

Inquiries into critical success factors in governing small tourism firm in sustainable rural economics

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Abstract. Small Tourism Firms (STFs) has been acknowledged by scholars as one of the main features for tourism development especially in the area that received rapid urbanization. Knowledge on the influences of urban morphology with the specific references on tourism entrepreneurship had already started on the early 1980s. However, previous effort were only considering on the theoretical and empirical point of view and focusing on the classification of characters in comparison to other form of small and medium enterprises. The existing literature does not literally cover the understanding of growth and failure of STFs especially in the perspective of financial aspects. Thus, this paper examines the financial factor related to growth and failure of STFs that emphasis on the factors affecting the growth of STFs in the accommodation sector. Langkawi has been selected as the study area due to its superiority as one of the best tourism destinations in Malaysia. An in-depth interview method has been conducted with 10 potential respondents in representing the small firms. The result from the thematic analysis shows that aspects such as access to the loans, financial constraint and finance tendency were established in understanding the financial influence towards the growth of STFs. The critical success factor, from the perspective of financial is critical especially for the governance and coordination urban-rural towards balance development.

1. Introduction

The tourism industry has experienced a tremendous growth and become one of the main focuses by the government in diversifying the country's resources. Malaysia shows an increasing number of tourists' arrival of 24.6 million in the year 2010 to 27.4 million in the year 2014. The tourism industry had contributed as one of the key foreign exchange earners for Malaysia where in the year 2014, Malaysia had earned foreign exchange that accumulate RM72 billion. This shows a positive growth about 27.4% in the year 2010. The industry also hired a total of 2.2 million workers or 16.8% from the total of labour workforce in 2013 [1]. At the same time, small business were seen as a competitive sector in generating job opportunities as well as increasing the quality of the socio-economy for a tourism destination especially in urban area [2]. The growth of Small Medium Enterprise (SMEs) in Malaysia between the year 2006 to 2012 had overcome the overall growth of Gross Domestic Product (GDP) where manufacturing and services sector including tourism are involved.

Ritchie & Crouch [3] in their study explained that the business sector in tourism industry for a destination is the resources endowments that offer comparative advantage. Therefore, it needs to be invented and develop so that the resources have a competitive advantage. Apart from that, most of the



tourism destination are developed based on the Small Tourism Firms (STFs) [4, 5]. Looking at the role and importance of STFs in the development of a tourism destination as well as its contributions towards the country's economy, the factors of growth and development should be well studied. This is important in visualizing the understanding of STFs and its contributions towards the growth of rural area that also faced challenges on urbanization. This had somehow influences the growth and opportunity of many rural areas into similar economic business prospect to the opportunity received by the urban area. This is to ensure that the responsible authorities and stakeholders are taking appropriate steps to ensure the success of their development and growth.

As SMEs were seen as a catalyst towards the economic booster in any countries, the government had taken several initiatives to ensure the competitiveness of this sector. In Malaysia, government had spent about RM4.7 billion in 2011 for 183 training program and also provides financial support for the SMEs development including tourism sector [6]. Nevertheless, the financial capital problems were still seen as the main issue in this sector. Due to this, a more comprehensive study on the management of financial capital phenomena for STFs needs to be done in order to see the impacts towards their growth. Hence, the purpose of this paper is to examine the growth factors of STFs by looking at their financial aspects and financial management of the firms. The emphasis will be given to the factors affecting the growth of STFs in the accommodation sector.

2. Small Tourism Firm

Small business or firms are well known as a contributor to the economic development, employment and public health as well as economic prosperity at the national and international levels [7]. In the late 1980s, the World Conference on Microenterprises in Developing Countries, 1988 concluded that the small business sector as an economic cluster that is capable of restoring the Europe economic crisis and has the power to spur the economic growth in developing countries and the Third World. This sector has demonstrated a high multiplier effect in increasing the number of new entrepreneurs and reduced the unemployment rate. This sector also managed to reduce the impact on the quality of the environment and energy resources that are shrinking since the industrial revolution can be recovered and controlled [8].

Small businesses in tourism sector or STF in research field was first seen by researchers from the 1980s. Li [9] in his study found that only 2% from the publish articles in the field of hospitality and tourism management are related to entrepreneurial aspects and no increment was shown in the last 21 years (1996-2006). Research related to STFs was also seen as slow and very limited to be 'under-theorized' and 'under-researched' [5, 9, 10]. Most of the researchers tend to classify similar STFs character like any other small firms' character that are mainly based on manufacturing or production of products that are 'homogeneity' and formal.

Thomas et al [5] mentioned that the used of growth or business development from business discipline theory can basically explain the changes in STFs structures in a more comprehensive manner. It is also seen as a new research field for the tourism academicians. This had also been described in more detailed by Song et al [11] in which the research on tourism economy that have been use neoclassical economics all this while had contributed to a greater understanding of the sector. However, it should be viewed from a different perspective where the integration between economic and other social science disciplines will therefore contribute to the establishment of knowledge in tourism studies.

2.1. Definitions and Character of STFs

As indicated by Thomas R [12], there is no specific definition as to describe STFs. Nevertheless, its main characteristics can be interpreted based on two dimensions namely firm operation and firm ownership. The firm operation is basically referring to the size of the firm. On the other hand, the firm ownership is referring to the ownership characteristic that is often existed in STFs. In general, small firm can be categorized under SMEs in terms of its sizes. There are two indicators that has been well acknowledge by various countries in determining the firm sizes based on the government initiatives and support which includes the number of employee and annual revenue or fixed asset value [13]. Richard

and Xavier [14] also mentioned that tourism business sector is basically representing the products and services provided by the entrepreneurs when referring to the types of activities. They also added that those elements act as the push and pull factors in tourists to explore the variety in experience offered within the tourism destination. Apart from that, there are also four types of business sector related to tourism industry comprises of hotels and accommodations, transportations, ground handlers as well as foods and crafts.

In terms of firm ownership, there are several similarities in the characteristic of STFs as indicated in the previous literature. Retaining the local ownership and local involvements in tourism firm are among of the STFs' identities in any given destination [3, 15-17]. Apart from that, the families involvement as the owner and human capitals in the firm operation are the key resources in shaping the firm identity in many of the STFs [15, 18-20]. The third characteristic in the dimension of ownership is referring to the organizational identity. This can also be referred as the status of the business that have been registered according to the legislation needs. The small size of the firm as well as its simple management aspects had influenced the small business registration which mostly categorized in sole proprietorships and partnership [18, 21-23]. STFs also commonly relate to the lifestyle oriented where lifestyle and personal satisfaction becomes their aim in operating the firms rather than the operational and ownership dimension [24].

2.2. STFs in Malaysia

Based on the Department of Statistic Malaysia [25], there are 239,110 SMEs in Malaysia's tourism sector. The tourism agencies as well as the tour operators and tour guide services were the biggest growth rate, which is 59.7%. This statistical figures are basically centred upon the definition of SMEs used by the government which reflected any firms that do not have more than 75 workers and annual revenue sale not more than RM20 million [6]. There are six categories of business activities under tourism that includes accommodation services, food and beverages services, transportation services, tourism agencies, tour operators and tour guide services, cultural, recreational and entertainment services and others tourism services (e.g. personal care and Salus Per Aqua (SPA), camping site, zoo, museums and theme park) [25, 26].

In line with this, the government had established the National SME Development Council (NSDC). Numerous initiatives had been formulated by NSDC since its establishment such as the application of the standardized SMEs definition; strengthen the institutional frameworks and comprehensive database development, setting up the special SMEs units in each of the ministrations and agencies that involve in the SMEs expansion as well as the establishment of Malaysia SME Corporation.

3. The growth factors of Small Tourism Firm

Based on Rogoff, Lee & Suh [27], determining the concept of growth and failure of STFs is still difficult due to the limited literature regarding this topic although several researchers had attempted to do so. Traditionally, the concept of growth and failures of a business were measured through the performance of financial achievement, growth, acquisition and return investment, sales increment or the growth of job opportunities' [18, 28]. It can also be measured through the expansion of business area or the opening of new branches [29]. Nevertheless, non-monetary factor was referred to an autonomy, working satisfaction as well as the balance between family and carrier satisfaction (Table 1). Generally, factors that were used in measuring the performance of firm growth can be divided into three, which are monetary factor, physical factor and the aims achievement and satisfaction of the entrepreneur (Refer Table 1). Due to the limitations in acquiring the data regarding the financial of the small business, measuring the firm performance growth simultaneously on objectively (monetary and physical factors) and subjectively (non-monetary factors) were seen the most appropriate step [30].

Table 1. Factors in measuring the performance on growth and failure of firm [19, 28, 31, 32].

| Theme | Factors of the performance on Growth and Failure of Firm |
|---------------------|--|
| Monetary Factor | Growth of income, growth of profit, market share, capital, income vs. number of employees, growth of employees |
| Physical Factor | The opening of new branches and the expansion of business area |
| Non-monetary Factor | Lifestyle aims, business aims, financial aims and social aims |

In general, factors that influence the growth and failures of a firm can be categorized into seven factors which are characteristic of owner/entrepreneur, characteristic of firm, business operational practice, financial aspects, business environment, human resource management and government support as indicated in Table 2.

Table 2. Factors That Influence the Growth of Firm [7, 28, 31, 33-36].

| Theme | Factors |
|--------------------------------------|---|
| Characteristic of owner/entrepreneur | Lifestyle and business orientation, working experience, experience in industry, family and parents experience, marketing skills, level of education, age, gender, social and professional networking. |
| Characteristic of firm | Business aims, firm experience, size/turnover, business partner, registration status, organizational networking, business focus, assets, and premises and organizational structure. |
| Business operational practice | Business orientation, business record and financial control, business plan, professional advisor services, product quality, product uniqueness, innovation, the used of recent technologies, research and development, the growth of physical and productivity. |
| Financial aspects | Capital, financial constrain, external financial support, customer purchasing power, tax and bribe. |
| Business environment | Suitability of the products and services, suitability for the business start-up, location, customer reimbursement period, current market trend. |
| Human resource management | Employees' quality, employees 'incentive and welfare, practice, employees' market, employees' initial working place. |
| Agencies and government support | Laws and legislation, government policies, quality control and business support. |

3.1. Finance and financial management

Recently, few researchers has acknowledge the importance of the financial aspects in influencing the business growth [30, 33, 37-39]. Start-up capital, financial loan access, financial gap, financial constraints as well as firm's financial decision were seen as the factors that can give an impact towards the development of the STFs. There are also a need to interpret the cognitive aspects despite of financial constraint to better understand the roles of financial resources in helping the growth and need to explore the relationship between their growth and non-banking resources [5]. This is because; the growth of the small firm is highly dependent on the availability of their internal financial sources [37, 40].

For a closer look at the relationship between the success factor of STFs and financial capital, firm financial constraints need to be examined in the context of STFs itself. Financial constraints are one of the obstacles towards the growth of the small firms from the early stages of its formation until every stage of their development [33, 37]. Previous studies also shows that the ability of firms in obtaining the external financing can affects their growth [30, 33, 37-39, 41]. As a result, they need to rely on internal resource capabilities. Accordingly, their growth rate also depends on the willingness of their internal resources [37, 40].

4. Approach

For this paper, the financial aspects and financial management that contributed to the success of STFs in Malaysia were studied in coastal tourism destinations. Aspects such as financial constraints, access to external financing and financing preference are the foundation in examining factors that influence the growth of the firm. Qualitative methods were chosen as it is often used for inductive i.e. for the purpose of exploration, development of theory and description. In understanding a complex situation, intertwined or transitional phenomena, qualitative methods were found to be very relevant in conducting a research on entrepreneurship [9].

A total of 10 respondents were chosen among the STFs (accommodation sector) in Pulau Langkawi using open-ended, semi-structured, and in-depth interviews. Respondents were selected based on the firms that have been operated for more than 25 years. Langkawi Island was chosen based on the growth record of tourism firms in Malaysia. In Langkawi itself, the number of tourist accommodations firms are relatively high (170 tourist accommodation sector firms) representing 76% of the population in the accommodation sector firms in Kedah State and 5% in Malaysia in the year 2010 [25].

The analysis process was simplified by Atlas.Ti software. Thematic analysis demonstrates the factors affecting the growth of STFs are business goals, capital readiness factors, inheritance preparation factors and conflicts between businesses and families. Based on the thematic analysis, aspects such as access to the loans, financial constraint and finance tendency were established in understanding the financial influence towards the growth of STFs.

5. Empirical findings

The analysis was conducted to see the effect of the financial capital on the business growth rate over the STFs along the period of their development. The growth rate is determined based on the increasing number of rooms since the early stages of their business. These indicators are the basis for the study due to the difficulty in obtaining their financial records as their financial records are relatively weak [19]. The differences in the growth rate of the number of rooms are noticeable among the 10 respondents despite the running years of businesses difference is only 8 years (Refer Table 3). Several factors that affect the growth rate as discussed previously. This paper is purposely focus on the discussion that is devoted to the financial capital of the firm.

Table 3. Profile of respondents

| Respondents | Age of business | No. of Room | Room Growth Rate | Start-up Capital | Expansion Capital |
|-------------|-----------------|-------------|------------------|--------------------------|--------------------------|
| R1 | 32 | 26 | 17 % | Internal fund | Internal & external fund |
| R2 | 26 | 165 | 67 % | External fund | Internal & external fund |
| R3 | 28 | 32 | 2 % | Internal & external fund | Internal fund |
| R4 | 27 | 138 | 69 % | Internal fund | External fund |
| R5 | 30 | 100 | 38 % | Internal fund | Internal & external fund |
| R6 | 34 | 260 | 106 % | Internal fund | Internal & external fund |
| R7 | 28 | 155 | 43 % | External fund | Internal & external fund |
| R8 | 26 | 30 | 3 % | External fund | Internal fund |
| R9 | 30 | 10 | 5 % | External fund | Internal fund |
| R10 | 32 | 45 | 32 % | Internal fund | Internal & external fund |

5.1. Start-up capital

At the early phase of the accommodation sector in Langkawi, most entrepreneurs took their own initiative to develop their business. By leveraging the availability of family land in strategic locations such as in coastal areas and urban centre, they use the internal capital such as their retirement gratuity as well as their own savings in developing the accommodation rooms (R1, R5, R6 and R10). Few years later, government via People's Trust Council (MARA) took the initiative in providing the capital

injections to the land owners as they see a huge potential in accommodation sector especially at the Langkawi coastal area. Based on the convenient financial loans as well as a standardized procedure and concept, every land owner were offered 3 units of accommodation rooms for each of the borrower. This opportunity has been taken by some landowners in Pantai Cenang area (R2, R7 and R8 as well as some other owners who have closed their businesses – based on several factors). This initiative is one of the main factors towards the contribution of local community in the tourism industry (accommodation sector) in Langkawi.

5.2. *Expansion capital*

The increasing number of tourists' arrival in Langkawi is the result on the various programs as well as the policies and the improvement of infrastructure in Langkawi purposely for tourism industry. This had eventually resulted in the increasing demand towards the accommodation sector. This situation urged the entrepreneurs to increase the number of rooms to cater the tourist demand. Maximizing the number of rooms is one of the strategies of entrepreneurs to increase business growth rates. Most respondents said that, the success of their business depends on the number of rooms they have. This is to maximize sales volume during peak times where occupancy rates can reach up to 100%. This rate of sale can offset the limited amount of regular income.

5.2.1. *Business profits.* The sources of their business profits had become the main priorities. This type of sources is the easiest way as they only develop their business by regularly increasing the number of rooms (R1, R3, R8 and R9). This situation also happens due to several factors that become limitations to obtain the financial from banks or other financial institutions. Apart from not being able to comply with the terms of the loans, there are also entrepreneurs who choose not to take loans from banks or financial institutions. Among the reasons given were:

- Do not want to burden family members (beneficiaries);
- Do not want to lose control over their business;
- Do not want their land to be mortgage;
- Worry if they are not able to pay back the loan;
- They have other sources that are easier to get.

5.2.2. *Bank financing.* There are several terms and conditions that need to follow to obtain funding from banks and financial institutions. Three main reasons that prevent them from receiving a loan are:

- Poor business record;
- The development of business premises that are not approved by the authorities;
- Unclear land ownership.

Even though there are entrepreneurs that had successfully get funding (R3, R4, R6 and R9), the loan do not involve the accommodation business that they had work on. Their loan is based on the other land they mortgage or by personal loans. Normally, the amount for this type of loan is very small and they had to use other internal sources to accommodate the higher cost for the room expansion.

5.2.3. *Non-Bank financing.* Due to the high development capital in increasing the number of rooms, there are several entrepreneurs who seek external funding which is not from the bank (R2, R4, R5 and R10). There are also contractors or developers who are willing to develop the accommodation rooms without any advance or other commonly requirements prescribed by the bank. This method is based on the agreement between the contractor and the entrepreneur itself based on the resale price for each room. Although the amount of refund is slightly higher than the rates that have been set up by bank and other financial institution, it can still overcome the problems faced by entrepreneurs based on the loan from bank. However, it should be noted that the trust given by the contractor or developer is selective (not for all entrepreneurs). The trust is based on the previous reimbursement record as well as the recommendation from the entrepreneurs that already gained their early faith. Apart from that, there are

also entrepreneurs that obtain trust from the construction material suppliers by given a tolerance in reimbursement the construction cost periodically. The situation is referring to the entrepreneurs that made the rooms expansion occasionally (R1 and R7).

6. Discussion and conclusions

Based on the findings that have been discussed earlier, the STF's growth and their financial framework were shown in Figure 1. During the start-up stage, internal funds play an important role for the entrepreneur to initiate their career in business. Their efforts to establish business based on their self-determination reveal a high level of commitment that made their business remain in the industries for an extensive time. However, the government initiative in attracting the land owner to involve in accommodation sector was seen as the positive start-up step. Convenient financial loan with business related courses giving the opportunities for the individual that are previously not involving in entrepreneur field to participate in the industry.

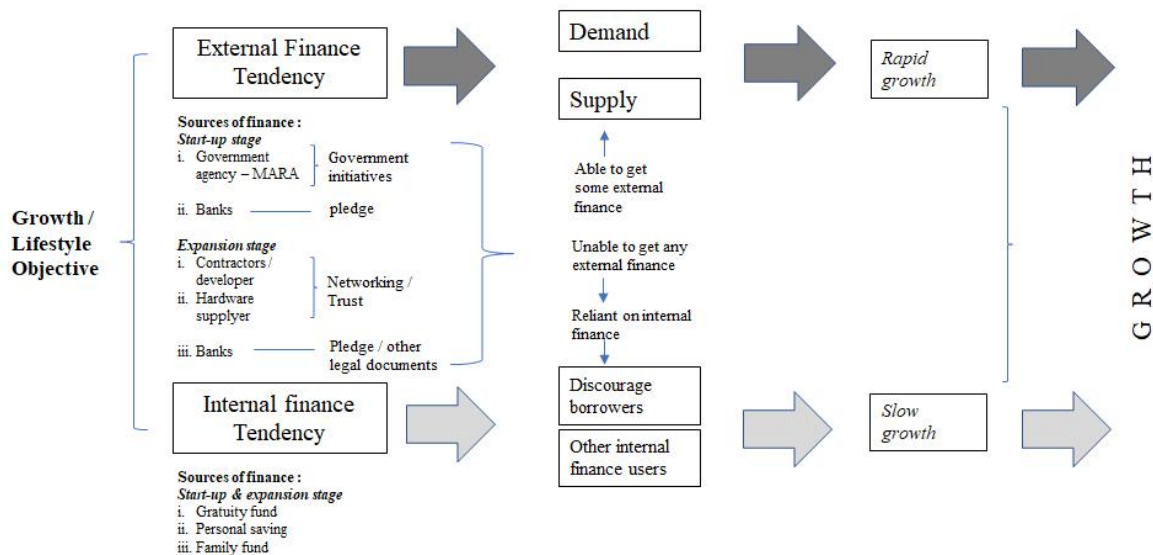


Figure 1. STF's finance and growth framework (Adapted from [29])

The expansion stage was seen as the challenges time for most of the entrepreneur in gaining the capital fund. Higher cost in accommodation room enlargement has forced the entrepreneur to attain the fund from external sources. Even though there are bank loan facilities provided in the market, various limitations had prevented the entrepreneur to get the assistance. The main factor is the land acquisition. Most of the entrepreneurs do not have full authority on the land that they run the business. There are also issue where some entrepreneurs establish their business in the government reserve land. These situations had led to a certain difficulty in obtaining the building and development plan permission from the local authorities. The certificate on the building and development plan permission is a mandatory in receiving the bank loan.

To overcome the situation, the entrepreneurs take the chances given by several local contractors that promote a 'build first, pays later' scheme. The entrepreneur affordability in reimbursing the development cost has given the assurance to the local contractors in providing the scheme without any contract agreement. The entrepreneurs are also confidence to reimburse the loan since the demand for accommodation in Langkawi is extremely high. However, these schemes have a high risk for both parties since there is no legalize agreement been made.

Furthermore, STF's is generally known as family business. Entrepreneurs believed that if there are problems occurs with the banks, the control on the business will be disrupted and has higher chances to be place as collateral. Their main objective to inherit the business to the younger generation also be

stunted. This situation had led the entrepreneurs from choosing a bank loan financial option. In term of their growth rate, it is clearly seen that external fund sources either from bank or others source had become a factor to catalyst their performance much quicker compared to the entrepreneur that are depending on the internal fund sources [29].

STFs have been acknowledged as the main role in boosting the rural economics [42]. Due to this, government need to acts in overcoming several issues identified in order to assist the STFs growth, which indirectly help the rural economies. Aspects such as firm management and business record control need to be observe through either management courses or awareness campaign. The building and development plan permission process also need to undergo specific procedure that can cater the problems face by the entrepreneurs, especially regarding land acquisition.

Apart from that, government should also accommodate a special fund for accommodation in terms of room expansion since it involves high capital. Moreover, it also needs to be supported with a more convenient procedures to gain the entrepreneurs confidence in applying the loans. This study is a fundamental for the comprehensive research on investigating critical success factors for STFs in rural areas. Page et al. [43] further mentioned that with no accurate basic knowledge on STFs research field, aspects in tourism business development and the contributions on research will be interrupted especially in preparation for government policies, tourism future planning and prosperity. This is due to the fact that limited information and analysis on small tourism firm needed has been explored.

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