat & Medina, 2020) and directly impacts various facets of it. For example, in a 67-year examination of economies in 160 countries, Özgür et al. (2021) found that informality is negatively associated with several major sustainable development indices. However, informality indirectly impacts other areas of development, such as urban development (Azunre et al., 2021; Soyinka et al., 2021) and gender equality (Boeri, 2018; Chen, 2016; Piscopo, 2016), which has implications for the long-term sustainability. Because of its far-reaching implications on development efforts, the informal economy has become a fundamental economic and social development concern. For example, it stimulates the adoption of low-return technology (Capasso & Jappelli, 2013), supports inefficient resource usage (Schneider & Enste, 2000), increases pollution levels and reduces a country's international competitiveness (Biswas et al., 2012). It also reduces the tax base and revenues (Mazhar & Méon, 2017), encourages more government borrowing and debt, and increases interest rates, inflation, and unemployment (Mazhar & Méon, 2017) and exacerbates income and social disparities (Berdiev & Saunoris, 2019). It

also hinders the creation of indicators by inserting biases into those measures and distorting actual economic conditions, resulting in less effective policies. (Elbahnasawy et al., 2016).

Indeed, in their efforts to reduce the size of the shadow economy, governments advocate a wide range of policies including promoting economic growth (Feld & Schneider, 2010), financial development (Blackburn et al., 2012), bureaucratic quality (Goel & Nelson, 2016), the rule of law (Dreher et al., 2009), democracy (Teobaldelli & Schneider, 2013) and political stability (Cooray et al., 2017). However, several international development organizations and academics have recently embraced a belief that e-government deployment may play a significant role in long-term development initiatives.

Overall, the informal sector accounts for around one-third of the official GDP and about 70% of total employment in emerging and medium-developing economies (Elgin et al., 2022). Informal businesses account for eight of ten firms worldwide (ILO 2020a). The informal economy's scale varies significantly between areas and countries. Between 2010 and 2018, Sub-Saharan Africa (SSA), Europe and Central Asia (ECA), and Latin America and the Caribbean (LAC) had the most significant share of informal output, averaging nearly 40% of GDP. Self-employment, another indicator of informality, is highest in SSA, South Asia (SAR), East Asia and the Pacific (EAP), accounting for 50 to 62 per cent of total employment in these regions. In Bolivia and Zimbabwe, the informal economy accounted for more than half of the GDP in 2018. In 2010, the sector employed roughly 90% of the workforce.

1.1 Background of the Problem

Despite its numerous advantages, such as business incubation, income generation, and employment for unskilled workers (Ndabeni, 2008; Williams & Martinez, 2014), the informal economy has been labelled with several negative names due to problems imposing on the countries' economic negativity. These challenges range from the increase in unfair competition among unauthorised and authorised actors, loss of government taxes, an increase in crimes, erosion of destination image, low-quality products and services, inferior human capital, and lower productivity, which constitutes a lower GDP per labourer (Kelmanson et al., 2019). Likewise, the competitive pressure from the underground economy is a perceived threat to formalised firms (Ali, 2017).

The nature of tourism, characterized by labour intensity and the prevalence of qualified and unqualified actors, is favourable to informality (Fagertun, 2017; Kim et al., 2021; Reynolds et al., 2021; Xu et al., 2020). Coupled with the presence of small and medium-sized formalized firms (Dayour et al., 2020), the informal sectors flourish. However, these small formal firms lack both financial and influential ability; thus, they may not influence the government on several issues about their incurred problems. Accordingly, due to this incapacity by the tourism business organizations, several issues threatening their welfare continue to exist without serious government authorities' efforts to tackle them (Williams & Bezeredi, 2020). Although the informal players are a significant threat to the economic system worldwide, their magnitude remains heterogeneous between developed and developing nations. Studies conducted in developing states have revealed that more than seventy per cent of all economic

activities in Asian and African countries are guided through the underground economy (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), 2020).

1.2 Statement of the Problem

An informal economy is one of the features of all economies in the world (Kelmanson et al., 2019). This type of economy has contributed significantly to the loss of government revenues, propelling unequal competition (Williams & Bezeredi, 2020), reducing services and product prices, contributing to environmental destruction, and many other adverse outcomes. While the extant studies have extensively researched informal players (Alrawadieh & Alrawadieh, 2018; Çakmak, 2020; Simona Talani, 2019), literature on the effects of undeclared entrepreneurs on formalised firms' operational performance and customer bonding is scarce (Abdalla et al., 2022; Mwesiumo et al., 2021a). In response to this absence of information, the present study examines the direct impacts of informal players on operational performance and customer bonding of the formalised entrepreneurs and their indirect effects through their efforts to improve service quality. To the best of our knowledge, this study is the first to explore the pre-mentioned relationship.

1.3 Purpose of the Study

This study set out to respond to a main existing question of whether the formalised tour operators' operational performance and customer bonding are affected by the presence of a perceived threat of informal players. In other words, the present study assesses if the presence of informality impacts the operational performance and customer bonding of the inbound tour operators. It is worth noting that the coexistence of the informal and formalised actors has been adversarial (Abdalla et al., 2022; Damayanti et al., 2017, 2018). Therefore, to effectively respond to the above question, this study advances the following objectives:

- i. To examine the direct effects of informal entrepreneurs on formal players' operational performance and customer bonding.
- ii. To investigate the indirect effects of the underground players on formal actors' operational performance and customer bonding through efforts to improve their service quality.
- iii. To assess the impact of operating performance on customer bonding.

1.4 Importance of the Study

The present thesis provides several contributions. First, it gives a methodological contribution by using structural equation modelling to assess informal entrepreneurs' direct impacts on operational performance and customer bonding and their indirect effects through the tour operators' efforts to enhance service quality. Second, the research fills the knowledge gap by exploring the direct relationship between informal players' perceived threats to the tour operators' customer bonding and operational performance. Third, the present study explores the mediation role of service quality in the relationship between informal players' threats and (a) operational performance and (b) customer bonding. Finally, the present study provides room for potential exploration of the perceived threat of informal actors to other formalised firms' variables and opens avenues for the possible use of structural equation modelling to examine those relationships.

1.5 Limitations and Delimitations

There is no study without limitations. Therefore, the present thesis provides several limitations and suggests potential areas for future research. First, the present study draws its data set from the top managers of the tour operating companies in Zanzibar, all of which are SMEs. Thus, there is a need for future studies to focus on areas with both minor and major enterprises to capture more insights. Also, future studies may

look at other types of enterprises, such as hotels, restaurants, and government authorities and investigate how they are affected by undeclared entrepreneurs' perceived threats.

While the data for this study were collected in Zanzibar, a geographically small archipelago in the developing world, longitudinal studies in more diverse geographical and economic settings such as America, China, Canada, and Australia should be conducted for substantiating and diversifying the data quality and rigour.

Finally, as our study focused on only four variables: IPT, SQ, OP, and CB, further studies should examine the impact of IPT on more variables, such as income company sustainability of the formalised firms in the tourism and hospitality industry. Equally, other variables could be tested as a moderator to expand the explanations of the impacts of informal actors.

1.6 Definition of Terms

Tour operator refers to a person or company assembling several tour components such as accommodation, air tickets, and excursions to create a package (Goeldner & Ritchie, 2012).

The inbound tour operator, also known as an incoming tour operator, receives customer (s) at the destination (Goeldner & Ritchie, 2012).

Informal economy refers to economic activities conducted underground without being declared to the government for regulation and taxation (Çakmak et al., 2019).

An informal entrepreneur, also known as an unofficial actor, informal player, or informal actor, is a person whose business is not registered with government institutions and uses unofficial labour such as family and friends without any recognised contract (Mwesiumo et al., 2021).

Service quality refers to the gap between customer anticipation and the actual service received (Parasuraman et al., 1988).

Operational performance refers to a firm's capacity to produce and deliver its products and service to the customers efficiently and professionally (Masa'deh et al., 2017).

Customer bonding refers to the emotional, psychological, and economic ties between parties that bind them in a relationship (Smith, 1998).

Organisations of the empirical research shall constitute six chapters. The first chapter introduced the researched areas: informal entrepreneurs' effects on operating performance and customer bonding of the inbound tour operators. The section included a comprehensive introduction to the subject area and the background of the problem. Chapter two presents the breadth and depth of the literature review, starting with the informal economy, perceived effects of the informal actors, efforts to improve service quality, operational performance, and customer bonding. The third chapter assesses the theoretical framework and develops several propositions based on the constructs of the study. Chapter four provides in-depth information on the methodology employed. The chapter elaborates on several issues regarding the study's philosophical orientation, data collection methods, development of the instrument, and research

strategies. Chapter five presents the findings and the analysis of the empirical results. The final chapter presents a conclusion, discussion, theoretical and managerial implications, limitations, and other research areas.

Chapter 2

LITERATURE REVIEW

2.1 Informal Economy Concept

Also known as the underground economy (Feige, 2007; Lv, 2020), unofficial (Çakmak, 2020; Mikulić, 2020), grey economy (Vasilev, 2015), shadow economy (Lv, 2020b; Schneider, 2002; Schneider & Enste, 2000), undeclared economy (Colin, 2021), the black economy (Dilnot & Morris, 1981; Sharma, 2019), the underground economy (Amoh & Adafula, 2019; Simon & Witte, 1982; Tanzi, 1999) subterranean economy (Gutmann, 1977; Hope, 2001), the unstable economy (Ferman & Ferman, 1973), and the informal economy (McCrohan & Smith, 1986), the subject matter has received a significant multidisciplinary scholarly attention. Other labelled names for the economy include: invisible, hidden, submerged, irregular, non-official, unrecorded, or clandestine.

Drawing its roots from Boeke (1942), who developed a concept of the dual economy (Guha-Khasnobis et al., 2006) in the Ghanaian context, the idea has currently become a multidisciplinary research area (Abdalla et al., 2022). The interdisciplinary nature of the subject matter has provoked the prevalence of multiple definitions varying from one field to another (Walle, 2008).

These definitional variations have been dominant in the early discussions of the 1970s and the 1980s, where several scholars demonstrated definitional disagreement. The

significant difference has been evidenced by economists on the one hand and sociologists and anthropologists on the other hand (Adamu, 2016; Meagher, 2010). Currently, the widely accepted definition across disciplines and ideologies refers to the informal economy as income-generating activities outside the state's regulatory framework (Castells & Portes, 1989; Feige, 1990).

Since the early 1990s, these debates have shifted away from conceptual agreements over whether a clear line exists between formality and informality. While arguments over operational definitions have aided in refining the conceptual understanding of informality, they have not challenged the prevalent abstract definition of income-generating activities outside the state's regulatory framework. In this regard, the ILO's (2002) amendment of the definition of informality to include informal businesses and their workers has significantly developed.

Historically, the term informal sector was first coined by Keith Hart, a social anthropologist, in 1970. Hart focussed primarily on the unorganised activities of the urban service providers. His study on the Ghanaian informal economy opened avenues for further research in the subject matter. The Ghanaian entrepreneurs examined by Hart were the metropolitan area's small-scale actors, selling several products and services. According to Hart, the informal sector is isolated and kept out of the government's focus for two reasons. First, most of the activities involved in the informal sector are covert to the extent of making them unknown by the government authorities. Second, the way the Westerners viewed informal entrepreneurs as petty traders did not deserve consideration from the central government planning. Among the prevalent issues in informal sectors mentioned by Hart is extreme exploitation.

Following Hart's use of the term "informal sector" in 1970, several scholars have tried to define the informal economy (Çakmak et al., 2019; Hart, 2008; Larsson & Svensson, 2018). For instance, Hart (2008) described the informal economy as the type of economy characterised by the untimely payment of salary and mortgage, unclear credit ratings, fearless tax authority, untimely meals, inadequate health insurance, no or little contribution to the pension, and school fees are not paid.

Feige (2016) developed an economic-based definition focusing on taxonomy and non-compliance. He argues that unobservability and non-compliance are integral to the shadow economy. For him, the two elements constitute the definition of the informal economy. Thus, he defines the economy as unreported and characterised by non-compliance and tax evasion. Overall, Feige argues that the hidden economy is a means of violating the rules governing the national income accounting systems.

Larsson and Svensson (2018, p.534) defined an informal economy as an unregulated economic activity, including employment relationships that are neither protected nor legally regulated. Çakmak et al. (2019) described **the** informal economy as economic activities conducted underground without being declared to the government for regulation and taxation.

Due to the diverse definitions, there have been several attempts to harmonize them (Dell'Anno, 2016; Hussmanns, 2004). Equally, while these definitions provide an insight into the meaning of the informal economy, the operationalising of the concept is still problematic since what is not regulated or established according to a standard is not regularly measured, punctuating the sources of information. While scholars perceive the informal economy as a source of underdevelopment, Kelmanson et al.

(2019) argue that when the underground economy's extent is significant, it restrains national economic growth.

Based on the above diversity of definitions, as shown in the previous chapter, the present study adopts the Çakmak et al. (2019) definition that considers the informal economy to have included all economic activities conducted underground without being declared to the government for regulation and taxation.

Since then, the informal economy has been reported in several international reports. For instance, ILO adopted the term and used it in several reports concerning the labour markets in developing countries and Africa (ILO, 2018). The concept was used by ILO to explain the emerging dualistic economic structure in third-world countries characterised by both observed and unobserved economies. The versions of transactions involving cash and non-cash in both developed and developing worlds. Recently, ILO came up with significant input by matching several existing concepts on the shadow economy and employment. However, ILO (2018) considers statisticians and economists an impediment to reaching a common definition of the informal economy. This is because the two have different research goals.

Despite the use of the concept in international reports, there is a different practical approach among international organisations. For instance, the Organisation for Economic Co-operation and Development (OECD) and ILO have two different directions (Adamu, 2016). While the ILO approach focuses principally on issues governing the working environment, such as quality of work, and better working environment, the OECD approach pays attention to structural problems such as tax

evasion, unregulated employment, and illegal activities such as selling of drugs and sex-oriented activities (Padilla et al., 2018; Schneider, 2002).

This misunderstanding in defining a hidden economy is due to the divergence of disciplines and research goals. Moreover, as highlighted above, the economists' view is entirely different from the sociologists. In a nutshell, one might argue that the definition and conceptualisation of informal economy are contextual and differ from one discipline to another.

While the concept exists in all economic systems, researchers started using developing countries' ideas to study the same in developed countries (Portes & Sassen-Koob, 1987; Stepick, 1989). While informal economic activities gained traction in developing countries, they did not attract the same magnitude in developed nations. Studies have documented the shadow economy as a means of survival; it is the means of exchange among the poor population, specifically in urban areas (Ferman & Ferman, 1973; Stack, 1974). However, scholars have disagreed over the definition of the informal economy. For instance, the gap between economists and tax experts seemed to differ from that of sociologists. The former focuses on investigating the total size of the shadow economy. For instance, Gutmann (1977); Simon & Witte (1982) examined the cash exchange and unregulated economic activities. Conversely, sociologists and anthropologists focussed on the role of the shadow economy on household economic welfare and as a source of community unity. Their viewpoint involved non-cash and cash exchanges (Levitan & Feldman, 1991; Pahl, 1987).

2.1.1 Informal Economy in the Tourism Industry

While a tourism product is service-based, it is characterized by five principal characteristics: intangibility, inseparability, perishability, heterogeneity, and variability (Volpi & Paulino, 2018). Indeed, the tourism product is attributed to labour intensity and the availability of small firms. Given these characteristics of tourism, the chance for the prevalence of informality is higher in tourism than in other sectors. Though informality is more elevated in the third world than in the developed world, the latter has no impunity over the concept (Abdalla et al., 2022). In addition, the informal tourism economy is characterized by a small unregistered business operating underground with undeclared activities for the government tax, labour, and security funds authorities (Mwesiumo et al., 2021). Their prevalence is based on the calculations of the costs and rewards. The lack of the government's capacity to punish informality may stimulate most of the shadow economy. An informal economy constitutes informal activities, such as tax evasion, undeclared labour, and other procedures (Bromley & Wilson, 2018). The economy gets social tolerance, as it is socially tolerated. However, the tolerance level is not homogenous from one place to another.

Unlike the formal tourism economy, the informal economy comprises all activities of enterprises and agents directly or indirectly focusing on the tourism industry. These tourism activities are not declared to competent government authorities, trade organizations, or formal associations (Mwesiumo et al., 2021). Usually, the informal economy's agents in the tourism industry include unofficial tour guides, street vendors, handicraft producers, individual transport providers, holders of food stalls, artisans, providers of homestays, dance troupes, and musicians, whose activities are not

controlled by the authorities (Crick, 1992). Despite the lack of control by the rules, the local community benefits from the income obtained from these activities during economic crisis events (Brata, 2010). Unlike formal tourism, informal tourism is mainly associated with local economic construction (Oppermann, 1993). This integration with the local structure is essential in minimising leakage and enhancing tourism's multiplying effects on the local economy (Çakmak & Çenesiz, 2020). Henderson & Smith (2009) noted that the informal tourism economy depends primarily on formalised customers. Presumably, this dependency creates pressures between the two economies. Therefore, the government's efforts to protect the formalised formal economy would be urgent (Mwesiumo et al., 2021).

While tourism has a significant positive contribution to countries' economies (Abdalla et al., 2021; Antonakakis et al., 2015; Tang & Tan, 2015), the informal economy is suggested as one impediment towards such development. As such, national governments have an essential role in controlling this. One of the best ways to prevent the informal tourism economy from hindering economic development is formalising the informal economy's agents. In doing so, Slocum et al. (2011) contended that policy agendas to formalize the hidden economy should consider the economic gains of tourism development. For instance, formalising informal economic activities has fuelled the problem in some countries rather than solving it. For example, in Tanzania, these policies increase corruption, bureaucracy, and barriers to acquiring licences (Çakmak & Çenesiz, 2020).

Prior studies have examined several facets of informal tourism entrepreneurs. Damayanti et al. (2017) examined the competitive behaviours among the informal

actors in Yogyakarta, Indonesia. Their examination focussed on the predictable drivers and the street vendors. Their fund suggested that coepetition exists among informal actors. Interestingly, they found both simultaneous and sequential coepetitive behaviours. While Damayanti et al. (2017) scrutinised the coepetition among influential entrepreneurs, (Damayanti et al., 2018) examined the space for informal tourism actors. They examined the interaction and the way informal actors access resources. Their findings revealed that informal entrepreneurs occupy the public space with collective goods, semi-private goods, and common pool resources.

2.1.2 Causes of the Informal Economy

Scholars in the unofficial economy highlight several factors motivating people to enter informality (Adamu, 2016; Ali, 2017). These factors range from macroeconomic factors, global economic reforms, modernisation of the financial sector, extensively high barriers to companies, and lack of government ability to change regulation, to mention only a few (Ali, 2017). However, the informality dynamic may be explained well through several schools of thought: dualists, structuralists, legalistic, and voluntarist schools of thought. These four top schools have different ideas about the causes of informality.

Dualists link the low economic growth with the rise of informality. They argue that the informal sectors flourish well in a setting where unemployment and economic backwardness prevail. With its origin from (Boeke, 1942), Lewis (1954), and Harris & Torado (1970), the dualists believe in the coexistence of the informal and formal sectors. The school suggests that the underground economy moves towards formality. Thus, they posit that the pre-capitalists' results will start to perish with global development (Das & Mishra, 2021). The school equates informality with primitiveness

and ancientness, which exists solely because of the absence of formal jobs. The school considers formality perfect and the epitome of modernisation (Geertz, 1963; Lewis, 1959). Modernisation school views the world as moving from informality to formality, which will automatically lead to the development of the form formalised and the formalised actors.

Founded by the world systems model (Wallerstein, 2007), the structuralists see the informality resulting from capitalist development, increasing large firms' domination. For them, informality is an inherent characteristic of capitalist development. Formality and informality are associated with the concept of core and periphery. While formality is primarily associated with first-world nations, where people are paid attractive salaries, informality is somewhat connected to the periphery, mainly developing countries (Godfrey, 2011; Meagher, 2010). In addition, Williams & Bezeredi (2020) suggest that workers in the informal sector lack job security. They are general workings in small firms, characterised mainly by labour intensity. Generally, the formal sector works with the informal one in unequal terms, where the relationship between the two is somewhat exploitative (Godfrey (2011) .

Thus, the structuralists consider informality as an inevitable consequence of the economy's involuntary marginalisation. This is explained by people's inability to work according to the formal norms demanded in the labour market. These criteria exclude certain people from working and lack alternative ways to engage in formalised economic activities (Round & Williams, 2010). Instead, people opt to work in informal jobs characterised by low-paid salaries and exploitation (Gallin, 2001; Sassen, 1997). Other factors causing informality include little trust in government, high tax rate

(Williams & Shahid, 2016), too many regulations in becoming formal (Franck, 2012; Hussmanns, 2004), lack or little tax morality (Torgler, 2011; Williams & Martinez, 2014), corruptions in government institutions (Schneider, 2010; Schneider & Williams, 2013).

The third school of thought is the legalist. Scholars in this school such as De Soto, (1989) view informality as derived from the complicated regulatory frameworks and unnecessary cumbersome procedures governing the entrance into formality (Sakarombe, 2020). The school posits that when the procedures are too bureaucratic, they hinder the motivation toward formality (Dell'Anno & Adu, 2020). Thus, instead of entering into formality, people might opt to operate informally to avoid the inconveniences caused by the regulatory framework. In other words, this school of thought suggests that hostility to the legal system and procedures governing the registration and operation of the businesses may create a barrier to the new entry into formality.

Propounded by Maloney (2004), the voluntarist school of thought differs from the legalistic school. While the latter blame the legal framework that discourages entrepreneurs from entering formality, voluntarists try to justify the costs and rewards of informality and formality. The voluntarist school is based on the assumption that people who work in informality found more benefits than costs due to the fact that informality has cost advantage over formality which consequently reduces operational costs (Abdalla et al., 2022). Thus, the reduction of the operational expenses becomes an advantage for informal actors, which automatically imposes unfair competition between the formal and informal players (Mwesiumo et al., 2021; Sakarombe, 2020).

2.1.3 The Legality of the Informal Economy

A debate exists between anthropologists and economists about whether informality is legal or illegal (Darbi, 2016; Meagher, 2010). These two schools of thought have quite two different ideas. The economists perceive the underground economy as unlawful since the actors within the economy do not pay taxes nor register their employees in the social security funds. However, anthropologists consider the economy legal because it helps people create income sources (Meagher, 2010). Furthermore, the informal actors evade taxes in their nature, making them relatively cheaper than formalised tour operators (Abdalla et al., 2022).

Equally, the informal actors employ people based on friendship or take people close to families to work for them. This makes the former evade registering the labourer in the respective labour authority and avoid paying social security. As such, the country's level of taxation and strictness in its regulations are at the forefront in determining informality pressure.

Ali, (2017) argues that the price is the only decisive factor for informal entrepreneurs that impose active pressure on formalised firms. As formalised organisations incur many operational costs ranging from registration, taxation, security funds, and many others, it becomes apparent that the informal players take advantage of these increased costs to impose challenges on the former (Mwesiumo et al., 2021).

Alkhdour (2011) provided an incredible analysis of the legal and illegal activities in the informal economy. He divided these activities based on monetary and non-monetary transactions. For instance, he provided examples of tax evasion and tax

avoidance activities that are legal and illegal. Table 1 provides a summary of the legal and illegal activities in the informal economy.

Table 1: Legal and Illegal Shadow Activities

Type of Activity	Monetary transactions		Nonmonetary transactions	
Illegal activities	Trade in stolen goods; during dealing and manufacturing; prostitution; gambling; smuggling; fraud.		Barter of drugs, stolen, or smuggled goods. Producing or growing drugs for own use. Theft for own use.	
	Tax evasion	Tax avoidance	Tax evasion	Tax avoidance
Legal activities	Unreported income from self-employment. Wages, salaries, and assets from unreported work related to legal services and goods.	Employee discounts fringe benefits.	Barter of legal services and goods.	All do-it-yourself work and neighbour help.

Source: Alkhdour, (2011).

2.2 Informal Entrepreneur Concept

Informal entrepreneurs are individuals or firms that engage in business activities without declaring their business to government authorities for registration, labour, and other business requirements. Hart (1973) suggested that informal entrepreneurs refer to individuals or companies that do not comply with government regulations and taxation. Some characteristics of informal entrepreneurship involve low wages, high inflation, and labour supply surpluses. While Hart (1973) links informality with marginalization and low-income nations, recent studies suggest that the idea exists globally (Mwesiumo et al., 2021; Williams & Oz-Yalaman, 2020). In addition, other studies highlight that informal entrepreneurs exist in countries with a low good governance level and high corruption (Çakmak, 2020b). Equally, it has been noted that countries with less seriousness and weak regulations experience more informality (Mwesiumo et al., 2021) than countries with more serious and strong regulations.

While the motivation for informality is not static, as it changes over time (Amésquita Cubillas et al., 2018), prior literature has established multiple factors motivating individuals and businesses to work informally. Some of these reasons include economic necessity (Edoho, 2016). Another factor is education. It has been noted that individuals with low educational levels are not interested in entering formality because of their inability to comply with government regulations such as keeping accounts and other required records (Ilyas et al., 2020).

Informal entrepreneurs work informally by not registering their businesses with the government authorities (Çakmak et al., 2018). These people may include beach boys, taxi drivers, hotel staff, and managers who informally propose the services and

products to the customers (Henderson & Smith, 2009). While formal players pay taxes and register themselves in several government organisations such as social security funds and labour organisation tax regulations authorities, informal players do not (Çakmak et al., 2019; Kuhzady et al., 2021). As such, despite their contribution to the national economy, informal actors have been several unfavourable outcomes to the formalised tour operators' general welfare. Consequently, informal actors create competition that is based on unequal terms with formal ones (Abdalla et al., 2022). For this reason, informal actors tend to attract primarily low-end customers.

Prior studies have linked the types of informal actors with their region of operation. For instance, it has been noted that most European registered entrepreneurs are in transit to formalisation. However, due to certain prevalent conditions, they use the temporary period to work informally to formalise their firms in future (Williams, 2022; Williams & Nadin, 2012). Furthermore, most of these actors are self-employed and involved in equally small-scale enterprises (Adom & Williams, 2012). Thus, as De Castro et al. (2014) suggested, the environment is an essential determinant of informality.

2.2.1 Informal Entrepreneurs in Tourism

Informal entrepreneurs are critical stakeholders in the informal economy. While informal entrepreneurship has been well established in the economic domain, little effort has been made in tourism. Tourism informal entrepreneurs are characterised by the unrecorded exchange of activities in which the government authorities cannot audit them. These entrepreneurs engage in the activities in a hidden way (Amésquita Cubillas et al., 2018). Although the shadow economy is mainly equated with the developing world, the developed nations equally face similar problems. As such,

informal actors are also present in the developed world. These actors enter the market with social, cultural, symbolic and economic capital (Çakmak et al., 2018), as tourism is characterised by smallness, flexibility, and informality. These characteristics of tourism provide an avenue for the accessible entrance of informal entrepreneurs (Çakmak et al., 2019).

(Çakmak, 2020a) divided the studies of informal entrepreneurship into four main perspectives. Focused on informal tourism based on four main categories: pro-poor tourism (Slocum et al., 2011), tourism vendors (Wahnschafft, 1982), reside license of informal tourism actors (Biggs et al., 2012), and poverty reduction (Henderson & Smith, 2009). Others focused on the competitive collaboration between vendors and cabdrivers (Damayanti et al., 2017), informal business travellers and sharing economy (Guttentag, 2015; Kuhzady et al., 2021), informal business travellers (Timothy & Teye, 2005), informal institutions (Ngoasong & Kimbu, 2016).

Tourism informal entrepreneurs have been criticised for not registering their businesses and for tax evasion (Canclini, 2019; Mwesiumo et al., 2021a). However, their presence is also evident to be advantageous to the economy. For example, undeclared entrepreneurs in tourism significantly contribute to job creation, specifically among low-skilled people. The entrepreneurs stimulate the services quality and acquisition efforts of the formalised firms. It equally stimulates the competitiveness of the formalised firms (Mwesiumo et al., 2021). In many countries, such as developing ones, entrepreneurs balance the economy and provide equity amongst marginalised societies. Indeed, informal entrepreneurs are suitable for incubating new business firms whose start is complicated in environments that are not

suitable for a new start-up, such as that of Africa, Asia and Latin America (Amésquita Cubillas et al., 2018).

Tourism informal entrepreneurs are contextually based on the regulations of a particular country. For instance, in their study of the perceived threat of informal players, Mwesiumo et al. (2021) observed that taxi drivers, hotel staffs, freelance tour guides and beach boys constitute an essential part of the informal entrepreneurs in Zanzibar. However, (Damayanti et al., 2017) observed that in Jakarta, the informal actors are primarily pedicab drivers and street vendors. Generally, while the formalised firms spend their financial resources looking for tourists and doing heavy promotions, the informal players wait at the destination to steal the customers of the formers. As such, the price offered by the informal entrepreneurs becomes relatively cheap since their operating costs are relatively lower than the formalised firms (Abdalla et al., 2022).

2.2.2 Categories of Informal Entrepreneurs

Informal entrepreneurs have been categorised differently by different scholars. However, the most influential definitions are based on size (Çakmak et al., 2019) and the magnitude of informality or formality (Williams & Nadin, 2012).

Based on the informal entrepreneurs' size, Çakmak et al. (2019) categorise informal actors into four groups: freelancers, small, midsize, and prominent informal entrepreneurs. Freelancers are those engaging in the underground sector without assigning themselves to enterprises. Usually, these people work independently in their businesses without being employed or having employees. On the other hand, small informal entrepreneurs refer to individuals who possess companies and work independently without using others. Moreover, mid-sized informal entrepreneurs own

a business and employ up to six people based on friendship and family relationships. Like different informal actors, mid-sized informal entrepreneurs do not comply with employment and legal procedures. The fourth type is the prominent unauthorised players. These refer to the people owning a business, employing up to 7, and hiring the labour market.

The second way of categorising informal entrepreneurs is based on their level of formality or informality (Williams & Nadin, 2012). First, the permanent, wholly unofficial entrepreneurs. These informal entrepreneurs usually run unregistered firms fully engaging in the shadow economy. However, their goal is to enter formalisation as soon as possible. The second type is temporarily wholly informal actors. These refer to the informal entrepreneurs operating unregistered businesses entirely underground but to formalise them. Third are the permanent, partially informal actors. These refer to the informal entrepreneurs running registered firms paying tax but not declaring some income for proper taxation at the taxation authorities. Usually, these players do not intend to increase the share of the tax they announce. Fourth, there are temporary partially informal entrepreneurs, who are people who run registered businesses but do not report a portion of their income because they are in the process of formalising.

Other categories classify entrepreneurship based on their motives. For instance (Williams, 2016) classifies the informal actors into “necessity” entrepreneurs and “opportunity” informal players. While the former enters informality with no other options, the latter enters purposely.

2.2.3 The Perceived Threat of Informal Entrepreneurs

Informal players, also known as informal and undeclared entrepreneurs, have been key actors in the informal economy (Al-Mataani et al., 2017; Sutter et al., 2017). An undeclared entrepreneur is a person whose business is not registered with government institutions and uses unofficial labour such as family and friends without any recognised contract. Some unauthorised players' critical elements lack a business plan, confusing the business's planning activities. The informal player's lack of programs may not justify the notion that the former lacks the companies' knowledge and know-how (Mwesiumo et al., 2021a). Still, it somewhat explains the informal nature of the business run by informal entrepreneurs. There has been a disagreement amongst scholars concerning the legality of informal trade. While economists perceive unauthorised entrepreneurs as illegal, anthropologists consider them legal (Feige, 2007; Webb et al., 2009).

In the context of tour operations, informal players impose several threats, such as stilling formalised customers (Mwesiumo et al., 2021). While the formal tour operators spend much money attending the trade fairs, printing the marketing brochures, and paying the marketing companies overseas to look for customers, the informal customers enjoy the customers upon arrival and easily offer them tourism services. As the inbound tour operators' business mainly depends upon excursions and transfers, the accommodation constitutes a tiny profit (Abdalla et al., 2022; Akgün et al., 2022). The act by informal customers to steal the formalised firms' customers makes the latter lose significant income.

One competitive pressure posed by informal actors is reducing prices (Ali, 2017). Unauthorised players are characterised by low prices and low quality. The informal players are relatively low-skilled and unqualified compared to the formal actors. Due to these criteria, the informal actors tend to attract market share by employing the cost leadership strategy (Dell'Anno, 2021). Out of this competitive advantage, the unofficial actors may hardly be able to attract customers. Furthermore, while informal actors tend to register their businesses and pay taxes to the government, the informal ones do not do the same. This lowers the operational costs of the informal actors and creates competitiveness in terms of prices among them.

However, recent studies on the perceived threat of informal actors have revealed the bright side of their [presence. For instance, in their research on the impact of the perceived threat of informal actors on the business performance of formalised firms, Mwesiumo et al. (2021) found that the perceived danger of the informal players is positively associated with the acquisition efforts and enhanced service quality of the inbound tour operators. In other words, their empirical findings have demonstrated that the presence of the informal actors is beneficial as it stimulates the efforts of the formalised firms to acquire more clients and improve service quality. These findings are equally supported by (Ali, 2017), arguing that the perceived competition from the informal actors is an essential antecedent of the competitiveness of the formalised actors. Indeed, the study by (Abdalla et al., 2022) has demonstrated that the perceived threat of the informal actors is a sufficient and necessary condition for the improved operational performance of the formalised firms. Moreover, the study equally shows that the presence of informal actors triggers the competitive behaviours of the

formalised actors; despite the negative effect of the perceived threat of the informal players, the former benefits the formalised firms.

2.3 Efforts to Improve Service Quality

Service quality refers to the gap between customer anticipation and the actual service received (Parasuraman et al., 1988). This definition is based on the general subjective perception when a consumer has already enjoyed a particular service (Kim-Soon et al., 2014). Accordingly, service quality is one of the essential factors for enhancing customers in the business. There are several scales developed to measure service quality. One of the most prominent and original ones is SERVQUAL which involves five dimensions: responsiveness, reliability, empathy, assurance, and tangibles (Parasuraman et al., 1988). Furthermore, Gronroos (1988) identified six criteria for assessing quality service. These elements include reputation and credibility, professionalism and skills, behaviour and attitudes, reliability and trustworthiness, accessibility and flexibility, and service recovery.

Service quality is defined as the subjective view of the consumer after consuming a particular service (Bitner & Hubbert, 1994). Thus, what a consumer perceives of the provided services constitutes service quality (Kim-Soon et al., 2014). In a business firm, service quality is essential to retaining and determining customer satisfaction (Yu et al., 2014). Prior studies have gauged service quality differently. The most prominent construct scale is SERVQUAL (Parasuraman et al., 1988). When SERVQUAL was developed, the customers' relative importance of service attributes was considered (Kim et al., 2013). While the SERVQUAL model has been widely used to gauge service quality, scholars have been using the model differently. For instance, (Howat et al., 1999) measured service quality using three dimensions: core, peripheral, and

personnel. Theodorakis et al. (2015) used three dimensions of SERVQUAL, namely interaction quality (IQ), physical environmental (PEQ), and outcome quality (OQ), to examine the enjoyment and satisfaction of the runners in sport-related occasions. While IQ gauged the customers' perception after interaction with the event organisers, the PEQ refers to the attributes of the service encounter, such as design, social factors, and the event's environment. In addition, QQ is associated with the customer's opinions and how they are delighted with the events.

Service delivery is one of the essential elements of service quality. Service delivery is dynamic, as it varies from one provider to another. Equally, then, it may differ from one customer to the other customer and change from one day to another. These changes are due to the incapacity of service personnel to deliver functional and technical quality (Mohsin & Lockyer, 2010). Thus, customers use several criteria to evaluate the service, such as the corporate profile and image, the physical aspects that focus on the technical and functional quality of the service product, and the interaction between the service employees and their customers. Parasuraman et al. (1988)'s SERVQUAL has five dimensions. These dimensions included assurance, which refers to the capacity to instil confidence. Reliability is linked to the ability to deliver services effectively. Tangibles denote the appearance of the physical facilities, communication equipment, and personnel. Responsiveness refers to encouraging quick response—rapport, Interactivity and value co-creation. Moreover, empathy refers to compassion towards customers.

The service delivery is thus an essential stage in determining the service quality as customers are more demanding during this stage. (Hemsley-Brown & Alnawas, 2016; Mohsin & Lockyer, 2010). Customers usually compare service performance with prior

expectations (Cronin & Taylor, 1992). While service quality is determined by service delivery and service outcome, the positive interaction between customers and employees is essential. Hence, the service environment and service outcome need enhancement (Brady & Cronin, 2001). The extant literature has highlighted the vitality of service delivery since it enhances customer retention and positioning (Camilleri, 2018). More excellent services are essential in promoting the firm's image, customer satisfaction, and retention (Hu et al., 2009; Mohsin & Lockyer, 2010). On the other hand, enterprises that deliver poor services may face dissatisfaction (Akbaba, 2006; Dedeoğlu & Demirer, 2015). In tourism and hospitality, service quality is associated with the price, cleanliness, location, services offered, employees' friendliness and security (Akbaba, 2006; Rauch et al., 2015). Therefore, the choice of customers to stay in a particular hotel is primarily determined by their perception of whether the hotel in choice has exceeded their expectations (Dedeoğlu & Demirer, 2015; Rauch et al., 2015).

The competitive business forces business to be well-equipped with competent and able personnel who would ensure superior service provision (Dulgeroglu & Taskin, 2015; García-Almeida et al., 2015). Prior studies demonstrate the positive link between service quality firms' business achievement (Wang et al., 2014). While the service is characterised by inseparability, intangibility, perishability, and heterogeneity, business firms' services are likely to differ from time to time. Koc (2006) argues that while all characteristics are essential, heterogeneity and intangibility are more vital. Hence, they need more skills in their realisation.

Furthermore, the inseparable nature of the service makes its production and consumption simultaneous (He et al., 2020; Wirtz et al., 2020), which requires

coordination amongst all business departments to produce the services effectively. Thus, SERVQUAL enables the firms to identify and verify all problems associated with customer expectations with post-service, identify the relative importance of service components and enhance their profitability (Villapando et al., 2021). Thus, SERVQUAL is an essential tool. Customer satisfaction is due to its ability to combine customer expectations with post-service performance (Parasuraman et al., 1994).

While the tourism and hospitality industries are labour-intensive, their success depends on the availability of competent employees to deliver superior services (Mohsin et al., 2019). Thus, a successful model like SERVQUAL is essential in gauging the quality of services offered by tourism firms (Hakan et al., 2017; Jha et al., 2017). Due to its importance, firms must provide superior services to satisfy and retain their customers (Sigit Parawansa, 2018). Extant research demonstrates that customer dissatisfaction is associated with the interaction between the service personnel and customers (Hwang & Lee, 2019).

Tourism and hospitality firms apply several strategies to improve the quality of their services (Sahin et al., 2017; Sun et al., 2017). Given the importance of service quality in gaining competitiveness (Nanyama, 2013), the firm makes all efforts to improve it. The study highlighted numerous positive outcomes of service quality (Spyridou, 2017). Highly quality-services are likely to satisfy the customer (Lai et al., 2018; Spyridou, 2017). The delighted customer positively affects word of mouth, repurchase, and revisit intention (Leung, 2020). Equally, customer satisfaction is linked favourably to loyalty and other loyalty-related behaviours. In their review of service quality literature, (Lai et al., 2018) argue that service quality positively correlates with customer relationships. Also, service quality is an essential antecedent of satisfaction

and behavioural intention that eventually positively affects operational performance (Gary Howat & Crilley, 2007).

2.4 Operational Performance

Operational performance is one of the internal resources used by firms during competitive competition. Operating performance (OP) refers to the professional and efficient creation and delivery of the business organisation's services and products (Masa'deh et al., 2017). Moreover, De Leeuw & Van Den Berg (2011) defined OP as "the process of defining, implementing, and utilising performance measures at the operational level." Overall, operational performance constitutes the multiple firms' precious internal assets required to enable the former to be competitive.

OP has been defined previously as cost, quality, inventory turn, speed of new product introduction, flexibility, and delivery dependability (Peng & Lai, 2012). The performance of manufacturing processes is evaluated in this study, referred to as manufacturing OP. Manufacturing OP is defined as measures of cost, time, quality, and delivery reliability of the operations of manufacturing companies. Flexible manufacturing processes were excluded from the study because they are a capability of the manufacturing process, not an operational outcome. The rate at which new products are introduced was also not investigated, as this is more dependent on research and development than on the operation's organisation.

OP refers to a company's ability to reduce management costs, order lead times, and improve the efficiency of raw material utilisation and distribution capacity (Heizer et al., 2008). OP is critical to firms because it aids in increasing the effectiveness of

production activities and creating high-quality products (Kaynak, 2003), resulting in increased revenue and profit for businesses.

As for cost, quality, delivery, and flexibility are the most frequently used measures of OP in the literature (Nabass & Abdallah, 2019); these are also used in this study. Typically, organisations compete based on cost reduction and lowering production costs significantly impacts a firm's ability to maintain competitive advantages. Typically, organisations that compete on cost focus on providing comparable products to their competitors at a lower price and producing them more efficiently (Hallgren & Olhager, 2009).

Quality can be defined as the extent to which a product satisfies a customer's requirements (Jain, 2006). Typically, organisations strive to provide high-quality products at a reasonable price or reduce their process costs without sacrificing quality. Customers have grown accustomed to demanding flexibility and rapid delivery, particularly with the advent of technological solutions and product variety (Gaudenzi & Christopher, 2016). Researchers proposed a variety of definitions of flexibility from a variety of angles. For example, (Zhang et al., 2003) defined mix flexibility as a firm's capacity to produce customised products at a low cost. Sharma and Bhat (2014) defined volume flexibility as an organisation's ability to operate at a range of output levels without jeopardising the system's performance in terms of cost, quality, or demand acceleration or deceleration (Bernardes & Hanna, 2009). Delivery can be defined in two ways: delivery speed and delivery reliability. The former refers to a firm's ability to deliver (products and services) faster than competitors. In contrast, the latter refers to a firm's manufacturing system's ability to deliver on time (Nabass & Abdallah, 2019).

Previous literature has used several criteria to measure operational performance. At the same time, some consider it multidimensional (Devaraj et al., 2007; Jabbour et al., 2013; Macduffie, 1995; Nabass & Abdallah, 2019; Nawanir et al., 2013; Ou et al., 2010). These scholars have suggested multiple items, including quality, flexibility, costs and delivery measures for operating performance in manufacturing facilities. Some of the earliest works on operational performance include Michael Schaefer, who assesses the operating performance in the airline context (Schaefer, 1993). Macduffie (1995) studied HRM practices on operational performance in other prominent positions and employed cost, quality and delivery to gauge service quality. (Bayraktar et al., 2009) argued that firms struggle to choose a single OP metric. As a result, the literature proposed several indicators to be used in conjunction with OP.

For example, Jabbour et al. (2013) quantified OP by examining cost, quality, flexibility, delivery, new product development, and time-to-market for new products. (Nawanir et al., 2013) incorporated quality, inventory minimisation, delivery, productivity, and cost into their methodology. Devaraj et al. (2007) considered cost, quality, adaptability, and timeliness. Similarly, (Hallgren & Olhager, 2009) argued that the primary indicators for manufacturing firms are cost, quality, delivery, and flexibility. Additionally, (Leite & Braz, 2016) stated that the indicators for determining a firm's OP under AM are delivery speed, product flexibility, and volume flexibility. Finally, Abdallah et al. (2016) quantified operational performance (OP) in cost, quality, delivery, flexibility, and innovation. However, other researchers (Feng et al., 2018; Masa'deh et al., 2017; Yu et al., 2019) consider operational performance a uni-dimensional construct.

In the context of tourism and travel and tour operations, the operational performance is affected by improving several aspects in the tour operators' front and back offices. The front office, which includes mostly tour guides and drivers, tries to enhance service delivery and quality (Abdalla et al., 2022). For instance, tour guides may be trained to improve their professional competence. In return, a company expects its tourist's satisfaction and enhances word of mouth (Hwang & Lee, 2018; Mak et al., 2011). The tour operators may also improve the punctuality of their front-line staff. For instance, the company may insist that the tour guide arrives at the pickup point promptly. Alternatively, the drivers are emphasised at entry and departure points such as airports and seaports several minutes before the time to enhance punctuality and avoid potential delays.

On the other hand, the back office tries to improve the speed of responding to emails, improve the office's technology, and so forth. Considering the nature of the tour operating business and having received advice from the practitioners conversant of their business's character, the present study has opted for the mono-dimensional way to gauge the operational performance. As such, items from (Yu et al., 2019; Masa'deh et al., 2017) were considered to operationalise the construct. Equally, Howat and Crilley, (2007) operationalised operational performance as a unidimensional construct using seven items: problem-solving, behavioural intentions, expense recovery of operations, the socio-demographic fit of centre users to that of the local community, overall satisfaction, and customer service quality. Similarly, Howat et al., (2005) employed the same indicators to gauge the survey's annual operating performance of public leisure facility management in Australia.

2.5 Customer Bonding

Amid serious efforts to enhance service quality, firms try to implement relationship marketing to attain business achievement. Bonding is an essential dimension of relationship marketing (Narteh et al., 2013; Shammout, 2020). It is one of the tools employed to ensure a long-term relationship with their customers. The construct originates from sociologists' works (Suttles et al., 1970). These scholars examined bonding in the family and small group contexts. However, the conceptualisation of the notion of business was first implemented in the 1980s. For instance, (Araujo & Easton, 1986) were amongst the earliest scholars who identified bonding in business exchanges. Bonding refers to the businesses' association that leads the buyer and seller to have a mutual understanding and collaborate to achieve a unified goal (Yi et al., 2021). Scholars take several positions on how to create bonding. Some argue that bonding is made when firms develop superior services to be offered to the customer (Danish et al., 2018).

Numerous markets are characterised by long-term relationships between suppliers and customers (Prajogo et al., 2012). Because such relationships are based on repeated exchanges, parties' behaviours towards one another at any given time are informed by and influence previous actions. Relationships can be described as interactive when either party can influence and the proclivity to be affected by the activities of the other (Qiao et al., 2022). In other words, when neither party acts entirely independently of the other within the context of the relationship (Gummesson, 1987). Due to the interactive and repetitive nature of exchange in these relationships, parties develop bonds (McCall et al., 1970). Given that relational exchange requires the involvement

of human beings to varying degrees (Morgan & Hunt, 1994), the social bonds that develop between parties can be a significant characteristic of a relationship.

Morgan and Hunt (1994) noted that relational exchanges with suppliers, lateral organisations, customers, employees, and business units require a business to develop the ability to cooperate and compete. Thus, the diversity and nature of relationships within industrial, service, and consumer markets and between suppliers, intermediaries, and specific brands make it challenging to define a term that encompasses all forms of relational exchange.

Hoffmann and Dufur, (2018) and DelPrete (2021) have identified and classified elements in these exchange processes, referring to them as technical and social or structural and social bonds. Social bonds refer to the interpersonal relationships between partners, ranging from formal, organisational contacts to informal, personal relationships. By contrast, structural bonds are formed when two organisations adapt economically or technologically (Wilson & Mummalaneni, 1986). While businesses seek effective strategies for increasing customer retention, bonds have become a powerful strategy for service providers to establish long-term relationships with buyers and sellers (Yi et al., 2021).

Mitchell and Orwig (2002) suggested that social bonds significantly impact products with high involvement. In contrast. Financial bonds are critical for the product with low participation. Bonds cultivate customer loyalty since customers expect a service provider to provide financial, relational, and social benefits (Yi et al., 2021). In addition, Morgan & Hunt noted that social bonds are the critical predictors of trust in

service encounters. In contrast, trust is a necessary component of relationship building. Bonds enhance an organisation's performance by increasing customer satisfaction, trust, and commitment (Lin et al., 2003).

According to Morgan & Hunt (1994), trust and commitment are critical for creating the most successful relationship marketing. Parasuraman et al. (1991) also asserted that mutual commitment is necessary for relationship development and that there can be no cemented rapport without it. Lin et al. (2003) discovered that social bonding and commitment are positively associated. Adhesion on commitment is more excellent in collectivistic societies than in individualistic cultures. (Ziaullah et al., 2014) discovered that bonds significantly affect customer commitment.

Researchers have categorised bonding into several categories. For instance, despite the overlap in his definition, Arantola (2002) suggested eighteen categories of bonds., Berry (1995) suggested three types of bonds: social, structural and financial, social. Furthermore, Håkansson (1982) proposed six categories of bonds: technological, social, economic, knowledge, planning, and legal. Additionally, (Liljander & Strandvik, 1995) found ten types of bonds, some of which include: cultural, geographical, psychological, and ideological. Moreover, (Berry et al., 1991) proposed three levels in which bonds advance between business firms and their customers. These phases include remaining in contact with customers, allocating them account representatives, and producing membership clubs that could be supplemented with newsletters, wallet cards, and incentives to enhance repurchase repeat. While analysing these three levels, one might not think they are socially, structurally, and

financially related. Thus, the concept's complexities indicate multiple understandings of both types and the meaning of bonding (Krolikowska et al., 2020).

Customer bonding has several antecedents (Arantola, 2002; Shammout, 2020). First, customer bonding enhances customer loyalty (Arantola, 2002). Second, customer loyalty has attitudinal and behavioural outcomes, including satisfaction, word of mouth, revisit intention, and repurchase intentions (Shammout, 2020). Third, bonds enhance customer loyalty (Plunkett et al., 2019) and increase commitment and trust (Lin et al., 2003). Fourth, customer bonding improves satisfaction (Chen & Chiu, 2009), enhances repurchase intention (Thi Phuong Thao & Swierczek, 2008), increases emotions (Shammout & Algarabat, 2013), and promotes the quality of the relationship (Nath & Mukherjee, 2012). Furthermore, bonds have been reported to have a more significant influence on commitment. As Morgan & Hunt (1994) highlighted, commitment is linked with effective collaboration. It is appreciated as a critical variable in relationship marketing.

Prior research maintains that bonding develops over time (Arantola, 2002). Once bonding is created, the customer may be willing to accept even low-quality services. Equally, once the perceptions of quality have been established, customer bonding may lead to purchasing even higher-priced services (Seyitoğlu & Ivanov, 2020). Furthermore, constant business updates and close cooperation are suggested to enhance bonding (Abid et al., 2020). Successful bonding creates a friendship between the buyers and sellers (Berry et al., 1991). It also stimulates customers' participation in service. Therefore, bonding is an essential element in customer retention and behavioural intentions. As such, service enterprises regularly interact with customers to strengthen their bonding and friendship.

2.6 Theoretical Framework

This study is delineated by two theoretical frameworks: the RBV Logic of Competition and the destructive innovation theory. The RBV logic of competition posits that the firm's resources are critical in providing competitive strategies (Barney, 1991). The RBV focuses on explaining organisations' competitive performance based on their internal resources instead of the particular firm's services (Wernerfelt, 1984). The RBV considers internal resources for the long-term survival of the businesses (Barney, 1986, 1991; Wernerfelt, 1984). Due to these global resources' importance, RBV considers them necessary, cherished, occasional, and hard to mimic (Barney, 1991). In addition to RBV, the disruptive theory (Christensen, 1997) posits that entrepreneurs may emerge in the market and destroy the existing business actors by destructive means, such as reducing price and quality to attract the current market.

2.6.1 Disruptive Innovation

This study is delineated by two theoretical frameworks: disruptive innovation and resource-based theories. Based on disruptive innovation theory, the informal actor is echoed as a disruptive innovator who tries to capture the market share by disruptive means, including but not limited to the lower service price (Christensen et al., 2015). According to King & Baatartogtokh (2015), disruptive innovation has four conditions. First, existing firms (incumbents) are disrupted and suffer from disruption. Second, The course of sustaining innovation makes the incumbents improve. Third, firms possess the capacity to react to disruptive innovation. Fourth, supporting innovation exceeds the customers' needs and wants. Figure 1 illustrates the four conditions.

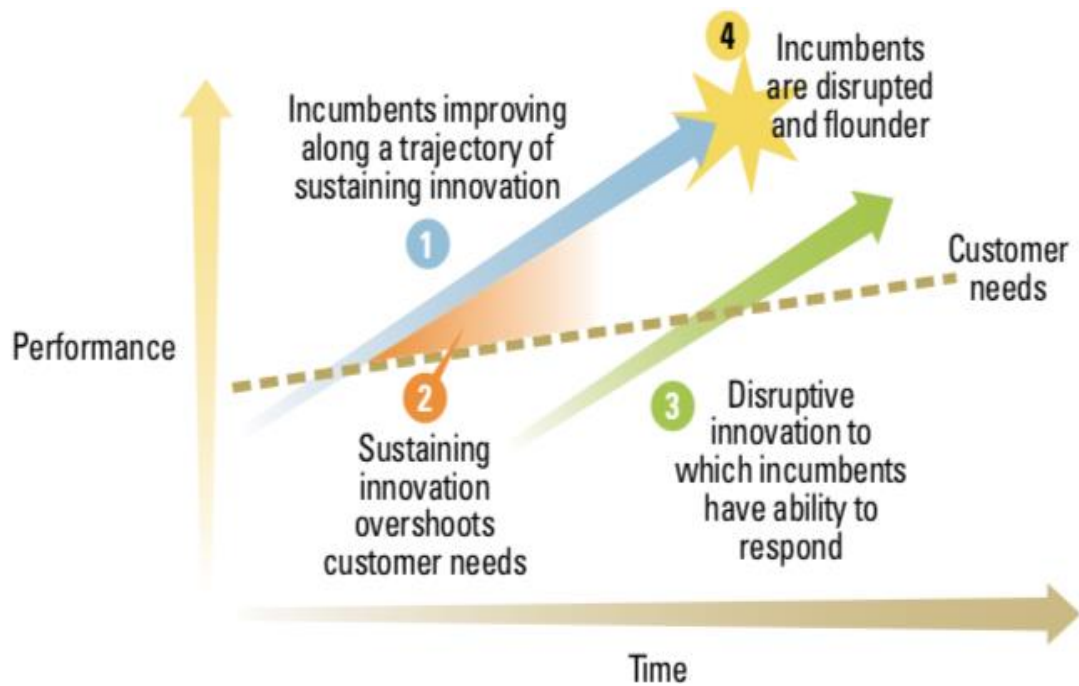


Figure 1: Four Conditions by Disruptive Innovations Theory
 Source: King and Baartartogtokh, (2015).

Disruptive innovators do not employ improved service techniques; they usually suggest low-quality products relative to those indicated by the incumbents (Christensen, 1997). The focus of disruptive innovators is to develop alternative services; lower, smaller and more straightforward in terms of quality and cheaper relative to the incumbents' package. As such, disruptive innovator proposes to the market low-grade services compared to the ones offered by the existing firms, given that their focus is on low-end customers (Guttentag, 2015; Koh & King, 2017). Nonetheless, due to their market presence, their services develop to the point of satisfying the market's needs and desires. As such, in the long run, the disruptive innovator commences to capture significant market share, and their products and services become trusted and accepted (Guttentag & Smith, 2017). Ultimately, the benefits of disruptive innovators become the best alternatives to the incumbents' services. The disruptive innovators' entrance did not threaten the incumbents, focusing on low-quality and low-spending customers. However, the danger comes when the

former is well established and their products have started to improve, making the incumbents flounder because of stiff competition.

Extant literature has widely used disruptive innovation theory (Cao et al., 2022; Cheng et al., 2022). While disruptive innovation is a technique used by informal entrepreneurs (Mwesiumo et al., 2021), formalised firms have little chance to enter into disruptive innovation. Thus, the disruptive innovator can take pathways that overlook mainstream market participants, known as disruptive innovation. As a result, the innovators may catch up by focusing on low-end customers and new areas (Christensen, 1997). Disruptive innovators typically lack the requisite resources and must cope with unknowns and operational risks that incumbents do not face. Disruptive innovation approaches need fewer entrepreneurial resources, minimise technological risks, and weaken market rivalry, providing the most critical and advantageous conditions for startups (Abdalla et al., 2022).

Recent research papers on disruptive innovation theory heavily emphasised the competitive landscape. According to researchers, disruptive ideas were neglected in the economy and competitive landscape. However, according to Guttentag & Smith (2017), disruptive innovations cannot be ignored. With the understanding that disruptive innovation has the potential to revolutionise the way we do business, researchers have become increasingly interested in the tactics that can lead to disruption (Frizzo-Barker et al., 2020). Disruptive innovation trending studies impacted this research by illustrating how the concept of disruptive innovation has developed and how informal actors adopt disruptive innovation to gain competitiveness (Mwesiumo et al., 2021). More importantly, this study can contribute

to strategic innovation by explaining how current events might impact or encourage a business to be disruptive. How does the success of a rival influence how a small business handles disruptive innovation? However, a recent study by (Abdalla et al., 2022) demonstrated the bright side of disruptive innovation. They suggested that disruptive innovation improves the cooperative behaviours of formalised firms.

Similarly, a study (Mwesiumo et al., 2021) revealed similar insights. Their empirical findings demonstrated that disruptive innovation enhances the acquisition efforts and efforts to improve the service quality by the formalised tour operators. The two studies provided new insights by suggesting that although disruptors have imposed danger to the incumbents, their presence generally becomes a stimulus to make the formalised businesses react rapidly and stay competitive. Thus, disruption can be an impetus for the growth and competitiveness of the formalised players (Ali, 2017; Mwesiumo et al., 2021).

By using distinctiveness and low-cost techniques, disruptive innovators can open up new development chances without competing in the mainstream market (Christensen et al., 2015). Rather than waiting for technology breakthroughs, entrepreneurs should actively seek appropriate disruptive solutions in complicated production processes (Christensen et al., 2018). Disruptive change can provide more revenue than incumbents. Studies suggest that disruptive innovation focuses primarily on two aspects, namely scope and procedure.

The first viewpoint focuses on the scope of disruptive innovation or the different forms of creative activities. Christensen (1997) first advocated disruptive innovation in his

book *The Innovator's Dilemma*, focusing on disruptive technologies. Disruptive technology was then renamed disruptive innovation, encompassing disruptive goods, services, and business models (Christensen et al., 2018). Over time, many academics have concluded that disruptive innovation refers to changes in products, services, or business models (Lindsay & Hopkins, 2010; Parry & Kawakami, 2017). The second viewpoint emphasises that disruptive innovation is a process rather than a result (Christensen et al., 2015; Kumaraswamy et al., 2018). According to this viewpoint, disruptive innovation is how products, services, or business models move from the fringe to the mainstream market (Christensen et al., 2015; Kumaraswamy et al., 2018).

One may argue that disruptive innovation introduces significant change or disruption in the mainstream market through products, services, or business models (Christensen et al., 2015). In this process, mainstream customers first overlook these products, services, or business models. However, nonmainstream customers cherish them, and these products, services, or business models will eventually suit the needs of mainstream customers through continual improvement (Christensen et al., 2015; Christensen, 1997). Thus, disruptive innovators would eventually gain a market share in the mainstream market through continual development, a critical element of disruptive innovation (Christensen et al., 2015).

Disruptive innovation is not a one-time occurrence; instead, it is a catalyst for progress. According to the researchers, many business owners are unaware that understanding their company's inner workings makes them more competitive. These studies show the disparity between the various approaches to disruptive innovation. During the evolution of disruptive innovation, Lyytinen & Rose (2003) did a research study that

provides insight into disruptive innovation tactics that may be useful as small enterprises grow. While disruptive innovation usually equates with low-end, Ho (2022) categorises disruption into low-end and high-end.

2.6.2 Resource-Based Theory

According to the resource-based theory of competitive advantage, business success depends on its internal resources, distinct from competitors' ability to utilise them (Barney, 1991; Grant, 1991). The firms' effective use of the interior creates their competitive advantage. RBV suggests that the uniqueness of the firm's resources is the crucial element defining its performance. As such, the structural features of the industry have little impact on the firm's performance compared to the unique resources a firm possesses (Lee & King, 2006). Several assets may be considered the enterprise's resources, ranging from human, organisational, and physical capital.

In addition to these resources, multiple intangible resources may be classified as unique resources. These resources include business values, beliefs, and knowledge (Rusko et al., 2013). Barney (1991) provides four characteristics of the firm's unique resources: inimitable, non-substitutable, rare, and valuable. These characteristics give the firm a competitive advantage (Altin, 2021; Seyitoğlu & Ivanov, 2020). In connection with the discussion, Seyitoğlu & Ivanov (2020) believe that the firm's positioning strategy determines the type of customer a particular firm is to attract. Thus, they argue that customers may be willing to purchase a higher-priced service given that the quality of the services offered is guaranteed.

2.7 Hypothesis Development

2.7.1 The Perceived Threat of Informal Players on the Customer Bonding

The cost leadership used by informal actors as the sole vital asset to gain a competitive advantage over the formalised ones helps the former penetrate the market (Ali, 2017; Christensen et al., 2015). The price comparison by the customer may create the feeling of cheating and overpricing. Drawing from the disruptive innovation theory (Christensen et al., 2015; Koh & King, 2017), undeclared entrepreneurs enter the market by disruptive means. Williams and Bezeredi (2020) add that informal entrepreneurs are characterised by tax evasions, escape from paying social security funds and operate under unregistered businesses, all of which create an unequal business environment with formalised actors. The way underground entrepreneurs work reduces the formalised enterprises' productivity (Williams & Bezeredi, 2020).

Indeed, the advent of the internet facilitated customers' access to information suppliers and enabled the customers to make prices comparison. Given the tax evasion and avoidance of other operational costs, such as registration fees, labour costs, and office rental by undeclared actors, their operating costs become relatively lower (Mwesiumo et al., 2021). All these opportunities attained by the underground entrepreneurs minimise the chance of formalised actors to enter into price competition with informal entrepreneurs.

As a result of the unequal competition, formalised firms' customers may start complaining about the overpricing and exert pressure on the formalised operators to reduce the price. These complaints may lead to customer dissatisfaction. Based on Mwesiumo and Halpern (2018), the inbound tour operators enter into business terms

giving more power to the customers in interfirm exchange. Given the availability of several service options, the customer may opt for the services and products of another firm. Contrarily, given the increased operational costs of the formal entrepreneurs relative to the informal ones, the inbound tour operator may resist reducing their service price, causing misunderstanding between the customer and the inbound tour operators. Based on the discussion, we formally hypothesise:

H1. The informal actors' perceived threat negatively affects the bond between formalised firms and their customers.

2.7.2 The Perceived Threat of Informal Players on the Operational Performance

Drawing on the disruptive innovation theory, the perceived danger emanating from the undeclared entrepreneurs triggers the efforts to enhance the performance of the declared entrepreneurs (Ali, 2017; Christensen et al., 2015). While the informal actors use mostly cost leadership strategy (Ali, 2017). Having a relatively financial capacity, formalised firm use their scarce resources to avoid danger. Financial capability is critical to keeping the firms competitive (Seyitoğlu & Ivanov, 2020). As such, formal enterprises use the differentiation strategy to enhance their operational performance.

For example, in tour operations, the operators try to replace their old vehicles with new ones, improve their technology, provide several training pieces to their employees, and enhance the delivery of their services (Abdalla et al., 2022). Equally, the tour operating companies focus on increasing their punctuality. The former is affected by installing vehicle tracking systems to enable firms to determine their drivers' locations (Warnken, 2006). The focus on increased employee remuneration is another technique the firms use to improve their operational performance. While the formalised firms do

the previously mentioned activities, the informal ones, given their financial incapacity, cannot use similar techniques.

Consequently, the underground actors attract the shallow segment of the market. Previous literature highlighted that increased competition stimulates formalised firms' competitiveness (Ali, 2017; Darbi, 2016). When the business firm perceives the danger from its competitors, they try to adjust itself to mitigate the existing threat. Based on the above discussion, we formally hypothesise that:

H2. The perceived threat of informal players positively impacts the operational performance of formal players.

2.7.3 Effect of Operational Performance on Customer Bonding

Operational performance has been highlighted as one of the critical dimensions influencing customers' attitudes and behaviours. As bonding is one of the behavioural constructs, it is likely impacted by operational performance. In a competitive business environment, enterprises improve their functional elements to be competitive relative to competitors. Operational performance in a service organisation such as a tour operation relates primarily to service production and delivery (Masa'deh et al., 2017). As such, fast delivery of services, conformance to service specifications, superior services capability (Fuller et al., 2006) and delivery of services that meet customer expectations constitute the central part of the operating performance of the tour operators.

Therefore, tour operators try to enhance both productions and deliver them effectively and professionally to capture the needs and exceed the customers' expectations (Nanyama, 2013). Prior research has demonstrated the favourable impact of

operational performance on customer satisfaction and loyalty. As Suhartanto et al. (2020) suggest, customer loyalty constitutes both attitudinal and behavioural elements. While attitudinal characteristics consist of satisfaction, and word of mouth, behavioural components involve repurchasing and revisiting intentions. Bonding is an essential antecedent of consumer satisfaction, meaning that delighted customers are likely to stick to the services offered. Satisfaction increase trust, thus creating long-term relations:

H3. Operational performance affects customer bonding positively.

2.7.4 The Perceived Threat of Informal Players on the Service Quality

Disruptive innovation theory posits that innovators enter the market through disruptive means, threatening incumbents' survival. The disruptive innovator employs many techniques, including cost leadership (Ali, 2017; Christensen, et al., 2015). In addition, the disruptor's entrance triggers the existing firms to act against the potential danger (Christensen, et al., 2015).

Likewise, the resource-based view of competitive strategy (RBV) suggests that firms possess valuable, inimitable, scarce resources and the capacity to utilise them to position themselves in a competitive advantage. As such, business organisations may take advantage of their internal or external resources during a highly competitive environment to mitigate potential threats (Altin, 2021). In tour operations, several unregistered actors conducting tour operation businesses, such as beach boys, taxi drivers, hotel staff, and freelance tour guides, emerge and work as tour operators without being registered for taxation and other regulatory procedures. These informal actors appear as disruptive innovators by reducing the price of transfers and

excursions, reducing the product's quality, and creating a sense of inflated prices by formalised tour operators in the customers' eyes (Abdalla et al., 2022).

Presumably, the formalised tour operators find means to increase the quality of their services and position themselves as focusing on high-end clientele rather than low-end customers (Mwesiumo et al., 2021). As such, they opt for service differentiation rather than a cost leadership strategy. Furthermore, the formalised tour operators try to invest in quality improvement strategies (Sahin et al., 2017), such as providing training to their staff, notably on customer care and language competency, and improving their technology. Congruent with the above, Ali (2017) demonstrated that firms with knowledgeable teams and whose investment into high technology is meaningful are prone to perform better than their homologous with low-skilled employees and low technology.

Prior research suggests several relationships with service quality and other constructs. Service quality is confirmed to be an essential antecedent of customer satisfaction and commitment (Cheunkamon et al., 2021). It is also an important predictor of satisfaction and loyalty (Tran et al., 2022). It is a key predictor of customer repurchase behaviours (Law et al., 2022; Srivastava & Sharma, 2013). Scholars have highlighted the positive relationship between service quality and a firm's performance in customer relationships. Moreover, Service quality perceptions have been linked with several positive customer behaviours. For instance, He and Li (2011) suggest that better quality increases the customer's identification with the company. Ahearne et al. (2005) posit that "identification is likely to be stronger when customers have favourable perceptions of the boundary-spanning agent with whom they interact (e.g., the

company's salesperson, customer service, technical representatives.)” customer-company identification. Considering the above discussion and where the informal players' entrance triggers the formalised firms' efforts to increase their service quality, we formally hypothesise that:

H4. The perceived threat of informal players positively affects the quality of services.

2.7.5 Effect of Service Quality on Operational Performance

Service quality has been identified as a vital resource that improves the firm's performance. One of the challenging effects is that the former creates unequal competition with formalised operators (Williams & Bezeredi, 2020). This entrepreneur enters the market using several disruptive strategies but not limited to cost leadership. As such, disruptive innovator lowers the price of their services. Conversely, having such a danger imposed by the informal entrepreneurs, the formalised operators find ways to mitigate the threat. One of the techniques used to improve the quality is to differentiate their services from those offered by the informal actors (Mwesiumo et al., 2021).

Since formal actors are relatively financially strong to their homologous informal ones, they use financial resources to compete with unofficial actors. Since financial resource is considered one of the essential assets to keep the firm competitive advantage (Hossain et al., 2021; Lin & Wu, 2014), the formalised firm takes advantage of its resources. Thus, the formal tour operators may enhance the speed in responding to the customer's emails, observe the punctuality amongst drivers and tour guides, provide the promised itineraries and services, and frequently replace old vehicles with new ones to enhance the service delivery (Abdalla et al., 2022). These techniques assure

the formalised operators of the competitive advantage, thus helping them to retain their customers.

Moreover, tour operators would enhance their employees' capacity to strengthen their operating performance and compete with the informal players. Accordingly, since the human resource is a crucial antecedent that improves operational performance (Wang & Huang, 2021), firms may train their employees to enhance their service quality. Consequently, firms may develop employees with training in language skills, customer care, and knowledge of the destination's history (Cetin & Yarcın, 2017). Presumably, both front and back-office staff would be prepared. While front office, mainly drivers and tour guides, would be trained primarily on language skills, customer care, and sanitation. The back office would especially be trained regarding the speedy response of emails, handling customer complaints emails, and language skills. Being one of the prominent front office employees (FLEs), tour guides would be supposed to handle the excursions escort tours and ensure the services are delivered in a competent and highly professional manner (Chen et al., 2018).

Equally, the driver is supposed to maintain the cleanliness of the vehicles and personal hygiene. All these efforts towards improving the tour operating companies' operational performance would satisfy customers, hence recommending the company's services despite the relatively higher price than the ones offered by the informal actors. Excitingly, since the tour operators rely mainly on outbound international tour operators to acquire customers, the improvement in operational performance would be more meaningful. As such as in considering the above discussion, we formally argue: As such, we hypothesise the following:

H5. Service quality positively affects the operational performance of inbound tour operators.

2.7.6 The Effects of Service Quality on Customer Bonding

Service quality has been highlighted as one of the essential tools firms use to satisfy their customers (Lian, 2019; Prentice & Kadan, 2019; Slack & Singh, 2020). Service quality becomes a vital resource when professionally managed, keeping firms at a competitive advantage. Drawing from the resource-based theory, a firm gains a competitive advantage by having the unique resources and capacity to employ those resources strategically (Altin, 2021; Seyitoğlu & Ivanov, 2020). Outstanding resources have four key characteristics: unsubstitutable, inimitable, scarce, and valuable.

Firms make several efforts to improve their service quality in the tour operation context. For example, while bonding relates to the long-term customer relationship (Danish et al., 2018), firms try to comply with customers' agreed itineraries. Tour operators may also use their competent staff or outsource them when their internal resources are insufficient (Altin, 2021). Likewise, tour operators ensure their services meet international standards and comply with the local operator's standards. Enterprises also try to enhance their service delivery to customers. As a result of all these efforts, operators satisfy their customers, thus improving their stickiness.

Prior research demonstrates the positive effect of service quality on bonding (Danish et al., 2018; Yi et al., 2021). Service quality improves trust and enhances customer engagement. Furthermore, service quality improves the repurchase intention and the relationships between the service providers and the customers. Based on the above relationships, the following hypothesis is drawn:

H6. The efforts to improve service quality positively affect customer bonding.

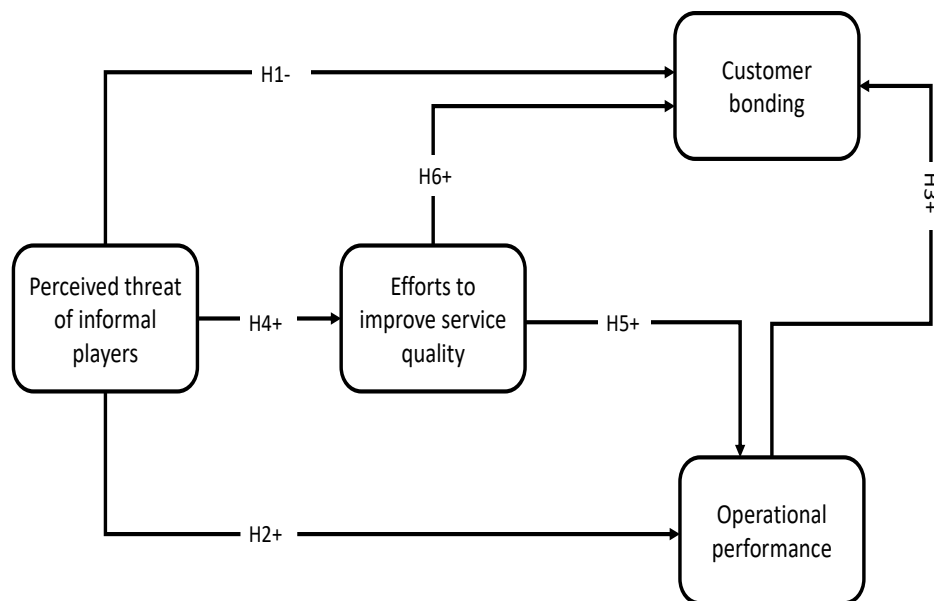


Figure 2: Conceptual Framework

2.8 Description of the Research Context

2.8.1 Historical Background of Zanzibar

The present study data were collected from 130 inbound tour operators in Zanzibar. Zanzibar is one of the two countries forming the United Republic of Tanzania (*Zanzibar Constitution 1984*, 2010). The archipelago comprises two main islands and about 52 small islets surrounding the two main islands. The country is located in the heart of the Indian Ocean, approximately 35 kilometres off the coast of mainland Tanzania (Sharpley & Ussi, 2012). While the destination was in contact with foreign traders many centuries ago, the written records confirm it to be a commercial hub and gateway since the 10th Century. Researchers suggest that strategic geopolitical location and weather conditions are central to the attraction of foreigners to come and settle in the archipelago (Abedalrazak,2019).

Thus, several people: the Africans, Shirazi, Arabs, Indians, Assyrians, and Abyssinians, to mention only a few, blended to form one cosmopolitan Zanzibar culture (Sheriff, 2020). While commercial ties with multiple nations existed long ago, the relationship between Zanzibar and the Arab world existed many centuries ago. For instance, the arrival of the Mazrui tribe in the 15th century, and consequently their fight with the Portuguese, is said to be partly a factor for strong ties with Muscat (Sheriff, 2020).



Figure 3: Map of Zanzibar Archipelago
Source: WorldAtlas.com

2.8.2 Zanzibar Tourism Act

The Zanzibar Tourism Act provides exclusive rights for Zanzibaris to become tour operators (The Zanzibar Tourism Act No. 6, 2009). Specifically, the Act prohibits non-Zanzibaris from running the tour operating a business in Zanzibar. Additionally, section 19 (a) of the same Act restricts hotels from conducting tour operations. Indeed, as stipulated by section 19 (c), for one to run the tour operation business, possession of an operating license is a must (*The Zanzibar Tourism Act No. 6 of 2009, 1996*). However, the permission is granted only when an applicant has fulfilled all required procedures by the company's registrar general and after completing the taxation clearance procedures with the competent authorities in Zanzibar. Thus, as a legal requirement, the Zanzibar legal regime has clearly stated that all excursions and transfers must be organised by a registered and licensed Tour operator (The Zanzibar Tourism Act No. 6, 2009). For instance, one condition stipulated to tour guides during the filling out the tour guide's identity card application form is to avoid working through the beach.

Thus, tour guides must work through registered tour operators (The Zanzibar Tourism Act No. 6 of 2009, 1996). Similarly, one of the conditions bolded at the bottom of the operating license of the hotels in Zanzibar is to avoid organising transfers and excursions. In other words, hotels and tour guides are strictly prohibited from organising and conducting tour operation activities since they are not granted an operating license to operate such a business.

Overall, the tour operating a business is solely reserved for Zanzibaris in Zanzibar. Therefore, the tour operation is exclusively reserved for the Zanzibar tour operating

companies. In other words, an individual organising tours and transfers without having an operating tour license from the tourism commission is perceived as working informally; hence they are an informal entrepreneur under the context of Zanzibar (Mwesiumo et al., 2021a).

Currently, the islands record 233 licensed and registered tour operators (RGoZ, 2020), primarily small and medium-sized companies. While the Zanzibar law pre-empts foreigners from owning tour operating companies (*The Zanzibar Tourism Act No. 6 of 2009*, 1996), it is apparent that most of these firms are locally owned. However, there exist equal joint ventures between locals and foreigners.

Chapter 3

METHODOLOGY

This research aimed to examine the direct and indirect effects of informal actors' perceived threat on service quality and customer bonding of the formalised tour operators. The methodology section focuses on issues relating to the research study context, philosophy, data collection, survey instruments, and analytical strategy.

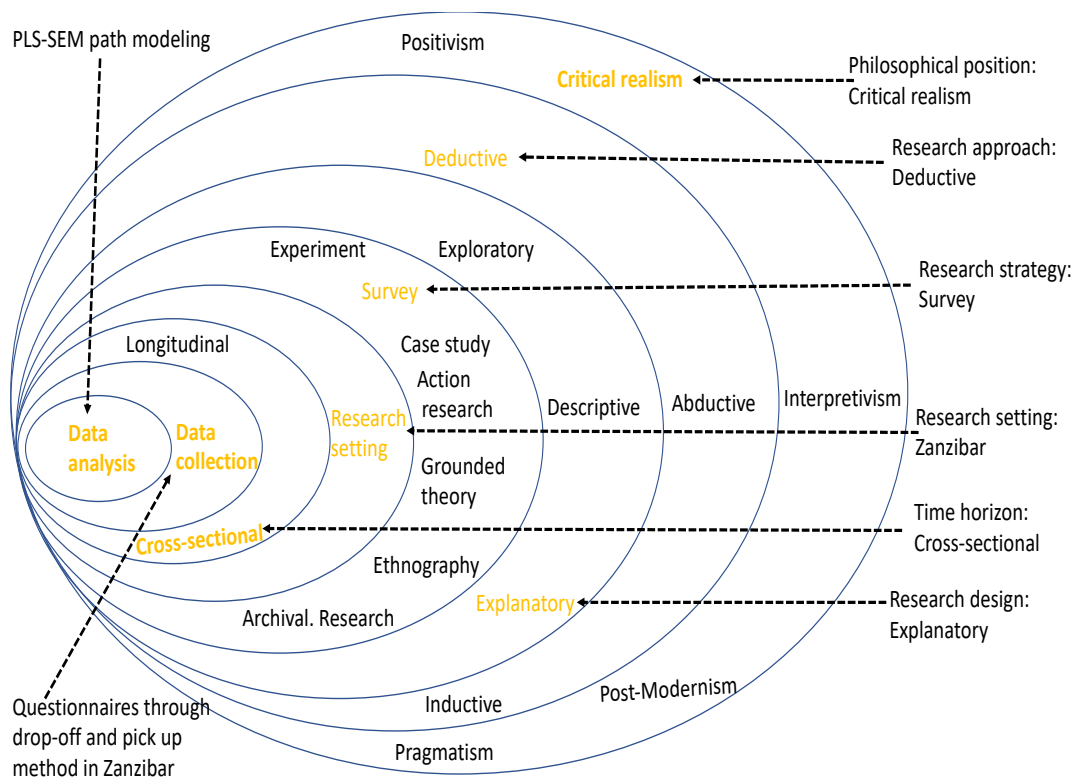


Figure 4: Methodological Summary
Source: adapted from Saunders et al. (2012)

3.1 Philosophical Position

Saunders et al. 2012 suggest four philosophical assumptions a researcher may take during the research journey. These philosophical assumptions include ontology, epistemology, axiology and methodological assumptions. While all four assumptions are critical, the basic philosophical assumptions underpinning social science research remain ontology and epistemology (Bryman, 2008). During the study process, a researcher acquires beliefs, whether consciously or unintentionally, such as epistemological and ontological assumptions (Neuman, 2014a). When the premises are well-positioned, they help to grasp the research components, such as methodologies, research questions, and the interpretation of the findings. When the premises are well-positioned, the research philosophy's credibility rises.

Ontology is the study of what exists and what makes up reality. It concerns our assumptions when conducting our research (Bryman, 2008). Ontology can be divided into two main groups: nominalists and realists. The main difference between reality and nominalists is in their assumptions. While realists believe that the real world is apart from human interpretation, nominalists believe that the entire world is subject to human comprehension. The nominalists contend that cultural values, beliefs, and human performance are mostly founded on subjective interpretations of the revealed universe (Mark Saunders et al., 2019). While realists are further subdivided into critical realists, nominalists are further divided into moderates and extremists.

Epistemology, on the other hand, relates to the researcher's understanding of the world. Epistemology is concerned with creating knowledge and presenting that knowledge (Neuman, 2014b). Knowledge creation largely depends on a researcher's stance and

position with dominant philosophies in social science, such as positivism, interpretivism, and critical social sciences concerning epistemology.

3.2 Inductive and Deductive Reasoning

There are two basic ways to theory development, in addition to approaches, as we have seen previously: deduction and induction (Ali & Birley, 1999). While positivists prefer the deductive method for quantitative research, interpretivism prefers the inductive approach for qualitative investigations. Both approaches to theory creation are valuable. Each is employed in a different situation and depends on the needs and character of a certain study.

In pure science, the deduction is the most common method. The deductive research approach refers to starting with the broad and narrowing down to the specific (Locke, 2007). Deduction usually starts with what is known and progresses to unknown features. The deductive method usually begins with abstraction and then employs a relevant theory to evaluate the hypothesis to build and contribute to the concept. The deduction method is used in most quantitative investigations, in which the researcher creates a theoretical model after reviewing the literature (Neuman, 2014b). The number of latent variables included in the model determines the model's size. Both focal and categorical variables may be included in quantitative models.

The inductive approach, on the other hand, operates in the other direction. Instead of moving from the general to the specific, the induction begins with the specific. It works for the general (Blaikie, 2010). The researcher gathers evidence, which will be used to construct a theory about a certain phenomenon. In contrast to deduction, induction is most commonly used in qualitative methods that collect data through interviews rather

than questionnaires (Saunders et al., 2019). Inductive methods are typically used in qualitative research.

3.3 Qualitative, Quantitative, and Mixed Methodologies Research

The research focus is either qualitative, quantitative, or a combination of the two (Creswell, 2007; Tashakkori & Teddlie, 2003). The quantitative method is a positivistic strategy that analyses data using a statistical approach. The quantitative method collects data from respondents using structured or semi-structured questionnaires. The method is deductive, which means that the theoretical framework is used to define the research. The quantitative technique, which is based on positivism, is based on empirical evidence. As a result, the researcher has limited space to express his ideas. As a result, the conclusions reached after data quantification become a reality. The descriptive and experimental designs are the two types of quantitative approaches. While the descriptive design focuses on demographic data, the experimental design evaluates the hypothesis to obtain results by imposing circumstances. (Creswell, 2007).

3.3.1 Positivism, Interpretivism, and Critical Theory

Positivism is the earliest approach applied mainly in science. Amongst the earliest positivist scholars are David Hume in 18th century and John Stuart Mills in 19th century England. Other famous positivistic scholars were Auguste Comte in the 18th century and Emile Durkheim in the 18th and early 19th-century French scholars (Neuman, 2014a). Positivists are more interested in empirical data, and these data are what determines reality. Positivists are against subjective interpretation, which might arise due to the researcher's understanding of the fact. Expectedly, positivists habitually employ quantitative methods usually delineated by deductive approaches in their research. The deduction starts from the specified theoretical framework to test

the hypothesis or development of the theory (Saunders et al., 2012). In positivism, the study puts little input on the data. Usually, what is obtained as results are presented as an outcome of the research. Although positivism was mainly used in pure science initially, contemporary scholars in social science have adopted it. It is widely used in social science research, such as business and tourism.

On the contrary, interpretivism came as a criticism of positivism. Interpretivism argues that the real world does not exist without humans. Reality is always subject to human beings' interpretations (Mark Saunders et al., 2019). The arrangements made by a researcher on the findings are a critical aspect of the study. Interpretivism usually relies on qualitative methods, which depend mainly on the inductive approach. Interpretivism does not rely on the available data and outcomes of the research but analyses the data in an in-depth manner that allows them to understand the data or even relate the data to cope with a specific social or political context. As such, the researcher's personal history, gender, social class, and ideology are essential in concluding the research.

With its roots in great scholars such as Sigmund Freud and Karl Max, critical social scientists have incorporated ideas from nomothetic and ideographic approaches (Neuman, 2014b). Even though this approach accords mainly with the precepts of phenomenology, it has some different ideas. The approach emerged as a criticism of the positivistic approach for being superficial and artificial. Like phenomenology, critical scientists believe that there is no single reality and that the truth depends on the perceptions and importance given to it by society. Ontologically, the necessary social science rests on critical realists who perceive reality as a result of the composition of many facets, including the real, the empirical and the actual (Neuman, 2014b).

To determine if this study is widely positivist or interpretivist, one must consider the research assumptions supporting positivism and interpretivism research before designing it. Regarding the ontological assumption, positivists think that social reality is stable and concrete. Therefore, the researcher can objectively describe and evaluate the phenomenon without interfering (Saunders et al., 2019). As a result, because there is only one social reality, everyone has the same perception of reality (Easterby-Smith et al., 2012). Interpretivists, on the other hand, believe that truth is subjective because it is "socially produced." As a result, many realities exist since everyone has their perception of reality (Collis & Hussey, 2014).

Regarding epistemological assumption, positivist researchers think knowledge can only be true if observable and measurable phenomena exist. Therefore, they strive to maintain an independent and objective position (Saunders et al., 2009). On the other hand, researchers that use an interpretivism approach try to bridge the gap and become closer to the research subject by participating in various participatory analytic approaches (Collis & Hussey, 2014).

In terms of the axiological assumption, positivists perceive the phenomena under investigation as objects that are separate and independent of what they are examining. Furthermore, positivists think these things existed before they became interested in researching their relationship and that their investigative activities will not impact them. As a result, positivists believe that the investigative process is "value-free" (Johnson & Duberley, 2011). On the other hand, interpretivism assumes that research investigators' values are discriminatory "even if they have not been made explicit." These ideals assist the researcher in determining what is considered to be facts and the

interpretations and explanations derived from them. As a result, most interpretivism proponents feel that the researcher is personally involved with the subject of study (Saunders et al., 2009).

3.4 Deductive Approach

This research examined the conceptual model with four focal and one categorical variable. The latent model variables included perceived threats of informal players (IPT), operational performance (OP), efforts to improve service quality (SQ), and customer bonding (CB). The BRV logic of competitive strategy and disruptive innovation theories are employed to delineate our study's analysis based on the empirical findings received from the respondents. Due to the nature of quantitative research, a deductive approach was employed to test our theoretical propositions. As such, six hypothesised assumptions were tested to examine the direct effects of the perceived threats of informal actors on service quality and customer bonding; therefore, the research has six hypothesised relationships.

3.5 Survey Methods

This study used the survey method because the survey method is a systematic investigation which involves measurements on a sequence of cases that produce data. It encompasses scrutinising variables in the matrix to determine their patterns (Marsh, 1982). In other words, the survey suggests the patterns among the studied variables. Primarily used to test prepositions guided by theoretical underpinnings. In addition to hypothesis testing, surveys focus on developing psychometrics. It provides room to study the association between the target variables rigorously. While the survey started as a simple mechanism of searching for empirical evidence from the respondents, it now involves advanced sampling techniques to draw inferences about the sampling population.

3.6 Participations and Procedure

The present study employed purposive sampling. The sampling technique is non-probability sampling. This technique is proper when the population is known and is deemed more appropriate for conducting the study (Campbell et al., 2020). Due to the nature of the study, the respondents were the top managers of the tour operators. As the study aimed to acquire the company's views, it was thought helpful to obtain information from the top management of the Zanzibar tour operating companies (Altinay & Paraskevas, 2007). Before collecting the data, the researcher sought permission from Eastern Mediterranean University's Research and Publication Ethics Board. For data collection, a special letter was sent to the vice president's office and other related authorities. The office of the chief government statistician of the Revolutionary Government of Zanzibar granted the permit to collect data.

Following the granting of the permit from both Eastern Mediterranean University and the Revolutionary Government of Zanzibar, the researcher of the present study distributed the survey questionnaires to the offices of the tour operating companies. This study uses semi-structured surveys to collect data from inbound tour operators in Zanzibar. Four latent constructs were involved in the instrument. The proposed questionnaire was sent to a team of six experts, three from academia and three from the industry. First, they examined the instrument and provided their recommendations. The survey items were adjusted based on their advice and suggestions to cope with academic and practical insights. Next, the pilot survey was sent to 20 tour operator managers who speak English well; there was no need for back-translation (Kaya & Karatepe, 2020). Through the results of a pilot questionnaire the reliability and understandability of the questions were assessed. Chronbach alpha coefficient and the

instrument's reliability was tested, where all items were above the minimum threshold of >0.70 .

Eventually, 200 questionnaires were distributed between January and February 2022 to inbound tour operators and neglected other versions of travel agents and outbound tour operators. Only registered tour operators were consulted based on a list of 233 tour operators registered and licensed by the Zanzibar commission for tourism (RGoZ, 2020). While the researcher observed all ethical issues such as confidentiality, anonymity and consent, questionnaires were distributed to the companies that demonstrated their willingness to fill out the forms. The forms were put in sealed envelope and the data collected was based on the drop off and pick-up method. Eventually, 130 usable observations, equal to 56 % of the total population, were obtained for further analysis. The outbound tour operators and travel agents were abandoned because the nature of the outbound business does not provide a room for informal entrepreneurs in Zanzibar to interfere with their business.

Zanzibar was selected based on its nature as one of the essential tourist destinations in the Indian Ocean (Abdalla et al., 2021). Furthermore, tourism is currently one of the highly money-generating industries in the islands, constituting 27 percent of the GDP and 82 percent of the foreign exchange earnings (Said & Tanova, 2021). However, despite this dependence, Zanzibar tourism is attributed to a high level of informality. For instance, in a study conducted by the Zanzibar Association of Tour Operators (ZATO) in collaboration with the Zanzibar Commission for Tourism (ZCT) and the Zanzibar Revenue Board (ZBR), it was found that over 60 percent of all tour operating

activities such as transfers and excursions are conducted informally (Abdalla et al., 2022). Based on these data, Zanzibar was found suitable for the present study.

3.7 Assessment of Common Method Variance

In tourism and hospitality, a survey has become one of the most effective tools in data collection. However, despite the suitability of surveys in data collection, the fact that the instrument provides the data for independent and dependent variables is risky of facing the problem of common method variance (CMV) (Kock et al., 2021). While the current study employed a self-administered survey, it will likely suffer from the common method variance. Common method variance usually threatens the reliability and validity of the findings (Jakobsen & Jensen, 2015).

Literature has used the common method bias interchangeably with common method variance despite their conceptual differences. Common method variance refers to the systematic error variance shared amongst the constructs researchers use in gauging the research constructs (Jakobsen & Jensen, 2015; Podsakoff et al., 2003). The presence of these systematic error variances in the study causes the emergence of the common method bias (Jakobsen & Jensen, 2015). Overall, common method bias occurs as a result of a one-time data collection, specifically when the data for dependent and independent variables are collected during the same time without a time lag. In other words, the common method variance is entertained when research uses a single survey to measure and collect data for dependent and independent variables (Kock et al., 2021).

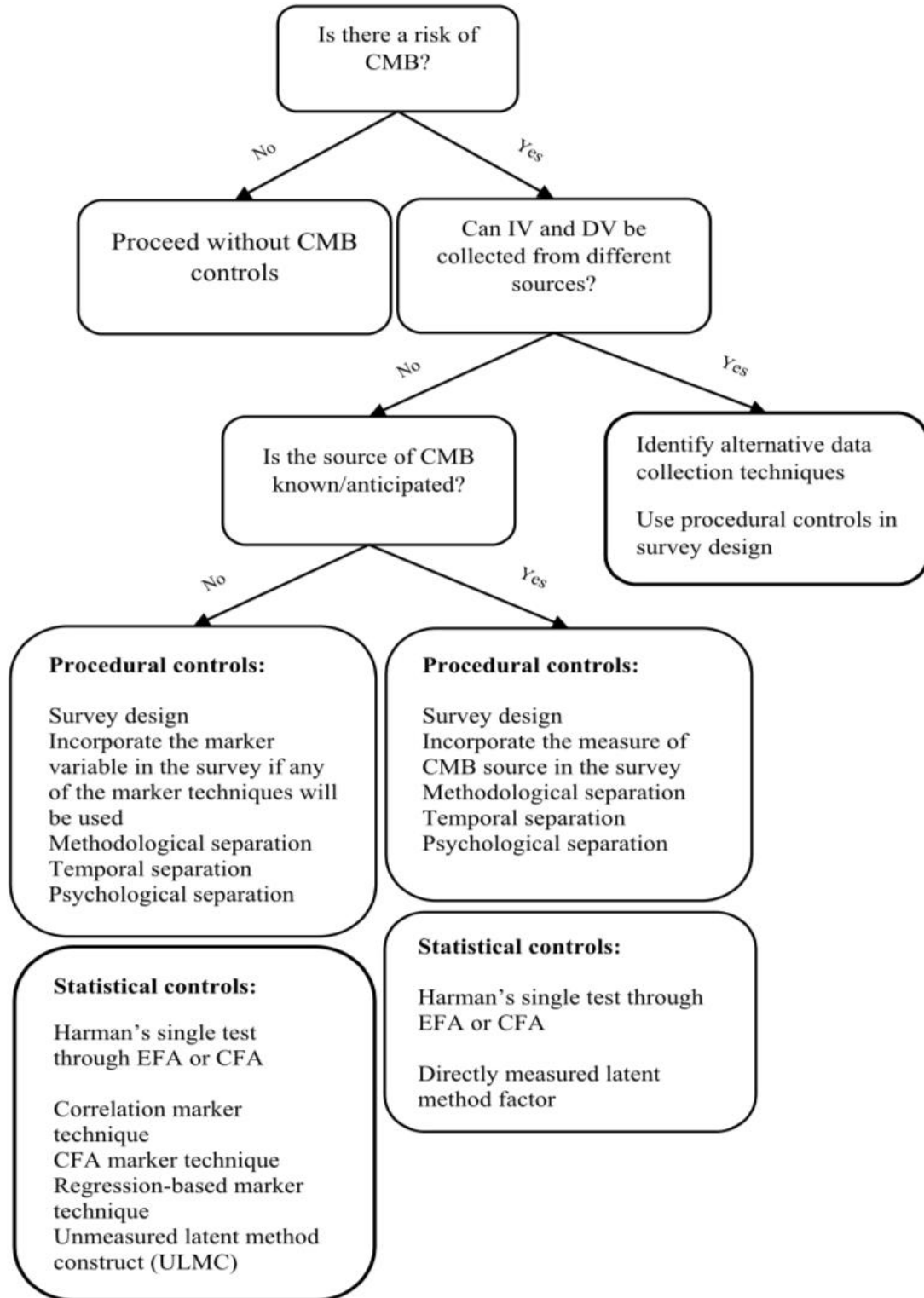


Figure 5: Recommendations for Choosing Appropriate Procedural and Statistical Controls for Common Method Bias. Adopted from Kock et al. (2021).

Table 2: Procedural and Statistical Remedies for Common Method Variance

Common Method Bias Controls	Interpretation	Sources
Procedural Controls Diverse sources for independent and dependent variables	Collecting IV and DV from different sources, i.e. combining self-reported data through surveys with secondary data	Baumgartner & Weijters, 2012; MacKenzie & Podsakoff, 2012; Podsakoff et al., 2012
Survey design	Giving clear instructions; ensuring anonymity of responses; avoiding complex and ambiguous items; keeping surveys concise	Podsakoff et al., 2003; 2012; Viswanathan & Kayande, 2012; Weijters & Baumgartner, 2012
Temporal Separation	Collecting self-reported data from the same source but at different points in time	MacKenzie & Podsakoff, 2012; Podsakoff et al., 2003; 2012
Methodological Separation	Diversifying survey scale formats to collect the IV and DV; separating the measures of IV and DV proximally	
Psychological Separation	Masking the causal link between the IV and DV	
Statistical Controls Harman's single factor test through EFA or CFA	CMB is present if EFA, with all primary study variables included, results in one factor accounting for more than 50% of the variance; CMB is present if CFA suggests that one factor model fits the data as well as the proposed model	Korsgaard & Roberson, 1995; Podsakoff et al., 2003
Correlation marker technique	CMB is assessed through the smallest positive correlation coefficient between a theoretically unrelated marker variable and a primary study variable	Lindell & Whitney, 2001; Richardson et al., 2009; Simmering et al., 2015
CFA marker technique	CMB is assessed through CFA with primary study variables and a marker variable, that is modelled to be measured by all study items plus its own measures	Simmering et al., 2015; Williams et al., 2010
Regression-based marker technique	CMB is assessed by including a marker variable to estimate regression equation	Siemsen et al. (2010)
Unmeasured latent method construct (ULMC)	CMB is assessed by adding a latent variable that is modelled to be measured by all primary study items	Podsakoff et al., 2003; Liang et al., 2007; Chin & Wright, 2012
Directly measured latent method factor	CMB is assessed by adding a directly measured latent method variable, e.g. social desirability, positive, and negative affectivity. The method factor is modelled to be measured by its measures plus all primary study items	MacKenzie & Podsakoff, 2012; Podsakoff et al., 2003; Podsakoff et al., 2012

Adopted from Kock et al. (2021)

Based on the recommendations from Podsakoff et al. (2003) and as suggested by Kaya and Karatepe (2020), both procedural and statistical remedies were used to mitigate

the method bias. First, the researcher guaranteed the respondents of their anonymity and confidentiality. Secondly, the purpose of the study was concealed. Also, as Safavi and Karatepe (2018) suggested, some survey items were negatively worded. Furthermore, the independent variable's position was inserted differently from the dependent variable in the survey (Loureiro et al., 2020). The data were collected using temporal separation. Thus, the corresponding data for the independent and categorical variables were collected in time one. Time two collected data on the mediating variables, and time three collected data on the dependent variables.

Next, Harman's single-factor test was conducted. The Pearson correlation with varimax was run. The variance explained by a single factor was less than 50 per cent which confirmed that the study's data does not suffer from common method bias (Podsakoff et al., 2003). Following the suggestions by Kock et al. (2021), we conducted an additional investigation to corroborate Harman's test to determine the presence of method bias. Thus, the collinearity test through VIF was assessed to verify Harman's test. The value scores were found to be below 0.33. Therefore, the VIF test equally confirmed that the present research data are negligibly affected by the method variance (Kock, 2015).

3.8 The Measuring Instruments

3.8.1 Measures

The previous literature was inspired to acquire the measures in this study. Five items developed based on Kwieciński (2017) were used to measure perceived threat from informal players (IPT). Seven indicators, adopted from Masa'deh et al. (2017) and Nabass and Abdallah (2019), were used for operational performance as a uni-dimensional construct based on the suggestion by Masa'deh et al. (2017). The items

were modified to fit the study context. Service quality (SQ) was operationalised by using six indicators adapted from Rezaei et al. (2018) and (Su et al. (2016). Customer bonding was operationalised using four items inspired by Yau et al. (2000).

3.9 Analytic Strategy

This study employs the two-step approach based on Anderson & Gerbing's (1988) recommendations. The study first conducted a measurement model to establish the validity, reliability, and model fit. Later on, the structural model was assessed to examine the hypothesised relationships. Overall, this approach encompasses the valuation of the measurement and structural models. In connection to this, (Bentler, 1978) argues that when a measurement model is corroborated with the structural model, it provides a comprehensive, confirmatory examination of the study's variables. Given the measurement model's convergent and discriminant validity analysis, the researcher obtains the confirmatory assessment of the model's methodological validity (Campbell & Fiske, 1959).

3.10 Control Variable

The present study employed two control variables. Control variables are essential because they guarantee the robustness of the data. Thus, the variable is critical for controlling for the endogeneity effect of the dependent variable. Therefore, firm size (FS) and firm age (FA) was used. The two variables were deployed due to their statistical confounding effects.

The size was involved because previous studies have found a significant effect on the size. For instance, Mwesiumo et al. (2021), in their study of the perceived threat of informal actors, found significant positive relationships between age and firm

performance. Their research underscored that the perceived threat of informal players adversely impacts small firms more than large enterprises.

Also, age was included because it has been found to have a significant effect in previous studies (Coad et al., 2018; Pervan et al., 2017; Waelchli & Zeller, 2013). For instance, the analysis made by Pervan et al. (2017) in a Croatian food processing industry revealed exciting insights into the role of firm age in the firm's performance. They found that as the firm ages, its performance deteriorates due to the substantial bureaucracy and reduced flexibility to cope with the ongoing business environmental changes. Furthermore, Waelchli & Zeller (2013) provide similar insights on the effect of age on the firm's performance. In their study of Switzerland firms, they found a negative relationship between age and firm performance.

Table 3: Measures of Constructs

Construct	Abbreviation	Indicator
Customer bonding	CB1	We often deliver extra value to our clients by offering unique services that initially were not in the package
	CB2	We make an effort to build relationships with our clients
	CB3	We do not just operate tours; we build up a relationship with the clients.
	CB4	We go the extra mile to make sure clients recommend us to their friends, family members etc.
Efforts to improve service quality	SQ1	We always adhere to the schedule promised to the clients
	SQ2	We always use competent staff (e.g., tour guides, drivers)
	SQ3	We always deliver agreed service standards to the clients
	SQ4	We always use the agreed facilities (e.g., hotels, Lodges, etc.)
	SQ5	We comply with international and local consumer protection acts
	SQ6	We abide by the local tour operators' standards
Operational performance	OP1	Our organisation has an on-time delivery performance.
	OP2	Our organisation is capable of delivering services to the market faster than informal players.
	OP3	Our organisation has a fast delivery.
	OP4	Our organisation delivers value for money services
	OP5	Our organisation tries the best to deliver services that meet the expectations of the customers.

	OP6	Our organisation has superior conformance to service specifications
	OP7	Our organisation has superior service capability and performance.
Perceived threats of Informal players		
	IPT1	Informal players seriously threaten the existence of our company
	IPT2	Anything we can offer, informal players can match easily.
	IPT3	Informal players force our company to pay our staff lower salaries.
	IPT4	Informal players force us to lower the prices of our services.
	IPT5	Competition from informal players is increasingly getting weaker.
	IPT6	Informal players do whatever it takes to steal our clients.
Departments	FS1	Firm's number of departments
Employees	FS2	Firm's number of employees

Chapter 4

RESEARCH FINDINGS

4.1 Characteristics of Sample

This study collected data from the inbound tour operators in Zanzibar. Two hundred questionnaires were distributed to the registered tour operators from both members of the Zanzibar Association of tour operators (ZATO) and non-members, and hundred and fifty were returned. The data from the Zanzibar Commission for tourism demonstrate the presence of 233 registered and licensed tour operators (RGoZ, 2020). As such, our data set accounts for fifty-six per cent of the total population. The questionnaire was given to a director or a general manager of the company to capture comprehensive insight. Therefore, only one questionnaire was considered for each company. Table 4 demonstrates the sample characteristics of the respondents.

Table 4: Descriptive Sample

Item	Code	Mean	Standard deviation	Kurtosis	Skewness
We often deliver extra value to our clients by offering unique services that initially were not in the package	CB1	4.015	1.038	1.112	-1.201
We make an effort to build relationships with our clients	CB2	4.515	0.757	5.118	-2.045
We do not just operate tours; we build up a relationship with the clients.	CB3	4.415	0.782	1.542	-1.373
We go the extra mile to make sure clients recommend us to their friends, family members etc.	CB4	4.485	0.757	7.097	-2.263
We always adhere to the schedule promised to the clients	SQ1	4.354	0.84	3.93	-1.696
We always use competent staff (e.g., tour guides, drivers)	SQ2	4.438	0.723	2.071	-1.387
We always deliver agreed service standards to the clients	SQ3	4.4	0.828	5	-1.936
We always use the agreed facilities (e.g., hotels, Lodges, etc.)	SQ4	4.377	0.757	2,275	-1.295

We comply with international and local consumer protection acts	SQ5	4.154	0.881	1.474	-1.127
We abide by the local tour operators' standards	SQ6	4.077	0.981	1.002	-1.045
Our organisation has an on-time delivery performance.	OP1	4.162	1.036	2.667	-1673
Our organisation is capable of delivering services to the market faster than informal players.	OP2	4.146	1.024	1.511	-1387
Our organisation has a fast delivery.	OP3	4.054	0.931	1.312	-1093
Our organisation delivers value for money services	OP4	3.815	1.142	-0.214	-0759
Our organisation tries the best to deliver services that meet the expectations of the customers.	OP5	4.346	0.95	2.594	-1.671
Our organisation has superior conformance to service specifications	OP6	4.008	0.916	2.445	-1.532
Our organisation has superior service capability and performance.	OP7	4.238	0.875	3.065	-1.532
Informal players seriously threaten the existence of our company	IPT1	3.923	1.225	0.217	-1.069
Anything we can offer, informal players can match easily.	IPT2	3.738	1.019	0.18	-0.82
Informal players force our company to pay our staff lower salaries.	IPT3	3.369	1.354	-1.235	-0.265
Informal players force us to lower the prices of our services.	IPT4	4.023	1.167	0.479	-1.163
Competition from informal players is increasingly getting weaker.	IPT5	2.662	1.316	-1.166	0.32
Informal players do whatever it takes to steal our clients.	IPT6	4.377	0.905	3.58	-1.83
Firm's number of departments	FS1	2.969	1.375	0.374	0.594
Firm's number of employees	FS2	10.846	15.74	14.694	3.67

4.2 Measurement Model

In structural equation modelling, the assessment of the measurement model is essential to substantiate the validity of the study's empirical findings and the decisions made (Henseler, Hubona, Ray, 2016). Our study suggested a reflective model; PLS requires assessing reliability, validity, and discriminant validity. Partial least square structural equation modelling (PLS-SEM) was used to determine the study-proposed relationships among the focal and categorical constructs and their related indicators. The decision to opt for SMART PLS 3.3.3 was based on the former involving excessive operational capacity in a small sample size. It is not affected by the abnormal distribution of the dataset (Hair et al., 2018; Hair et al., 2020). Accordingly, the

instrument's validity was measured using the recently proposed measure by Dijkstra and Henseler, 2015), ρ_A (rho_A), (Table 7) whose cut-off level >0.70 . It is the only updated suitable measure for examining reliability in PLS-SEM (Henseler et al., 2016).

Moreover, convergent validity was assessed using the factor loadings and average variance extracted AVE of the constructs (Ghobehei et al., 2019). All items with the factor loading below the cut of the level of 0.50 were deleted (Hair, Sarstedt, Ringle, & Gudergan, 2018). Besides, the discriminant validity was assessed using the Fornell and Lacker criterion, where the square root of AVE was greater than the correlations of the constructs (Fornell & Larcker, 1981). Additional tests were conducted on the hetero-trait- mono-trait ratio test (HTMT) to test the discriminant validity. The confidence interval was set at 95%, and the results showed that all ratios were less than one (Risher & Hair, 2017). Table 5 and table 6 present the convergent and discriminant validities, which seem adequate by modern and traditional standards.

4.3 Discriminant Validity

Discriminant validity establishes distinct constructs from one another; this distinction of a construct from other latent variables is technically called discriminant validity (Hair et al., 2017; Henseler et al., 2015). This study assessed discriminant validity using the most recently established heterotrait-monotrait (HTMT) ratio measurement. This measurement is considered superior to traditional assessment methods, such as the Fornell-Larcker criterion (Henseler, Ringle, & Sarstedt, 2015; Voorhees et al., 2016). The extant literature has suggested two different thresholds. Therefore, a conservative level was established (i.e., HTMT. 85) in assessing the discriminant validity. The results of the HTMT.85 criterion revealed that the values were below the critical level of 0.85. Table 5 demonstrates the results.

Table 5: Assessment of Discriminant Validity

	Customer bonding	Service quality	Operational performance	The perceived threat of Informal players
The square root of the AVE				
Customer bonding	0.801			
Service quality	0.712	0.753		
Operational performance	0.657	0.715	0.744	
The perceived threat of Informal players	0.475	0.432	0.507	0.724
The hetero-trait-mono-trait ratio (HTMT)				
Customer bonding				
Service quality	0.848			
Operational performance	0.771	0.834		
Perceived threat of Informal players	0.583	0.522	0.605	

Based on Rigdon et al. (2017), an additional analysis of discriminant validity using cross-loading was conducted (Table 6). The test demonstrated that the observed variables' value scores were higher than other constructs. These findings again confirmed the discriminant validity.

Table 6: Discriminant Validity Using Crossloadings

	Customer bonding	Service quality	Operational performance	Threats from informal players
CB1	0.693	0.440	0.393	0.313
CB2	0.871	0.659	0.624	0.444
CB3	0.788	0.529	0.471	0.298
CB4	0.840	0.620	0.578	0.441
IPE1	0.419	0.358	0.397	0.779
IPE2	0.274	0.220	0.277	0.651
IPE3	0.295	0.234	0.264	0.647
IPE4	0.373	0.357	0.400	0.767
IPE6	0.338	0.355	0.453	0.765
OP1	0.385	0.460	0.674	0.280

OP2	0.425	0.430	0.765	0.397
OP3	0.551	0.660	0.791	0.444
OP4	0.454	0.524	0.655	0.378
OP5	0.613	0.692	0.845	0.434
OP6	0.474	0.445	0.711	0.377
OP7	0.508	0.497	0.749	0.318
SQ1	0.506	0.762	0.568	0.364
SQ2	0.600	0.777	0.525	0.309
SQ3	0.532	0.708	0.482	0.374
SQ4	0.577	0.839	0.621	0.342
SQ5	0.459	0.670	0.459	0.304
SQ6	0.534	0.751	0.561	0.262

Table 7: Reliability Validity and Discriminant Validity

Items	Standardized Loadings	Cronbach's alpha	Rho_A	Composite Reliability	AVE
Customer bonding		0.812	0.837	0.876	0.641
CB1	0.693				
CB2	0.871				
CB3	0.788				
CB4	0.840				
Efforts to improve service quality		0.846	0.851	0.887	0.567
SQ1	0.762				
SQ2	0.777				
SQ3	0.708				
SQ4	0.839				
SQ5	0.670				
SQ6	0.751				
Operational performance		0.863	0.863	0.896	0.553
OP1	0.674				
OP2	0.765				
OP3	0.791				
OP4	0.651				
OP5	0.845				
OP6	0.711				
OP7	0.749				
Perceived threats of Informal players		0.774	0.791	0.846	0.525
IPT1	0.779				
IPT2	0.651				
IPT3	0.647				
IPT4	0.767				
IPT5	0.765				

4.4 Common Method Variance: Statistical Remedies

In addition to procedural remedies, we conducted two statistical tests based on the recommendations of Kock (2015) and Nisar et al. (2021). Pathological collinearity was analysed through the VIF. After running the logarithm for each construct, the values of their inner VIF were found to be below 3.3, which is the cut-off level to confirm the absence of common method variance in the data. Furthermore, the VIF test was corroborated by Harman's single-factor test. The Pearson correlation results suggested only 37.860% of the variance explained in a single factor, which is less than 50 per cent to a maximum limit required to confirm that our study does not suffer from common method bias (Podsakoff et al., 2003).

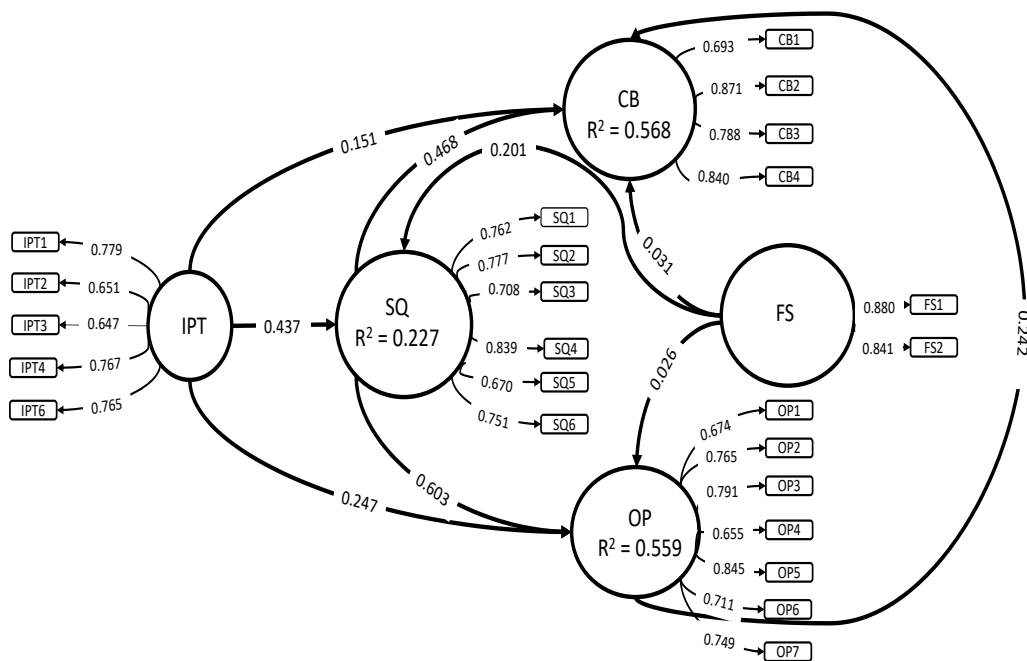


Figure 6: Structural Model

4.5 Assessment of Structural Model and Hypothesis Testing

The analysis of this paper included the principal constructs and control variables. The premier focus of the study was to enhance the precision of prediction as much as

possible. Henseler & Chin (2010) have noted that the product indicator approach was employed to construct the interaction term. The analysis was based on examining path coefficient, R^2 , f^2 , and model fit. The value of Stone- Gaiser's Q^2 was assessed to ensure the model predictive capacity out of the f sample. The model predictive power is established, and the Q^2 value was greater than zero (Table 8), which indicates that the model precisely predicts the data that are not used in the model. The standardised mean residual model fit was examined, and the SRMR (RMS theta) value was 0.073 (0.154). Following Henseler et al. (2016) recommendations, where the SRMR <0.08 is required for the model to be deemed fit, the model fit was established. Moreover, using 5000 subsamples, a bootstrapping was run to test the model's hypotheses. Table 9 demonstrates the path coefficients ranging from 0.031 to 0.603 and the effect size ranging from 0.038 to 0.638. Based on Cohen (1988), the f^2 score of 0.2, 0.15, and 0.35 demonstrates the small, medium, and large effect sizes. Therefore, these effect sizes range from small to large effects. The results of the hypothesis testing are summarised in Table 9.

Table 8: R squares, Adjusted R Squared and Stone Gaesser's (Q^2) Value

Dependent variable	R^2	Adjusted R^2	Q^2
CB	0.568	0.555	0.336
SQ	0.227	0.215	0.122
OP	0.559	0.549	0.303

Table 9: Estimates of the Path Coefficients

Path	Coefficient	P Values	Significant	VIF	Hypotheses
IPT->CB	0.151	0.148	NO	1.386	H1
IPT->OP	0.247	0.000***	Yes	1.247	H2
OP->CB	0.242	0.001***	Yes	2.270	H3
IPT ->SQ	0.437	0.000***	Yes	1.001	H4
FS ->CB	0.031	0.534	No	1.054	
FS ->OP	0.026	0.748	No	1.053	
FS ->SQ	0.201	0.004	Yes	1.001	

***significant at $p < 0.01$; ** significant at $p < 0.05$; * significant at $p < 0.10$

4.6 Mediation Analysis

Bootstrapping with 5,000 subsamples was run to establish the mediation effect by service quality in the relationship between the perceived threat of informal players with operational performance on the one hand and with customer bonding on the other hand. Table 10 demonstrates the findings of the mediation analysis, where H5 and H6 were both supported. The results revealed that service quality partially mediated the relationship between the perceived threats and efforts to operational performance. However, it fully mediates the link between perceived threats and customer bonding.

Table 10: Results of Mediation Effects

DVs= Operational Performance (OP), Customer Bonding (CB) M = Service Quality (SQ)	Independent Variable (IV) Threat from informal Players (IPT)
IPT -> OP	0.510*** (sig.0.000)
IPT -> CB without SQ	0.479*** (sig.0.000)
IPT -> SQ -> OP	0.263*** (sig.0.000)
IPT -> SQ -> CB	0.328*** (sig.0.000)
IPT -> SQ -> OP (Indirect effect)	0.263*** (sig.0.000)
IPT -> SQ -> CB (Indirect effect)	0.204*** (sig.0.002)
IPT -> SQ	0.437*** (sig.0.000)
SQ -> OP	0.603*** (sig.0.000)
SQ -> CB	0.468*** (sig.0.000)
Mediation Path	(H5) IPT -> SQ->OP (H6) IPT -> SQ->CB
Mediation Effect	(H5) Yes (H6) Yes
Degree of Mediation	(H5) Partial (H6) Full
Hypotheses Results	(H5) Supported (H6) Supported

4.7 Importance-Performance Map Analysis

Following the suggestions by Höck et al. (2010), IPMA was run through the PLS-SEM to unearth the potential areas for improvement. IPMA is vital in enhancing the

researcher's understanding of areas that need further improvement by comparing and suggesting reasonable recommendations to the practitioners (Höck et al., 2010a). The importance-performance of each focal construct and the average values scores were assessed. IPMA principally juxtaposes the structural model's overall effects on a scale from 0 to 100. IPMA ascertains the predictor variables' performance position and their possible room for enhancement.

This study's dependent variable is increasing service quality and customer bonding. The study employs IPMA to ascertain the comparative importance of operational performance in manipulating service quality and customer bonding and identifying the potential room for its performance. Accordingly, IPMA findings are helpful since they expand the PLS-SEM analysis of the present study (Okumus et al., 2018). For these reasons, IPMA's findings are essential in establishing sensible, practical recommendations to the managers of formal actors such as tour operating companies. IPMA results are subsequently summarised in Figure 7.

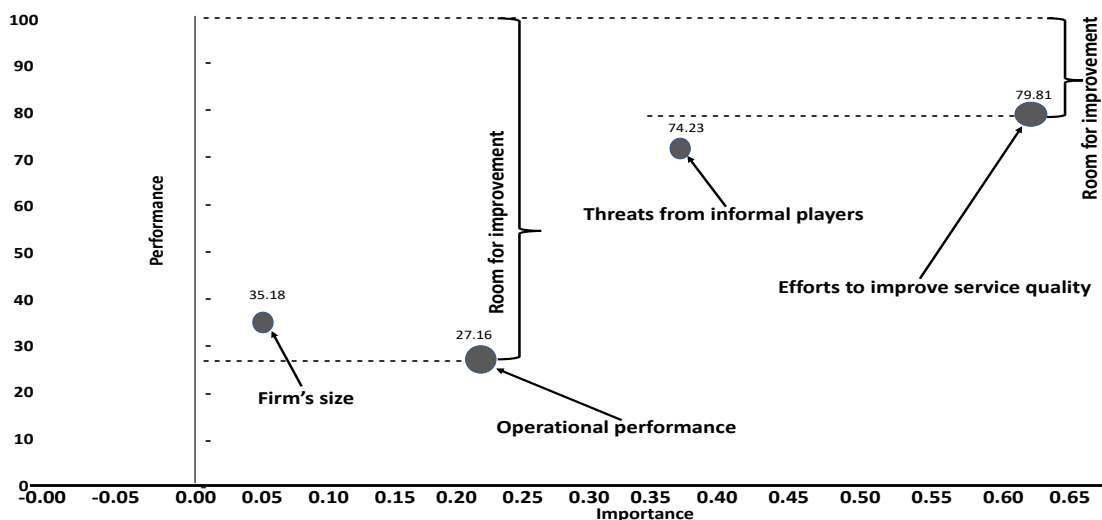


Figure 7: Results of Importance Performance Analysis.

The essential element in our model, as demonstrated in Figure 7, is that service quality is found to be the most critical variable (0.6421), followed by a threat from informal players (0.3851) and operational performance (0.2180). Excitingly, service quality is the most performing construct, as it performs at 79.808 per cent. In contrast, the threat from informal players performs at 74.227. The operational performance at only 27.157 per cent. Thus, the findings suggest a big room for the firms to increase their service quality to mitigate informal players.

4.8 Discussion of the Results

The presence of informal entrepreneurs has been traditionally perceived as a threat by formalised businesses. While it was expected that the presence of the informal entrepreneurs threatened the customer bonding of the formalised tour operators with their customers, the findings demonstrated different results. Thus, contrary to the expectations, the link between threats of informal players and customer bonding demonstrated an insignificant positive effect. The possible explanations are based on the market segment, focused on by each of the two competitors. While most inbound tour operators in Zanzibar rely on B2B bases, where the business comes from outbound tour operators, their bond with overseas operators may not be affected easily by the informal actors. Given the former's focus on low-quality services, mostly suitable for independent travellers and low-end customers, overseas companies may not be convinced to work with informal players.

Likewise, because most of the tourists in Zanzibar come from Western Europe and America (RGoZ, 2019), where strict rules on consumer protection exist, the overseas collaborators may not take a risk working with informal actors who do not have liability insurance for the passengers and who may not safeguard the health and safety

of the customers (Liu et al., 2020). Even though overseas companies bring tourists are sometimes attracted and captured by informal actors. At the same time, in the destination for excursions and other ground services, the bond between inbound tour operators and their homologous international ones remains constant. This is partly because while informal actors may affect the formalised firms by proposing excursions when they are already in Zanzibar, the informal actors cannot take their business of transfers.

Likewise, the formalised firms sometimes suggest package tours with tourists before arrival; the presence of informal players cannot become a major threat to the existing bond with their overseas partners. As such, inbound tour operators do not seem to care much about the temporary danger imposed by informal entrepreneurs as their business with overseas operators remains continually assured.

Interestingly, the perceived threat of informal players has been found to trigger the operational performance of the inbound tour operating companies. These findings align with resource-based theory suggesting using unique, scarce, valuable resources to acquire the competitive edge (Barney, 1991). While the formalised firms seem more affluent than their homologous informal players, the former use their financial and technological know-how to enhance their operational performance.

It is plausible to argue that the presence of the informal actors keeps the formalised tour operators under high pressure for selling excursions and sometimes transfers. The cheap price proposed by the informal actors keeps the formalised firms under high competition due to price differences. As a result, the formalised firms try to position

themselves differently from their competitors by enhancing their operating performance (Abdalla et al., 2022). These companies would try to hire and employ competent staff who are more skilled and talented than the informal actors. Likewise, their affluent nature compared to the informal players allow the former to invest in new luxury vehicles that the informal actors could not afford. These efforts allow the formalised firms to enhance their operating performance.

The perceived threat of informal actors has been found to enhance the service quality of tour operators. These results imply that when the tour operator's perception of the danger from the informal actors escalates, they increase the quality of their services. The findings of our study are consistent with the tenets of the destructive theory of innovations (Christensen et al., 2015) and the resource-based theory (Barney, 1991). For instance, disruptive innovation theory suggests that when a disruptive innovator enters the market, the incumbents try to act against the entrance by adjusting themselves to mitigate the perceived threat from the disruptive innovators (Christensen, Raynor, McDonald 2015).

Focusing on the previous study, Ali (2017) argues that the informal actors perceived as a threat by the legal firms use the price strategy as their solid competitive strategy to beat the formalised firms. However, given the characteristics of informal actors, such as being unskilled and focusing on low-quality services, the tour operator may try to enhance their services by using differentiation strategies to position themselves differently from the informal ones.

Indeed, the link between operational performance and customer bonding suggested significant positive results. These results support the tenets of the resource-based theory suggesting using valuable, inimitable and scarce resources to attain competitive advantage (Barney, 1991). While customers who feel their needs and wants have been achieved by companies tend to enhance their stickiness with companies and feel part of it (Udayana et al., 2021), the results have suggested that operating performance is an important predictor. Thus, the outbound tour operators are interested in staying with inbound tour operators who are timely and speedy in responding to customers' needs. While punctuality, speed in response, condition of vehicles and quality of tour guides constitute a significant stake in operating performance, tour operators whose operational performance is enhanced seem to have more chance of maintaining adhesiveness with their customers. These findings support the previous studies on customer services, suggesting the speed of response and quality of staff to be an important predictor of customer satisfaction (Ali et al., 2022) which subsequently create bonding.

The mediation analysis results have underscored that service quality mediates the relationship between the perceived threat of informal entrepreneurs and the operational performance and customer bonding of the incoming tour operators. These findings align with the resource-based theory, which considers a firm to have the necessary resources to mitigate the challenges of informal actors (Amit & Schoemaker, 1993; Arbelo et al., 2021). Furthermore, these findings suggest that informal actors are necessary for the formalised firms' service quality.

This is because formalised firms are aware that the increased danger of the actors in the informal economy has to be counter-attacked by enhancing the service quality, which subsequently improves their operational performance and customer bonding. Therefore, the present study revealed that service quality is crucial for operating performance and customer bonding. These findings are consistent with Mwesiumo et al. (2021), who investigated the role of service quality and acquisition efforts in boosting business performance. They found service quality an essential predictor of the business performance of the inbound tour operating firms. The findings are consistent with Udayana et al. (2021), suggesting that firms that feel the increased competition tend to enhance their services.

In addition, as depicted in Table 10, while a firm's size does not significantly affect operational performance and customer bonding, it has a significant positive effect on service quality. These findings suggest that big firms have more capacity to improve their services due to their affluent nature. These findings align with the previous studies (Lee, 2012; Mwesiumo et al., 2021), suggesting that firm size is an essential trigger of service quality. Thus, the present study's findings provide a plausible argument that large-sized firms have more chance to mitigate the danger from the informal actors than their homologous small ones. Furthermore, the financial capacity of the big tour operators compared to the small firms allow them to attract better human resources and acquire high technology.

For instance, it has been reported that a high salary and other incentives are essential in attracting highly competent employees (Hsiao & Lin, 2018). Thus, the capacity of the big firms to employ more skilled employees is more elevated than small ones. Equally, while big firms can use their financial affluence to invest in technology and

new luxurious vehicles, small tour operators can rarely do so. Therefore, large-sized firms possess a higher capacity to enhance their service quality by investing in modern and luxury cars, which is an essential tool for improving service quality (Mwesiumo et al., 2021).

Chapter 5

CONCLUSIONS, IMPLICATIONS, AND RECOMMENDATIONS

5.1 Conclusion

This research attempted to examine the direct effect of the perceived threat of informal players on operational performance and customer bonding of the inbound tour operators and its indirect impact through service quality. While informal entrepreneurs were dubbed with thousands of adverse outcomes, the findings of the present research shed light on the bright side of their presence. This study contributes to the literature by exploring the direct effect of the perceived threat of informal entrepreneurs on the operational performance and customer bonding of formalised tour operators. Thus the present thesis examines informality beyond the assessments made by the extant literature on the informal economy (Kelmanson et al., 2019; Lv, 2020; T. Xu & Lv, 2021). The results of the present study are based on the survey distributed to the high-level management of the formalised inbound tour operators in Zanzibar. The inbound tour operators constitute an essential segment of tourism stakeholders in the tourism distribution channel.

While the current situation in Zanzibar shows that over sixty percent of the tour operation activities such transfers and excursions are conducted informally, the findings of the present study as formalised tourism firms that face enormous challenges

from informal entrepreneurs such as beach boys, taxi drivers, private hire vehicles, and even hotel staff, all of whose transfers and excursions informally.

Our empirical findings revealed that the presence of informal players is a significant stimulus that enhances the operational performance of the inbound tour operators, which consequently boosts their customer bonding. More importantly, aligning with prior research, service quality was essential in promoting operational performance and customer bonding.

5.2 Theoretical Implications

The present study's findings contribute to travel and tourism management in several ways. First, the manuscript established and tested the theoretical framework involving a relationship between informal players' perceived threats and operational performance and customer bonding and demonstrated how service quality mediates the relationship between informal players' threats, efforts to improve service quality, and customer bonding. Thus, the empirical results extend the knowledge of informal players' potential threats to the formal actors' business productivity (Ali, 2017).

Second, the perceived threat of informal actors is a poorly investigated subject (Ali, 2017). Thus, our findings create a new understanding of how informal players' prevalence affects formal players' operational performance and customer bonding. Although our findings reflect the existing knowledge of informal players' effects (Çakmak, 2020; Çakmak & Çenesiz, 2020; Damayanti et al., 2017; Lv, 2020), they equally contribute to a new understanding in the extant literature.

Third, while the previous study examined the effect of perceived threats of informal players on business performance (Mwesiumo et al., 2021), our study is the first study to examine the effects of informal actors on operational performance and customer bonding and the mediating role of service quality in the relationship between the perceived threats of informal players with (a) operational performance and (b) customer bonding. The presence of competition from the informal players may lead to an adjustment of the formalised firms. Subsequently, the latter may employ their valuable and inimitable resources to enhance their service quality to cope with a competitive environment (Arbelo et al., 2021).

Fourth, based on the disruptive innovation theory, these findings suggest that despite disruptive innovation threatening the formalised firms' bonding, their impact is less in B2B relationships. Since the empirical evidence has not managed to lend significant results regarding the perceived threat of informal players on customer bonding of the inbound tour operators, the findings demonstrated that disruptive innovation theory is contextual and may not apply under all circumstances. Thus, despite the unfavourable effects of informal actors on formalised firms, such as lowering prices, the former has not managed to destroy the long terms created bonding between the local operators and overseas operators. These findings add new insights to the existing body of knowledge regarding the informal economy in general and the relationships between the informal and formalised actors.

Finally, the findings of the present study extend the use of RBV theory in the context of informal economy and perceived threat of informal actors in specific. While the theory posits that the use of scarce, inimitable and valuable internal resources is a key

to success in the competitive environment, the findings of the present study have confirmed the applicability of the theory, thus laying a foundation for the use of RBV theory to effectively study the perceived threat of the informal entrepreneurs. Thus, the present study extends the existing use of RBV and expand the existing knowledge.

5.3 Practical Implications

The practical implications of this study are essentially based on the results obtained from the IPMA. Thus, the present study offers practical recommendations for formal tourism sector managers such as tour operating companies and the government who face threats of informal actors' existence. Service quality is an essential tool that propels operational performance and efforts to increase and enhance customer bonding between the formalised tour operators and their customers. These findings suggested that when a tour operator improves the service quality, the threats from informal actors are likely to be minimal. It is seemingly that the informal players may decide to imitate the formal players' trend when improving their services.

First, to mitigate the imitation problem, formalised actors should invest in unique and inimitable resources that would make it difficult for the informal players to imitate (Binder, 2019; Mandal & Saravanan, 2019). Thus, the inbound tour operators could use their affluence and financial capability to enhance their technological know-how. However, it is worth noting that updated technology is expensive. Considering the less affluent nature of the informal actors, purchasing the latest technology would be somewhat difficult. Equally, the Managers of the tour operating firms should think of recruiting competent and skilful employees such as reservationists, drivers, and tour guides. While informal players could imitate many resources, investing in qualified human resources could not be easily replicated. It is worth noting that competent and

knowledgeable staff would not be interested in informal employment, considering that that informal sector does not encourage labour security, attractive salaries, and other employment benefits. Furthermore, prior studies demonstrate that the informal sector is predominantly surrounded by incompetent and unskilled people, most of whom work for their daily bread. Thus, it is clear that competent and educated people would not be interested in informal employment.

Secondly, while prior studies have confirmed that the informal players primarily target low-end customers by offering them cheap services (Abdalla et al., 2022; Mwesiumo et al., 2021), enhancing unique and inimitable resources differentiate the formalised firms from the services provided by the informal actors. While studies suggest the perceived threat is an essential stimulus for the enhanced firm's competitiveness, efforts to improve services quality and acquiring new customers (Ali, 2017; Mwesiumo et al., 2021), the most important implication of the present study is that practitioners should not be worry on the presence of informal actors. These arguments are not meant to condone the existence of informal players.

Thirdly, studies in the informal economy agree that the presence of informal actors shrinks the government tax base. While the formalised counterparts pay taxes and comply with other regulatory requirements, the informal actors do not. Also, it has been noted that the prevalence of informal actors dilutes the credibility of the governments since informality has been found to prevail in places where the level of good governance is low (Çakmak, 2020). Thus, national governments must take several measures, including formalising the informal actors and providing them with seminars on the disadvantages of illegally operating. However, the formalisation

process needs a careful consideration, since it has been noted in some parts of the world to have caused negativities such as cumbersomeness and corruption. For instance, the formalisation processes conducted in Tanzania's Mainland have demonstrated some elements of cumbersomeness and corruption (Sakarombe, 2020).

Furthermore, while voluntarists suggest that people calculate the costs and rewards of operating formally and informally, the government could impose severe punishment for people who work informally. These measures might minimise the frequency of informality. It is worth noting that countries with a high level of informality are equated with a lack of good governance, backwardness, and underdevelopment (Abdalla et al., 2022). Indeed, as suggested by the legalistic school of thought, while the hurdles in registering new businesses and the inconducive environment for legal firms act as one setback for running formal companies, the government should try to eliminate all cumbersomeness and bureaucracy of registration processes.

Finally, while informal players do not solely affect the inbound tour operators, the government should find ways to abolish the informality or minimise the effects. Informal actors do not pay taxes to the government, even though they offer the same services as their homologous formalised ones. Therefore, the continuing presence of the informal actors may discourage the formalised firms from complying to the tax regime smoothly. It has been a practice in many destinations that informal actors prevail and operate their businesses without paying taxes. As the legalist view suggests, the informal players would decide to work informally due to the tax burden and cumbersome procedures that prevail in a particular country.

Thus, it would be necessary for governments to create a conducive environment that allows smooth operations and facilitates entrepreneurs' entry into formality. The conducive business environment shall not only increase the government's tax base only, but also help attract high-end tourism and prosper the tourism. This is because while informal players beat the formalised firms' pricing, the formalised firms may enter into price competition with them and eventually decide to sell the services without topping up the tax. In the long run, the government may lose the tax from formalised firms. Based on the voluntarist views, it has been noted that entrepreneurs everywhere make calculations of the costs and rewards of operating informally versus formally. Thus, the government should ensure strict rules that do not allow informality to prevail.

5.4 Limitations and Future Suggestions

Although this study underscored exciting results and considerable insights into the impact of the perceived threat of informal entrepreneurs on operational performance and customer bonding, it provides multiple limitations and suggestions for potential areas of further examination. First, the data were collected from the managers of the tour operating companies. As the effects of informal players are diverse, it is recommended that future studies collect the data from other tourism stakeholders such as the tax authorities, government bodies, accommodation and restaurant sectors to ascertain their impacts on those sectors. Moreover, since the data were collected in Zanzibar, which exemplifies the developing small island's economy, longitudinal data will be needed to substantiate and enhance the findings' robustness.

Moreover, due to the novelty of the present study, it is suggested that future studies should test the impacts of informal players on other variables, such as income and

company sustainability. Also, other potential constructs may be tested as mediators and moderators to expand the explanations and knowledge base on the perceived impact of informal actors.

Finally, while the present study collected data from the inbound tour operators, which exemplify the formalised firms, it is plausible to argue that the current study's findings represent the views of the formalised actors alone. To capture the opinions of the informal players, future research should collect data from the informal actors. Indeed, it would be equally interesting if further research considers conducting a comparative study to assess the opinions of both formal and informal actors. These types of analysis are essential as they provide insights into the dyadic views of both formal and informal entrepreneurs.

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APPENDICES

Appendix A: Scientific Research and Publication Ethics Approval Form



Bilimsel Araştırma ve Yayın Etiği Kurulu (BAYEK) / Board of Scientific Research and Publication Ethics

Reference No: ETK00-2022-0062

20.01.2022

Subject: Your application for ethical approval.

Re: Moh'd Juma Abdalla

Faculty of Tourism

EMU's Scientific Research and Publication Ethics Board (BAYEK) has approved the decision of the Ethics Board of Tourism (18.01.2022 tarih ve 2022/41) granting Moh'd Juma Abdalla from the Faculty of Tourism to pursue his PhD thesis titled "**Effects of Informal Entrepreneurs on operational performance and Customer Bonding in Inbound Tour Operating Sector?**" supervised by Prof. Dr. Hasan Kılıç and Prof. Dr. Ali Öztüren.

Best Regards

Prof. Dr. Yücel Vural

Chair, Board of Scientific Research and Publication Ethics - EMU

YV/ek.

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Appendix B: Questionnaire

SURVEY ON INFORMAL PLAYERS IN ZANZIBAR TOURISM INDUSTRY.

Instruction to the respondents

This research is concerned with informal players in the tourism industry. Informal players are defined as any person or business that engages in business informally, such as beach boys, taxi drivers, hotels' staffs and so forth. Before you start, I kindly request you to take your time, we are not in hurry. The information you are providing will be kept confidential, and will be used for academic purpose only. Your participation should take approximately 10 minutes. We ask you to fill it out with as much accuracy as possible. Please understand your participation is entirely on a voluntary basis and you have the right to withdraw your consent or discontinue with participation at any time. At no instance will you be asked to reveal any personal information. Participation in this study involves no major risks whatsoever, be it physical or emotional. The study is not directly beneficial to the participants; however, it will be of value for the industry and policy direction. No incentive is provided in the participation of this study.

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Informal players effects

Please mark an option that best represents your views regarding each of the statements provided. Below:

Informal players effects	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1. Informal players seriously threaten the existence of our company.	1	2	3	4	5
2. Anything we can offer; informal players can match easily.	1	2	3	4	5
3. Informal players force our company to pay our staff lower salaries.	1	2	3	4	5

4.	Informal players force us to lower prices of our services.	1	2	3	4	5
5.	Competition from informal players is increasingly getting weaker	1	2	3	4	5
6.	Informal players do whatever it takes to steal our clients.	1	2	3	4	5

Service quality.

Please mark an option that best represents your views regarding each of the statements provided. Below:

		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	We always adhere to the schedule promised to the clients	1	2	3	4	5
2	We always use competent staff (e.g., tour guides, drivers)	1	2	3	4	5
3	We always deliver agreed service standards to the clients	1	2	3	4	5
4	We always use the agreed facilities (e.g., hotels, lodges, etc.)	1	2	3	4	5
5	We comply with international and local consumer protection acts.	1	2	3	4	5
6	We abide to the local tour operators' standards.	1	2	3	4	5

Operational Performance.

Please mark an option that best represents your views regarding each of the statements provided. Below:

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
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1.	Our organisation has an on-time delivery performance.	1	2	3	4	5
2.	Our organisation is capable of delivering services to the market faster than informal players.	1	2	3	4	5
3.	Our organisation has a fast delivery.	1	2	3	4	5
4.	Our organisation delivers value for money services	1	2	3	4	5
5.	Our organisation tries the best to deliver services that meet the expectations of the customers.	1	2	3	4	5
6.	Our organisation has superior conformance to service specifications	1	2	3	4	5
7.	Our organisation has superior service capability and performance.	1	2	3	4	5

Customer bonding.

Please mark an option that best represents your views regarding each of the statements provided. Below:

		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	We often deliver extra value to our clients by offering special services that initially were not in the package	1	2	3	4	5
	We make effort to build relationships with our clients	1	2	3	4	5
2						
		1	2	3	4	5
3	We don't just operate tours; we build up relationship with the clients.					
		1	2	2	4	4
4	We go extra miles to make sure clients to recommend us to their friends, family members etc.					

Company information

1. How many years has your business been operating? _____.
2. How many departments (sections) has your company? _____.
3. How many employees has your company? _____.
4. Does your company possess tour operator's liability insurance? Yes____, No_____.
5. Has your company contingency plan for emergencies? Yes____, No_____.
6. Do your operational staffs comply with all local regulations? Yes____, No_____.
7. Do you keep all due diligence (records) for vehicles maintenance? Yes____, No_____.
8. Do all your vehicles comply with local regulations? Yes____, No_____.

THANK YOU FOR YOUR COOPERATION

Appendix C: Additional Historical Background of Zanzibar

The departure of the Portuguese after the war with the Arabs opened avenues for further arrival of Arabs to Zanzibar. The Sultan of Oman followed the path where he officially made Zanzibar the capital city of Oman in 1832 (Firdous, 2007). The sultan's arrival Seyyid Said Bin Said to Zanzibar was the start of economic prosperity. He attempted to turn Zanzibar into a commercial hub and an agricultural place (Rhodes et al., 2015). Thus, the sultan achieved his goals quickly, facilitated by its weather conditions and geographical location. Due to these efforts and the ambition of Seyyid, said bin Said, many trees and spices, were planted (Romero, 2012). He developed Stone town to become a relatively modern Arabs-looking city. As a result, stone town became one of the most important cities in East Africa, and Zanzibar prospered economically. These efforts led to speedy economic prosperity and made Zanzibar one of the strong nations economically in Africa and the Indian Ocean (Hitchcock, 2002).

The era of the Barghash, the third sultan, accelerated the economic development of the archipelago. Barghash was the third Sultan of Zanzibar and the son of Seyyid Said bin said, who ruled Oman and Zanzibar simultaneously. While Seyyid Said bin Said made tremendous efforts to develop agriculture in Zanzibar and open up the islands to the world, the era of Barghash made the archipelago the zenith of the economy. Zanzibar had commercial ties with America, Asia and Europe (Pierson et al., 1992).

Following the political revolution in 1964, the sultanate was marked to an end. Three months later, Zanzibar joined with Tanganyika to form the United Republic of Tanganyika and Zanzibar (Cameron, 2019), which today is called Tanzania (Katundu & Kumburu, 2015). Before the revolution, Zanzibar had already gained its British

independence. The 10th December 1963 marked the independent nation of Zanzibar, which eventually acquired a United Nations membership in the same year. While Zanzibar is in union with Tanganyika, the union set-up allows Zanzibar to have complete autonomy in all non-union matters (Mwesiumo et al., 2021a). Accordingly, tourism, economy, agriculture, legal affairs, health, investment, and primary and secondary education, to mention only a few, do not constitute union matters. The items, as noted earlier, fall exclusively under the jurisdiction of Zanzibar (*Zanzibar Constitution 1984*, 2010). Zanzibar tourism is governed by the Zanzibar tourism act 2009. While the ministry of tourism and heritage is the highest organ entrusted with the tourism and hospitality industry in Zanzibar, the Zanzibar Commission for Tourism, the government's autonomous entity, is responsible for the developmental, regulatory and promotional mandate of the tourism industry. Thus, laws governing tourism are entirely managed by the Revolutionary Government of Zanzibar. The ministry of culture information and tourism and the Zanzibar's Commission for Tourism is vital destination management organisations (DMOs) in the archipelago.

While tourism existed in the pre-revolution era, the post-revolution epoch opened up avenues for further tourism development. For instance, the 1980s government initiatives enhanced the rapid growth of tourism activities. The available data highlights that by 1985, Zanzibar received 19,368 tourists (Keshodkar, 2019). Tourism provides thousands of people with significant direct and indirect employment opportunities (Lange, 2015). As of 2019, over 500,000 were recorded in Zanzibar. These tourists were mainly from Western Europe (RGoZ, 2019). The rise of tourism sparked the demand for accommodation and other tourism-related facilities. More hotels were built, and tourists, restaurants and tour operators were established.

Zanzibar has over 600 hotels and lodges, ranging from one-zero to five-star resorts and about 233 tour operating companies (Abdalla et al., 2021). Zanzibar has reported over 1500 private hire vehicles licensed to carry tourists throughout the islands.

The rapid tourism growth has bolded its importance to the national economy. Tourism is the leading economic sector. As such, most Zanzibaris depend on their lives from tourism directly or indirectly (Abdalla et al., 2021). Currently, tourism contributes 28 per cent of the GDP and 82 per cent of the foreign exchange earnings (World Bank, 2019). The available data demonstrates that in 2019 alone, the number of tourist arrivals exceeded 528 000, most of whom were from Western Europe (RGoZ, 2019). Zanzibar has 233 registered tour operators and more than 400 tourist hotels, all of which become almost fully booked during the high season, notably in July and August and the second half of December.

Tour Operation Activities in Zanzibar

Tour operators are essential service providers in the tourism and travel distribution channels. While the tour operators are primarily categorised into inbound and outgoing, most of the tour operators in Zanzibar are inbound. This is due to the purchasing power of most Zanzibaris, who rarely travel abroad for leisure. Since most of the Zanzibar are Muslims, the pilgrimage has become one of the important segments for outbound travel. Thus, Zanzibar's only meaningful outbound tour operators are from this segment. However, they constitute a small part of the outbound tour operators in Zanzibar. Apart from these few outgoing tour operators proposing religious trips to Mecca and Madina, little exists regarding outbound travel. In addition, the other outbound segment in Zanzibar the business trips where the

Zanzibaris traders go abroad, specifically to Asia, to buy several commodities that they import in Zanzibar for the domestic market. However, these traders are independent tourists who usually do not need arranged trips.

The history of tour operations in Zanzibar draws history from the pre-revolutionary era. The period was dominated by cruise ship tourism, where tour operators organised shore excursions. This period was characterised by privately owned tourism-related firms, guest houses, curio shops, and money exchange primarily located in Stone Town. The period had four principal attractions: the Kizimbani spice tour, Mangapwani beach, Chwaka and Stone Town. Although cruise ships dominated tourism, some tourists came by air. These tourists usually extend their holidays after the safaris from either Dar-es-salaam or Nairobi through East African Airways and other available regional airlines. Victoria guest house and the Bingo guest house were few available accommodations.

As highlighted previously, the Zanzibar Revolution facilitated a merger with Tanganyika (Brown, 2010). Tanzania as a whole and Zanzibar in specific centralised their economies. Thus, all economic activities were controlled by the government. While tourism is not a union matter (Hikmany, 2015), it was ironically regulated by the non-Zanzibar authority. The Tanzania Friendship Tourist Bureau (TFTB), mandated to manage tourism in Tanzania's mainland, extended its function to Zanzibar and played a regulatory role for tourism in Tanzania. While the economic activities were centralised, all accommodations facilities in Zanzibar were owned by TFTB. The authority had accommodation facilities in five areas: Jambiani, Makunduchi, Chwaka, Bwejuu, and Uroa. The start of the Ali Hassan regime in 1984 blessed the

establishment of the Zanzibar Tourist Corporation (ZTC). During his administration, significant economic reforms (Eriksen, 2018; Gustafsson & Sivard, 2020) focused primarily on the free market economy. As such, this was an era where many privately owned firms re-emerged.

The government took several initiatives to attract investments and regulate tourism properly. The Land Commission, the Zanzibar Investment Promotion Agency (ZIPA), and the Zanzibar Commission for Tourism (ZCT) were established as part of these reforms. The establishment of the Zanzibar Commission for tourism was a step to confer the powers and authority to the commission, which the Ministry of Trade previously executed. However, the act providing regulatory power to the commission was passed six years later (Haji, 2015). The establishment of the commission for tourism opened up avenues for establishing tour operators in the post-revolution era. During this time, many private tour operating firms emerged. Some of the earliest tour operators in the post-revolution period included: Chema Tours, Fisherman Tours and Travel, Jasfa tours, Zenj Tours, Zenith Tours, Mreh Tours, and Rainbow tours. In addition, the Zanzibar Association of tour operators was formed in 1996 to enable tour operators to join their voices and safeguard their interests.

Appendix D: Partial Least Squares (PLS-SEM)

Description of PLS-SEM

While the structural modelling equation is categorised into covariance-based and variance-based (Hair Jr. et al., 2017), partial least square has become one of the essential tools in estimating the variance-based (Benitez et al., 2020). Previous research employed CB-SEM tremendously. However, the recent trend demonstrates excellent use of PLS-SEM, which has attracted a wide range of scholarly attention in several fields of social sciences (Hair et al., 2019). For instance, the tools are currently widely used in human resource management (Iqbal et al., 2021), international business (Richter et al., 2016), information systems management (Hair, Hollingsworth, et al., 2017), management accounting (Nitzl, 2016), supply chain management (Mwesiumo et al., 2019), operations management (Peng & Lai, 2012), hospitality management (Ali et al., 2020; Parvez et al., 2022), marketing management (Hair et al., 2012), and strategic management (Hair et al., 2012).

As the second generation of SEM, PLS-SEM has become a popular multivariate analytical tool. This popularity is partly due to its enhanced capacity to estimate the validity and reliability of variables with multiple items and examine their structural associations (Hair, Sarstedt, et al., 2012). Usually, SEM constitutes two principal approaches, namely exploratory and structural analysis. These are conducted simultaneously by assessing the measurement and structural model (Lee et al., 2011). Furthermore, compared to multiple regression analysis, the variance explained in the dependent variable is superior in SEM due to its consideration of both direct and indirect impact (Lee et al., 2011). Thus, SEM constitutes two principal methods; covariance-based SEM (CB-SEM) and variance-based partial least squares (PLS-

SEM). While CB-SEM is suitable for ratifying the already established theory, PLS-SEM is principally used in prediction. In other words, the latter is employed mainly in exploratory research, which is also suitable for confirmatory studies (Sarstedt et al., 2014). Table 2 below provides the differences between PLS-SEM and CB-SEM:

Table 11: Comparison of CB-SEM and PLS-SEM

Criterion	PLS-SEM	CB-SEM
Objective:	Prediction oriented	Parameter oriented
Approach:	Variance based	Covariance based
Assumption:	Predictor specification (non-parametric)	Typically multivariate normal distribution and independent observations (parametric)
Parameter estimates:	Consistent as indicators and sample size increase (i.e.,) consistency at large)	Consistent
Latent variables scores:	Explicitly estimated	Indeterminate
Epistemic relationship between a latent variable and its measures:	Can be modelled in either formative or reflective mode	Typically, only reflective indicators
Implications:	Optimal for prediction accuracy	Optimal for parameter accuracy
Model complexity:	Large complexity (e.g., 100 constructs and 1000 indicators)	Small to moderate complexity (e.g., less than 100 indicators)
	Power analysis is based on the portion of the	Ideally based on the power of analysis of a

Sample size:	model with the largest number of predictors. Recommendations for the minimum number of observations range from 30 to 100 cases.	specific model. Recommendations for the minimum number of observations generally range from 200 to 800.
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Source: Adopted from Chin & Newsted (1999)

Procedures of using PLS-SEM

Partial least squares employ a two-wave approach where the measurement and structural models are evaluated. In the first step, a researcher needs to assess the Measurement model. At this step, reliability and validity are examined. This step is called confirmatory factor analysis (CFA) in the CB-SEM. This step is referred to as CCA due to the nature of PLS-SEM, which assesses composite latent variables that employ total variance (Hair et al., 2020). This is different from CB-SEM, which uses common variance. While CCA focuses on confirming the measurement models, PLS-SEM has different methods of analysing formative and reflective measurement models (Manley et al., 2021). For instance, in the reflective models, the following steps are included:

1. Assess the loadings factors of the items and evaluate their significance,
2. Assess the reliability of indicators,
3. Examine the construct composite reliability,
4. Evaluate the average variance extracted (AVE),
5. Examine the discriminant validity using the HTMT method or Fornel Lacker criterion,
6. Evaluate the nomological validity, and
7. Examine the predictive validity.

On the contrary, the formative measurement models involve the following steps:

8. Perform and evaluate convergent validity,
9. Assess the multicollinearity of the items,
10. Assess the size and significance of the item's weights,
11. Evaluate the items' relative contribution through a review of the size and significance of their loadings, and
12. Check predictive validity.

Reflective versus Formative Constructs



Reflective versus formative constructs

After conducting the measurement model, the next step is assessing the structural model. At this step, a researcher is required to make a systematic assessment of the following:

1. Examine the multicollinearity between the independent variable constructs of the structural model;
2. Assess the path coefficient size and their statistical significance;

3. Evaluate the R^2 of the endogenous variable(s),
4. Assess the effect size (f^2),
5. (Examine the predictive relevance (Q^2),
6. Conduct PLSpredict to check the out-of-sample predictive validity.

Benefits of PLS-SEM

Partial least squares have been witnessed to be of various benefits for researchers. The tool enables them to assess complex models involving multiple constructs, indicators and structural relationships. In addition, PLS-SEM does not assume the data distribution (Mirpanahi & Noorzai, 2021), meaning even when the data is not normally distributed, they can be analysed using the PLS-SEM. Indeed, the PLS-SEM nature of being a causal-predictive enables researcher to estimate the causation between variables in complex models. The tool is equally well known to be suitable for small sample sizes relative to other statistical tools (Sarstedt et al., 2020, 2022). PLS-SEM is well known for its suitability for complex modelling; it can assess models with many constructs (Ahmadabadi & Heravi, 2019).

Criteria for using PLS-SEM

Several authors have suggested multiple criteria for using PLS-SEM (Hair, Hult, et al., 2017; Hair & Sarstedt, 2019; Manley et al., 2021; Shmueli et al., 2016). Hair et al. (2020) provide a list of these five main criteria as shown below:

1. First, PLS-SEM should be used to explore and develop the theory;

2. Second, PLS-SEM is more valuable in the earlier phases of theory development than in the later stages;
3. Third, PLS-SEM is suitable for small sample sizes as it provides more accurate estimates with small sample sizes;
4. Fourth, PLS-SEM should be employed in complex models with many latent or observed variables. For instance, while other previous tools, such as multiple regressions, relied on an analysis of a single dependent variable, PLS-SEM is capable of handling complex models with several dependent variables (Manley et al., 2021);
5. Fifth, PLS-SEM should be used in studies whose primary purpose is prediction;
6. Sixth, PLS-SEM should be used when there is a formatively measured construct in the models;
7. Seventh, PLS-SEM should be considered in the presence of a non-parametric scaling method, such as nominal or ordinal measurements;
8. Eighth, PLS-SEM Should be employed when the data consists of financial ratios or similar types of secondary/archival data;
9. Ninth, large samples are available (10,000+);
10. Tenth, PLS-SEM should be used when there is an abnormal data distribution, as is typical of social sciences and survey data.

Criticism of PLS-SEM

Despite countless advantages, PLS-SEM has faced several oppositions from its critiques (Lohmöller, 1989; Marcoulides et al., 2016). Firstly, PLS-SEM is well known for its capacity to analyse a few items and a single item in its extreme. However, this has been criticised as having caused measurement bias by implicating either overestimation of the measurement model or underestimation in the structural model (Lohmöller, 1989). Secondly, PLS-SEM has been criticised for using a small sample (Marcoulides et al., 2016). While prior statistical tools require a relatively large sample, the case is not the same for PLS-SEM. Another criticism of PLS-SEM is its lack of restrictiveness, ignoring data's normality.

While the tool faced multiple criticisms, the current development of PLS-SEM has reduced or diminished the doubts surrounding it. For instance, several methodological improvements such as the importance-performance map analysis (Höck et al., 2010b), the confirmatory tetrad analysis (Gudergan et al., 2008), and PLS-SEM-specific data segmentation procedures (Kuppelwieser & Sarstedt, 2014) have removed doubts of the tool.