

**AN ANALYSIS ON CHARACTERISTICS AND
PERFORMANCE OF TOURISM RELATED SMES
IN LENGGONG VALLEY, PERAK**

MUNIRA BINTI MHD RASHID

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**AN ANALYSIS ON CHARACTERISTICS AND
PERFORMANCE OF TOURISM RELATED SMES
IN LENGGONG VALLEY, PERAK**

by

MUNIRA BINTI MHD RASHID

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ANALISIS CIRI-CIRI DAN PRESTASI PKS BERKAITAN PELANCONGAN DI LEMBAH LENGGONG, PERAK

ABSTRAK

Kewujudan perniagaan mewujudkan satu ciri yang berpotensi untuk meningkatkan daya saing Lembah Lenggong Tapak Warisan Dunia UNESCO sebagai sebuah destinasi pelancongan dunia. Oleh itu, kajian ini bertujuan untuk menganalisis ciri-ciri dan mengukur prestasi PKS berkaitan pelancongan di Lembah Lenggong, Perak. Kaedah kuantitatif dalam bentuk tinjauan secara individu dilakukan terhadap 106 pemilik-pengurus PKS berkaitan pelancongan di Lembah Lenggong. Ciri-ciri PKS berkaitan pelancongan diukur berdasarkan ciri-ciri pemilik-pengurus, ciri-ciri perniagaan dan rangkaian, manakala prestasi diukur melalui kepuasan pemilik-pengurus terhadap prestasi perniagaan, pertumbuhan keuntungan dan jualan. Hasil kajian menunjukkan majoriti perniagaan diuruskan oleh pemilik berusia pertengahan, berbangsa Melayu, mendapat pendidikan sederhana tahap sekolah menengah dan memulakan perniagaan bertujuan untuk menjana pendapatan. Perniagaan kebanyakannya berpemilikan tunggal, berskala mikro, perniagaan sektor makanan dan telah beroperasi selama kurang daripada 10 tahun. Pemilik-pengurus perniagaan menggunakan simpanan sendiri untuk memulakan perniagaan dengan modal kurang daripada RM3,500, menggunakan cara pemasaran konvensional mulut-ke-mulut, tidak menggunakan teknologi dan mempunyai tahap inovasi produk yang rendah. Lebih separuh daripada perniagaan telah menerima bantuan kerajaan. Prestasi PKS pelancongan di Lembah Lenggong telah meningkat dalam lingkungan

41% hingga 60% dalam tempoh tiga tahun ini. Berdasarkan hasil kajian, penyelidik membuat kesimpulan bahawa Lembah Lenggong adalah kawasan yang masih baru namun membangun dalam sektor pelancongan dan kesedaran keusahawanan di kalangan masyarakat tempatan masih perlu dipertingkatkan.

AN ANALYSIS ON CHARACTERISTICS AND PERFORMANCE OF TOURISM RELATED SMES IN THE LENGGONG VALLEY, PERAK

ABSTRACT

The existence of businesses create a potential feature to improve the competitiveness of UNESCO World Heritage Site of Lenggong Valley as a world tourism destination. Hence, this study intends to analyse the characteristics and measure performance of tourism related SMEs in Lenggong Valley, Perak. Quantitative method of self-administrated questionnaire was done on 106 owner-manager of tourism related SMEs. Characteristics of tourism related SMEs were measured through owner- manager characteristics, business characteristics and networking, while performance were measured through owner- manager satisfaction with the general performance, growth of profit and sales. The results show majority of the tourism related SMEs in Lenggong Valley were managed by the owners in the middle ages, Malays, had moderate standard education of secondary school and started the businesses to generate income. The businesses were mostly sole proprietorship, micro-scale, food businesses and had been operated for less than 10 years. The owner-managers used their own saving to start their businesses with the capital less than RM3,500, used conventional marketing of word-of-mouth for marketing, did not adopt technology, and had low level of product innovation. Over half of the businesses had received government's support. The performance of tourism SMEs in Lenggong Valley had increased in the range of 41% to 60% within these three years. Based on the findings, researcher concludes that Lenggong Valley

is still a new yet developing area in the tourism sector and entrepreneurial awareness among the local community still need to be improved.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This research focuses on tourism related small and medium enterprises (SMEs) in Lenggong Valley, Perak, the Archaeological Heritage of the Lenggong Valley, a UNESCO World Heritage Site. This chapter explains the background study, research statement, research contribution, research objectives, research questions, and the organisation of the research.

1.2 Background Study

SMEs are important in Malaysian economy and they are believed to be the backbone of industrial development (Saleh & Ndubisi, 2006). The Malaysia Economic Census 2011 indicates that SMEs in Malaysia accounts for 645,136 or 97.3% of total business establishments in the five economic sectors, namely agriculture, mining and quarrying, manufacturing, construction and services, as contrast to only three sectors that were covered in the Economic Census 2005, namely agriculture, manufacturing and services. The Economic Census 2011 results also show that SMEs are the fundamental source of employment that provide occupations for over 3.7 million workers and account for 52.7% of total employment, compared to large enterprise (Department of Statistics Malaysia, 2011). Undeniably, business activities are vital for national growth and development. Malaysia's New Economic Model launched in 2010, highlighted SMEs growth as a way to increase the turnover of domestic sector. Creating an ecosystem for entrepreneurship is

among the initiative that carried out to create competitive domestic economy (National Economic Advisory Council, 2010).

Tourism industry continues to expand and promulgate over the past six decades, becoming one of the largest and fastest-growing economic sectors in the world (World Tourism Organization UNWTO, 2014). The development of tourism industry is very much depending on micro, small and medium enterprises exist in various related sector. For the tourism industry to excellently develop, various supporting sectors need to simultaneously build up. In the near future, tourism industry will give a huge impact in Malaysia economic development. For example, Malaysia ranks at the third place in the list of international tourist arrivals for Asia and the Pacific, with 25.7 million visitors (World Tourism Organization UNWTO, 2014). The number of visitors to Malaysia keeps growing since 2010 with the percentage of 0.6% increases from 2010 to 2011, 1.3% increases from 2011 to 2012 and 2.7% increases from 2012 to 2013. UNWTO forecast the number of visitors would raise through the years. World Travel & Tourism Council (WTTC) in their Travel and Tourism: Economic Impact 2014 Malaysia Report confirmed that the total contribution of travel and tourism to Malaysia GDP in 2013 was MYR158.2 billion, by which signifies 16.1% of GDP. Meanwhile the total contribution of travel and tourism to Malaysia's employment in 2013 includes occupations indirectly supported by the industry, were 1,857,500 occupations. The contribution represented 14.1% of total employment in Malaysia (World Travel & Tourism Council, 2014).

In order for tourism to be beneficial in terms of economic development, income earning, poverty diminution and rural livelihoods improvement, it should be linked with the local economy activities for example the agriculture and micro and small scale enterprises (Mshenga & Owuor, 2009). In consonance with Avcikurt (2003), tourism is conservatively a small and medium- sized enterprises industry as in the fact that most of the tourist facilities are run by small and medium- sized businesses.

1.2.1 Background of Study Area

The study was conducted in the Lenggong Valley area which is located in the Perak district of North Peninsular Malaysia. This area is ~ 40 km long and ~ 2–4 km wide, constrained between the deeply dissected slopes in the Main Range Granite, a post-Triassic acid pluton (Gatti e al, 2012). The tourists attraction areas of this Valley are situated in geographical position is (North 5° 7' 42.52" N and East 100° 59' 34.35" E) see Figure 1.1.

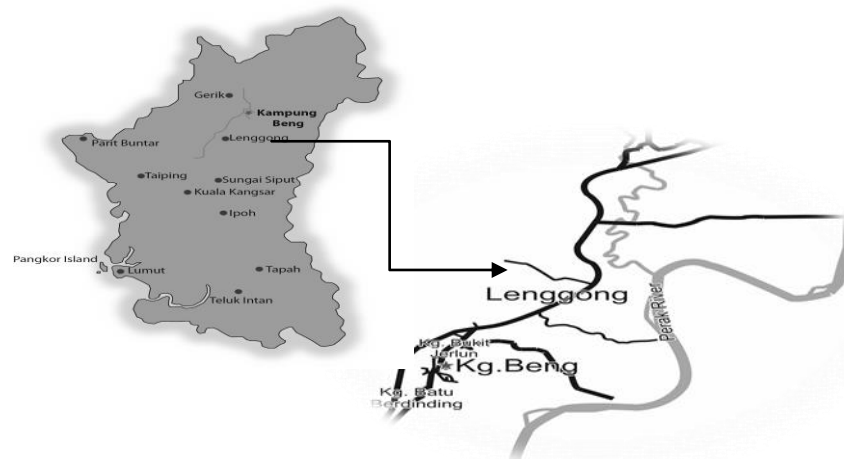


Figure 1.1 Map of the study area and its location in Malaysia

On 30 June 2012, the United Nations Educational, Scientific, and Cultural Organization (UNESCO) has declared Lenggong Valley, Perak as a world heritage site for its archaeological discovery. The declaration is based on the criterion set by UNESCO, which are “to bear unique or at least exceptional testimony to a cultural tradition or to a civilisation which is living or which has disappeared” and “to be an outstanding example of a type of building, architecture or technological ensemble or landscape which illustrates significant stages in human history” (Department of National Heritage, 2011). Lenggong Valley embraces both open-air and cave sites, provides a series of chronologically-ordered and spatially-associated culture sequences from the Palaeolithic through the Neolithic to the Metal period. The astonishing survival of early Palaeolithic evidence at Bukit Bunuh in Lenggong Valley is because of the meteorite hit 1.83 million years ago persevered many Palaeolithic stone tools in the melted suevite formed by meteorite impact, thus indirectly proving hominid presence as early as 1.83 million year ago (Department of National Heritage, 2011).

Proof of survival hominid in Lenggong Valley is discovered in a long chronological series of *in-situ* open-air stone tool workshop sites extending from Bukit Jawa (200, 000- 100, 000 years), to Kota Tampan (70, 000 years), and to a later Bukit Bunuh (40, 000 years). Another excavation finding in a cave called Gua Gunung Runtuh in year 1991 discovered the “Perak Man” the oldest human skeleton dates to about 10,000 years before present. Perak Man is exceptional as the only prehistoric skeleton in the world born with a congenital deformity or known as

Brachymesophalangia type A2. Lenggong has been awarded the “Pre-historic Heritage Town,” signifying its significance as a rich source of natural success, heritage, and culture that has attracted different segments of travellers (PSDSP, 2011).

In addition, Chia (2010) lists Lenggong Valley as one of the most important and best known archaeological sites and areas in the country, besides Niah Caves in Sarawak, Bujang Valley in Kedah, Bukit Tengkorak, Agop Batu Tulug and Munsuli in the east coast of Sabah. The recognition as an archaeological site had attracted many tourists to visit Lenggong Valley. The Archaeological Gallery of the Lenggong Valley recorded 31,928 tourists arrival within the first six month in 2014 (Archaeological Gallery of the Lenggong Valley, 2014).

Apart from the human civilization findings, Lenggong also offers picturesque scenery to be enjoyed by nature lovers. The valley is surrounded by the greenery of Titiwangsa Ranges and Bintang Ranges which made it as a habitat for many species of flora and fauna. Lenggong is also rich with nature attractions such as waterfalls cascade and caves. It has several beautiful waterfalls cascade such as Lata Randu and Lata Kekabu. Moreover, it is a place for almost 20 caves to be explored including the popular caves such as Gua Harimau, Gua Puteri, Gua Kajang, Gua Kelawar, Gua Teluk, Gua Asar. Other than that, Lenggong is also quite a well-known for its economic activities. The local community produces agro products such as “serunding”, “dodol”, preserved fishes, black paper spices, and run activities of farming cattle and goats in a small scale which. It is also a home for the largest deer’s farm in Malaysia under the supervision of the federal government. Lenggong

Valley is also recognized for its freshwater fish and fish preserved according to local tradition. These economic activities are supported by the local government through Hulu Perak District Local Plan 2002-2015 with the effort to develop a concept of 'one product, one village'.

Research and site observation shown that Lenggong Valley is a unique tourism place. It offers both heritage and non-heritage tourism attractions. The heritage attractions in Lenggong Valley offer visitors an experience of on-site visit of archaeological treasures and also include the natural attraction such as the caves, the waterfall cascade, the rainforest along with diverse flora and fauna. The beautiful scenery of Lenggong Valley which is surrounded by the rainforest of Titiwangsa Ranges and Bintang Ranges also are among the heritage attraction for visitors. While non-heritage tourism attraction in Lenggong involves the local community's activities such as business activities. Lenggong Valley is popular among Malaysian for its local product of preserved fish. Table 1.1 summarises the heritage and non-heritage attractions in Lenggong Valley and other potential tourism activities.

Table 1.1: Heritage and non-Heritage Attraction in Lenggong Valley

| Place Attributes | Potential Activities |
|--|---|
| Heritage Attraction | |
| <p>Archaeological treasure</p> <ul style="list-style-type: none"> • Human skeletons (Perak Man) • Artefacts | <p>Archaeological tourism Rural tourism On-site visit Gallery archaeological tour</p> |
| <p>Historical attraction</p> <ul style="list-style-type: none"> • Cemeteries of popular people in ancient year such as, Makam Tok Lalang, Makam Tok Sendalu, Makam Tok Tan Lela Setia, Makam Tok Busu Sega • Rumah Limas, an ancient house with the design of Johor's style • Kubu Melayu, fortress was made during the war in the past years. • Masjid Jamek Lenggong, an ancient mosque with the design of English style and resemble the castle in Kuala Kangsar. • Masjid Abudiyah an ancient mosque with the design of Aceh's style | <p>Heritage tourism Rural tourism On-site visit</p> |
| <p>Animal Farming</p> <ul style="list-style-type: none"> • Malaysia's largest deer's farm • Cattle and goat farm | <p>Food Product Culinary tourism</p> |
| <p>Natural Attraction</p> <ul style="list-style-type: none"> • Rainforest of Titiwangsa Ranges and Bintang Ranges • Cascade waterfalls such as Lata Randu and Lata Kekabu and more. • Caves such as Gua Harimau, Gua Puteri, Gua Kajang, Gua Kelawar, Gua Teluk, Gua Asar, and many more nearly 20 caves to be explored | <p>Rural tourism Animal festivals Animal and Bird watching activities</p> |

Table 1.1: Continued

| Place Attributes | Potential Activities |
|--|--|
| Non-heritage attraction | |
| <p>Activities of local community</p> <ul style="list-style-type: none"> • local product such as fresh-water fish and fish preserved • dodol • serunding • black pepper spices • keropok lekor processing | <p>Culinary tourism Food Product Agro festival</p> |

Based on the richness of heritage and non-heritage attractions, Lenggong Valley has a potential to be a competitive tourism destination. The Deputy Minister of Tourism Malaysia, Dato’ Dr. James Dawos Mamit had officially launched Lenggong’s Tourist Information Centre on December 12, 2010 in the endeavour to promote Lenggong as a tourism place. In fact, the Ministry of Tourism Malaysia also had launched the website of “www.pelanconganlenggong.my” to assist the public to acquire information about interesting places to be visited in Lenggong Valley. Consequently, the number of tourist arrivals had increased from 2,000 to 5,000 monthly due to the positive impact from the recognition (“Hulu Perak tourism industry set for tremendous growth”, 2013).

The data given by Lenggong District Council reported that the main business activities registered are wholesale and retail, repair of motor vehicles and motorcycles, based on the premises that established in small town of Lenggong Valley. Based on the information report of 374 business premises registered to Lenggong District Council, 70% of business activities are wholesale and retail trade, repair of motor vehicles and motorcycles, 16% are food and beverage service, 11%

are personal services and other activities, 2% are storage of tobacco and latex (rubber-based) and 0.5% are the accommodation service (see table 1.2) Apparently, this data could not explain the SMEs in Lenggong Valley in details because it only reports the business premises that run in in the small town of Lenggong Valley whereby it excludes the micro and small businesses that operate outside the town.

Table 1.2: SME Premises established in the small town of Lenggong Valley

| SME Premises | Percentage (%) |
|--|-----------------------|
| Wholesale and retail trade, repair of motor vehicles and motorcycles | 70.05 |
| Food and beverage service | 16.31 |
| Personal services and other activities | 10.96 |
| Storage of tobacco and latex (rubber-based) | 2.14 |
| Accommodation | 0.53 |

Notes. Adapted from List of Business Licensing Code for January- February 2012, (2012). Lenggong District Councils Perak, Malaysia.

1.3 Research Statement

Research issues discuss concerning on tourism related SMEs in Lenggong Valley based on the theoretical gap and practical gap.

1.3.1 Theoretical Gaps

A fairly large body of literature on tourism related SMEs has been carried out in the developed countries (Hanes, 2012; Seppälä-Esser, Airey & Szivas, 2009; Morrison & Teixeira, 2004; Andersson, Carlsen, & Getz, 2002, Wanhill, 2000) and developing countries (Mshenga & Owuor, 2009; Avcikurt, 2003; Clover & Darroch, 2005; Kirsten & Rogerson, 2002). However, most of the studies on tourism related

SMEs seem to focus more on hospitality or accommodation service sector compared to other sectors (Mshenga & Owuor, 2009; Avcikurt, 2003; Ahmad, 2005; Morrison & Teixeira, 2004; Andersson, Carlsen & Getz, 2002; Main, 2002; Morrison, 2002; Glancey & Pettigrew, 1997). Some previous studies on tourism related SMEs include all business sectors in tourism (Othman & Rosli, 2011; Mansor, Ahmad & Mat, 2011; Seppälä-Esser, Airey, and Szivas, 2009; Mbaiwa, 2003; Kirsten and Rogerson, 2002; Getz & Carlson, 2000).

Based on the researcher's review, studies on tourism related SMEs performance is limited. Studies on SMEs performance are typically studied in general without specific industry (Rody & Stearns, 2013, Kreiser, Marino, Kuratko & Weaver, 2013; Asikhia, 2010; Alasadi & Abdelrahim, 2007; Hankinson, Bartlett & Ducheneaut, 1997; Cooper, Gimeno-Gascon, & Woo, 1994; Storey, 1994). Nonetheless, there are some previous studies on SMEs performance that have been focusing on tourism industry are by Othman and Rosli (2011), Haber and Reichel (2005), Sharma and Upneja (2005), Morrison and Teixeira (2004).

SMEs performance is usually measured in two ways, through the financial and non-financial measurement. In financial measurement, past researchers used turnover and profit to gauge the performance (Alasadi & Abdelrahim, 2007; Morrison & Teixeira, 2004; Lerner & Haber, 2000; Lussier & Pfeifer, 2001). In the attempt to overcome barriers of data availability and accurateness of financial measures especially for micro and small-scale enterprise in a rural area, prior researchers (e.g., Alasadi & Abdelrahim, 2007; Haber & Riechel, 2005) had used the non-financial measurement of the overall business performance through determining

the degree of owner-manager satisfaction with the business performance. This measurement is the appropriate to small business because the owner-manager plays the dominant role in determining the business's performance.

On a separate note, previous studies had explored on the SMEs characteristics of owner-manager characteristics, firm characteristics and business characteristics (Papadaki & Chami, 2002; Barkham, Gudgin, Hart & Hanvey, 1996; Storey, 1994). Some previous studies described SMEs characteristics as the management and know-how, products and services, the way of doing business and cooperation, resources and finance, and external environment to the business success (Chittithaworn, Islam, Keawchana and Yusuf, 2011; Philip, 2010).

Prior studies on archaeological heritage sites had focused on planning and management (Castillo & Menéndez, 2014; O'Halloran, 2014; Johnston, 2014; Veldpaus, 2014; Bicket, Firth, Tizzard & Benjamin, 2014; Aas, Ladkin & Fletcher, 2005; Smith, 1993; Byrne, 1991), preservation (Di Salvo, 2014; Kankpeyeng, Insoll & MacLean, 2009; Karlström, 2005; Jans et al., 2002) and community development (Kankpeyeng, Insoll & MacLean, 2009; Chirikure & Pwiti, 2008; Waterton, 2005; Grimwade & Carter, 2000). These three issues have captured more attention compared to other issues. Limited studies have been focusing on economic development (Hampton, 2005) and business development (Silberberg, 1995) in archaeological heritage sites.

Until now, there are steady increment in the number of rural tourism studies emphasised on the tourism related SMEs (Jaafar, Lonik, Nordin, & Abdullah, 2014;

Hall, Kirkpatrick & Mitchell, 2005; Getz & Carlsen, 2000; Page & Getz, 1997), however limited amount of researches have been done to explore the tourism related SMEs in a rural site of Lenggong Valley. Moreover, Lenggong Valley is still a new area to be listed as a tourism site because the UNESCO declaration only just reached two years. Therefore, it is necessary for more studies to be implemented in the attempt to promote Lenggong Valley as a tourism destination. Prior studies on Lenggong Valley have been concentrated on archaeology (Gatti et al., 2012; Saidin, 2006; Majid, 2003; Majid, 1997) and geophysics research (Saad, Ismail, Nordiana & Saidin, 2014; Saad et al., 2011; Nawawi et al., 2004; Samsudin et al., 2006).

1.3.2 Practical Gap

UNESCO declaration as an archaeological heritage site has yield opportunity for Lenggong Valley to be a potential tourism destination. The Department of National Heritage declared funding has been provided under the Malaysian Government's Economic Development Plans to propose the Ulu Perak Historical Zone Development Plan with the initiative of protecting, conserving, restoring and interpreting Lenggong Valley as the prehistoric heritage capital of Malaysia (Department of National Heritage, n.d). According to the Dimitrovski, Todorović and Valjarević (2012), the potential to develop the rural tourism is connected with the participation of SMEs activities. Tourism and entrepreneurial activities are complementing each other. This can be described by the fact that tourism sector help to generate opportunities for the local community to start a business activity, while tourism sector is depending on the SMEs activities to provide the tourist's needs and wants. However, preliminary research shows no progress in the development of SMEs activities even after a year Lenggong Valley received the UNESCO title.

The recognition as a potential rural and heritage tourism site will induce the tourists' arrival and generate better income generation for local community. Under the Tenth Malaysia Plan, the government underlines few steps to constantly focus on rural development predominantly in the context of improving access to education and utilities, connectivity and upgrading rural economic activities (The Economic Planning Unit, 2010). Once Lenggong Valley received the title of UNESCO world heritage site, SMEs activities in the area will be more than just a way to earn income for Lenggong's community, moreover the SMEs activities would be the backbone for the development in Lenggong Valley.

Eventually, there are many government agencies that provide assistance to the SMEs in Lenggong Valley, such as Amanah Ikhtiar Malaysia, Department of Agriculture and Ministry of Rural and Regional Development (MARA), the National Entrepreneur Group Economic Fund (Tekun Nasional), Federal Agricultural Marketing Authority (FAMA), Department of Agriculture and Lenggong Development Centre of Technology and Fish Product. Among the supports that were provided are capital, loan, course and training, marketing, consultancy, allocation and equipment support. However, the issue observed is that assistance was provided at the expense of the absence of performance monitoring.

As a result, in order to accomplish government's target to promote a rural site of Lenggong Valley as a competitive world tourism destination and develop the area, it is important to understand the characteristics and measure the performance of tourism related SMEs in Lenggong Valley.

1.4 Research Objectives

The purpose of the study is to understand the tourism related SMEs in Lenggong Valley. In order to achieve this purpose, the following objectives were formulated:

1. To analyse the characteristics of tourism related SMEs in Lenggong Valley based on the owner-manager characteristics, business characteristics and the networking.
2. To determine the performance of tourism related SMEs in Lenggong Valley based on the perception of the owner-manager on the general performance, sales and profit performance.

1.5 Research Questions

The research questions are as follows:

1. What are the characteristics (owner-manager characteristics, business characteristics and networking) of tourism related SMEs in Lenggong Valley?
2. What is the performance of tourism related SMEs in Lenggong Valley?

1.6 Definition of the Key Terms

This study will widely uses the following terms:

- SMEs
 - SMEs stand for micro, small and medium enterprises. A micro enterprise in the service sector is an enterprise with less than five full-time employees, a sales turnover of less than RM200,000. A

small enterprise is an enterprise has five to twenty full-time employees and annual sales turnover of RM200,000 to less than RM1 million. A medium enterprise is an enterprise that has twenty to fifty full-time employees and annual sales turnover of RM1 million to RM5 million (Department of Statistics Malaysia, 2011).

- Characteristics
 - Characteristic is a special quality or trait that makes a person, thing or group different from others (Merriam-Webster's online dictionary, n.d). The characteristics of the tourism related SMEs covered in the study are the owner- manager characteristics (Papadaki & Chami, 2002; Barkham et al., 1996; Storey, 1994), business characteristics (Papadaki & Chami, 2002; Barkham et al., 1996; Storey, 1994) and networking (Frazier & Niehm, 2004; Morrison, 2003).

- Performance
 - Performance is the capability of an enterprise to survive over a long period of time (Habel & Reicher, 2005). In this study, performance of tourism related SMEs refers to the perception of the owner-manager's satisfaction with the general performance (Alasadi & Abdelrahim, 2007; Haber & Riechel, 2005), sales and profit performance (Alasadi & Abdelrahim, 2007; Morrison & Teixeira, 2004; Lerner & Haber, 2000; Lussier & Pfeifer, 2001) whether it is increase, maintain or decrease within the recent three years.

- Tourism
 - Tourism is a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes (UNWTO, 2014).

1.7 Organisation of the Research

This thesis is organised into six chapters. Chapter 1 explains the research background, problem statement, purposes of the study as well as the contribution of the research. Chapter 2 reviews the literature on SMEs, business performance and tourism from prior researchers. Chapter 3 presents information regarding the design of the study, data collection and types of analyses used in this study. Chapter 4 provides the analysis and findings of the results based on the personally administered questionnaires. Chapter 5 is the discussion based on the results, findings and literature review. Finally, Chapter 6 emphasises the summary and recommendation for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter covers two main sections which are the SMEs and tourism related SMEs. The purpose of this literature review is to provide some contexts about tourism related SMEs as well as the other specific themes related which are the SMEs, business performance, characteristics of tourism SMEs and tourism industry. The chapter begins by deliberation on tourism SMEs and followed with the details of SMEs in Malaysia specifically, discussing about the definition and profile of SMEs, also the importance of SMEs in general. The second theme will give some insight regarding the business performance, including the definition, the measurement and prior studies on factors contribute to the business performance. The next theme will discuss on the characteristics of tourism SMEs. Lastly, the subsequent sections comprise the discussion of tourism in general as well as in Malaysia, some explanation on the type tourism, also the significance between tourism and SMEs.

2.2 Small and Medium Enterprises (SMEs)

There is no uniform definition for Micro, Small, Medium Enterprises (SMEs) due to characteristics of SMEs work uniquely across countries, with 120 different economies covered all over the world. Certain countries used the term of MSMEs, while some of the others used the term of SMEs which also explain the Micro, Small, and Medium Enterprises. The variables used to define MSME or SMEs commonly include the total number of employees, assets, turnover, capital and investment; and these variables can be differentiated by industry in some cases (Kushnir, 2010).

2.2.1 The various definition on terms used in SMEs study

Often researcher will interchangeably use the term “firm”, “business”, “venture” or "enterprise" for SMEs performance study. Discussion below will go through every each of the terms.

i) Firm

In general, firm can be defined as an entity or organization such as a sole proprietorship, partnership or corporation that carry out a business activity. Studies using the “firm” term may narrate about from a small business firm to the large-scale operation of a company. Such researchers that used the term “firm” particularly for small business performance study are Habel and Reichel (2005), Wolff and Pett (2006), Segal, Borgia and Schoenfeld (2010), Ashikia (2010). While studies that used term “firm” for business as a whole which is cover the small, medium and large businesses are Berger and Patti (2002), Brown and Caylor (2004), Mackey, Mackey and Barney (2007). The word “firm” is much deeper as it would examine the firm as

a whole which includes the business activities that undergoing, the ownership and also the firm itself.

ii) Business

Business can be defined as an association or enterprise unit involve in commercial, industrial or professional activities. Businesses can be either in the mission generating profit or not-for-profit. It can be a commercial entity, such as a publicly-traded corporation, or a non-profit organization which is typically involving environmental-friendly or humanity organization. Businesses comprise a small owner-operated company such as a retail shop, to the world's biggest company such as General Electric. Business may involve activities such as selling, buying, marketing, renting or investing. Performance studies that use "business" term are also may cover all type of business, however many of the studies typically are particular for small business. Such researchers using the "business" term are Castrogiovanni (1996), Georgellis, Joyce and Woods, (2000), Morrison and Teixeira (2004), Wiklund and Shepherd (2003) and Othman and Rosli (2011).

iii) Venture

Generally the word venture describes a situation that expose to risk and danger. Thus it would best describe as a start- up entity riskily built with the objective of profiting financial. Business venture may be invested by individuals or groups with the expection of earnings. Typically Business venture are formed because of demand of the market and customer needs. Studies that used "venture" term are also not particularly to a specific type of business, it is generalize to all type of business. However, often the researchers used "venture" term to refer studies on a

new ventures. Examples of studies that used this term are Chrisman, Bauerschmidt and Hofer (1998), Ensley and Pearce (2001), Ensley, Pearson and Amason (2002), Haber and Reichel, (2005).

iv) Enterprise

The word enterprise has been used in a range of contexts and meanings (Bridge, O'Neill & Cromie, 2003). Enterprise is commonly being used to represent the micro, small business activities. The words of 'SMEs' itself using the word of enterprise.

Since various studies used different terms for SMEs, Throughout the study, researchers will use the term SMEs and followed by the terms “firm”, “business”, "enterprise" or “venture” interchangeably. Nonetheless, this study much preferable to use the word “business” than others because the word “business” comprise a larger scope which cover strategic planning for business activity, ownership and the firm itself.

2.2.2 Definition of Small and Medium Enterprises (SMEs) in Malaysia

Malaysian SMEs can be categorised into three groups: Micro, Small, and Medium Enterprise. The National SME Development Council (NSDC) which is the highest policy-making authority on SME development in Malaysia had defined SME's in terms of firm size and annual turnover, depending on its sector. Sectors in SMEs are established as five key economic sectors, namely as manufacturing, agriculture, mining and quarrying, construction and services sectors. Malaysian economy categorised sector service based on World Trade Organisation (WTO)

classification which are business, communication, construction and related engineering, distribution, education, environment, financial services, health related and social services, tourism and related travel, recreational, cultural and sporting services, transport, other services.

Based on NSDC definitions, micro enterprise in the manufacturing sector is an enterprise with full-time employees of less than 5 people turnover less than RM250, 000. While micro enterprise in the agriculture, mining and quarrying, construction and services sectors, are the enterprise with full-time employees of less than 5 people, and having sales turnover less than RM200, 000. A small enterprise in manufacturing sector is an enterprise with full-time employees of between 5 to 50, with annual sales turnover of between RM250, 000 to less than RM10 million. On the other hand, a small enterprise within agriculture, mining and quarrying, construction and services sectors, are the enterprise with full-time employees of between 5 to 20, with the annual sales turnover of between RM200, 000 to less than RM1million. A medium enterprise in manufacturing sector is an enterprise that possess full-time employees of between 51 to 150, with annual sales turnover of between RM10 million to RM25 million. Contrarily, a medium enterprise within agriculture, mining and quarrying, construction and services sectors sector are the enterprise that having full-time employees of between 20 to 50, with the annual sales turnover of between RM 1 million to RM5 million.

These definitions are applied by all Government Ministries and Agencies involved in SME development, as well as by the financial institutions. Thus, this study applied the definition of SMEs based on Malaysia SMEs definition. Tables 2.1 summarises the SMEs definition.

Table: 2.1 Malaysia SMEs Definition (Department of Statistics Malaysia, 2011)

| Sector | Manufacturing | Agriculture, Mining and Quarrying, Construction and Services |
|---------------------------------------|--|---|
| Based on full-time employees | | |
| Micro | Less than 5 employees | Less than 5 employees |
| Small | Between 5 and 50 employees | Between 5 and 20 employees |
| Medium | Between 50 and 150 employees | Between 20 and 50 employees |
| Based on annual sales turnover | | |
| Micro | Less than RM250,000 | Less than RM200,000 |
| Small | Between RM250,000 and less than RM10 million | Between RM200,000 and less than RM1 million |
| Medium | Between RM10 and RM25 Million | Between RM1 million and RM5 million |

2.2.3 Profile of SMEs in Malaysia

According to the 2011 Census of Establishment and Enterprise (Census), there are 645,136 SMEs operating their businesses in Malaysia, 97.3% of total business establishments. The outcomes show that 90% of the SMEs were the services sector, followed by manufacturing (5.9%), construction (3%), agriculture (1%) mining and quarrying sector (0.1%). Figure 2.1 illustrates the distribution of SMEs by sectors.

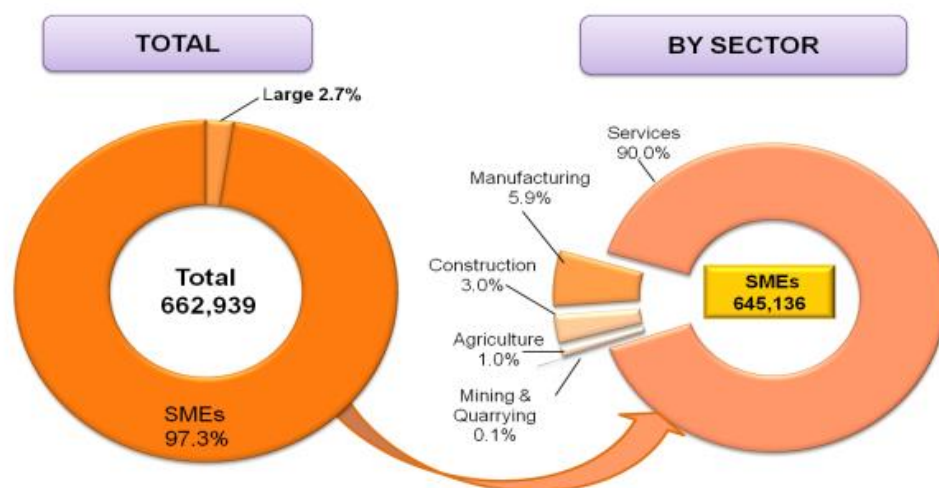


Figure 2.1 The Distribution of SMEs by Sector (Department of Statistics Malaysia, 2011)

Generally, SMEs are the dominant in total business establishments for every sector. This can be represented by the fact that 98.1% from the business establishments in services sector are the SMEs, followed by 95.4% in the manufacturing, 87.1% in the construction, 76% in the agriculture, 71.5% in the mining and quarrying sector. Table 2.2 explains the percentage of SMEs over total establishment according to sectors.

Table 2.2 The Percentage of SMEs Over Total Establishment According to Sectors
(Department of Statistics Malaysia, 2011)

| Sector | Total establishments | Total SMEs | Percentage (%) of SMEs over Total Establishments |
|----------------------|----------------------|-----------------|--|
| Overall total | 662, 939 | 654, 136 | 97.3 |
| Services | 591, 883 | 580, 985 | 98.1 |
| Manufacturing | 39, 669 | 37, 861 | 95.4 |
| Construction | 22, 140 | 19, 283 | 87.1 |
| Agriculture | 8, 829 | 6, 708 | 76.0 |
| Mining and Quarrying | 418 | 299 | 71.5 |

The Census discovered that the main part of SMEs is the micro-sized enterprises which stand for 77.0%, followed by small enterprises 20.0% and medium-sized enterprises, 3.0%. The services sector is proven as the highest percentage of micro-sized enterprises (79.6%) followed by manufacturing (57.1%), agriculture (56.3%) and construction sector (44.5%). Nonetheless, SMEs in the mining and quarrying sector were mainly small in terms of size (42.1%). Figure 2.2 recaps the SMEs by sectors and sizes.

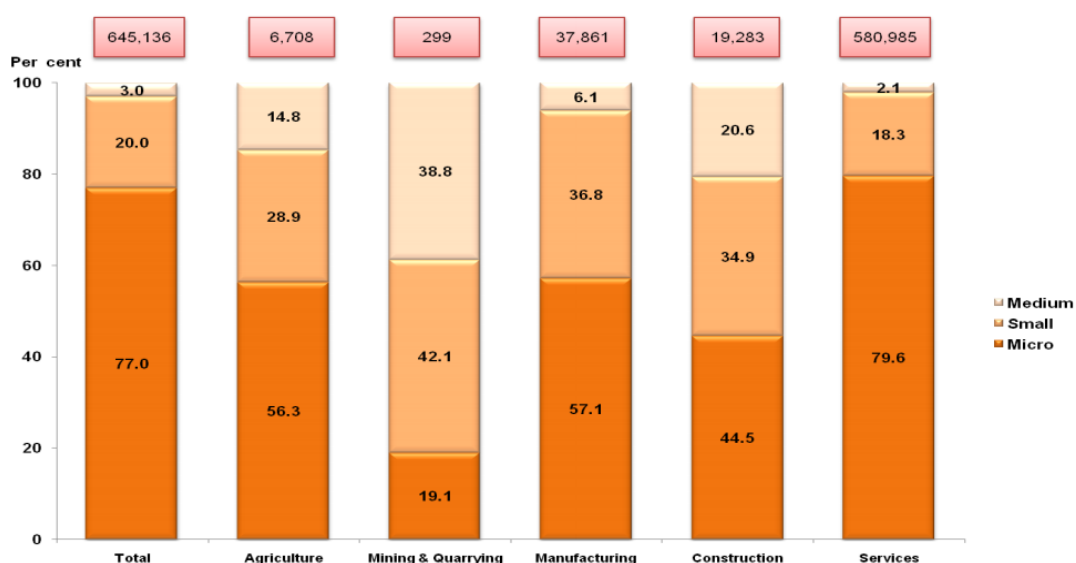


Figure 2.2 SMEs by sector and size (Department of Statistics Malaysia, 2011)