

## SUSTAINING THE GROWTH OF SME BEACH RESORTS: A CASE STUDY OF PERHENTIAN ISLAND

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**Abstract:** Coral reefs are proved to be valuable resources for resorts and ecotourism operators. This study seeks to understand on how SME typed beach resorts grow in amid of challenges at Perhentian, a famous island destination of Malaysia. SMEs are vital cog in Malaysia's realization to become a developed nation. SMEs in tourism-related industry contribute towards fulfilling future targets of tourist arrivals and expenditures. Similarly, resort, a form of the accommodation sector, plays a significant role in accommodating increase number of tourist arrivals. The authors employed in-depth interview technique on two resorts to gather primary data. Findings indicate that these resorts faced many challenges even though typically SMEs possess low entry level. Challenges range from difficulties in accessing capital, higher operation costs of resourcing utilities like electricity and water to facing external threats like seasonal monsoon and the lack of infrastructure provisions. The outcome of this research would be beneficial to other SME players specifically owners or managers of such resorts and policy makers from the Ministry of Tourism and Culture of Malaysia. Policy makers could further streamline their policies to better facilitate the channelling of loans or funds to potential and new players, stimulating further the SME's arena.

Keywords: Beach resorts, challenges, Perhentian Island, SMEs, tourism.

### Introduction

Many researchers of tourism describe the industry as being actively participated by large business establishments, including multinational corporations. However, smaller businesses also have a prominent role to play in the industry. The industry is dominated by many small to medium-sized (SME) business establishments. Komppula (2009) posited that the tourism supply-side is dominated by small-medium-sized enterprises with fewer than 10 staff. The accommodation sector, which is one of the prime sectors in the tourism industry is also largely comprised of small to medium-sized hotels. The growth of the tourism industry also results in positive outlook to the accommodation sector (Khairil *et al.*, 2008). Tourist arrivals in Malaysia were recorded at 27.4 million in 2014 with RM72 billion receipts (Tourism Malaysia, 2014). However, arrivals decreased a bit when 26.8 million were recorded in 2016. Though, receipts increased to RM82.1 billion

for the same year (Tourism Malaysia, 2017). The accommodation sector contributed 30.3% to the receipts for the year 2014. At large the contribution of the accommodation sector to the Malaysian economy is numerous, which amongst others include an alternative income for rural population, provision of employment, supporting the growth of material and equipment suppliers (Khairil *et al.*, 2008). This paper aims to explore growth attributes of small and medium-sized accommodation establishments, using Perhentian Kecil Island as the setting point. Perhentian is composed of Perhentian Kecil and Perhentian Besar Islands. Both islands are among visitors' favourite for island destinations in Terengganu (personal interview with Kuala Besut's sole tourist officer). These islands, including many others formed the island archipelago, off shore Terengganu. There were 152,195 visitors to both Perhentian Kecil and Perhentian Besar Islands in 2015 (Marine Park, n.d.). Statistics were based on passengers departing Kuala Besut's jetty on the mainland.

## Overview

There are fusions of definition of small and medium-sized enterprises. Thomas *et al.* (1997) denote the UK National Survey of Small Tourism and Hospitality Businesses delimits very small or micro-small tourism and hospitality enterprises as those employing fewer than ten employees while small enterprises as those employing 10 to 49 people. On the other hand, Mackun (1998) notes that small hotels as having 40 or less rooms. Mackun's notation is based on his study on tourism in Italy. On the other hand, the Malaysian National SME Development Council's definition states that micro enterprise has less than 5 full-time employees, small enterprise has 5 to 30 employees while medium enterprise has 30 to 75 employees (NSDC, 2013). Nonetheless, the council's definition is based on two categories; annual sales and number of employees. The council initially came up with an older version of the definition in 2005. The present version has been in effect since 2013. Meanwhile, Main (2001) contends that a micro-sized enterprise is a business whereby its operation and decisions is closely held by its owner. This can be done when the businesses themselves are independent or individually owned. The businesses equities are not publicly traded.

Regarding Malaysia, SMEs form the backbone of the country's industrial development (Rafidah & Norfaridatul, 2013). The government formulated SME Masterplan, 2012-2020 as a 'game changer'. The government wants to boost the growth of the SME sector and ensuring the sector as one of the economic clusters to be spurred on in order to make Malaysia as a high-income country by the year 2020 (SME Corp Malaysia, 2017). In parallel, as an extension of Malaysia's Economic Transformation Programme (ETP), the Malaysia Tourism Transformation Plan (MTTP) stated an outline that see a strategy to strengthen the capacity of small and medium companies of tourism services as well as to support the growth of companies that produce tourist attractions, hotels and resorts and shopping

facilities (PEMANDU, 2009). Furthermore, the government encourages small businesses as the seedbed of entrepreneurial talents development.

In a different perspective, tourism related SMEs contribute by creating employment, creating new market (Page & Brunt, 2001), dispersing economic power base through industry ownership and raising productivity (Khairil *et al.*, 2012). Employment would be in the forms of full-time workers and part-timers. In particular, the tourism industry is susceptible to seasonal conditions whereby more part-timers would be hired to cope with influx of arrivals which results in high demands for facilities and services. Dispersing economic power base would consider that more people would be able to own small enterprises and as such be their own bosses.

Often, SMEs foundation is underpinned by varied capital resources (Shaw & Williams, 1990). Ferreira *et al.* (2011) added that this has to do with scarcity of resources especially during the business inception days. Business managed to sustain their presence through positive personal attitude and abilities to manoeuvre through adversities and challenges. This happens when banks are reluctant to give loans to people who are new to operating businesses.

Chen and Chen (2017) on the other hand, note that marketing is part of the fundamental strategy used in tourism industry. In parallel, Teoh and Chong (2008) posit that entrepreneurs of SMEs use information technology to access to market and networking. This is far cheaper comparing to traditional on-the-road promotion or marketing practice. Training too takes an informal approach. Small accommodation does not provide formal training due to the cost involved (Khairil *et al.*, 2012). Furthermore, the number of staff they employ is just a handful. This does not permit one to cover the task left behind by training-bound employee because the former had their hands full already. In general, the operations of SMEs are managed by the owners and their few staff. Multitasking is often the rule.

SMEs are vital cog of future's Malaysia economy. Their potential and ability to spin-off the economy placed them under top government's agenda. Learning to understand how these SMEs grow or in other words what nourish them is pertinent.

### **Methodology**

The authors use the Malaysia National SME Development Council's definition of SME for this study. Face-to-face in-depth interviews were used to gain rich data which allows a thick description of the phenomenon. Thick description instils a formulation of a thorough and comprehensive descriptions of the phenomenon researchers are addressing (Kitchin & Tate, 2000). Using face-to-face in-depth interviews ensure a rich contextual data whereby the dynamic characteristics of the tourism industry can be subtly exposed. "The 'coverage' of tourism in regional science and regional economic development theories, or deep and perceptive analytical research (of a theoretical, or empirical nature and at a micro or macro level) which relates the phenomenon of tourism growth to the development process, seems increasingly necessary in order to advance further" (Komilis, 1994, p. 65).

The authors randomly selected two resorts at Perhentian Kecil Island using "Travel Guide Terengganu: Culture, Arts and Heritage" published by the Terengganu State Government (Secretariat Beautiful Terengganu, non-dated). The guide has a list of resorts at Perhentian Kecil and Perhentian Besar. Resorts were contacted through telephone before follow-up interviews were conducted. Both resorts are located on Perhentian Kecil Island. Resort A is in Coral Bay, facing west or the mainland and Resort B is in Long Beach also locally known locally as Pasir Panjang, facing the east and more exposed to the open sea. Interviews were conducted with the owner of Resort A and the manager of Resort B. Both interviews lasted for approximately one-half hours. Observations of the premises' facilities and services were also conducted. Interviews were tape recorded and transcribed.

Open and axial coding were utilized to identify themes (Corbin & Strauss, 2008). Fictitious names are given to interviewees to provide anonymity. Interviews and visual observation were done to seek pertinent information regarding factors that contribute towards the growth of the resorts.

Resort A possesses 24 individual rooms and a dormitory each for male and female clients. These fully air-conditioning dormitories can accommodate 25 people each at one time. Resort B has 25 rooms plus a co-ed dormitory with 22 double-decker beds.

### **Results and Discussion**

Results on the links between growth variables of resorts and the apparent aspects of island's environment will be shared here. Exempts included provide powerful evidence of narrative analysis of subject matter. The factors that contribute toward the growth of resorts are apparent.

#### ***Means of Accessing Capital***

Both resorts had difficulties in sourcing funds from the banks or financial institutions. The banks had the notion that these businesses faced high risk when located in island. They were not willing to give loans amounting to what were requested. Respondent B noted that:

*"If you mention island, they will instantly say no. They know themselves...the cost is huge, not to mention the risks... we ask for RM300,000 loan but they said they can only give us RM70,000...what can we do with RM70,000, how can we do the business...how would we run the chalet...is it right?" (Manager of Resort B)*

The owner of Resort A had similar difficulty but within a different context when applying for loans from the banks.

*"Back then we tried to make loans... after going to the bank, they [banks] said we must have the basics first..."*

*back then we had nothing, but they wanted the basics first. All of them... [Bank A], [Bank B]... all of them want the basics" (Owner of Resort A)*

It made harder for the owner to start his business from zero. The banks were asking for the owner to start the business first. Once some form of business has took off only then they were willing to give loans. The owner and his wife resorted to their personal savings and the selling of the wife's precious possessions, jewelleries for cash.

*"We build 10 rooms at first, the chalet. After 2 years we build the restaurant... after some 3 to 4 years we added some more rooms... All by cash. But now, the banks want to offer...all of the banks chasing to offer us their loans, but I said no." (Owner of Resort A)*

The owner of Resort A further added:

*"We think about business, but the charge... If we can avoid that, we will try to. It is much easier to build by our own money... No confusion, there are no monthly instalments that we have to pay to the banks."*

By varying his capital resources, the respondent managed to not only kick-start his business but also grow from it. This indicates the owner's entrepreneurship spirit, perseverance and self-reliance. Now, besides the chalet rooms, Resort A also has a restaurant, a small provision shop and a business arm that deals with boating activities that include snorkelling. On the other hand, these two resorts which are among the many small resorts in Perhentian Kecil Island show case a low entry barrier with regard to capital. Similarly, Shaw and Williams (2002) noted the domination of small tourism-related enterprises, reflecting the low entry barriers regarding to capital.

#### ***Simple Promotion Activities and Inclination towards Usage of Information Technology***

Interviewees were asked about their promotion activities. Manager of Resort B said,

*"We do not have a lot of promotion going on, we just use Facebook page and Instagram account...we make our own video to put in Instagram... I have a background in video making... Faiz [a fictitious name for the Director of the resort] have it too... It is our own interest to make the videos... Because of our room capacity is not many, just 25 rooms. So, if we can handle 25 rooms on our own, why do we have to give other people to be paid to do the [promotion] job... We don't even use AGODA."*

AGODA is a third-party provider of accommodation booking services, whereby participating accommodation type enterprises are charged for their services. The manager of Resort B also added that there was another form of promotion.

*"On Aidiladha, RTM wants to come here... they want to make a documentary about Mazan [the resort's fictitious name]. There is request from RTM. We do not know how they get the information about us. Maybe one of them stayed here once. It is free promotion for us."*

As such, there is no money involved in promoting the resort. Moreover, the rooms are usually fully occupied during weekends as the manager claimed. Therefore, the resort does not have to be aggressively marketing its products. They know people would still be coming. This notion goes against Ferrera *et al.*, s'(2011) idea that small businesses in the service sector have marketing as the biggest problem.

*"On weekend, this island is fully booked." (Manager of Resort B)*

The owner of Resort A also shared the same notion.

*"My daughter... She put our business on the Internet... Blogspot."*

Technology comes in handy for these owner and manager of resorts. The word-of-mouth

is also one of the ways Resort B promotes its facilities and services.

*"The international tourists know this place by word-of-mouth... like us, our style is more for backpacker's style. For example, there are tourists from Thailand, transit here in Malaysia, they know about Perhentian, so they come here... so 40% are internationals [tourists]. Right now, is summer holiday, there are many tourists who just walk-in here."*

Passive form of promotion is also done as respondent B remarked:

*"Tourism Terengganu once contacted us... They got our chalet in their price list."*

Tourism Terengganu is the local chapter of Tourism Malaysia or officially known as the Malaysia Tourism Promotion Board. The latter's task is to promote Malaysia as a destination for international and domestic tourists.

According to Thomas *et al.* (2011) the United Kingdom National Survey on small tourism and hospitality forecasted that the Internet would be used more often as entrepreneurs of these enterprises started to realize its potential. Evidence from the field interviews confirm this forecast.

### ***Informal Training and Hiring of Family Members and Part-timers***

Training for new arrivals is informal in nature.

*"It is just informal training. That's it."* (Manager of Resort B). The manager continued *"If the pipes got broken, we do the repair together."*

Resort A on the other hand hosted a local university student who did an internship with them.

*"Ahh...there was once, last month... from [Universiti A]... there was one student... She cleaned the rooms. We also accept practical students... hotel division too"*

This indicates the trust that local higher institution of learning gave to Resort A with regard to students who are novice to the industry.

Locals and family members formed significant labour workforce in the resorts.

*"The resort has seven employees... one female, the cook and six males... immediate and distance relatives between themselves."* (Manager of Resort B)

*"There are 22 employees... Part-timers mostly. There are only two at the chalet. The jobs are to clean rooms and tidy up the area... the maintenance person is my in-law. The one that cleans rooms... my own daughter. It is like more of a family business."* (Owner of Resort A)

*"Those who work here, they are just on their semester break...they come, mostly from Besut"* (Owner of Resort A)

*"The full-timer at the room division, the rests are at the restaurant."* (Owner of Resort A)

Similarly, Mackun's (1998) study of the tourism industry in Italy noted of the utilization of local workforce. The resorts also employ informal labour force in the form of part-timers, apart from employing some full-timers. This conforms to Lafferty and Van Fossen's (2001) notion that the service sector is dominated with part-time workers.

### ***Coping with High Cost of Producing Basic Utilities***

A significant of the operation cost goes to the provision of electricity whereby SME resorts have to rely to their own ability and capacity to produce electricity at their premises. Electricity is needed to provide lights during night time and to run the air-conditioning and other electrical appliances. Tenaga National Berhad (TNB) only supplies electricity to households, an elementary school, a clinic, a mosque, shops and other forms of premises at the village.

*"The island has no electricity except at Kampung Nelayan. Other places just use their own electricity... the government did not support the local."* (Owner of Resort A)

*"We use our own electricity. We use generator sets. The generators run on diesel. The diesel cost is RM4,500 per month, the maintenance is around RM1,500 per month. We have to prepare for the diesel... We have to have spare diesel. If we do not have it, it will be dark at night. We use the diesel every day. We cannot operate if there is none... Ahh we have 9 air-conditioned rooms. There are 24 rooms, 9 of which are air-conditioned, the rest just use fan."* (Owner of Resort A)

*"The electricity is running 24 hours a day, but we have to change the generator... Until now we just have 3 generators. We change every 7 hours, otherwise the generator got hot and may cause problems."* (Owner of Resort A).

*"The highest cost. That is on electricity. We need to generate electricity."* (Manager of Resort B)

*"20 hours a day for electricity. It depends on the season. If March to May, we allocate 15 hours a day. Then, enters June to September, we supply 20 hours per day for electricity. We shut down for 4 hours because we use generators. The cost is also not the same... March to May, the price is lower. The high season from June to September, the price is higher. It depends on the sea condition. March to May the sea is choppy. The sea gets calmer from June to September."* (Manager of Resort B)

The resorts must pay logistical charges to transport diesel purchased from the mainland. Diesel is transported in barrels by boats or ferries. The manager of Resort B really put high hope for TNB to provide electricity supply as he gestured,

*"TNB... Ahh we really put high hope... because it [producing own electricity] the highest cost that we have to bear... It does not matter if it is for commercial purpose. We will pay, the cost won't be that high as we are paying now... We have to utilize heavy man-power to transport diesel barrels from the boats to up here."*

Resort B is not beach fronted. Therefore, one has to walk further inland from the beach.

Clean drinking water is supplied from the mainland via submarine pipes to Perhentian Kecil Island.

*"100% [clean purified] water comes from the mainland. Our restaurant uses this water. That is why KKM [Kementerian Kesihatan Malaysia] checks the restaurant. When they do their checking and found someone using bore water, the premise will get summon."* (Manager of Resort B).

However, supply of this clean purified water from the mainland is often interrupted. The northeast monsoon season lashes this part of region from October to January of the following year. The sea is choppy with high and strong waves which make beach and boating activities dangerous during this time. Strong undercurrent also resulted in some parts of submarine pipes which supply clean water from the mainland broken or aground or washed ashore.

*"Always interruption... As usual, because of the sea. Earlier this year, some pipes were scattered right in front [of us] by the beach."* (Manager of Resort B)

*"Once in 6 months perhaps pipe would be broken. It depends on the pipe, if it is not strong it is going to break. It is bad during flood season. The pipe which is submerged underground would be exposed. They did not dig deep."* (Owner of Resort A)

The adversity posed by the northeast monsoon resulted in almost all resorts close their operations towards the end of the year and into the early part of the following year. This is also the time the resorts give their employees needed break. At a broader scale, Ayscue *et al.* (2015) opined the important of relying to forecast and weather-related information for coastal tourism businesses.

## Conclusion

The results of this research which focuses on beach type SMEs confound previous research by scholars on SMEs dealing with provisions of accommodation. The means of accessing capital is informal whereby immediate family members apart from personal savings are the source of capital when helps from banks did not materialized. Similarly, beach resorts use simple promotion activities spurred by client's word-of-mouth and inclination towards usage of Internet based facilities like Facebook and blogs. These do not cost the resorts a penny. Hiring immediate family members and part-timers are the norm. Training employees is informal. While maintaining of facilities are by the means of 'fix it' ourselves. However, these beach resorts are susceptible to high operation cost brought about by the lacked of infrastructure like provision of centralized electricity supply. Even government assistance in providing clean drinking water from the mainland through undersea pipes at times is interrupted due to mother nature in the form of the northeast monsoon. This is the reality that SMEs located in isolated geographical areas have to bear comparing with their counterparts located in urban economic centres. "An organization being depended on the environment is not in itself a problem, as long as the flow of required resources is stable and assured. Problems arise when flow of resources become uncertain" (Khairil *et al.*, 2008, p.60). Nonetheless, this research is not without its limitations. The few interviews involved curtail the advancement of findings, suggesting for more resorts to be involved in future research. Future research should also

focus on other islands of Malaysia, expanding the geographical coverage.

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