

**SMALL AND MEDIUM ISLAND CHALET OPERATORS IN SELECTED  
ISLANDS OF TERENGGANU AND PAHANG**

**by**

**SITI AISHAH BINTI MAIDEEN**

**Thesis submitted in fulfilment of the requirements  
for the degree of  
Master of Science**

**May 2010**

## ACKNOWLEDGEMENTS

Bismillahirrahmanirrahim. First of all, I would like to express my gratitude to Allah S.W.T for His blessings and allowing me to complete this thesis. In addition, this work cannot be successfully completed without the assistance and cooperation of many individuals. Specifically, I would like to thank my main supervisor Prof. Madya Sr. Dr. Mastura Jaafar for her valuable comments, advice, constructive criticism, tireless guidance, support and tolerance through the various stages of completing my Master's dissertation. I would also to express my sincere gratitude to my co-supervisor Prof. Sr. Dr. Abdul Rashid Abdul Aziz from the School of Housing, Building and Planning, Universiti Sains Malaysia, for his competent and professional work in guiding me.

My appreciation also goes to all of my kind and friendly respondents in these four islands, especially to Mr. Norlyzapi, Mr. Yap, Mr. Abdul, Mr. Jeffril and Mrs. Haniza, for their support of my thesis. I would also like to acknowledge the contributions of the individuals who were involved in this thesis, directly or indirectly. I also appreciate the support and continual encouragement from my friends in making my thesis a success, especially Ms Siti Zaleha Mohd Sukarno, Ms Toh Kah Ing, Ms Anna Lau Siew Lin, Mr. Wong Sing Sing, Mr. Muhammad Hijas, Ms Lai Shuw Wei, Ms Siti Nur Fazillah Mohd Fauzi, Ms Naspuziah and others. Last but not least, special thank to my family especially to my loving father, mother and siblings, for their support and prayers for my success. Thank you very much.

## TABLE OF CONTENTS

Acknowledgements.....	ii
Table of Contents.....	iii
List of Tables.....	ix
List of Figures.....	xi
List of Abbreviations.....	xii
Abstrak (Bahasa Malaysia).....	xiii
Abstract (English).....	xv

### CHAPTER 1 – INTRODUCTION

1.1	Background.....	1
1.2	Problem Statement.....	4
1.3	Research Objectives.....	6
1.4	Research Questions.....	7
1.5	Outline of Research Methodology.....	7
1.6	Outline of Thesis.....	7

### CHAPTER 2 – LITERATURE REVIEW

2.1	Introduction.....	9
2.2	Definition of SMEs.....	9
2.2.1	Classifications of Small and Medium-Sized Accommodation (SMSA).....	11
2.2.2	Factors Leading to Higher Number of Small Hotels.....	13

2.3	The Characteristics of Hotel Owner-Managers.....	14
2.3.1	Ownership of Business.....	14
2.3.2	Gender.....	15
2.3.3	Age.....	15
2.3.4	Educational Background.....	16
2.3.5	Experience.....	16
2.3.6	Courses and Training.....	17
2.3.7	Goals in Starting Business.....	19
2.4	Entrepreneur Characteristics.....	20
2.5	Management and Operational of the Premises.....	25
2.5.1	Hotel Operations.....	25
2.5.2	Financial Sources.....	26
2.5.3	Marketing.....	28
2.5.3 (a)	Marketing Technique and Networking.....	28
2.5.3 (b)	Technology Marketing.....	29
2.5.4	Seasonality.....	30
2.5.5	Products and Activities.....	31
2.5.5 (a)	Island Hopping.....	31
2.5.5 (b)	Ecotourism.....	33
2.5.5 (c)	Combination Tour.....	34
2.6	Critical Success Factors (CSFs).....	35
2.7	Challenges Faced by Owner-Managers in Hotel and Tourism Industry.....	38
2.8	Conclusion.....	40

## CHAPTER 3 – TOURISM INDUSTRY

3.1	Introduction.....	41
3.2	Tourism Industry in Malaysia.....	41
3.2.1	Performance of Tourism Industry.....	43
3.2.2	Promotion and Campaigns.....	45
3.3	Performance of Tourism Industry in the East Coast of Peninsular Malaysia.....	47
3.4	Tourism Industry in the East Coast of Peninsular Malaysia.....	49
3.4.1	Island Ecotourism Related Attractions.....	50
3.4.2	Monsoon Season and Tourism Activities.....	51
3.4.3	Terengganu.....	52
3.4.4	Redang Island.....	53
3.4.5	Perhentian Island.....	55
3.4.6	Kapas Island.....	56
3.5	Pahang.....	57
3.5.1	Tioman Island.....	58
3.5.2	Good Places in Tioman Island.....	60
3.6	Conclusion.....	63

## CHAPTER 4 – RESEARCH METHODOLOGY

4.1	Introduction.....	64
4.2	Research Design.....	66
4.3	Questionnaire Design.....	69
4.4	Validity, Reliability and Pilot Study.....	76

4.5	Data Collection Technique.....	77
4.5.1	Quantitative Methods.....	77
4.5.2	Qualitative Methods.....	78
4.5.3	Multimethods.....	79
4.5.4	Data Collections by Using Multimethods.....	79
4.5.5	Population.....	81
4.5.6	Data Collections.....	82
4.6	Data Analysis.....	83
4.6.1	Questionnaire Survey.....	83
4.6.2	Interview.....	84
4.7	Conclusion.....	85

## CHAPTER 5 – ANALYSIS AND FINDINGS

5.1	Introduction.....	86
5.2	Profile of the Respondents.....	86
5.2.1	Respondent Background.....	86
5.2.2	Entrepreneur Characteristics.....	92
5.3	Company Profile.....	93
5.3.1	Company Background.....	93
5.4	Management and Operational of the Premises.....	96
5.4.1	Financial Sources.....	96
5.4.2	Marketing.....	97
5.4.3	Characteristics of Tourists.....	99
5.5	Critical Success Factors (CSFs).....	103

5.5.1	Result of Cronbach’s Alpha for CSFs.....	103
5.5.2	Ranking of CSFs.....	104
5.6	Issue Related to Chalet Entrepreneurs.....	106
5.6.1	Entrepreneurs Challenges.....	106
5.6.2	Government Challenges.....	107
5.7	Conclusion.....	109

## CHAPTER 6 – DISCUSSION

6.1	Introduction.....	110
6.2	Profile of the Respondents.....	110
6.3	Profile of the Premises.....	115
6.4	Management and Operational of the Premises.....	116
6.4.1	Financial Sources.....	117
6.4.2	Marketing.....	118
6.5	Critical Success Factors (CSFs).....	121
6.6	Entrepreneur Challenges.....	121
6.7	Government Challenges.....	122
6.8	Conclusion.....	123

## CHAPTER 7 – CONCLUSION AND RECOMMENDATION FOR FUTURE

### RESEARCH

7.1	Introduction.....	124
7.2	Achievements of Research Objectives and Main Research Findings.....	124
7.3	Demographics Background.....	125

7.4	Management and Operational of the Premises.....	126
7.5	Critical Success Factors (CSFs).....	128
7.6	Issues Related to Chalet Entrepreneurs.....	128
7.6.1	Entrepreneur Constraints.....	128
7.6.2	Government Problems.....	129
7.7	Limitation of the Study.....	129
7.8	Implications of Findings for Tourism Industry.....	130
7.9	Recommendations for Future Research.....	132
	REFERENCES.....	133

Appendix 1 – NPAr Tests for Entrepreneur Characteristics

Appendix 2 – NPAr Tests For Product and Activities

Appendix 3- ANOVA Test for Tourism Product and Activities

Appendix 4- Compare Means for tourism product and activities

Appendix 5- Reliability Test for CSFs

Appendix 6- NPAr Tests for CSFs

Appendix 7- NPAr Test for Entrepreneur Problem

Appendix 8- NPAr Test for Government Problems

Appendix 9- Sample of Cover Letter

Appendix 10-Sample of Questionnaire

Appendix 11- Sample of Questionnaire (interview survey)

PUBLICATION LIST



<b>LIST OF TABLES</b>		<b>Page</b>
Table 2.1	SME definition in terms of annual sales turnover and full time employees	<b>10</b>
Table 3.1	Tourists arrivals and receipts to Malaysia for 1998-2009	<b>43</b>
Table 3.2	Total number of hotels and rooms for the year 1990-2008	<b>44</b>
Table 3.3	The number of local tourist arrival in Terengganu and Pahang	<b>47</b>
Table 3.4	The number of foreign tourist arrival in Terengganu and Pahang	<b>48</b>
Table 3.5	The number of hotel supply in Terengganu and Pahang	<b>49</b>
Table 3.6	List of the main islands gazetted as Marine Parks Malaysia (Amendment) Order 1998 in the state of Terengganu and Pahang	<b>51</b>
Table 4.1	Questionnaire design	<b>71</b>
Table 5.1	Summary of the respondents' profiles	<b>91</b>
Table 5.2	Non Parametric Test on entrepreneurship characteristic of SMIC operators	<b>93</b>
Table 5.3	Profile of the premises	<b>95</b>
Table 5.4	Finance sources	<b>97</b>
Table 5.5	Marketing strategy	<b>99</b>
Table 5.6	Characteristics of tourist	<b>100</b>
Table 5.7	Nonparametric Test on the tourist attraction in terms of products and activities offered	<b>101</b>
Table 5.8	One-way ANOVA on the product and activities between the islands.	<b>102</b>
Table 5.9	Cronbach's Alpha for the dimension of CSFs	<b>103</b>
Table 5.10	Nonparametric Test on the CSFs of the SMIC	<b>105</b>

Table 5.11	Summary of the challenges faced by entrepreneurs	<b>107</b>
Table 5.12	Summary of challenges from governments faced by the chalet operators	<b>108</b>

## **LIST OF FIGURES**

		<b>Page</b>
Figure 1.1	Structure of the study	<b>8</b>
Figure 3.1	Map for the entire state of Terengganu with its main islands	<b>53</b>
Figure 3.2	Map of Redang Island	<b>54</b>
Figure 3.3	Map of Perhentian Island	<b>55</b>
Figure 3.4	Map showing the locations of Tioman Island	<b>58</b>
Figure 3.5	Map of Tioman Island	<b>59</b>
Figure 4.1	Flowchart of the research process	<b>65</b>
Figure 4.2	Framework	<b>68</b>

## **LIST OF ABBREVIATIONS**

CSFs	Critical Success Factors
IT	Information Technology
NSDC	National SME Development Council
PATA	Pacific Asia Travel Association
SMIDEC	Small and Medium Industries Development Corporation
SMEs	Small and Medium Enterprises
SMHEs	Small and Medium Hotel Enterprises
SMIC	Small and Medium Island Chalet
SMMEs	Small, Medium and Micro Enterprises
SMSA	Small and Medium-Sized Accommodation

## **PENGUSAHA CHALET KECIL DAN SEDERHANA DI PULAU-PULAU TERPILIH DI TERENGGANU DAN PAHANG**

### **ABSTRAK**

Di Malaysia, industri pelancongan adalah salah satu sektor penting yang menyumbang kepada pertumbuhan ekonomi negara. Jumlah pelancong yang tiba di Malaysia meningkat dari 13.3 juta ke 23.6 juta dalam tahun 2009. Ini telah membawa kepada kewujudan banyak hotel, resort dan chalet yang bersaiz kecil dan sederhana di Malaysia. Di Pantai Timur Semenanjung Malaysia, pulau-pulau yang menghadap Laut China Selatan tidak dapat beroperasi pada sepanjang tahun akibat musim tengkujuh. Tesis ini melihat pengusaha chalet kecil dan sederhana (SMIC) di empat buah pulau, iaitu Pulau Kapas, Pulau Perhentian, Pulau Redang di Terengganu dan Pulau Tioman di Pahang. Secara spesifiknya ia meneliti kepada profil responden, ciri-ciri keusahawanan, profil premis, aspek pengurusan dan pengoperasian premis, faktor-faktor kejayaan kritikal dan cabaran yang dihadapi oleh premis. Kajian ini menggunakan pendekatan kedah pelbagai (multimethods), iaitu kaedah kuantitatif dan kualitatif. Sampel populasi adalah pemilik/pengurus chalet. Kutipan data telah dijalankan menggunakan soal selidik yang dijalankan sendiri dan sesi temubual lanjut dengan lima responden yang terpilih. Hasil kajian menunjukkan bahawa pengusaha SMIC di pulau dimonopoli oleh lelaki, kaum Melayu, pertengahan umur (40-49) tahun dan telah berkahwin. Kriteria yang paling penting dimiliki oleh pengusaha SMIC ialah keyakinan diri, kebolehan untuk belajar dari kesilapan, berdikari dan motivasi pencapaian. Kebanyakan responden menjalankan hubungan strategik dengan Majlis Tindakan Pelancongan dan Kementerian Pelancongan. Mereka juga lebih selesa menggunakan teknologi moden dan

konvensional bagi mempromosi chalet mereka. Mereka mengklasifikasikan pejabat hadapan, penginapan tetamu, makanan dan minuman, perakaunan dan kawalan sebagai faktor-faktor kejayaan kritikal yang utama. Selain itu, pengusaha SMIC juga bersetuju bahawa kerajaan perlu memainkan peranan yang paling aktif dalam mempromosi industri pelancongan di Pantai Timur Semenanjung Malaysia.

## **SMALL AND MEDIUM ISLAND CHALET OPERATORS IN SELECTED ISLANDS OF TERENGGANU AND PAHANG**

### **ABSTRACT**

In Malaysia, the tourism industry is one of the important sectors contributing to the national growth. The number of tourist arrivals in Malaysia increased from 13.3 million to 23.6 million in 2009. This has led to the establishment of many small and medium hotels, resorts and chalets in Malaysia. In the East Coast of Peninsular Malaysia, the islands facing the South China Sea cannot operate all year round due to the monsoon season. This study examines the small and medium island chalet (SMIC) operators in four islands, namely Kapas Island, Perhentian Island, and Redang Island in Terengganu and Tioman Island in Pahang. Specifically, it focused on the demographic profiles and entrepreneur characteristics, profile of the premises, management and operational aspect of the premises, their Critical Success Factors (CSFs) and challenges that the premises faced. This study used the multimethods approach, comprising quantitative and qualitative methods. The sample populations were the owners-managers of the island chalets. Data were collected using personally administered questionnaires and in-depth interviews with five selected respondents. The results show that SMIC operators in these islands were monopolised by males, Malay, middle aged (40-49 years old) and married. The most important characteristics possessed by the SMIC operators were self-confidence, ability to learn from failure, independent and need of achievement motivation. A majority formed strategic alliances with the Tourism State Action Council and Tourism Ministry. They were comfortable to use modern and conventional technologies to promote their chalet. They classified the front office, guest

accommodation, food and beverage, and accounting and control as their main CSFs. In addition, the SMIC operators agreed that the government should play more active role in promoting the tourism industry in the East Coast of Peninsular Malaysia.



# CHAPTER 1

## INTRODUCTION

The subject of this thesis focuses on the SMIC operators in the East Coast of Peninsular Malaysia. This introductory chapter provides a brief introduction to the research study. It begins by providing the industry background, problem statement, research objectives, research questions, outline of researcher's methodology and lastly the outline of the thesis.

### **1.1 Background**

Small and medium enterprises (SMEs) are the backbone of virtually all economies in the world as they are responsible for significant levels of employment, innovation and productivity (Velasco and Cruz, 2001; Klapper et al., 2002; Svejnar, 2002). A census conducted by the National SME Development Council (NSDC), whose findings were published in the first *SME Annual Report 2006*, showed that there were 519, 000 SMEs in Malaysia (SME, 2006). Of the SMEs, services sector (including Information Communications Technology (ICT) and restaurant and hotel sectors) formed the largest category with 86.5% of total SMEs followed by manufacturing sector 7.3% and agriculture 6.2%. Tourism industry is a part of SMEs services sector.

The tourism industry has been given serious attention by the Malaysian government since the early 1970s (Din, 1997). This industry's development is said to have started during the country's main industry, namely, tin mining and natural rubber started experiencing a decline and export earnings from those commodities started dwindling

(Hitchcock et al., 1993). The tourism sector has good potential for economic growth whether for developed nations or developing countries. Hence, the tourism sector is known as 'the engine of country's economic growth' or 'national economy pulse' (Ibrahim, 2004).

Tourism destination is an important asset as a source of wealth for the country because it can attract many tourists and can bring positive changes to the national economy (Theobald, 1998). Governments develop the tourism industry to cater for national development objectives such as to increase the country's revenue, employment, to diversify economic foundation and to encourage regional development. Since then, this industry has been growing rapidly until it has become an important industry (Abdul Rahman, 2004). According to Musa and Jumali, (2004) Malaysia is a major tourism destination in the ASEAN region.

Since the 1990s, the tourism industry represents an important segment of the Malaysian economy. Total receipts from tourism activities have risen from year to year. For example, in Malaysia the tourism sector's contribution of RM 8.5 million in 1998 increased to RM 53.4 million in 2009 ([www.tourism.gov.my](http://www.tourism.gov.my)). Based on the record for the period of twelve years, from 1998 to 2009, the number of tourists arrivals in Malaysia showed an increase of 329%, that is, from 5.5 million to 23.6 million ([www.tourism.gov.my](http://www.tourism.gov.my)). In line with the growth of the tourism industry, the hotel sector has been identified as a very important segment contributing to the growth. Similar to other developing countries, the proportion of SMEs in this industry is believed to be about 70 % of the total number of hotels in Malaysia.

In terms of definition, the hotel classifications often differs from country to country (Avcikurt, 2003). SMEs in Malaysia has been defined by NSDC (2006) based on the amount of turnover and number of employees. Specifically in the tourism industry, researchers define SMEs in the hotel industry by using number of rooms and number of employees. In Malaysia, SMIC can be defined as three-star hotels and below (including chalets and resorts) with fifty rooms and below. According to Saaid (2009), he anticipated there will be a growth in hospitality business for one to two-star and budget hotels as tourist are expected to demand lower stars accommodation and budget hotels.

In terms of number of hotels and rooms in Malaysia, the increase for a ten-year period shows a boost of 66.3 % for hotels, that is, from 1,419 hotels in 1998 to 2,360 hotels in 2007 and 49 % for number of rooms, that is from 107,791 rooms in 1998 to 160,327 rooms in 2007 ([www.tourism.gov.my](http://www.tourism.gov.my)). One of the significant factors contributing to the success of the tourism industry is the development of marine ecotourism in Malaysia. According to Vasanth (2005), ecotourism is currently making up about 10 percent of the country's tourism revenue. Tahir (2008) said that the recognition of Tioman Island as among the ten most beautiful islands in the world has attracted many tourists to the island. For Terengganu, Redang Island has been acknowledged as the largest and most beautiful island in the East Coast of Peninsular Malaysia (Mingguan Malaysia, Sunday 18 January 2009). Other famous islands are Kapas Island and Perhentian Island.

Based on the number of tourist arrivals in 2006 and 2009, the data shows that the state of Terengganu and Pahang have been receiving high number of visitors (foreign and local) since the previous years. The total number of tourists' arrival in Terengganu in 2006 was

1,167,687 and 1,219, 127 in 2009. For Pahang, the number of tourists' arrival was 6,128,902 in 2006 and increased to 9,652,909 in 2009. Due to a higher number of demands in the tourism industry, this influenced the increasing number of players involved in the industry. The registered number of hotels as at 31 August 2008 was 90 in Terengganu and 193 in Pahang, which included the total number of hotels ([www.motour.gov.my](http://www.motour.gov.my)).

## **1.2 Problem Statement**

SMEs in Malaysia play an important role in the country's economic development (Saleh and Ndubisi, 2006). At the theoretical level, prior studies have identified some of the barriers facing SMEs (Moha, 1999; Hall, 2002; SMIDEC, 2002; Wang, 2003; Stuti, 2005). Wang (2003), for example, highlighted many challenges faced by SMEs in a globalised environment, including, for example, lack of financing, low productivity, lack of managerial capabilities, access to management and technology, and a heavy regulatory burden. In Malaysia, as highlighted by APEC survey (1994), SMI development Plan, 2001-2005 (SMIDEC, 2002), Ting (2004), UPS survey (2005) and others, among the major challenges facing by SMEs are lack of access to loans, limited adoption of technology, lack of human resources, and competition from Multi National Companies (MNCs) and globalisation.

The accommodation/lodging business is a very unique industry. Kaiser (1989) mentioned that the uniqueness of lodging operations includes service as its product, which is intangible and cannot be stored; it is labour intensive; it requires special human resources; and it emphasises consistency of service and high productivity. According to

Morisson and Thomas (1999), research in hospitality management had all but ignored small enterprises or arguably, misunderstood their dynamics by treating them as scaled down versions of larger firms. As a consequence, more rigorous research is emerging relating to the management of such organisations and how they engage with the economy.

According to Burns (1996), the most vulnerable time for small businesses is between 12 and 30 months after opening. According to Reynolds et al. (1994), among the eight major reasons for small business failure in tourism include management inexperience and incompetence, and sales and marketing problems. Other than that, previous studies also reported on limited financial assistance, competition or overcapacity, lower room occupancy rates and lack of government support as the main challenges identified by the hotel operators (Yeoh and Chan, 1998; Nuntsu and Tassiopoulos, 2002; Sharpley, 2002; Gu, 2003; Joubert, 2004; Saleh and Ndubisi, 2006; Zapalska and Brozik, 2007; Quah and Chan, 2008).

Clearly, the rapid growth in the number of accommodations in Terengganu and Pahang poses different challenges to SMIC operators in many ways. Furthermore, there has been little discussion about the hotel industry, especially that on SMIC, with regards to its operational issues in Terengganu and Pahang. Since there have been limited studies on the survival of SMIC operators in the Malaysian tourism industry, the compilation of their survival factors is important.

Furthermore, hotels or resorts on the chosen islands normally operate for less than 10 months in a year due to the monsoon season which poses a danger to tourists visiting these islands. Thus, chalet operators on these islands face difficulties in maintaining their businesses. Based on previous studies, the hotel industry in Northern Cyprus has been facing serious problem for many years, including seasonality, low occupancy rates, transportation difficulties, high prices, a shortage of qualified staff, insufficient supplementary facilities and services, and poor service quality (Akis and Warner, 1994; Lockhart, 1994; Altinay, 2000).

### **1.3 Research Objectives**

The aim of this research is to look at the SMIC operators in the East Coast of Peninsular Malaysia. In order to achieve this aim, the following objectives were formulated:

1. To profile the demographic backgrounds of the SMIC operators and their specific entrepreneurial characteristics.
2. To explore internal management and operational practices, namely financial, marketing and services.
3. To identify the important critical success factors (CSFs) of SMIC in the East Coast of Peninsular Malaysia.
4. To identify the challenges faced by the SMIC, in relation to:
  - Entrepreneur challenges.
  - Challenges from the federal government.
  - Challenges from the state government.

#### **1.4 Research Questions**

1. What are the demographic background profiles of the SMIC operators and specific entrepreneurial characteristics?
2. What are the internal management and operational practices, namely financial, marketing and services?
3. What are the important CSFs of SMIC in the East Coast of Peninsular Malaysia?
4. What are the challenges faced by the SMIC, in relation to entrepreneur, federal government and state government?

#### **1.5 Outline of Research Methodology**

This study will be using two stages of data collection, namely 1) Quantitative, and 2) Qualitative. The research methodology is described in detail in Chapter 4.

#### **1.6 Outline of Thesis**

This thesis is divided into seven chapters. A brief overview of each of the chapters is given (see Figure 1.1). Chapter 1 touches on the background of the research as well as the details of the objectives and purpose of the research. Chapter 2 reviews the literature on small and medium hotels industry from previous researchers. Chapter 3 elaborates on the overview of performance of the tourism industry in Malaysia. Chapter 4 provides details on the design of the study, data collection and types of analyses used in this study. Chapter 5 presents the analysis and findings of the results from the personally administered questionnaires and in-depth interview survey. Chapter 6 is discussion

based on the results, findings and literature review. Finally, Chapter 7 highlights the summary and recommendations for future research.

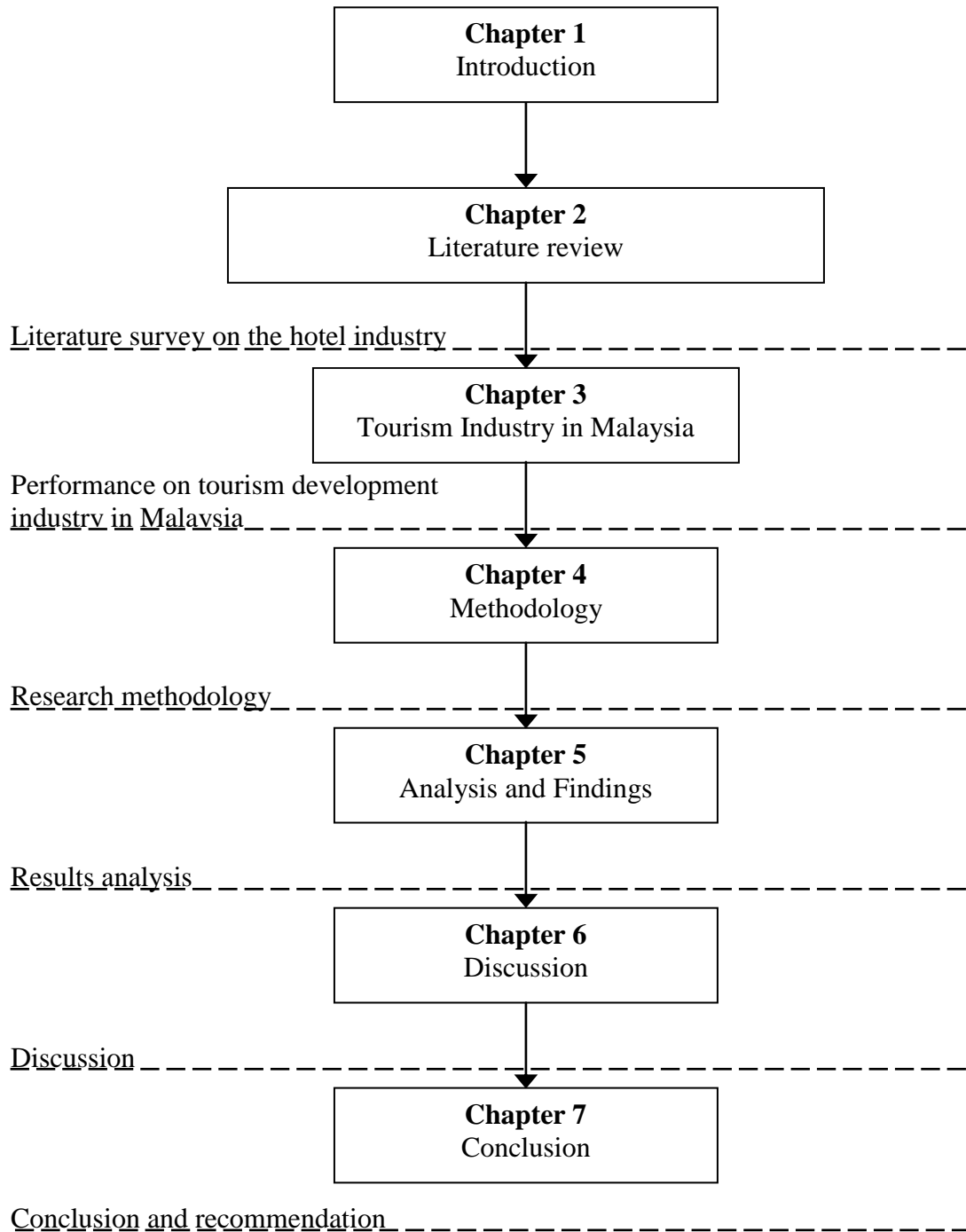


Figure 1.1: Structure of the study  
Source: Research study.



## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter is about previous studies related to SMEs that specifically focus on the tourism industry. The first part will discuss the definition of SMEs in the services industry, followed by the findings from previous studies on SMEs in the hotel, tourism and hospitality industries.

#### **2.2 Definition of Small and Medium Enterprises (SMEs)**

Before the formation of the NSDC in June 2004, there was no standard definition of SMEs in use in Malaysia. Different agencies defined SMEs based on their own criteria, usually benchmarking against annual sales turnover, the number of full-time employees and or shareholders' funds. For example, the Small and Medium Industries Development Corporation (SMIDEC) defined SMEs as enterprises with annual turnover not exceeding RM 25 million and with full-time employees not exceeding 150. Bank Negara Malaysia (Central Bank) defined SMEs as enterprises with shareholders funds of less than RM 10 million (NSDC, 2006).

In 2006 the NSDC introduced a new definition of SMEs in the manufacturing, manufacturing related services, primary agriculture and services sectors (NSDC, 2006). The criteria used in defining SMEs are based on annual sales turnover and number of employees in the SMEs (Table 2.1). A broad definition of SMEs is provided, along with specific definitions for micro, small and medium enterprises. For wider coverage,

businesses are considered as SMEs as long as they meet either the threshold set for annual sales turnover, or in terms of the number of full-time employees (NSDC, 2006). In relation to the tourism industry, according to NSDC (2006), the most related definition that can be adopted is the definition related to the services sector.

Table 2.1: SME definition in terms of annual sales turnover and full time employees

Size	Primary Agriculture	Manufacturing (including Agro-based) and Manufacturing-related services	Service sector (including information communications technology (ICT))
a.) Annual Sales Turnover			
Micro	Less than RM 200,000	Less than RM 250,000	Less than RM 200,000
Small	Between RM 200,000 and less than RM 1 million	Between RM 250,000 and less than RM 10 million	Between RM 200,000 and less than RM 1 million
Medium	Between RM 1 million and RM 5 million	Between RM 10 million and RM 25 million	Between RM 1 million and RM 5 million
SME	Not exceeding RM 5 million	Not exceeding RM 25 million	Not exceeding RM 5 million
b.) Full Time Employees			
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 and 19 employees	Between 5 and 50 employees	Between 5 and 19 employees
Medium	Between 20 and 50 employees	Between 51 and 150 employees	Between 20 and 50 employees
SME	Not exceeding 50 employees	Not exceeding 150 employees	Not exceeding 50 employees

Source of data: National SME Development Council (2006), SME Annual Report.

Data from Department of Statistics, Malaysia, include small and medium hotels under selected services category. According to SMIDEC (2004), there are 186,428 SMEs in the services sector. However, there are only 3,844 or 2.1 % SMEs in the selected sectors

comprising hotels and lodging, travel agencies, tour operator services, share, commodity and foreign exchange brokers, bureau de change, real estate agents, video tape rental services, advertising agencies and motion picture projection services.

### **2.2.1 Classification of Small and Medium-Sized Accommodation (SMSA)**

There is no universally accepted definition of the term “small and medium-sized accommodation business” (Thomas, 1998; Morrison and Thomas, 1999; Morrison and Conway, 2007); and there has never been a consensus on the criteria to be used to define SMSA (Cunkin and Smith, 2000).

However, the hotel classifications in terms of its size parameters often differ from country to country (Avcikurt, 2003). Thus, it may be difficult to define the size of businesses precisely. Normally, researchers defined sizes of the hotel in terms of number of rooms and employees. Moutinho (1990), Wong (1991) and Buhalis and Main (1998) defined Small and Medium Hotel Enterprises (SMHEs) as enterprises offering less than 50 rooms, employing fewer than ten staff members. According to Middleton (1998), approximately 99 per cent of all tourism businesses are small and medium sized enterprises employing less than 250 people.

According to the common definition of the European Commission, “small enterprises” employ between 10 and 49 people, “medium sized enterprises” employ more than 50 but fewer than 250 (CEC, 1996). On the other hand, according to Ingram et al. (2000), a small hotel is one having up to 50 rooms, a medium sized hotel as having 51-100 rooms and large hotels as one having over 100 rooms. According to KOSGEB (small and

medium industry development organisation), a public agency in Turkey, enterprises with 1 to 50 employees are defined as small enterprises and those with 51 to 150 employees are defined as medium ones. Wood (2001) classified businesses with less than 50 employees as small and those with more than 50 but less than 250 as medium sized. Similarly, in the Malaysia context, there is no specific definition for SMSA, and SMSA includes categories of bed and breakfasts, backpackers' lodge and budget accommodation which are rated under the Orchid Rating category by the Ministry of Tourism Malaysia. The Orchid classification scheme was formulated to rate hotels which do not qualify for any star rating and generally applicable to SMSA. The Orchid Rating assessment is applied to tourist accommodation and a friendly hospitable atmosphere (Chan and Quah, 2008).

Tourism is traditionally a small and medium sized enterprises industry. It is clear that the great majority of tourist facilities are run by small and medium sized businesses (Avcikurt, 2003). However, according to Morrison (1998), Page et al. (1999), DTI (2003), and Bastakis et al. (2004), small firms dominate the tourism and hospitality industry. For example, according to DTI (2003), small hotels and restaurants with less than 50 employees represented 83.5 per cent of the businesses in the sector. A similar pattern is expected to appear in every European country (Bastakis et al., 2004). It applies to Malaysia, where 65 per cent of the total hotel supplies are small (Ahmad and Morrison, 2004).

### **2.2.2 Factors Leading to Higher Number of Small Hotels**

According to Morrison (1996), traditionally, there were four factors that led to the high number of small hotels:

1. Firstly, is the characteristic of the industry. It is understood that the initial capital to start up a small accommodation business is lower than in other industries. Specific qualifications and professional requirements related to the sector are necessary but not compulsory (Quinn et al., 1992; Lerner and Haber, 2000; Szivas, 2001).
2. Secondly, the market demand for small hotel accommodation is high at a variety of locations and not subject to fulfilling standardised corporate rules. Therefore, small accommodation providers can offer a wide quality range of products, facilities and special services to a niche market.
3. Thirdly, the nature of a small firm is such that it allows an owner-manager to respond quickly to customer needs and expectations. As a result, customer satisfaction can be achieved through personal encounters with guests.
4. Finally, a small hotel often owned and managed by a family, can be economically viable. The market seems to be limited and specialised and suited to a firm with low overhead costs and does not offer the high level of profit required by a large enterprise. This is caused by the economic advantage of using family labours (Lowe, 1988; Getz and Carlsen, 2000; Andriotis, 2002). Furthermore, the small hotel owner is likely willing to accept a compromised profit to experience some quality of life (Szivas, 2001).

There have been many previous studies that focused on small and medium hotel businesses. Among the popular demographic profiles examined by the researchers are gender, race, age, status, level of education, specialisation and working experience (Glancey and Pettigrew, 1997; Ateljevic et al., 1999; Getz and Carlsen, 2000; Szivas, 2001; Morrison et al., 2003; Ahmad, 2005; Sharma and Upneja, 2005; Dewhurst et al., 2007). However, from the literature it has been found that studies on entrepreneurial characteristics in the hotel industry were not given high attention.

There have been many studies conducted on the profile, management and operational of the premises. Among the studies are by Medlik and Middleton, (1973); Gunn, (1994); Glancey and Pettigrew, (1997); Li, (1997); Buhalis and Main, (1998); Mutch, (1998); Friel, (1998); McGrath, (1999); Morrison and Thomas, (1999); Page et al., (1999); Augustyn and Knowles, (2000); Medina-Munoz and Garcia-Falcon, (2000); Leong, (2001); Telfer, (2001); Tinsley and Lynch, (2001); Frazier and Niehm, (2004); Morrison and Teixeira, (2004); Sharma and Upneja, (2005).

## **2.3 The Characteristics of Hotel Owner-Managers**

### **2.3.1 Ownership of Business**

Small businesses predominate in emerging sectors such as nature tourism (McKercher, 1998), and most of these are run by owner-operators and families. Generally, it is understood that most small tourism and hospitality businesses were owner operated (Ateljevic et al., 1999). A study in Australia by Getz and Carlsen (2000) found that more than 96 percent of their respondents were the owners of tourism businesses, while the remaining were the managers. In Malaysia, according to Ahmad (2005) 59.5 percent of

the small chalets were owned and managed by the same person, with the remainder operated by managers.

### **2.3.2 Gender**

In the tourism and hospitality industry, approximately 60 percent of the operators were female (Getz and Carlsen, 2000). Conversely, in Australia, for example, more than 80 percent of small firm owner-managers in cross industries were male (Morrison et al., 2003). In Turkey, according to Avcikurt (2003) nearly 90 percent of the operators were male. Generally, small firms are owned and managed by men, but more women owner-managers are involved in tourism and hospitality industry (Ahmad, 2005). In the Malaysian context, 81.1 percent male owner-managers dominate the small industry, and this is due to cultural influence, which considers the man as the decision maker in the family (Ahmad, 2005).

### **2.3.3 Age**

The dominant age of small business owner-managers is in the middle-age category, for example in Australia, more than 40 % of them are between 45 and 54 years old (Getz and Carlsen, 2000), and in UK, about 77 % were slightly older than 45 years old (Szivas, 2001). In Turkey, almost 80 % of the sample respondents were between the age of 25 and 50 (Avcikurt, 2003). In Malaysia, regarding the age of the owner-managers, about 45.9 % fell between the 30 to 45 brackets, 18.9 % were younger than 30, and 35.2% were older than 45 years (Ahmad, 2005). Most of them were married (Getz and Carlsen, 2000).

#### **2.3.4 Educational Background**

In St Andrews, about 64 % of the total respondents had high school qualifications and the other 40 % were degree holders (Glancey and Pettigrew, 1997). According Getz and Carlsen (2000), the largest group of owner-managers in Australia, 42 % had high school qualifications, about 34% had college diplomas and university degrees and approximately 12 % had a trade qualification. Most of the owner-managers in UK were reported to have high school education, about 70 % had college certification or higher and only 24.5 % had only secondary level education (Szivas, 2001).

In Turkey, according to Avcikurt (2003) more than half of the respondents had less than a four year university level education. Meanwhile according to Sharma and Upneja (2005), in Tanzania almost 36.4 % of the owners had no industry training or education beyond basic schooling. Only 22.7 % of the owners had an industry certificate, 9 % has some other vocational training and 31.8 % has non-technical undergraduate or graduate degrees.

#### **2.3.5 Experience**

Due to the easy entry into the tourism and hospitality industry, many owner/managers were reported to have various types of occupation and experience prior their venture into this sector (Alteljevic et al., 1999; Szivas, 2001). For example, about one-third of owner/managers had working experience in the tourism and hospitality industry in the UK, while others were from the agriculture, retail, education, and various other sectors (Szivas, 2001).



However, in New Zealand, previous job experience in tourism and hospitality was not particularly represented but the most common experience were related to activities of farming, teaching, marketing, building, and carpentry (Atlejevic et al., 1999). Meanwhile, Glancey and Pettigrew (1997) found a large majority (64 %) of the samples had previously held either managerial or supervisory post in the tourism industry.

In Turkey, almost half of them were noted to have over five years of work experience but many managers had no formal tourism education and hotel management experience or vocational training at the managerial levels. Only nine managers or owners (30 percent) appeared to have received a formal tourism and hotel management education, at university level (Avcikurt, 2003).

### **2.3.6 Courses and Training**

Since previous occupation and experience are not the compulsory requirement to enter into the tourism and hospitality businesses, owner-managers learnt the needed skills from on-the-job training (Szivas, 2001). Even though on-the-job training is largely prevalent in hotels and restaurants, there is inconclusive evidence to suggest that such efforts yield successful results (Zhang et al., 2002; Worsfold and Griffith, 2003).

Forrest (1983) noted that training benefits the guests, employees and management. Training is essential for managers in running the hotel business. Gap in the training of managers can cause a reduction of their efficiency as well as confidence. Boella (1996) argued many proprietors and managers had no formal training and were unaware of the

benefits of training. Many employers are concerned with immediate operational problems and as such, they do not have time to plan ahead.

Generally owner/managers are optimistic regarding the future prospects for their business. However, some of them were reported to have attended formal tourism and hospitality related courses, for example, marketing, management, cooking, hosting and computing courses after starting up the business (Ahmad, 2005). Moreover, during the courses, owner/managers mentioned that they found the courses provided a good networking opportunity to meet other people with a common business interest (Ateljevic et al., 1999). Research carried out by Formica and McCleary (2000) suggested that managerial training should be geared to courses related to marketing and human resources. They noted that effective training courses in marketing and human resources as well as other topics may positively influence managers' knowledge and management skills.

Training may also improve manager's skill, knowledge, behaviour, communication and self-esteem (Jameson, 2000). This improvement will result in improvement of skills and knowledge of their employees (Avcikurt, 2003). Training is also sometimes driven by the company in such a way that it does not contribute towards developing a career. Sometimes it is not even offered as a reasonable payback considering the demanding and difficult working condition and the personal costs involved. Given the important weight of work experience in the sector it may be useful to explore other sources of learning based on experience and on-the-job training. Continuing training is already benefiting from this emphasis and growing importance (Marhuenda et al., 2004).

On the other hand, according to Dewhurst et al. (2007), some suggested that as a small business they did not need training and that they knew their business better than anyone else. Others recognised very specific gaps in their own knowledge (for example, general maintenance, web design and advertising).

### **2.3.7 Goals in Starting Business**

Some pertinent research in Australia was conducted by Bransgrove and King (1996) and they found that the top goals of owners of small tourism businesses-urban and rural-were, in roughly equal rankings: challenge or stimulus; business opportunity; lifestyle; long-term financial gain. According to Getz and Carlsen (2000), four components explained about 60% of the variance regarding goals for starting the business. Two lesson components related to the desire to have a challenge and meet people (called 'stimulation') and 'independence'.

The second major factor has been called 'money' and while most respondents did indicate the important of profitability and financial independence, there is evidence from significance tests that some respondents are much more oriented than the majority to making money. Thirty four per cent suggested that an appealing lifestyle was the major reason for entering the business and fully 68% agreed with the statement 'to live in the right environment' as a very important goal (Getz and Carlsen, 2000).

## **2.4 Entrepreneur Characteristics**

Small businesses and entrepreneurship perspective from the manufacturing and other industries suggested that the financial performances of these businesses are strongly influenced by the markets in which they operate; entrepreneur's objectives and characteristics; and their management practices (Cragg and King, 1998). Dewhurst and Horobin (1998) have provided a comprehensive overview of different perspectives on entrepreneurship in general. Noting an array of academic studies, they broadly classify the contributions into three perspectives: economic, psychological and sociological.

Despite these different approaches, their literature reveals how authors in their attempts to identify the entrepreneur (as being different from 'small-business owner' or 'ordinary' manager) are influenced predominantly by an economic conceptualisation of entrepreneurship as characterised by innovation, creativity, risk-taking, leadership and vision. In the tourism industry, according to Dewhurst and Horobin (1998) and Lynch and MacWhannell (2000) there is limited research on tourism entrepreneurship and small businesses.

According to Glancey and Pettigrew, (1997) motivations for founding the business in the tourism industry fell into two broad groups, those that reflect 'push' factors, such as redundancy job insecurity and need for supplementary income. 'Pull' factors include desire to be your own boss, to make high levels of profit, spotting a business opportunity and winding down to retirement. The majority of the samples exhibited pull factors- 65%, which provides evidence in support. The sample generally displayed characteristics and motivations associated with opportunistic entrepreneurs. The

objectives pursued by entrepreneurs could also be differentiated into two broad groups, personal objectives providing a livelihood, maintaining a quality of life or lifestyle, and business objectives-building a profitable enterprise, growth and building up a reputation for quality of service.

An entrepreneur is a person who starts a business enterprise with the intent of seeing it become successful and working hard for that end. There are two types of entrepreneurs-craft and opportunistic. The first type of entrepreneurs are the crafts, who are noted by their working class, blue collar background, low level educational and paternalistic management style. This type of entrepreneurs looks at self-employment as a livelihood with primary motivation provided by intrinsic factors such as lifestyles and job satisfaction rather than economic objectives. Craft entrepreneurs are businesslike in their approach during a poor performance or encouraged by an unexpectedly good performance (Storey, 1982).

The second types of entrepreneurs are the opportunistic. These types of entrepreneurs are characterised by their middle class, white collar background, higher level of educational attainment and professional management style. They are motivated by economic objectives and pursue profits and growth, although the pursuit of these objectives by a desire to retain autonomy over key decision-making processes within the firm. They will operate in any market in which they have spotted an opportunity and have no previous technical experience of the product service (Storey, 1982).

Bolton and Thompson (2000) define an entrepreneur as “a person who habitually creates and innovates to build something of recognised value around perceived opportunities”.

According to Timmons (1994) he defines entrepreneurship as creating and building something of values from practically nothing. It is the process of creating or seizing an opportunity, and pursuing it regardless of the resources currently personally controlled. Traditionally, entrepreneurship has been associated with the sole entrepreneur, but more recently the value of entrepreneurial teams has been recognised. These persons are intensely, directly, creatively and actively involved in the entrepreneurial process creating firms that McCrimmon (1995) describes as glorified by independence, creativity, improvisation and rebellious opportunism. Hisrich et al., (2005) defines entrepreneurship as the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and or career commitment or provide value for some product or service. The product or service may or may not be new or unique, but value must somehow be infused by the entrepreneur by receiving and locating the necessary skills and resources.

Hisrich et al., (2005) sees entrepreneurs from three different aspects. To an economist, the entrepreneur is one who brings resources, labour, materials and other assets into a combination that makes their value greater than before, and also one who introduces changes, innovations, and a new order. To a psychologist, such a person is typically driven by certain forces and the need to obtain or attain something, to experiment, to accomplish, or perhaps to escape the authority of others. To one businessman, an entrepreneur appears as a threat, an aggressive competitor, whereas to another

businessman the same entrepreneur may be an ally, a source of supply, a customer, or someone who creates wealth for others, as well as finds better ways to utilise resources, reduce waste, and produce jobs others are glad to get.

Every entrepreneur is unique and they have his or her own set of strengths, weaknesses, talents and abilities. However, entrepreneurs who have stood the test of time and have made a difference in their communities and industries do share common characteristics like need of achievement motivation, risk-taking propensity, innovativeness, self-confidence, ability to learn from failure, pro-activeness, independence and others.

Need of achievement motivation is one of the most popular theory used to measure entrepreneurial characteristics. McClelland (1961) was the first person to establish this theory and his research on need of achievement initiated many studies on the characteristics of the entrepreneur. Achievement motivation is defined as the need to achieve success in competition with some standards of excellence (Elias and Pihie, 1995). Studies by previous scholars initially indicate that successful entrepreneurs have high need of achievement (McClelland, 1961; Koh, 1996; Jaafar et al., 2004) and are more entrepreneurially inclined than the non-entrepreneurs (Robinson et al., 1991a; 1991b).

Risk-taking propensity is defined as the perceived probability of receiving rewards associated with the success of a proposed situation, which is required by an individual before subjecting himself to the consequences associated with failure, the alternative situation providing less reward as well as severe consequences than the proposed

situation (Brockhaus, 1980). Such a definition might best describe the situation that faces the potential entrepreneur when he decides to establish a new business venture.

Schumpeters (1934) describes entrepreneurial innovation in terms of introducing new products or methods or productions, opening new markets or new sources of supply, or reorganising industries. Gartner (1990) in his paper characterises innovation as doing something new as an idea, product, service, market or technology in a new or established organisation.

Ho and Koh (1992) suggest that self confidence is a necessary entrepreneurial characteristic and is related to other psychological characteristics, e.g. locus of control, tolerance of ambiguity and propensity to take risk. Entrepreneurs need to have this quality since they are expected to possess a sense of self-esteem and competence in conjunction with their business affairs.

Key descriptors of the entrepreneur have come to include risk-taking, innovation, creativity, alertness and insight (McMullan and Long, 1990; Cunningham and Lischeron, 1991). Innovation and venture always go with failure, but failure is the mother of success. Learning from failure is a significant source of innovation and new business (Chen et al., 2005). Results from Chen et al., (2005) indicate that ability to learn from failure is one of the important traits that should be cultivated in entrepreneurs.

Jun et al., (undated) define pro-activeness as the ability to take initiative whenever the situation demands. Proactive behaviour refers to the relationship between individuals