THE GROWTH OF MICRO, SMALL AND MEDIUM-SIZED HOTEL ENTERPRISES: THE HOTELIERS’ PERSPECTIVES

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Abstract

Kelantan, considered a peripheral state in Malaysia, is economically driven by hordes of small and medium-sized enterprises. The existence of many micro, small and medium-sized hotel enterprises (MSMEs) in Kelantan indicates the important role they play in expounding Malaysia’s tourism industry, therefore the focus of this paper. Eleven hoteliers representing such enterprises were interviewed using face-to-face in-depth interview technique. Researchers also interviewed several policy makers. Findings suggest that many of the micro and small enterprises faced daunting task of raising capital to sustain or expand their businesses. The medium-sized enterprises on the other hand were more fortunate in the sense that the higher number of rooms they operated ensured a higher income, therefore, relatively easier for them to raise capital when situation arisen.

Keywords: hotel, Kelantan, Micro, Small and Medium Enterprises, periphery

1.0 Introduction

This paper is part of a series of articles, the outcome of a current research on the growth of small and medium-sized hotel establishments. This paper adds further dimension to current literature by focusing on the behaviour of hotel-specific enterprise which is linked to the spatial economy of a peripheral area. Many countries have used tourism for multiple reasons, which are linked to the nature of their internal social, economic and political conditions. As for example, tourism has been used by many developing countries as a means to propel once agrarian societies towards achieving a high standard of living. Tourism has been one of the biggest contributors to the local economy. Tourism is also used as a platform where public fund is channeled to enhance the socio-economic wellbeing of a less to do local population. Tourism is used too to propagate international stardom. The status symbolizes the country’s ability to stand on the global stage. Malaysia is no exception.

Table 1 shows international tourist arrivals in Malaysia for the last decade. It shows there were 25.7 million arrivals with an expenditure of RM65 billion in 2013. Such a huge number of arrivals, will need equivalent number of rooms to accommodate and sustain them, resulting in the importance role of the accommodation sector. Malaysia had a supply of 124,413 rooms in the year 2000 (MTPB, 2012). The number increased to 195,445 in 2012 (MTPB, 2014).
Table 1: International Tourist Arrivals and Tourism Receipts in Malaysia (2004-2013).

<table>
<thead>
<tr>
<th>Year</th>
<th>Arrivals</th>
<th>Receipts (RM billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>25.7</td>
<td>65</td>
</tr>
<tr>
<td>2012</td>
<td>25</td>
<td>60.6</td>
</tr>
<tr>
<td>2011</td>
<td>24.7</td>
<td>58.3</td>
</tr>
<tr>
<td>2010</td>
<td>24.6</td>
<td>56.5</td>
</tr>
<tr>
<td>2009</td>
<td>23.7</td>
<td>53.4</td>
</tr>
<tr>
<td>2008</td>
<td>22</td>
<td>49.6</td>
</tr>
<tr>
<td>2007</td>
<td>21</td>
<td>46.1</td>
</tr>
<tr>
<td>2006</td>
<td>17.6</td>
<td>36.3</td>
</tr>
<tr>
<td>2005</td>
<td>16.4</td>
<td>32</td>
</tr>
<tr>
<td>2004</td>
<td>15.7</td>
<td>29.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Tourism and Culture (2014).

2.0 Literature review

The tourism supply side is predominantly filled with numerous small to medium-sized enterprises, which employ less than 10 staff (Komppula, 2009). Studies in tourism-related fields are however, mainly focus on large businesses, sideling the smaller enterprises. Entrepreneurs of small tourism-related enterprises contribute to raising productivity, the dispersal of the economic power base through industry ownership, commercialising innovative products, creating new markets as well as creating employment. Similarly, the bed and breakfast sector can benefit a small community where the lack of large hotels has seen the sector employing previously unemployed people such as housewives and single parents (Zane, 1997). Therefore, small enterprises can fill in the void posed by larger Multinational Corporations (MNCs) which are naturally more bureaucratic. Moreover, small enterprises can respond more effectively to changes in marketplace, partly due to their flexibility in moving to new sources of demand (Echtner, 1995).

There is no specific definition of small tourism businesses. The definition given by the United Kingdom National Survey of Small Tourism and Hospitality Businesses (Thomas et al., 1997), which represents a fusion of the European Commission’s accounts of small businesses, for example, stipulates small tourism and hospitality enterprises as those employing ten to forty nine people, while very small enterprises as those employing less than ten employees. Some researchers utilise the term “small” or “micro-small”, while some use “informal” in their research work so as to fit the parameters of their work. Wahnschafft (1982) considers tourism informal sector as including street vendors or hawkers, craftsmen or even prostitutes. The tourism formal sector covers those of tourism accommodation, restaurants, recreation centres, souvenir shops, and etc. From the consumption perspective, Cohen (1972) argues that the formal and informal sectors of tourism businesses are patronised by institutionalised and non-institutionalised tourists. Cohen contends that the formal sector includes, amongst others, international standard hotels, major airlines and tour companies, and hence is largely associated with tourists who have access to more money.

The Malaysian government plays a wide role in pursuing tourism development. These range from setting up of national marketing and promotion agencies to providing the necessary monetary resources to back-up such programmes. The setting up of the Ministry of Tourism (initially as the Ministry of Culture,
Arts and Tourism) in 1987 and its marketing arm i.e. the Malaysia Tourism Promotion Board (commonly known as Tourism Malaysia) (Khairil, 2006), in 1992 illustrate the federal government’s yearning to establish a strong tourism presence within the country’s economic domain. Bennett (1994) further argues that the government is a facilitator to tourism development by providing the necessary tools and settings within which the private sector can competently participate. With respect to advocating tourism development programmes, there are two forms of approaches taken by the government. The first is the central led approach, a method, which calls for the centralisation of government control and guidance on tourism resources. Proponents of this approach argue that if regions that have these resources were allowed to develop on their own, conflicting interests would result because of the different needs of different parties involved. On the other hand, a central approach lacks a local flavour, resulting in conflicts with local interests. Factors like internal socio-cultural settings and locals’ demographic characteristics should also be added to factors of production in establishing tourist zones (Tosun and Jenkin, 1996). Meanwhile both, the public and private sides use each other in a mutually beneficial relationship in order to achieve development goals. The business class would respond to incentives and disincentives that the government initiates (O’Brien, 2010). Graci (2013) adds collaboration is essential to sustainably develop tourism.

According to Rafidah and Norfaridatul (2013), small and medium-sized enterprises form the backbone of Malaysia’s industrial development. The Micro, Small and Medium Enterprises (MSMEs) also contribute significantly not only to the tourism industry in Malaysia but also to areas considered peripheral. Among the three states in the east coast of Peninsular Malaysia, Kelantan is arguably the most depend on the MSMEs. Despite Kelantan’s location away from the economic centres of the country, the state is well known for its tourism industry. The state is endowed with beautiful natural environments and distinctive Malay cultural heritage which influence the development of the industry (Marzuki et al., 2011). Agricultural commodities such as rubber, palm oil, tobacco and paddy form the state economic base. The production of traditional arts and craft including batik painting, songket weaving and brassware making compliments the agriculture sector. With abundant of cultural resources, tourism has taken a strong foothold in Kelantan. There were 941 683 hotel guests registered in 2012 in Kelantan. Domestic tourists formed 881 098 of the guests (MTPB, 2014).

3.0 Purpose and methodology

The Malaysia National Small and Medium Enterprises Development Council (National SME Development Council, 2008) defines the small and medium enterprises according to firstly, on financial performance, and secondly, based on number of employees employed. A micro-sized enterprise is defined as an enterprise which employs less than 5 full time employees. Small enterprise is defined as an enterprise which employs between 5 and 19 workers whereas medium-sized enterprise is considered as the one which employs between 20 and 50 workers. Main (2001) adds a micro-sized enterprise is a small independently owned and operated business. The owner has close control over operations and decisions and business equity is not publicly traded.

Face-to-face in-depth interviews were employed on 11 owner-managers of hotels that resemble MSMEs. This helps to analyse the phenomenon in a better contextual environment as Komilis (1994) argues that while research work on the developmental dimensions of tourism has been relatively extensive, but they are generally descriptive in nature and hence, the dynamic characteristics of the tourism industry could not be exposed with any subtlety. Therefore, a face to face in-depth interview
should uncover hidden dimensions. The hoteliers’ names would not be disclosed to ensure anonymity. They are only identified as respondents 1, 2, 3 and so forth. These enterprises were located in Kota Bharu, Tanah Merah, Tumpat and Gua Musang. Several policy makers were also interviewed (i.e. from the Ministry of Tourism and Culture of Malaysia, the Ministry of Tourism and Culture of Malaysia - Kelantan Office, and the Ministry of International Trade and Industry - Kelantan Office, and the Kelantan Tourist Information Centre). Axial coding of collected data (Cooper and Schindler, 2008) was performed. Field observation was also conducted to compliment interviews.

4.0 Findings and discussion

Based on Table 2, it was found that the distribution of the number of MSMEs are almost equal except for small enterprises which accounted for more than half of the sample; 3 micros, 5 smalls and 3 medium-sized enterprises. Among the participating MSMEs, almost half of the respondents were the hotel owners themselves and the other half was hired managers who run the hotels.

<table>
<thead>
<tr>
<th>Respondent Position</th>
<th>Number of Employee</th>
<th>Number of Room</th>
<th>Building Status/Premise Status</th>
<th>Respondent Age</th>
<th>Respondent Education Background</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Hotel Owner</td>
<td>Assisted by his wife and daughter</td>
<td>23</td>
<td>Self Owned</td>
<td>56 or more</td>
<td>Secondary School</td>
</tr>
<tr>
<td>(2) Motel Owner</td>
<td>1</td>
<td>23</td>
<td>Rent</td>
<td>56 or more</td>
<td>Secondary School</td>
</tr>
<tr>
<td>(3) Hotel Manager and one of the owners.</td>
<td>2</td>
<td>20</td>
<td>Rent</td>
<td>56 or more</td>
<td>Secondary School</td>
</tr>
<tr>
<td>(4) Hotel Manager</td>
<td>5</td>
<td>28</td>
<td>Rent</td>
<td>26-35</td>
<td>College/University</td>
</tr>
<tr>
<td>(5) Rest House Owner</td>
<td>5</td>
<td>18</td>
<td>Self Owned</td>
<td>46-55</td>
<td>Secondary School</td>
</tr>
<tr>
<td>(6) Hotel Owner</td>
<td>10</td>
<td>31</td>
<td>Self Owned</td>
<td>56 or more</td>
<td>Secondary School</td>
</tr>
<tr>
<td>(7) Chalet Manager</td>
<td>16</td>
<td>33</td>
<td>Government Owned Self Owned</td>
<td>26-35</td>
<td>College/University</td>
</tr>
<tr>
<td>(8) Operation Manager</td>
<td>19</td>
<td>31</td>
<td>Self Owned</td>
<td>36-45</td>
<td>College/University</td>
</tr>
<tr>
<td>(9) Hotel Manager</td>
<td>23</td>
<td>28</td>
<td>Rent</td>
<td>46-55</td>
<td>College/University</td>
</tr>
<tr>
<td>(10) Hotel Manager</td>
<td>42</td>
<td>79</td>
<td>Self Owned</td>
<td>36-45</td>
<td>College/University</td>
</tr>
<tr>
<td>(11) Hotel Manager</td>
<td>40</td>
<td>66</td>
<td>Rent</td>
<td>46-55</td>
<td>Secondary School</td>
</tr>
</tbody>
</table>

*Rental-ownership of properties*
A majority of these MSMEs did not own the land and the building from where the businesses operated. A 20-room hotel manager/owner acknowledged; “The land and building status for this business is rental. That is problematic for us because we only own the business but not the property”. (Respondent 3). This is a phenomenon susceptible to many micro-small and small hotel enterprises. In contrast, medium-sized ones were often than not owned the premises where the businesses operated. For example, according to respondent 11 who was a manager of a 66-room, 40 employee-hotel, the land that the hotel was build on once belonged to a royalty of the Kelantanese court. Later on, the land was awarded to the current owner. Therefore, only a handful of the MSMEs owned the building and land where businesses were operated from.

**The lack of access to funds**

Evidence from interviews with practitioners indicates that MSMEs were facing problems in raising capital to buy buildings to accommodate their business ventures. A respondent conversed,

“My intention, I want to buy that building, but the problem is, I have financial constraint and it is difficult to get any loan from the bank because they thought hotel business is not good and furthermore, the bank thinks that I can’t afford to pay back the loan...” (Respondent 5)

The owner planned to fully helm and control the business by purchasing the building but due to capital limitation, the growth plan stalled. He approached several banks however the efforts were futile, whereby banks did not see the viability of his business expansion. Similarly, a co-owner of a different micro enterprise noted (Respondent 3);

“We have rented the hotel building since 1993. But we can’t make an agreement to rent the building for long term duration because the owner of the building kept on mentioning that he wants to sell the building. We want to buy the building, but the price is too expensive and we don’t have enough money to buy it”.

Evidently, the co-owner had spell out his intention to purchase the building. Coughing out a big sum of money was a rarity when selling of rooms could only fetch meagre profit. Similarly, the four share holders of a small hotel raised their own capital to run their business. However, they were unable to improve the condition of the hotel due to a financial predicament. According to the manager, “Currently, we do not have enough capital. We use the money from room sales to run the operation, and in case if we do not have enough money for rolling, our bosses will add their own”. (Respondent 4). Thus, capital constraint was a major obstacle in the growth of micro-small and small enterprises.

Nevertheless, the central government provided a micro-credit loan scheme to help small business entrepreneurs to either start or enhance their businesses. According to the Deputy Secretary General of the Ministry of Tourism and Culture, although this provision had nothing to do with his ministry, any micro-small, small or medium-sized business entrepreneurs irrespective of the sectors they were in were eligible for the scheme (personal interview). This may somewhat ease the burden of tourism-related business entrepreneurs, though there was no evidence that any of the respondents had requested for assistance under such scheme. This is important given that MSMEs faced the daunting task of finding the necessary monetary resources.
Rudimentary services by the micro and small enterprises

The provision of basic services in the accommodation sector is vital for any accommodation businesses to survive, meaning that all MSMEs depend on the selling of rooms for their incomes. Due to the unavailability of internal or external funds (borrowing from financial institutions), a majority of micro and small accommodation enterprises were unable to effectively raise and mobilise capital to enhance their services. Establishing food outlet, targeting in-house or walk-in clients serves as an extra service. However, one owner retorted, “the service that we provide here is only accommodation, no food and beverages offered because the customers prefer to go to nearby restaurant where they can try Kelantanese local dishes and furthermore they are cheaper!” (Respondent 6). The sensation of Kelantanese cuisine which is appealing could readily be available around street corners. Kelantan is known as the heartland of the Malay, and is famous for its Malay delicacies. Moreover, its delicacies are unique compared to other states’ Malay delicacies.

Lacking capital to enable the entrepreneurs to move to another level of product and service provision did not only conform to these private businessmen, a local government-owned accommodation establishment also felt the brunt of the problem. According to the manager of a chalet which was owned and operated by a local district council, his establishment was facing difficulty in applying for any forms of fund or assistance from the federal government (Respondent 7). He argued that state own business entities were deprived of central assistant such as promotional fund due to different political orientation. The district council was under the tutelage of the state government, which was more inclined towards instilling Islamic values in every day of life, whereas the federal government followed a relatively conventional western orientation.

In contrast, medium enterprises regarded basic services as more than room provision but also food and beverage and others. To them, provision of foods could be a major income to their establishments. Besides food supply, some of the medium size enterprises also provided other services such as seminar/meeting rooms as well as banquet facilities. A small number of medium enterprises were concerned with the services provided where according to one of the managers:

“We give special focus on how to upgrade our accommodation, meeting hall, food and so on to make sure our customers are satisfied with our products and services and to make our product and services more attractive and with all facilities in good condition... We also have to consistently make changes or update all the facilities because customers always change. This will help us increase our revenue” (Respondent 11).

Similarly, a 79-room medium-sized hotel operated a small restaurant and several meeting rooms, therefore enhancing its services to a different height (Respondent 10). To supplement the services the hotel provided a prayer room for Muslim clients. As indicated from other interviews, a majority of the medium-sized enterprises had fewer problems when it came to raising capital. A hotel manager admitted that all financial capital was wholly provided by the owner of the hotel (Respondent 9). Medium-sized hotels, which not only had access to sources from financial institutions like banks but gained substantial amount of capital from the operation of a higher number of rooms, were able to provide food and
beverages services from their Food and Beverage (F & B) outlets. To them, the provision of foods could be a major income to the establishments.

**Simple promotion acts and inclination towards utilising information technology**

According to one of the owners of a micro-small hotel enterprise, distributing brochure was seen as more effective as compared to other promotion techniques (Respondent 2). Guests would be supplied with copies of the hotel brochures. Literally, these brochures, which contained the hotel’s room types and prices, would be passed from one hand to another. The ultimate targets were the guests’ relatives and friends who intended to visit Kelantan. On the other hand, an owner-manager of another micro-small hotel enterprise believed that word-of-mouth recommendation was the best marketing tool he had acquired. He noted, “For the promotional part, basically, we give business card, we do advertise in the internet under tourism website, but we don’t have our own website. Our main promotion strategy is word-of-mouth”. (Respondent 3). Most of the hotel clients were repeat customers. “... most of our customers are our returning customers and they will bring new customers along when they visited for the next time”. (Respondent 4). Adding weight to the preference of the word-of-mouth was respondent 5’s claim. He argued that personalised service with guests was important in bringing them back to his business.

Nonetheless, the operation manager of a 31-room hotel noted that his hotel applied various promotional strategies rather than relying solely on word-of-mouth. According to him, “we do plan a proper marketing strategy. We always promote our hotel through exhibitions such as MATTA Fair and others. We also consistently do promotion using Kelantan’s Tourism Information Centre (TIC) channel”. (Respondent 8). He further added that, promotions were extensively done within Kelantan via electronic media and the local radio stations. He firmly believed too that out-of-state customers heard about his hotel through the word-of-mouth recommendation. Other forms of promotion techniques or tools were putting-up big banners along roadside at strategic locations and by blogging (respondent 4), hotel’s website and face-to-face marketing calls at schools and government offices (respondent 6).

A majority of the medium-sized hotels used mixed strategies to promote their businesses. For example, a hotel expounded its strategic location as its main advertising strategy. The hotel was very close to other service providers such as bank, night market, china town, shopping malls (respondent 11). The hotel also utilised multiple promoting methods including brochures, flyers, newspaper advertisement, and the internet (i.e. Facebook). He claimed “so far, we receive a lot of enquiries and feedback through the Facebook”. To him, multiple methods in advertising were important because they created positive effects. He further added that applying various methods or techniques helped improve the quality of services rendered to customers. He also strongly suggested that follow-ups with the customers were very important in making sure that they got what they wanted.

The Kelantan State Government also actively participated in promoting the MSMEs as a component of the accommodation sector plus Kelantan’s tourist products which were culturally embedded (Khairil et al., 2012). Hotels relied on the Kelantan’s Tourist Information Centre to promote their existence (respondents 7 and 8).
Provision of training

One of the micro hotel owners (respondent 2) demonstrated his opinion towards the training provided by government as less relevant to the business he was operating. According to him, “The Tourism Department has organised a lot of courses, but to me, they’re not suitable. They normally conducted training for the beginners. I have all the basic knowledge and I have learnt all of it”.

On the other hand, the owner of one small hotel claimed that her employees were not interested to go for training. She said “our staffs are not interested to go for training. If we want to send them, they will give a lot of excuses, unless we forced them”. (Respondent 6). Thus, this shows that the operator did not really appropriate training as her main agenda.

Nonetheless, the government had training programmes geared for small budget hotel entrepreneurs.

“... like when we did programmes with hotels which are three star and below. Budget hotel right, if they want training, we do it for them ... So they got the incentive. Then like the home stay. Home stay also we have a lot of training for them. It is free” (Deputy Secretary General of the Ministry of Tourism and Culture).

5.0 Implications

The findings reported in this paper contribute towards several implications. Firstly, although the federal government provided funds to business entrepreneurs, the ways they were channelled need to be assessed so that the effectiveness of the government strategy to enhance the tourism sector and the sophistication of the accommodation sector to accommodate continuous tourist arrivals are reached. While funding resources are allocated through the federal government, the inability of the State Government of Kelantan to muster funding rendered the MSMEs in Kelantan into a seemingly disadvantaged position. Secondly, the provision of programmes like training which were spearheaded by the federal government need to be look into in term of their suitability and appropriateness to targeted audiences. Although there is a notion that such programmes were designed according to levels of focus such as at the foundation, intermediate or advance levels, more could be done to attract participants particularly when these programmes could equip front liners and back-room staff with the kind of services customers might anticipate. For one, intermediate level training programmes are more needed rather than programmes at the foundation level. Moreover, integrated training programmes should be periodically conducted, and feedback from MSMEs be obtained so that these programmes could be better assessed and monitored. Another implication is that the government should facilitate learning and education in terms of the importance of the tourism industry at large. Although, tourism in Kelantan is very much focus on domestic markets (Khairil, 2006), whereby the effect of the MH370 incident may not have the possibility of denting the state’s tourism industry, raising the awareness of the fragility and the sensitivity of the industry among employees of tourism is imperative. The backlash from the MH370 incident, for example, has been linked to 30 000 Chinese nationals cancelling their trips to Malaysia (The Star Online, 2014). China contributed towards 7% (1.8 millions) of Malaysia’s international tourist arrivals in 2013.
6.0 Conclusion

Not all MSMEs showed greater efforts in capitalising on the potential opportunities the tourism industry provided. A lacklustre attitude coupled with a common scenario of inability to garner funds for business expansion would stifle the industry. Hereby, Malaysia’s tourism industry would see its competitiveness eroded. The raising of new but energetic players in the forms of Vietnam and Myanmar would further fuel the fight for international tourists from origin markets. To better streamline the MSMEs sector in Kelantan, both the federal government and state government need to corrode irrespective of the political indifferences. At the micro level, Ben-Dalia et al., (2013) note that it is important for municipalities and the tourism industry to project good image for image mirrors reality.
7.0 References


