Problems of Small and Medium Budget Hotel Operators

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Abstract: Small and medium budget hotel (SMBH) operators play a significant role to support the success of the tourism industry. However in general most of the small and medium hotel operators face numerous constraints and difficulties in running their businesses. In this study, the problems facing by the SMBH operators were identified. Data were collected by multi-methods approach. A total of 48 SMBH operators were involved in the survey and only six respondents agreed to be interviewed. The localities of the research covered the three major urban centres in the East Coast of Peninsular Malaysia, namely Kota Bharu, Kuala Terengganu and Kuantan. The findings of the research indicate that most of SMBH operators agreed on the difficulties in getting financial assistance and training from the government. It is suggested that aggressive promotion campaigns should be undertaken to further promote the tourism industry in the East Coast of Peninsular Malaysia. Finally the article provides useful findings for policymakers to improve the existing policies. Guidance to a new entrepreneur who intends to venture into tourism business is also reported in this article.

Keywords: Small and Medium Urban Budget Hotel • Hotel Operators • Problems • Tourism Industry and East Coast of Peninsular Malaysia

INTRODUCTION

The government started to promote Malaysia since the first and second Visit Malaysia Year 1990 and 1994. Since then, the tourism industry has been a major contributor to the growth of the Malaysian economy. For example, in 1998, tourism contributed RM 8.5 billion and the total contribution increased to RM 49.5 billion in the year 2008 1. Many campaigns and development projects have been implemented to upgrade places and buildings for the purpose of promoting Malaysia. In addition, the government has allocated a total of RM 448,032,300 million in 2005 and RM 461,032,300 million in 2006 to fund various promotional and administrative programmes to stimulate the national tourism sector in promoting Visit Malaysia Year [1].

Small and medium-size enterprises (SMEs) need to play a very crucial role in achieving Malaysia's aspiration to become a fully-developed nation by year 2020 [2]. Based on the census conducted by the National Small Development Council [3], there are 519,000 SMEs business establishment in Malaysia. SMEs in services sector, which includes information and communication technology (ICT), restaurants and hotels form the largest category with 86.5 % of the total SMEs followed by manufacturing sector (7.3 %) and agriculture sector (6.2 %).

In the Malaysian tourism industry, SMBH can be defined as small hotels with three-star rating and below, which include motels, back packers and home stay businesses. In Malaysia, SMEs are measured by the amount of turnover and number of employees. In tourism sectors worldwide, the size of a hotel is defined by number of rooms and number of employees. According to Saaid [4], Executive Director of Malaysian Association of Hotel Owners (MAHO), the industry is expecting better business for one-star, two-star and budget hotels as tourists are expected to downgrade themselves to lower-star and cheaper hotels. He also said that budget hotels have big potentials for growth in this segment.

In 2009, the total number of hotels in the East Coast of Peninsular Malaysia is 523. These include the big hotels and small budget hotels. In the state of Kelantan, the total number of hotels is 81, the state of Terengganu has 157 hotels and in the state of Pahang there are 285 hotels. Most of the hotels are concentrated in the urban
areas because many interesting places and attractions are located near the city areas. Among the main tourist attractions in Kota Bharu are “Siti Khadijah” Market, the Culture Centre, the Handicraft Village and the Royal Museum; in Kuala Terengganu are the Pasar Payang Central Market, the various handicraft centres, the state museum, Crystal Mosque and Islamic Civilisation Park; while in Kuantan are Teluk Chempedak beach with an interesting mix of modern buildings and charming cottage industries. The attractiveness contributes to the significant of tourism and hospitality industry. In 2007 these states fetch 9,389,640 of hotel guest and show an increment of 35% in 2008 amounting to 12,665,926 guests [1]. The proven increasing number of tourist arrival yearly to these states, have provides new opportunities for the investors to explore a business in this sector.

From the experiences of many countries’, SMEs normally face numerous challenges. For example, Wang [5] highlighted the challenges faced by SMEs in a globalised environment that include lack of financing, low productivity, lack of managerial capabilities and access to management and technology and a heavy regulatory burden. A study by Reynolds et al. [6] found that among the problems faced by the small business in tourism sector were financial management and liquidity, management inexperience and incompetence, sales and marketing, poor or non-existent of books and records and failure to seek and use expert advice.

In the Malaysian context, SMEs are also facing many similar challenges, which have been highlighted by the SMI Development Plan 2001-2005 [7]. Among the major challenges include lack of access to loans, limited adoption of technology and lack of human resources. The main objective of this research is to explore the problems facing by SMBH in East Coast of Peninsular Malaysia.

Governance and Tourism Sector: The tourism industry was a late entrant to the mainstream of the Malaysian economy, where in the early 1960s it was almost non-existent. However, when the Ministry of Tourism Malaysia (previously known as Ministry of Culture, Arts and Tourism) was set up in 1987, the tourism industry was given a boost in terms of budget allocations for infrastructural development of product and promotional activities. In 1994, the tourism industry recorded RM 9 billion tourism receipts which surpassed the National Tourism Policy’s target of RM 8.3 billion tourism receipts set for the year 2000 [8].

The establishment of the Ministry of Culture, Arts and Tourism in 1987 helped to implement the strategies at national level. Every state has its own tourism council. These two bodies cooperate in promoting Malaysia as a whole. For example, the national level campaign “Cuti-cuti Malaysia” promotes each destination in the whole Malaysia while at the same time; each state has its own campaigns. For example, Kelantan launched “Visit Kelantan 2008” with a slogan called “Cradle of the Malay Culture” while Terengganu had its “Visit Terengganu 2008” with the slogan “Where Nature Embraces Heritage” and Pahang had its own slogan called “A Gift of Nature”.

The government started to promote Malaysia with the first Visit Malaysia Year in 1990 and the second Visit Malaysia Year in 1994. These two campaigns successfully drew 7.4 million and 7.2 million tourists, respectively. With a contribution of RM 5 billion receipts drawn for these two campaigns, tourism became an important foreign exchange earner for Malaysia. In 1994 the tourism sector became the second income earner after the manufacturing industry. In order to promote Visit Malaysia Year aggressively, the government allocated a total of RM 448,032,300 million in 2005 and RM 461,032,300 million in 2006, to fund various promotional and administrative programmes to stimulate the national tourism sector [1].

There have been many campaigns to boost the tourism industry since 1987 such as the “Malaysia Fest”. This festival was to encourage cultural activities, sports and recreation events and exhibition of handicrafts and works of art.

Year 2007 marked a significant milestone for Malaysia, celebrating her golden anniversary of the nation’s independence. It was a time for the Malaysian people to welcome visitors to share their warm hospitality, the beautiful country of abundant natural resources and cultural traditions and the peaceful tolerance for each other. The Visit Malaysia Year 2007 campaign launched in conjunction with Malaysia’s golden anniversary to take pride in being Malaysian and celebrated our achievement as we received our guests with open arms [9].

Problems of Hotel Operators: There are several studies done have highlighted the high number of business failure in tourism and hospitality industry [6,10]. According to Reynolds et al. [6], 73% of small businesses in the tourism industry in Australia close within the first five years of operations. Besides the external factors such as business cycle and changes in the market, owners/managers also face difficulties in relation to their weaknesses such as limited capital, weak management and resistance to change and refusal to accept external advice [11]. Moreover, Reynolds et al. [6] quoted poor management is the major factors of small business failure in Australia.
The low entry barriers to the tourism and hospitality business have placed constraints on the finance and knowledge of the small firms’ owners [12,13]. Saayman and Slabbert [14] have stated that small businesses in this sector face financial problems such as a shortage of funds and lack of knowledge on how to approach financing institutions. Lack of capital is one of the factors that have contributed to bankruptcy besides excessive interest rates and inability to collect debts [15]. According to Lu and Chiang [16], funding for tourism Small, Medium and Micro Enterprises (SMMEs) is insufficient and the funding mechanisms are not coordinated. Funding institutions see tourism as a risky business due to several reasons such as lack of the government’s commitment to tourism, safety and security and the fact that it is a relatively new industry.

Fleisher and Engel [17] find that operators in the bed and breakfast sectors in Israel have little background or business knowledge. Similarly, McKercher and Robbins [18] and Kock and Saayman [19] have identified many potential related reasons for business failures such as lack of experience and inadequate business skills and insufficient resources to survive. Saayman and Slabbert [15] agree that many small and medium tourism entrepreneurs lack of management skills and do not have sufficient managerial knowledge which prevents them from marketing their product successfully. VTOA [20] and Cotterill [21] agrees that nature-based tourism businesses are run by owners/operators who have no formal business or marketing background and no prior experience in the tourism industry.

William and Sims [10] argue that small business operators have failed to adequately establish or clarify their business objectives before starting up a business. They mention a variety of basic reasons as to why small businesses fail in Australia and the UK. These small business operators are too often over-estimate their sales potential and misjudge the time to make sales, underestimate operating costs and have inadequate cost control systems, conduct poor market research, fail to respond to customer’s needs and demands, lack a broad range of management skills, are high-risk takers and generally under-price their products and services.

According to Page et al. [22], people in the tourism industry face government-related problems. For example many managers in Canada complained that Ontario government is not promoting tourism aggressive and has not allocated sufficient funds for tourism in that state Lu and Chiang, [16].

Research Method: The research investigations used mixed methods approach i.e. a combination of Quantitative and Qualitative research. This study adopted multimethods in data collection. Researchers use this method because some have biases associated with collecting data. The questionnaire and interviews were strongly correlated with one another, so researchers will have more confidence about the quality of data collected. For example, a study by Reijonen [23] used the multimethods to collect data in craft and rural tourism industry in North Karelia, Eastern Finland.

The study covered the population of SMBH operators in urban cities in Kota Bharu, Kuala Terengganu and Kuantan. For this research, the sample selection criteria was based on independently owned hotels and not part of a corporate group, the hotel was categorised as small and medium enterprises and it constituted under the three star categories (including Orchid categories). The list of the respondents were gathered from various source such as internet search, Travel Guide Book 2007 published by Tourism Ministry, pamphlet and researcher’s observation during the field survey. The survey was conducted from May to July 2008. Out of 64 budget hotel operators, 50 respondents agreed to co-operate and only 48 questionnaires were usable. Respondents who answered the questionnaire were required to attach their business card if they were willing to be interviewed later on. Questions set for the interview were based on the questionnaire design and results obtained from the survey. This interview covered six owners operating as SMBH at three states. The questionnaire used to measure challenges and problems were adapted from McKercher and Robbins [18], Kock and Saayman [19], Saayman and Slabbert [145] and Lu and Chiang [16].

RESULTS

Table 1 shows the problems faced by the SMBH operators in urban areas. When they were asked about the difficulties that they faced, the majority of the entrepreneurs either agreed or disagreed that they had lack of knowledge on tourism marketing skills (mean = 3.17) and lack of knowledge regarding tourism trends and opportunities (mean = 3.13). They also either agreed or disagreed on the statement that their management skills and knowledge in tourism (mean = 3.06) and lack of knowledge on how to apply funding from financial institutions (mean = 2.94) were lacking.
Table 1: Summary of Ranking of Entrepreneur Problems

<table>
<thead>
<tr>
<th>Entrepreneur Problems</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Lack of management skill and knowledge in tourism.</td>
<td>3.06</td>
<td>1.24</td>
</tr>
<tr>
<td>- Lack of knowledge regarding tourism trend and opportunities.</td>
<td>3.13</td>
<td>1.20</td>
</tr>
<tr>
<td>- Lack of knowledge on tourism marketing skill.</td>
<td>3.17</td>
<td>1.14</td>
</tr>
<tr>
<td>- Lack of knowledge on how to apply funding from financing institution.</td>
<td>2.94</td>
<td>1.19</td>
</tr>
</tbody>
</table>

Scale: Less than 1.49 = Strongly disagree; 1.5-2.49 = Disagree; 2.5-3.49 = Neither agree nor disagree; 3.5-4.49 = Agree; 4.5-5.0 = Strongly agree

Table 2: Summary of Ranking Problem That Premises Face from the federal government

<table>
<thead>
<tr>
<th>Problem From Federal Government</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
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<tbody>
<tr>
<td>- Lack of financial support by the government to the small premise.</td>
<td>3.60</td>
<td>1.11</td>
</tr>
<tr>
<td>- Lack of scheme training to small hotel entrepreneur by government.</td>
<td>3.63</td>
<td>1.21</td>
</tr>
<tr>
<td>- Less tourism activity by the government.</td>
<td>3.38</td>
<td>1.27</td>
</tr>
<tr>
<td>- Lack of marketing from government.</td>
<td>3.56</td>
<td>1.18</td>
</tr>
</tbody>
</table>

Scale: Less than 1.49 = Strongly disagree; 1.5-2.49 = Disagree; 2.5-3.49 = Neither agree or disagree; 3.5-4.49 = Agree; 4.5-5.0 = Strongly agree

Table 3: Summary of Ranking Problem That Premises Face from the state government

<table>
<thead>
<tr>
<th>Problem From State Government</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
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<tbody>
<tr>
<td>- Lack of financial support by the government to the small premise.</td>
<td>3.75</td>
<td>1.12</td>
</tr>
<tr>
<td>- Lack of scheme training to small hotel entrepreneur by government.</td>
<td>3.63</td>
<td>1.25</td>
</tr>
<tr>
<td>- Lack of marketing from government.</td>
<td>3.67</td>
<td>1.17</td>
</tr>
<tr>
<td>- Less tourism activity by the government.</td>
<td>3.46</td>
<td>1.25</td>
</tr>
</tbody>
</table>

Scale: Less than 1.49 = Strongly disagree; 1.5-2.49 = Disagree; 2.5-3.49 = Neither agree or disagree; 3.5-4.49 = Agree; 4.5-5.0 = Strongly agree

These situations happen because majority of the owner/manager especially in Kelantan had relatives involve in business, said respondent from Kelantan. They can learn the basics of running the business from their relatives. Strong business foundation together with cooperation and advice from relatives provide a support for them to survive in the industry. Therefore, a majority of them either agrees or disagreed on the question whether they had faced problem or not when their running the business although they lacked information about the hotel industry.

Table 2 presents the ranking of problems that entrepreneurs might face with federal and state governments. For federal government, the respondents agreed with the statement that there were lack of training scheme (mean = 3.63), lack of financial support (mean = 3.60) and lack of marketing promotions (mean = 3.56) from the government but they either agreed or disagreed on the question whether they had faced problem or not when their running the business although they lacked information about the hotel industry.

For the state government, they felt that the state government gave little financial support to the small premises (mean = 3.75), less promotion on marketing (mean = 3.67) and lack of training scheme to small hotel entrepreneurs (mean = 3.63). They either agreed or disagreed with the statement that less activities had been conducted by the government (mean = 3.46).

In terms of government problem, some of the respondents agreed that the federal and state governments were not helpful enough to help SMEs either in financial or promotional aspects. The respondents stated that governments were not giving enough attention to new and small businesses in the tourism sector. Apart from that, they agreed on the difficulties to get any tourism related information from the state governments and it was very difficult to assess to any commercial bank loans because banks require collateral.

**DISCUSSION**

There are many probable reasons for business collapse. The possible reason is that the majority entrepreneurs venture in this field had no experience and lack of adequate business skills and or sufficient resources to survive [18]. However, result from respondents respond showed that they had disagreement regarding the weaknesses in lack of Management skills and knowledge in tourism; lack of knowledge regarding tourism trends and opportunities; lack of knowledge on how to apply funding from financing institutions and lack of expertise regarding tourism marketing skills.
Based on the mean and standard deviation tabulated in Table 1, these entrepreneurs were unsure that they had insufficient knowledge and management skills to operate SMBH and tourism businesses. In fact one of the SMBH argued that the problem that he faces is not to be found in the outline mentioned above, the basic problem that affects a premises operation negatively is the loss in profit instead of lack of management and knowledge. This statement might support what Shaw and William [11] mentioned - that a lot of tourism businesses operate with minimum capital and weak management but they were reluctant to change or take advice. On the other hand, many studies mentioned the same point - that the obstacles were due to insufficient time and cost, staff constraint difficulty in providing cover, staff not staying long enough to be trained and perceived unsuitability of training courses [24-30].

Even some of the respondents from the interview agreed on the problems that they faced in relation to financial, industry knowledge, opportunities and marketing skills; however according to them, with motivation and interest, they still can survive in the industry. This is in contrast to Saayman and Slabbert [14], where they found that limited knowledge can cause enterprises to fail. They argued that although they have good products to offer, without proper knowledge and skills in marketing the products cannot be sold. SMBH operators acknowledged their previous working experience in helping them to overcome the problems.

In terms of government problem, the majority of the respondents agreed that the governments (either federal or state) were not helpful enough to help small business owners/managers either in financing or promotions. Besides financial and promotion, they also agreed about the difficulties in getting any information related to tourism. Apart from that, the respondents also found it hard to access any commercial funding institutions to obtain loans because they need collaterals. During one interview, the SMHB were questioned as to whether they had heard about Tourism Infrastructure Funds provided by Tourism Ministry. Although the governments had the funds to support the small businesses, it was difficult for the entrepreneurs to apply for these funds. According to the respondents, they have to fulfil many requirements to apply for the funds and they thought that it was possible for them to complete the application forms and get the loan. All the respondents answered that they know about the funds provided by Tourism Ministry. However one of the SMHB said that he does not want to seek financial aid from government due to bureaucratic red tapes and unhelpful officers. A similar scenario has been reported in a study conducted in South Asian by Rasul and Manandhar [31]. Frequent amendment in policies, government interference, multifarious rigid provisions and licensing procedures, corruption, security concerns and other obstructions weigh most heavily on SME business, which are the backbone of the tourism sector. However, Ahmad [32] has that there was evidence show to that MARA (a government agency) and banks have provided financial assistance to tourism entrepreneurs. This study is in agreement of Saayman and Slabbert [14], where they found funding institutions regarded the tourism industry as a high-risk industry where governments have a lack of commitment to tourism and lack of safety and security because it is a relatively new industry.

Based on the survey, the governments have not done much to train small hotels, giving financial support and helping them in promotion and marketing. The federal government gave very little attention to training of small hotel entrepreneurs as compared to the big hotels. In comparing with the big hotels, small hotels cannot contribute much profit and most of the guests only stay for a short period. In terms of training, the respondents mentioned that they have been invited to attend the courses. The government has been running the same course each year which does not help much. In Glasgow UK, hotel operators are being encouraged to increase the training provisions for their employees through a basic level of training on customer services skills known as Welcome Host Training which receives grants from government allocation [33]. In Malaysia, the Malaysian Association of Hotels Training and Education Center (MAHTEC) which were owned and managed by the Malaysian Association of Hotels. MAHTEC has embarked on offering a range of training programmes and workshops designed exclusively for the industry.

In terms of marketing and tourism products, the federal government focused less on the states in the East Coast of Peninsular Malaysia. Lee-Ross [34] suggested that government authorities and local hotel owner associations can help small organization in terms of giving direct grants, subsidized loans and “partnership” between public and private sector for regional promotions, advertising and purchasing. In recent years the Federal and State Governments–had launched few events and festivals few events such as Colours of Malaysia, World
Amateur Inter-Team Golf Championship (WAITGC), Malaysia Mega Sales and etc to boost the tourist arrival. However, the SMHB were of the opinion that the activities that the government launched were not really beneficial to SMHB. For example, Monsoon Cup’s Yacht Racing and Championship Horse Riding which are annual events in Terengganu only increased the occupancy rates in four or five stars hotel but not SMHB.

**Recommendations and Suggestion:** The researcher discovered that most SMBH have problems applying for commercial loans and that they need certain connection/network to apply these loans. The researcher presumed that most of the SMBH were ignorant of the fact that they can use their business assets such as land, equipment, building, personal assets and stocks as collateral or convert consigner loans into commercial funds. Thus, it is hoped that commercial banks may introduce loans to the SMCOs entrepreneurs and educate them such loans through seminars or workshops in collaboration with the Tourism Ministry to enable SMBH to understand the process to get bank loan. On the other hand, SMBH may raise funds their through partnerships with individuals. Another alternative for SMBH is that they may sell of their capital stock by raising equity on the stock exchange and co-operatives to access funds outside traditional funders such as banks.

Most of the SMBH entrepreneur lack of management skills and tourism knowledge. By overcoming these shortfalls, SMBH may allocate provisional funds for training purposes to enhance their knowledge. Another solution is that SMBH could employ an experienced managerial staff to manage the business and conduct in-house training for employees so are new to the hospitality industry. In addition, SMBH may join associations like Malaysia Association of Hoteliers (MAH) that represents the industry, to protect the interests of its members. This association is owned and managed by The Malaysian Association of Hotels Training and Education Centre (MAHTEC) which is committed towards human resources development in the Malaysian hospitality industry. Since the SMBH is lack knowledge regarding tourism trend and opportunities, they should join MAHTEC for training programmes and workshops designed exclusively for the industry in striving towards service excellence. In relation to that, SMBH also may subscribe to Tourism Trade Circulation published by Tourism Ministry to enlighten operator’s knowledge about tourism trend in Malaysia.

**CONCLUSION**

This study has examined constraints and problems while dealing with Federal and state governments. Findings indicated that SMBH strongly disagree that they lack of knowledge and management skills to operate the premises. From observations made by researcher during quantitative session, it can be concluded that most SMCOs did not agree with statements about their weaknesses as they tended to be biased toward themselves when filling in the questionnaire. Most SMBH stated that they use internal funds like own savings or profit gained from the business instead of depending on government loans.

This research provides an insight on the sustainability of SMBH that can be valuable to SMBH, policymakers, researchers, public institutions, supporting organizations of small firms and business linkages to the tourism industry. The research findings offer some implications for government and chalets operators for the purpose of improvement.

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**REFERENCES**


