

Key Issues on Managing Small and Medium-Sized Accommodation Businesses: An Exploratory Study

Jennifer Kim Lian Chan* and Wei Boon Quah

School of Business and Economics, Universiti Malaysia Sabah, Sabah, MALAYSIA.

There has been a rapid growth of small and medium-sized accommodation (SMSA) in Sabah, Malaysia due to the growth of the tourism industry. Despite this, there has been a limited understanding of small and medium-sized accommodation with regards to its operational issues. Thus, this paper aims to report qualitative empirical evidence on the operational issues and challenges faced by the hotel industry, particular that of the small and medium-sized accommodation business in Sabah. The objectives of the paper are: (a) to explore key issues and challenges faced by the hotel industry, particularly that of the small and medium-sized accommodation business in Sabah and (b) to compare the key issues and challenges faced by the hotel industry in general as documented by literature. In-depth interviews were conducted with 95 small and medium-sized accommodation operators in Sabah. The findings revealed five key issues faced by the said operators, which are: (a) increasing new hotels, (b) human resource issues, (c) government regulations and policies, (d) seasonal demand issues and (e) operational issues. The major challenges faced by operators are related to competition, financial issues, human resource, government regulations and policies, customer service and satisfaction, and marketing. The paper points out that the key issue and challenge is the intense competition faced due to the excessive supply of small and medium-sized accommodation; resulting in low occupancy and in turn the lack of sufficient capital to sustain itself or to compete with new competitors. These findings correspond well with previous studies on issues and challenges faced in hotel industry. The findings provide better understanding for the management and operation of the small and medium-sized accommodation business; which are useful for the small and medium-sized enterprise (SME) investors and the state government in the effort to improve the performance of small and medium-sized accommodation businesses.

Key Words: small and medium-sized accommodation business, Sabah

Introduction

Tourism industry has become an important source of revenue for Malaysia's economy and revenue from the tourism industry has almost doubled in the period between 2001 and 2005 (Ninth Malaysia Plan 2006-2010, 2006). The active role of the Sabah Tourism Board in promoting Sabah as a global tourism destination and the increase of direct flights from major cities, namely Tokyo, Seoul, Taipei, Hong Kong, Macau and Los Angeles to Kota Kinabalu (Malaysia Airlines, 2008; Air Asia, 2008), as well as the increase in hotels and resort development have boosted the tourism industry in this state. This phenomenon has caused an

* Email: jkimchan@yahoo.co.uk

encouraging growth in tourist arrivals to Sabah. Hence, the number of hotels in Sabah, Malaysia from 2005 until 2007 has grown from 228 to 239 as presented in Table 1 (Sabah Tourism Board, 2008). Based on the statistics listed by the Research Division of the Sabah Tourism Board, an increase was noted in the numbers of small and medium-sized accommodation (SMSA) operators, rated Orchid and Non-Orchid by the Ministry of Tourism Malaysia. These small and medium-sized accommodations form large numbers in the hotel industry in this region (Sabah Tourism Board, 2008).

Table 1: Number of Small and Medium Size Accommodations in Sabah from 2005 to 2007

Hotel Rating	Number of hotels in 2005	Number of hotels in 2006	Number of hotels in 2007
3 Orchid	7	7	7
2 Orchid	4	4	4
1 Orchid	9	9	9
No Rating	208	215	219
Total	228	235	239

Source: Sabah Tourism Board (2008)

The accommodation/lodging business is a very unique industry. Keiser (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 emphasizes consistency of service and high productivity. Clearly, the rapid growth in the number of accommodations in Sabah poses different challenges to small and medium-sized accommodation (SMSA) operators in many ways. Previous studies reported limited financial assistance, competition or overcapacity, lower room occupancy rates and lack of government support as challenges identified by the hotel operators (Quah and Chan, 2008; Zapalska and Brozik, 2007; Saleh & Ndubisi, 2006; Joubert, 2004; Gu, 2003; Nuntsu and Tassiopoulos, 2002; Sharpley, 2002; Yeoh & Chan, 1998). Nevertheless, it is not certain that these challenges are applicable to small and medium-sized accommodation (SMSA) in Sabah. Furthermore, there has been little discussion about the hotel industry, especially that on small and medium-sized accommodation (SMSA), with regards to its operational issues in Sabah. Thus, the objective of this paper was to explore key issues and challenges faced by the hotel industry especially that by the small and medium-sized accommodation business, in Sabah and to compare these key issues and challenges to that faced by the hotel industry in general as documented in literature. The findings provide a basic understanding of managing small and medium-sized businesses and also provide useful information for potential investors and state governments in improving small and medium-sized accommodation (SMSA) business performance.

Small and Medium-Sized Accommodation (SMSA): Definition and Categories

There is no universally accepted definition of the term “small and medium-sized accommodation” (Morrison & Conway, 2007; Morrison & Thomas, 1999); and there has never been a consensus on the criteria to be used to define SMSA (Cunkin & Smith, 2000). However, Buhalis and Main (1998) defined small medium-sized hotel organizations (SMHOs) as enterprises offering less than 50 rooms and employing fewer than ten people - which differ from small and medium enterprises (SMEs). As pointed out by Ingram *et al.* (2000), a small hotel can be defined as one having up to 50 rooms, a medium-sized hotel can be defined as one having 51–100 rooms and a large hotel is one having over 100 rooms. Similarly, in the Malaysian context, there is no specific definition for SMSA, and SMSA

includes categories of bed and breakfasts, backpackers' lodges 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 is generally applicable to SMSA. The Orchid rating assessment is applied to tourist accommodation premises with basic facilities which include good, safe and clean accommodation and a friendly hospitable atmosphere.

Key Issues and Challenges Faced in Managing Accommodations

Previous studies discussed challenges faced by the hotel industry without clearly differentiating such challenges into categories. A number of studies have found that a low occupancy level is a major challenge for hotel operators (Gu, 2003; Sharpley, 2002; Yeoh & Chan, 1998). Gu (2003) discussed in his study that overcapacity or oversupply of hotel rooms is also one of the challenges noted in the Chinese lodging industry. On the other hand, Sharley's (2002) study identified a variety of challenges – lack of support from the government in terms of bank loan facilities; lack of training provided relating to specific business and service skills development; lack of facilities and attractions in tourist areas and ineffective marketing. Other challenges identified in previous studies were related to financial issues such as lack of access to finance, financial environment and difficulty in obtaining funding for the business (Zapalska and Brozik, 2007; Joubert, 2004; Nuntsu and Tassiopoulos, 2002).

Previous studies have reported that the challenges faced by business accommodation operators are similar to that mentioned by Sharpley (2002) and Yeoh & Chan (1998), namely lower room occupancy rate; limited access to finance and capital and lack of skilled workers. However, Yeoh and Chan (1998) identified further challenges in their research, namely high staff turnover; higher food and beverage costs; power and water supply disruptions; present economic downturn and slow industry growth; high fixed operation and capital costs; lack of product differentiation and transportation and technology. These challenges faced were identified from three categories of accommodation; budget accommodation; one, two and three-star hotels; and the four and five-star hotels in Sabah and Labuan.

In the same vein, the Small and Medium Industries Development Plan (2001-2005) (SMIDP) (SMIDEC, 2002) highlighted new domestic and global challenges facing Small and Medium Enterprises (SMEs) in Malaysia. These challenges are detailed below:

- Intensified global competition
- Newly emerged technologies (which develop SMEs' capacity to adopt and adapt appropriate technologies)
- Changing export competitiveness (competition from other producers)
- Limited capability to meet the challenges of market liberalization and globalization
- Limited capacity for technology management and knowledge acquisition (technology and knowledge investments)
- Low productivity and quality output
- Shortage of skills for new business environment
- Limited access to finance and capital, and the infancy of venture funds in initial or mezzanine financing (difficulties in securing credit)
- The high cost of infrastructure
- A general lack of knowledge and information

Several previous studies on challenges faced by hotel managers are summarized below (taken from Longenecker and Popovski, 1994; Barnes et al. 1997).

- Financial problems, such as lack of capital, cash flow difficulties, inflation and exchange problems.

- Customer problems, such as customers going out of business or being unable to pay their bill, inability to attract new business or customers switching over to competitors.
- Operational problems, including poor productivity and bureaucratic inefficiencies, material shortages, logistical problems, communication breakdowns, lack of modern technologies and lack of financial and informational controls.
- Personnel problems, including poor morale, excess workers, poorly-trained workers, lack of employee involvement and motivation and lack of skilled supervisors and managers.

Clearly, this implies that hotel operators of different categories are facing a wide range of challenges despite the industry being at rapid growth stage. From the management perspective, it is vital to understand the key issues and challenges faced by the hotel industry, especially by the small and medium-sized accommodation business in Sabah in effort to improving the business performance; and thus able to overcome these key issues and challenges faced within the small and medium business context.

Research Method

This paper describes exploratory qualitative research which is undertaken with the objective to explore an area where little is known (Kumar, 2005). In addition, this exploratory research aims to explore key issues and challenges faced by the hotel industry, focusing especially on the small and medium-sized accommodation business in Sabah, Malaysia. The data gathering technique used is in-depth interview. Marshall and Rossman (1995) pointed out that the interview technique is considered appropriate for gathering behavioural data and this is the most commonly used technique among qualitative researchers to gather information. Moreover, Veal (1998) highlighted that in-depth interviews seek to probe more deeply than a questionnaire-based interview. The use of in-depth interviews encouraged respondents to further explain and clarify their answer (Veal, 1998). A purposive sampling method was adopted. The sample size consisted of 95 SMSA operators located in five administrative divisions in Sabah – Kudat, West Coast, Interior, Sandakan and Tawau divisions, comprising 19 districts (Figure 1 Sample size from five administrative divisions). The SMSA operators were contacted using e-mail, fax and phone. Once they agreed to become a respondent, an appointment for interview was made. In-depth interviews, based on open-ended semi structured questions, were conducted face-to-face between respondents and researchers. The in-depth interviews were recorded via note-taking and took an average of 45 minutes. The interviews continued until the level of saturation have been reached – meaning no new information is obtained thereafter. The respondents were asked the following information: (1) demographic; (2) business profile and (3) the key issues and challenges faced in managing their small and medium-sized accommodation businesses in Sabah.

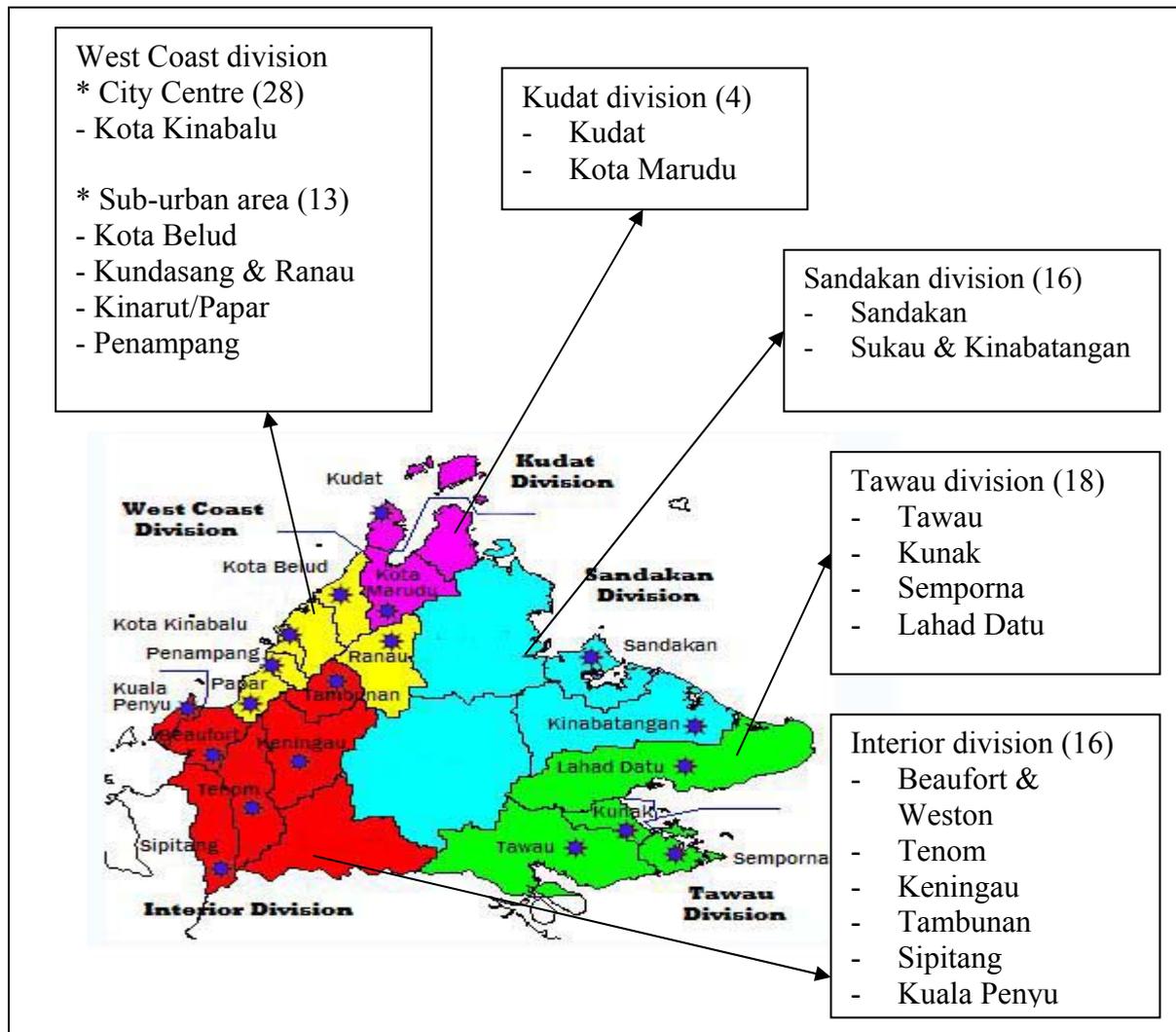


Figure 1: Sample Size from Five Administrative Divisions

Data Analysis

A total of 95 in-depth interview transcripts were analysed using a qualitative-phenomenological approach as the qualitative analysis technique. Coding was mostly based on a single phrase or significant meaningful statements that generated themes related to the research questions. Key themes and patterns emerged from the coding process. The interviewed responses were read and re-read, and analysed by drawing out the key themes and variables relating to the descriptive themes – namely, key issues and challenges faced by SMSA businesses. The key issues faced by SMSA businesses were categorised based on previous studies done by Nuntsu and Tassiopoulos (2002) (increasing new hotels); Longenecker and Popovski (1994) (human resource issues); Zapalska and Brozik (2007) (government regulations and policy issues); Carlsen and Getz (2000) (seasonal demand and operational issues). The major challenges faced by SMSA businesses were categorised based on previous studies performed by Zapalska and Brozik (2007) (competition, financial issues, government regulations and policies and marketing); Yeoh & Chan (1998) (human resource issues); Prabhu (1996) (customer service and satisfaction). The key issues and challenges faced by SMSA businesses identified from the data were grounded in respondent's own descriptions, which is consistent with inductive analysis. Thus, this enhances the reliability and validity of the research.

Findings and Discussion

Table 2: Profile of SMSA Operators and Businesses

Demographics		
Gender	Frequency	Percentage (%)
Male	80	84.2
Female	15	15.8
Total	95	100.0

Education level	Frequency	Percentage (%)
Primary	2	2.1
Secondary	38	40.0
Diploma	19	20.0
Degree	21	22.1
Master	5	5.3
No education	10	10.5
Total	95	100.0

Previous experience	Frequency	Percentage (%)
< 5 years	13	13.7
5 – 10 years	2	2.1
> 10 years	11	11.6
No experience	69	72.6
Total	95	100.0

Accommodation		
Types of accommodation	Frequency	Percentage (%)
Bed & breakfasts/backpackers	15	15.8
Budget	61	64.2
Lodge	19	20.0
Total	95	100.0

Years in operation	Frequency	Percentage (%)
< 5 years	30	31.6
5 – 10 years	25	26.3
> 10 years	40	42.1
Total	95	100.0

No. of rooms	Frequency	Percentage (%)
< 5	6	6.3
5 – 10	21	22.1
11 – 15	20	21.0
16 – 20	14	14.7
21 – 25	14	14.7
> 26	20	21.0
Total	95	100.0

Table 2: Profile of SMSA Operators and Businesses (Contd.)

No. of employees	Frequency	Percentage (%)
< 5	33	34.7
5 – 10	35	36.8
> 10	24	25.3
No employees	3	3.2
Total	95	100.0

Rating category	Frequency	Percentage (%)
1 orchid	8	8.4
2 orchid	1	1.1
3 orchid	5	5.2
No rating	81	85.3
Total	95	100.0

It is surprising to note that the majority of SMSA operators had no previous experience in managing accommodation. However, a few had 5 years of previous experience. Generally, most SMSA operators were well-educated; the majority had reached university level. Most SMSA operators were male in the age range between 30 to 50. Indeed, majority of the SMSA operators claimed that their establishments were operating under budget category; and their establishments have operated for more than 10 years. In term of number of rooms, most of the SMSAs offered 5-10 rooms; and a few SMSAs offered less than 5 rooms. Most of the SMSAs have 1–10 full-time staff. There is a significant number of the SMSA establishments are not included in the orchid rating classification; many operators seemed unaware of the rating or showed no interest in having their accommodation rated.

Key Issues and Challenges Faced by Small and Medium-Sized Accommodation Businesses

The interview responses reported five key issues and six challenges faced by SMSA operators. These issues and challenges emerged from the responses as represented in Table 3 and Table 4 below. The key issues faced by SMSA businesses were categorised based on previous studies by Nuntsu and Tassiopoulos (2002) (increasing new hotels); Longenecker and Popovski (1994) (human resource issues); Zapalska and Brozik (2007) (government regulations and policy issues); Carlsen and Getz (2000) (seasonal demand and operational issues).

Table 3: Five Key Issues Faced by Small and Medium-Sized Accommodation Businesses in Sabah

No.	Key Issues	Interview Response Themes
1	Increasing new hotels Nuntsu and Tassiopoulos (2002)	Increasing competition/new hotels
2	Human resource issues Longenecker and Popovski (1994)	Unaffordable skilled worker salaries Lack of communication skills
3	Government regulations and policy issues (Zapalska and Brozik, 2007)	Operating within unfriendly government policies Lack of government support Operating under confusing government guidelines
4	Seasonal demand issues	Lack of customers at low peak season

	Carlsen and Getz (2000)	Lack of customer demand
5	Operational issues Carlsen and Getz (2000)	High operation costs Long operation hours High costs involved in the hotel/hotel property maintenance Unbearable upgrading cost for facilities

The eight challenges faced by SMSA businesses emerged from interview responses were categorised based on previous studies by Zapalska and Brozik (2007) (competition, financial issues, government regulations and policies and marketing); Yeoh & Chan (1998) (human resource issues); Prabhu (1996) (customer service and satisfaction), as presented in Table 4 below.

Table 4: Challenges faced by Small and Medium-Sized Accommodation Businesses in Sabah

No.	Challenges	Interview Response Themes
1	Competition (Zapalska and Brozik, 2007)	Hard to maintain occupancy rate Price war Competition from other accommodations
2	Financial issues (Zapalska and Brozik, 2007)	Limited financial assistance Insufficient capital to grow/expand
3	Human resource issues (Yeoh & Chan, 1998)	Difficult to employ skilled and trained workers and to employ honest, trusted workers
4	Government regulations and policies (Zapalska and Brozik, 2007)	Compliance with government regulations and standards Difficulty in license application
5	Customer service and satisfaction (Prabhu, 1996)	Difficult to fulfill customer needs and wants Dealing with a wide variety of problems Providing high service quality to guests
8	Marketing (Zapalska and Brozik, 2007)	Hardship in providing ongoing attraction Hard to provide effective promotion and marketing strategies

In short, the empirical findings revealed five key issues: increasing new hotels, human resource issues, government regulations and policy issues, seasonal demand issues and operational issues as shown on Table 3 above. A significant number of interview responses cited that the main issue faced in managing their accommodation business is competition (new competitors, intense competition and price war). Human resource issues such as unaffordable skilled worker salaries and lack of communication skills appeared to be the second issue. Government regulation and policy issues (lack of government support /financial assistance, operating within unfriendly government policies, operating under confusing government guidelines) emerged as another key challenge in managing SMSA business, as pointed out by many SMSA operators (*Interview informants 46, 57, 70 & 93*). One of the issues which emerged from this study was seasonal demand. It is not surprising that the accommodation industry is facing a seasonal demand issue, meaning that there is a lack of customer demand, or there were no customers at all, during the low-peak season as stated by a few SMSA operators. Operational challenges such as high operation costs, high costs involved in the hotel/hotel property maintenance, unbearable upgrading cost for facilities and long operation hours were also pointed out as an issue for SMSA operators. A few operators indicated that the low occupancy rate experienced and minimal profit generated

by their business made it difficult for them to cover the high fixed operation costs. Operators also found it necessary to sacrifice most of their time in operating and managing the business due to the long operation hours.

Similarly, the paper points out the six challenges in managing SMSA - competition, financial issues, human resource issues, government regulations and policies, customer service and satisfaction as well as marketing as reported in Table 4 above.

A significant number of interview responses cited that the main challenge faced in managing their accommodation business was competition (new competitors, many competitors and price war). Competition was increased by rivalry amongst the growing number of small and medium-sized accommodations; which is the major challenge expressed by the majority of SMSA operators in Sabah. Financial challenges such as limited financial assistance and insufficient capital to grow/ expand was cited as the second challenge. The responses indicated that many operators experienced financial problems in operating and sustaining their business. Human resource issues with reference to shortage of skilled, trained, trusted and honest workers seemed to be the third challenge. Some SMSA operators stressed that it was hard to employ skilled and trained workers. Other operators indicated it was not easy to obtain trusted and honest workers. The government regulation and policy challenge (too many government regulations or policies to follow, long time-frame in license application for SMSA business) emerged as another key challenge in managing SMSA business, as pointed out by many SMSA operators (*Interview informants 35, 72 & 84*). Hospitality is a service-based industry, thus customer service and satisfaction also emerged as one of the challenges for the SMSA operators. Some of the SMSA operators expressed that to entertain guests, to ensure guest satisfaction and to fulfill guests' needs and wants were challenges for them; especially so when different guests have different expectations, needs and wants. Likewise, marketing was also a challenge for SMSA operators. SMSA operators explained their difficulty in having effective marketing and promotion strategies to attract more customers to stay at their accommodation.

These key issues and challenges seem to suggest that external environment challenges have stronger impact than internal organization challenges. As a result of strong competition, lacks of competent human resource issues and complicated government regulations and policies have become obstacles for SMSA operators in managing their businesses. Evidently, the identified five key issues and six challenges faced by SMSA operators in Sabah correspond with several empirical studies (Zapalska and Brozik, 2007; Joubert, 2004; Gu, 2003; Nuntsu and Tassiopoulos, 2002; Sharpley, 2002; Carlsen and Getz, 2000; Yeoh & Chan, 1998; Longenecker and Popovski, 1994). Gu (2003) discussed in his study that overcapacity or oversupply of hotel rooms was also one of the challenges in the Chinese lodging industry. The present study confirmed that a similar issue was faced by the SMSA operators in Sabah. Sharley's study (2002) identified a variety of challenges – lack of support from the government in terms of bank loan facilities; lack of training provided relating to specific business and service skills development; lack of facilities in tourism areas and ineffective marketing – which were also similar with the findings of the present study. Financial issues identified in previous studies, for instance, lack of access to finance, financial environment and difficulty in obtaining funding for the business (Zapalska and Brozik, 2007; Joubert, 2004; Nuntsu and Tassiopoulos, 2002) also corresponded with that of the present study.

The following are some of the interview responses showing the five key issues and six challenges in managing SMSA from the operators' perspective as presented in Table 3 and Table 4 above:

Key Issues

“There are many new hotels which completed with modern technologies coming up.” (Interview informants 19, 22, 45, 59, 81, & 86)

“There is a lack of government support; the government policies are complicated and the government does not provide clear guidelines for operating small and medium- sized accommodation.” (Interview informants 46, 57, 70 & 93)

“...there is a lack of customers during the low-peak season and...sometimes no guests.” (Interview informants 9, 53, 69, 71 & 84)

“Working in this accommodation business, the working hours are long.” (Interview informants 20, 23 & 27)

“...the operation costs are high...too many costs need to be covered.” (Interview informants 10, 40 & 56)

Challenges

“There are too many competitors in this industry.” (Interview informants 13, 15, 35, 63, 85 & 92)

“...lack of capital to grow/expand and limited access to financial assistance.” (Interview informants 6, 7, 12, 29, 36, 50, 65, 77 & 83)

“To provide training for staff is a challenge.” (Interview informants 88, 89 & 91)

“In the hotel industry...hard to employ honest, trusted, skilled and trained workers.” (Interview informants 10, 20, 39, 55 & 86)

“Too many government regulations to follow....” (Interview informants 35, 46, 57, 70 & 72)

“To attract more customers to stay here is very hard.” (Interview informants 4, 16, 43 & 61)

“...satisfying hotel guests is challenging for us because different guests have different expectations.” (Interview informants 3, 17, 28, 60 & 79)

It is not surprising that competition or oversupply was found to be the key issue and challenge for the small and medium-sized accommodation operators in Sabah. Significant numbers of SMSA operators cited this issue. The responses indicated that there were too many players in the hotel industry in recent years, leading them to experience low occupancy rates during low-peak season, or even during non-low peak season. Some of the operators also stated *“it is hard to maintain the business performance/ occupancy rate...no guests are demanding for hotel rooms during low-peak seasons”* (Interview informants 1, 90, 94 & 95). For example, the findings revealed that many owners/operators were competing with newly-built hotels: *“many new hotels are coming up with complete modern technologies and full standard facilities”* (Interview informants 15, 21 & 86). Thus, in order to compete with the new players, the existing SMSA operators reduced their room rates to attract customers. This was the main reason contributing towards a price war: *“price war – operators tend to cut*

down the room rates even though is RM 1 or 2 less compared with competitor room rates” (Interview informants 8, 10, 11, 41 & 75). This finding is consistent with Gu (2003) who pointed out that overcapacity or oversupply of hotel rooms and low occupancy rates have been haunting the lodging industry in recent years due to the opening of new hotels. Likewise, the findings also confirm that of other previous studies (Nuntsu and Tassiopoulos, 2002; Sharpley, 2002; Mok and Lam, 2000; Mok and Lam, 1998).

Furthermore, most of the SMSA operators in Sabah are facing limited financial resources. The SMSA operators claimed that *“the financial assistance for SMSA is limited and sometimes problems such as insufficient capital to continue operations or to expand the business are faced” (Interview informants 14, 35, 37, 38, 51, 62, 78, 82 & 85).*

A small number of SMSA operators indicated that shortage of skilled, trained, trusted and honest workers emerged as a challenge for them, and they had to manage and operate the business personally. Another challenge in operating SMSA business was too many government regulations and policies that needed to be complied with; as evidenced from the interview response: *“sometimes these policies are barriers for us, for example, we need to fulfill many safety policies such as safety signboards, extra stairs behind the hotel, need to have cement floors” (Interview informants 84 & 93).* To some operators the challenge in operating their SMSA business was customer service and satisfaction. It was found that to satisfy customers is not easy; as pointed out by the respondents: *“to entertain customers is hard work” (Interview informants 17, 60 & 79).* Nevertheless, seasonal demand and operation issues also revealed as an issues for SMSA operators. A small number of SMSA operators indicated that they do not face any challenges, as evidenced from the interview responses: *“there are only a few resorts here” (Interview informant 80); “we are operating a simple business, so we don’t think we face any challenges” (Interview informants 2, 26, 44, 68).*

Conclusions and Implications

This paper provides a clear understanding of the key issues and challenges faced by SMSA operators in Sabah – there are five key issues: increasing new hotels, human resource issues, government regulations and policy issues, seasonal demand and operational issues. There are six challenges in managing SMSA - competition, financial issues, human resource issues, government regulations and policies, customer service and satisfaction and marketing. This seems to suggest that competition, human resource and government regulations and policies have become the main issues and challenges for SMSA operators in Sabah. The owner/operator is concerned about competitors as it is easy to set up a small and medium-sized accommodation business and the number of hotels continues to increase from year to year. These findings seem to correspond well with previous findings on challenges in the hotel industry (Zapalska and Brozik, 2007; Gu, 2003; Nuntsu and Tassiopoulos, 2002; Sharpley, 2002; Mok and Lam, 2000). The findings also pointed out that human resource issues and government regulation and policies seem to be secondary challenges faced by the small and medium-sized accommodation operators in Sabah. Nevertheless, customer service and satisfaction, seasonal demand, operation and marketing are considered as the third important challenges faced by SMSA operators in Sabah.

To overcome the challenges, owners/operators must understand that their business entails in-depth industry knowledge, market savvy – such as competitive knowledge and how to attract customers to stay at the hotels so that SMSA operations are sustainable and able to compete with new competitors. It suggests that the Sabah state government must seriously look into the development of the hotel industry. The planning and strategy in controlling the new investors in this industry also need to be considered in order to ensure that competition

and seasonal demand challenges are under control. Besides, the state government or hotel association also needs to take into consideration the controlling of room rates during high-peak and low-peak seasons so that the price war phenomenon can be reduced.

Likewise, the hotel association and state government need to address the key issue of human resource. Having a well-trained human resource will enhance the performance of small and medium-sized accommodation businesses and raise the service standards of the hospitality industry in Sabah.

In response to enormous demand, it is necessary to increase the volume and spread of the government's support. Financial institutions and the SMIDEC need to be strengthened so that funds are well planned to assist SMSA operators financially. SMSA operators also need to manage their finances effectively in order to sustain and operate their businesses efficiently.

It cannot be denied that complicated government regulations and policies also pose a challenge to SMSA operators. Complicated regulations and policies frustrate the efforts of SMSA operators when operating their businesses. It is suggested that the state government provide clearer guidelines and information on how to apply to operate accommodation businesses and institute shorter application licensing procedures.

Finally, the current issues and challenges noted in this study seem to be similar with that found by previous studies as documented in literature. Thus, the state government should pay more attention to these issues and challenges when formulating strategies and policies to improve the small and medium-sized accommodation businesses in Sabah, Malaysia.

Contribution and Limitations

The paper contributes to the understanding of key issues and challenges faced by small and medium-sized accommodation operators in Sabah. It adds to the existing literature on the managing of small and medium-sized accommodation businesses. These findings are significant for the Sabah State Government in order to regulate and set policies for small and medium-sized accommodation businesses. The issues of competition will contribute a negative impact towards the hospitality industry and state economy in general.

One limitation of this paper is that the sample respondents are limited within SMSA – budget hotels, bed and breakfast/backpacker establishments, lodges and seaside resorts. This implies that challenges in operating the accommodation business may vary according to each subcategory of SMSA.

As this paper is an exploratory qualitative study, the generalization of the identified challenges facing SMSA operators is also limited. Future comparative work in a similar context in different locations and countries would prove beneficial for the possible validation of these findings. The findings can also be extended for generalization for further research by using the quantitative approach in the SMSA context.

References

- AirAsia. 2008. AirAsia.com. Retrieved 7 March 2008 from <http://www.airasia.com/site/my/en/home.jsp>.
- Barnes, J., Crook, M., Koybaeva, T. and Stafford, E. 1997. Why Our Russian Alliances Fail. *Long Range Planning* 30(4): 540-550.
- Buhalis, D. and Main, H. 1998. Information Technology in Peripheral Small and Medium Hospitality Enterprises: Strategic Analysis and Critical Factors. *International Journal of Contemporary Hospitality Management* 10(5): 198-202.

- Carlsen, J and Getz, D. 2000. Relatively Speaking: Business Goals and Operating Issues for Rural, Family Owned/Operated Tourism and Hospitality Businesses. International Council for Small Business: 45th World Conference, Queensland, Australia, June 7-10.
- Cunkin, N. and Smith, D. 2000. An Emotional Business: A Guide to Understanding the Motivations of Small Business Decision Takers. *Qualitative Market Research: An International Journal* 3(3): 145-157.
- Gu, Z. 2003. The Chinese Lodging Industry: Problems and Solutions. *International Journal of Contemporary Hospitality Management* 15(7): 386-392.
- Ingram, A., Jamieson, R., Lynch, P. and Bent, R. 2000. Questioning the Impact of the 'Graduatization' of the Managerial Labour Force upon the Management of Human Resources in the Scottish Hotel Industry. *Journal Consumer Studies and Home Economics* 24(4): 212-222.
- Joubert, P. 2004. Constraints and challenges of Small and Medium Enterprises (SMEs) in Swaziland: A Case Analysis. International Council for Small Business: 49th World Conference, Johannesburg, South Africa, June 20-23.
- Keiser, J.R. 1989. *Principles and Practices of Management in the Hospitality Industry* (2nd ed.). New York, Van Nostrand Reinhold.
- Kumar, R. 2005. *Research Methodology: A Step-by-Step Guide for Beginners* (2nd ed.). Thousand Oaks, California: Sage Publication.
- Longenecker, O. and Popovski, S. 1994. Managerial Trails of Retooling Russian Managers. *Business Horizons* 37, 35-39.
- Malaysia Airlines. 2008. Malaysia Airlines. Retrieved 7 March 2008 from http://www.malaysiaairlines.com/main_MY.aspx?lang=en-US.
- Marshall, C. and Rossman, G.B. 1995. *Designing Qualitative Research* (2nd ed.). Thousand Oaks, California: Sage Publication.
- Mok, C. and Lam, T. 2000. Vietnam's Tourism Industry: Its Potential and Challenges. In *Tourism in Southeast Asia: A New Direction*, ed. Chon, K. S., p. 157-164. New York: The Haworth Press, Inc.
- Mok, C. and Lam, T. 2000. Hotel and Tourism Development in Vietnam. *Journal of Travel and Tourism Marketing* 7(1): 85-91.
- Morrison, A. and Conway, F. 2007. The Status of the Small Hotel Firm. *The Service Industries Journal* 27(1): 47-58.
- Morrison, A. and Thomas R. 1999. The Future of Small Firms in the Hospitality Industry. *International Journal of Contemporary Hospitality Management* 11(4): 148-154.
- Ninth Malaysia Plan 2006 - 2010. 2006. Malaysia: Ninth Malaysia Plan 2006 – 2010. Retrieved January 18, 2008, from http://www.parlimen.gov.my/news/eng-ucapan_rmk9.pdf.
- Nuntsu, N., and Tassiopoulos, D. 2002. Present Status, constraints, and success factors of Small, Medium and Micro Enterprises (SMMEs) with specific reference to the Bed and Breakfast accommodation sector of Buffalo City (BC), Eastern Cape, South Africa. International Council for Small Business: 47th World Conference, San Juan, Puerto Rico, June 16-19.
- Prabhu, S. 1996. Challenges for hospitality and tourism operators: A North American perspective. *International Journal of Contemporary Hospitality Management* 8(7): 52-62.
- Quah, W.B. and Chan, J.K.L. 2008. A Study on Small and Medium-Sized Accommodation Operators in Sabah: Problems and Challenges. 7th Asia Pacific Forum for Graduate Students' Research in Tourism: Advances in Tourism Practices Pointing the Way Forward, Hotel UiTM, Shah Alam, Selangor, Malaysia, June 3 – 4.
- Research Division for Sabah Tourism. 2008. Visitor Arrivals and International Visitor Profiles

- Statistics. Retrieved March 7, 2008, from <http://www.sabahtourism.com/statistics/Dec2007.htm>.
- Sabah Tourism Board. 2008. Hotel Room Supply in Sabah 2005-2007. Retrieved 17 March 2008 from <http://www.sabahtourism.com/accommodation.php?lg=1>.
- Saleh, A.S., and Ndubisi, N.O. 2006. An Evaluation of SME Development in Malaysia. *International Review of Business Research Papers* 2(1): 1-14.
- Sharpley, R. 2002. Rural Tourism and the Challenge of Tourism Diversification: The Case of Cyprus. *Tourism Management* 23(3): 233-244.
- SMIDEC. 2002. *SMI Development Plan (2001-2005)*. Kuala Lumpur: Percetakan Nasional Malaysia Berhad.
- Veal, A.J. 1998. *Research Methods for Leisure and Tourism: A Practical Guide* (2nd ed.). England: Pearson Education Limited.
- Yeoh, E.L. and Chan, J.K.L. 1998. *Current Challenges Faced by the Lodging Operators in Sabah and Labuan*. Kota Kinabalu: Universiti Malaysia Sabah.
- Zapalska, A.M. and Brozik, D. 2007. Managing Family Businesses in the Tourism and Hospitality Industry: The Transitional Economy of Poland, *Journal of Economics and Business* 25(1): 141-165.

Acknowledgement

The empirical findings of the paper are part of the research project on Operating and Managing Small and Medium-sized Accommodation Enterprises in Sabah, Malaysia funded by the Ministry of Science, Technology and Innovation Malaysia under E-science Fund Project No: 06-01-10-SF0031 (SCF0017-SEA-2006) from year 2006-2008. The authors express sincere gratitude to the Ministry of Science, Technology and Innovation of Malaysia.