PATTERN OF SMALL HOTEL BUSINESSES: A PERSPECTIVE FROM THE PRACTITIONERS

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ABSTRACT

Tourism has been depicted as a sector that is dominated by large business establishments. Nevertheless, the participation of the small businesses cannot be simply ignored. Their existence in sheer number indicates their vast influence to the tourism industry, including their contributions to the local economies. This paper aims to elucidate the factors that shape the development of these small businesses. Focus was given to the pattern of ownership. Having insight to this phenomenon could further propel local tourism industry to greater height, in parallel with the Malaysia’s notion of growing and sustaining the sector as one of the country’s top economic earner. Data from in-depth interviews with owner-managers of small hotels formed the bulk of the arguments. Findings, among others, suggest that although the sector has low entry level, many operators still faced major obstacles in starting or sustaining their operations, thus hindering the potential growth of the sector.

Keywords: tourism development, low entry, accommodation, small hotels, government, in-depth interviews, owner-managers, Kelantan.
INTRODUCTION

Both developed and developing countries have used tourism for various reasons, ranging from the economic to the political. In many cases, tourism has been one of the biggest contributors to the local economy. Apart from this, tourism has been used as a mechanism to co-integrate and unite countries that have multi-ethnic population. It is also used as a platform where public money is invested in order to enhance the socio-economic wellbeing of deprived local population. The propagation of tourism is another method of trying to achieve international status. The status symbolizes the country’s ability to stand on the global stage.

Malaysia, meanwhile, has been treating tourism as one of the important growth strategies in the country’s quest for economic advancement. The falling of commodity prices experienced by Malaysia in the early eighties in particular, injected a lease of life into tourism so as to allow the country sustain its economic growth (Jabil et al., 2008). Table 1 shows that while arrivals in 1980 were a mere 2.06 millions, arrivals in 2010 recorded 24.6 million.

Table 1: Tourist Arrivals and Tourism Receipts in Malaysia

<table>
<thead>
<tr>
<th>Year</th>
<th>Arrivals</th>
<th>Receipts (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>2.06</td>
<td>618.9</td>
</tr>
<tr>
<td>1985</td>
<td>3.10</td>
<td>1,543.1</td>
</tr>
<tr>
<td>1990</td>
<td>7.44</td>
<td>4,500.0</td>
</tr>
<tr>
<td>1995</td>
<td>7.46</td>
<td>9,174.9</td>
</tr>
<tr>
<td>2000</td>
<td>10.2</td>
<td>17,335.4</td>
</tr>
<tr>
<td>2005</td>
<td>16.4</td>
<td>31,954.1</td>
</tr>
<tr>
<td>2010</td>
<td>24.6</td>
<td>56,500.0</td>
</tr>
</tbody>
</table>

Source: MTPB (2011)

Historically, the government’s involvement in the tourism industry officially began with the setting up of the Department of Tourism under the Ministry of Trade in 1959 (Din, 1982). It seems that the government initially did not place much emphasis on tourism because it was not until decade later that the government took stronger action by setting up a dedicated agency that spearheaded tourism promotion activities for the country. The
Pacific Area Travel Association (PATA) 21st conference held in Malaysia in 1972 helped to propel the country onto the tourism map. In the same year the Tourist Development Corporation (TDC) was founded through an Act of Parliament. The role of promoting tourism was then taken from the Department of Tourism. A tourism master plan for Peninsular Malaysia was completed in 1975 in order to expedite tourism activities in the country. The tourism master plan was a manifestation of the seriousness with which the government was now developing the industry, and furthermore it exemplified an organised and sustained attempt to develop tourism planning (Jenkins and Henry, 1982). A new phase in the government’s active intervention in tourism development began in May 1987, when the Ministry of Culture, Arts and Tourism of Malaysia (MOCAT) was formulated with an ad hoc grant of RM100 million (MOCAT, 1996). MOCAT’s mission was to plan, coordinate and monitor tourism activities for the country. The establishment of the Malaysia Tourism Promotion Board (MTPB is also widely known as Tourism Malaysia) under the Malaysia Tourism Promotion Act 1992 further increased the government’s active role in promoting tourism as one of the important pillars of the economy. As a result of these events international tourist arrivals into the country increased.

BACKGROUND OF STUDY

However, the growth of the tourism industry in the country is arguably spatially unbalanced. Most of the accommodation facilities are located in the west coast of the peninsular, underpinning the influence of the economically developed regions of the west coast. This leaves a gap when some regions of the country are not benefiting from tourism as much as other regions have. Kelantan, for one, is one such example where the state is considered as to be the less developed region of the peninsular.

On the other hand, while the studies of small enterprises in the manufacturing industry are widespread, studies of their counterparts in the service industry, particularly relating to tourism, are sparse. Entrepreneurs of small tourism-related enterprises contribute to raising productivity, the dispersal of the economic power base through industry ownership, creating employment, commercialising innovative products and creating new markets. Zane (1997) argues that 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. Echtner (1995) contend that small enterprises can fill in the void posed by larger, more bureaucratic organisations such as Multinational Corporations (MNCs), particularly when the former can respond more effectively to changes in marketplace, partly due to their flexibility in moving to new sources of demand. However, small enterprises are more often than not relegated to the spot behind the more salient large enterprises. For example, in the context of enclave tourism Shaw and Shaw (1999, p. 76) contend, “... the reality of enclave tourism is that local people and informal enterprise are relegated to a marginal ‘other’, occupying the diminishing space of the public beach, vacant plots between hotels and the few restricted enclave exits”.

Most studies on the tourism industry, nonetheless, ignore the existence of two divisions within the industry, small and large businesses. Moreover, focus was given towards the latter. On the other hand, the tourism supply side is predominantly filled with small to medium-scaled enterprises (Komppula, 2009). There is no specific definition of small tourism businesses other than a multitude of guidelines used by researchers to serve their own purposes. The definition given by the UK 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, delimits small tourism and hospitality enterprises as those employs ten to forty nine people, while very small or micro-small enterprises as those employing fewer than ten employees. At a broader perspective a micro-sized enterprise is a small business, which is independently owned and operated, with close control over operations and decisions held by the owner and business equity is not publicly traded and the owner personally guarantees business financing. According to Main (2001), these businesses are often times situated in peripheral location.

Morrison (1998, pp.191) meanwhile, defines a small hotel as a business which is “...financed by one individual or small group, directly managed by its owner(s) in a personalized manner and not through the medium of a formalized management structure”. This statement also supported by Wan (2010), from her studies on small and medium-sized enterprises (SMEs) hotels, which findings have shown that while most of the time the owners and managers would like to remains active on managing their property, they tend to neglect the branding issue. On a broader aspect, there are many
traits possess by these small businesses, which are not akin to their bigger counterparts.

Many of these small tourism-related enterprises are individually and family owned businesses (Shaw and Williams, 1987, Williams et al., 1989, Weaver, 1991, Mackun, 1998). Williams et al in their studies of the Isles of Scilly’s direct or indirect tourism-related businesses, of which a majority of them were small, such as in the accommodation, retailing and restaurants sectors, found that 85% of businesses were held by single individuals. A similar trend was also discovered in several British tourist destinations (Shaw and Williams, 1998, Weaver, 1991). Weaver (1991) further argues that the pattern of ownership is extended in larger enterprises. Professional business partners owned substantial numbers of large enterprises, although there were some individuals who joined forces with business partners and a few individuals. Larger scale business operations also have a consortia trait (Shaw and Williams, 1990). They argue that the UK hotel industry is characterised by the increase in such consortia. These forms of operation results in economies of scale, which allowed competitive priced room rates even when cost cutting measures were introduced.

From a different perspective, there were a diverse range of reasons for small-scale entrepreneurs to enter the hotel industry (Stallibrass, 1980). There were economic motives for many entrepreneurs to enter the industry. Thomas et al., (1997), for example, postulate that 10% of their sample respondents were being driven into the industry by unemployment. But, many of owner-managers of small hotels too did not have an economic motive when they pursued the businesses. Motivations included the desire to live in an attractive environment. Many of the entrepreneurs had low levels of relevant training before they entered such businesses (Shaw and Williams, 1987). Shaw and Williams contend that only 11% of hotels, guesthouses and self-catering owners in Cornwall, England possessed relevant experience prior to their engagement in such businesses. Consequently, many encountered problems. These were further exacerbated by their lack of relevant formal qualifications (Nuntsu et al., 2003). Wanhill (2000) states that only a third of these enterprises are successful, leaving a third struggling to survive and the other third going either way. Such a characterisation is underlined by the factor that a majority of these establishments are relatively young (Nuntsu et al., 2003). Thus, there need to be improved levels of training for these entrepreneurs, and the need to advice on such training. In
parallel, government in some developing countries invented and operated skill and management-based programs to equip potential entrepreneurs.

On the other hand, Patience et al., (2010) found from their studies that the education level of the entrepreneurs had a positive and significant effect on the growth of the business and this was likely due to the fact that educated entrepreneurs were found to have the ability to make better decisions than those who were less educated. This supports the findings of (Papadaki and Chami, 2002, Cooper et al., 1994, Busu and Goswami, 1999), who found that growth was lower for business whose owners did not finish high school, and this had a significant and negative impact on business growth whereas the entrepreneur’s education level has a positive impact on the growth of business. The different levels of training and experience had resulted in varying degrees of management abilities and entrepreneurial skills. Lerner and Harber (2000) argue managerial skills provide the strongest association with the performance of small tourism-related enterprises. In fact, they argue that the lack of managerial skills is one of the main barriers to a small business venture’s success. Penn et al., (1998) argue that the industry is characterised by a lack of business or marketing plans, a feature that is connected to the notion that entrepreneurs had little idea about the need to draw on management strategies for their businesses. This is related to the entrepreneurs’ lack of relevant formal training and experience. They mainly used informal forms of capital; they were not forced to come-up with formal business plans, which traditionally accompany requests for commercial loans. This is important given that many small hotels rely almost totally on the entrepreneurial skills of their owner-managers. Thus, in cases where the lack of entrepreneurial skills may impede the smooth operation of these hotels, advice from mentors who had years of experience running such establishments could be very helpful.

The formation of these small enterprises is underpinned by varied sources of capital (Stallibrass, 1980, Shaw and Williams, 1990), ranging from personal or family savings to commercial loans. The sector is characterised by low levels of capital investment, and the main source of capital is personal and family savings. Shaw and Williams (1990) contend that 50% of small business entrepreneurs used personal and family savings as the main sources of capital. Similarly, Patience et al., (2010) argue that most of the small enterprises that used credit used informal sources of credit especially from friends and family. This informal source of credit is attractive
to micro and small-scale business owners, as it does not accrue any interest and does not need the borrower to give collateral. This is imperative given that some Moslem-entrepreneurs follow the Islamic principle of forbidding usury in any business as well as loan transaction (Khairil et al., 2010). Commercial loans from banks, building societies or financial institutions play a minor role, although they were often used in conjunction with personal or family savings (Shaw and Williams, 1987).

In a different context, some research findings showed that a majority of small accommodation enterprises had no full-time worker except for the owner-manager. On the other hand, Thomas et al., (1997) argue that although there are substantial numbers of businesses that employ full-time or part-time employees, many of them however do not send their employees for training. These businesses are constrained by their small operating budget. Only outgoings such as utilities bills and staff pay are given priority. From a different perspective, the service sector is dominated by many low paid part-time and casual workers (Lafferty and van Fossen, 2001). Jameson (1998) adds that the tourism and hospitality labour market has a high incidence of female. The sector mainly used local labour (Mackun, 1998), thus dispersing the economic benefit of the industry to local community. As such this increases backward linkage. However, recruitment for these workers is often done through informal and unsystematic recruitment techniques such as word-of-mouth (Thomas et al., 1997). Page et al., (1999), however, argue that “the use of informal recruitment methods also reflects the potential for discriminatory practises where gender or racial discrimination may results, often disadvantaging ethnic groups or indigenous people” (p. 447). As a whole, however, the hotel industry has only a small pool of competent workers, which is partly caused by a high turnover rate (Lam et al., 2001). Word-of-mouth is the most prevalent marketing tool used by small enterprises (Nuntsu et al., 2003, Johns and Mattsson, 2005). Johns and Mattsson (2005) add that such practice is used to good measure through enterprises’ heavy reliance on a network of good business and social connection. This implies a high degree of collaboration among the industry’s players. Furthermore, a significant portion of small business is also affiliated with various support groups (Thomas et al., 1997, Nuntsu et al., 2003). Nuntsu et al., for example, contend that 67% of bed and breakfast operators surveyed are affiliated with tourism bureaus. Another factor is that some enterprises have also started to recognise the use of internet facilities to market their products.
METHODOLOGY

As described before, the small accommodation enterprises sector poses a low entry level, however the dimension varies from one business entity to another. The purpose of this paper is to focus on the pattern of ownership, which among others is influenced by the generally known low entry level.

The researchers chose a qualitative approach for this study, using semi-structured face-to-face in-depth interviews. Kelantan was chosen as the area for the collection of data. In most tourism related research in Malaysia, focus was given to the core area of economic development, which was in the west coast of peninsular Malaysia. Kelantan, located in the east coast of peninsular Malaysia, is considered in a peripheral state of economic development. Tourism has a huge potential to overturn the status quo. In this study the hotels are defined using the Malaysian National Development Council’s (MNDC) definition of small enterprises (see National SME Development Council, 2008). Small hotel is defined as an enterprise which employs between 5 and 19 employees. Enterprises that have less than 5 employees were also included in this study (they are termed as micro-small).

FINDINGS AND DISCUSSIONS

A total of 11 practitioners from the state were interviewed. Interviewees from Kota Bharu, the state capital, form the bulk of the respondents, to commensurate the high percentage of small-sized hotels that exist in the city comparing with other regions in the state. Owner-managers who had the final say in decision making were targeted to be the respondents. The shortest interview was approximately 30 minutes, while the longest was 1 hour and 40 minutes. All interviews were recorded and subsequently transcribed using Nvivo software version eight. Transcripts were coded. Axial coding was employed to analyse the data. To ensure anonymity the respondents’ names would not be disclosed. Three of the interviewees happened to employ more than 19 employees each, thus disqualifying themselves from being the focus of the study (see Table 2).
Table 2: Characteristics of the Interviewees

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

Source: Personal interviews

At large, owners of these hotel enterprises used economic reasons as being in such business. According to one owner, who employed five permanent employees, he was attracted to the accommodation business due to the economic opportunity he envisioned. He was a bank employee before he started his own hotel business. He had stayed in a hotel for several months when he was transferred out-of-state, during his tenure in the banking sector. Staying in a hotel for some period made him think that it was an industry which could promise substantial monetary gain.
From a different perspective, small hotel business operation is strongly characterised by the ownership of either the building or the land where the business were operating from. Several small hotels operated on rented building premises as one interviewee said,

“The land and building status for this [business] is ... we rent this building premise. This is a problem for us because we only own the business but not the building where the business is operating from. It [the building] was owned by a previous owner, with no limit on contract period for renting. But now, when the new owner comes into the picture, he introduced a new agreement where we have to renew the contract every three years”.

Renewing rental agreements means conforming to requested raising rents from landlords. This resulted in raising operating cost for such business owners. On the other hand, if relocation was the alternative due to rising renting cost, further new challenges were created. Owners of such small hotels would have to deal with whether the new location has the market potential, at least not surpassing the current one. This implies whether it is strategically located in order to capture not only existing but future market too. More marketing efforts have to be carried out to market the new business place, especially if the new place is geographically less accessible than the previous one. Exacerbating the problem is the fact that many of these small enterprises relied on crude forms of marketing practices such as through the word-of-mouth, local distribution of black and white printed pamphlets, mainly to out-of-state express bus drivers and local taxi drivers and advertisement in local and regional newspapers. These less sophisticated practices conform to the low use of capital.

Relocating also means extra cost to construct the interior layout as well as the outer side of the new building premise into becoming a site befitting an accommodation establishment. Escalating building materials such as bricks and cement, and the labourer cost that goes with the construction means more hardship to these owners, particularly those who lacked the financial means to overcome these hurdles.

A handful of owners of small hotel enterprises owned the building where their businesses operated from. The assumption is that business owners, who owned the hotel premises, were the ones who were financially
strong. However, there were also cases where they had to resort to bank loans, particularly in the initial stage of the business set-up. According to an interviewee,

“My intention was, I want to buy that building, but the problem was ... I have financial constraint and it was difficult to get any loans from the bank because they thought hotel business was not good, and furthermore, the banks thought that I couldn’t afford to pay back the loan...”.

He operated his hotel business from a rented building; however he was forced to move out when the landlord started to venture into the same type of business after seeing the opportunity that the former had. Before relocating, he eyed a bungalow for sale, also within the same vicinity of the hotel he was operating. He planned to buy the bungalow and turned it into a rest house. But approaching the banks, he was confronted with pessimism from the bankers. The banks did not see the viability of his proposal. He added,

“All the banks are the same. They don’t see the long term! I had explained our cash flow, they still didn’t believe that we can pay. They still refuse to give us loan. I did told them I used to run the hotel with only 6 rooms with my very own money”.

Nevertheless, he managed to purchase the property by selling his other assets such as car and van plus the addition of his savings. Currently he was the proud owner of a rest house, with five permanent employees. “... but now I have 18 rooms [in the current bungalow premise]”. Business was relatively good because he relied mainly on out-of-station police officers due to the premise’s close proximity with the state police head quarters. The issue of capital limitation has created a strain condition to these operators where they felt that they received no financial assistance from formal government agency. An owner of a hotel enterprise claimed that she did not get any assistance from others, and was solely on her own. She said, “Whatever capital involved, it all came from my own money like my pension, saving account, that’s why we can’t do much, so we are just like the budget hotel”.

The pattern of ownership also indicates that small hotel owners, who owned the buildings where their businesses were operating from, were from the middle age group. The assumption here is that as they get older, they tend
to moved up the economic ladder, from running businesses on rented sites, to possessing buildings where their current hotels stand. This exemplified their true grit in facing the challenges, hence honing their entrepreneurship skills. One interviewee acknowledged that he was also involved in the planting, growing and selling of oil palm apart from venturing into sheep rearing business in the Gua Musang District. The agricultural-based business ventures were relatively easier to indulge into, considering that the price of land in this region is much cheaper than the geographical areas surrounding Kota Bharu, the state capital and commercial centre. Therefore, the owner had diversified his businesses into other viable business ventures.

On a different front, not all business owners justified their joining of the hotel sector due to economic reason. An interviewee in Kota Bharu admitted that she started the business due to boredom. With grown-up daughters and practically nothing to do plus an active live prior to retirement, she ventured into the hotel business, after some encouragement from her husband. She used her savings from the years she was working to establish her business. The money was just enough to start the operation. She was happy to fulfil her desire of occupying her time and at the same time owning a business venture, does not matter whether it was a small or big form of business. On the other hand, this could be interpreted as having the notion of lacking a direction. At a broader scope, the small hotel or tourism sector needs to be more proactive in order for it to grow to new and greater height, in parallel with the call to make tourism as one of the top industries in the country. Similarly, a hotel owner who acknowledged that there were 10 shareholders in the business he was operating, echoed, “We have rented the hotel building since 1993. But we can’t make an agreement to rent the building for long term duration ...”. The fact that, the hotel, which had only two permanent employees, with 20 room-inventory, and a significantly high number of shareholders, suggests that coming into a complete agreement on some issues would simply be a hassle. Eventually, this will lead to holding back the expansion of existing hotel business.

CONCLUSION

Findings suggest that the small hotel operators have mountain to climb, given that they are less likely to have attributes where the larger, much established businesses posses, and hence, lack the sophistication to
compete in a much open market. However, at the same time, findings also suggest that although in a condition where chances are severely curtailed due to their lacked of these attributes, some could still thrive basically through their desire to achieve success. This among others what make the sector so dynamic.

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