

## **The Impact of Tourism on Small Business Performance: Empirical Evidence from Malaysian Islands**

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### **Abstract**

*The tourism industry has become an important sector to both developed and developing countries, including Malaysia. Acknowledging positive advantages of tourism, much research has been carried out on small business in the tourism industry. However, direct impact of tourism on business performance is totally ignored. This paper presents an empirical result of a study on the impact of tourism on small businesses performance operating on four main tourist destination islands in Malaysia. Employing primary data collected from small tourism businesses on the four islands and a multiple regression analysis, this study found that tourism as measured by tourist arrivals and tourist customers has significant positive impact on the financial and non-financial performance of the small businesses. This finding consolidates tourism development theory that tourism is an important catalyst for entrepreneurial development and small business performance. It also justifies the government efforts in promoting and developing the tourism industry in general and island tourism in particular.*

**Field of Research: Tourism, small business, performance, Malaysia**

### **1. Introduction**

Tourism is the most attractive and the fastest growing industry in the world. According to the World Travel and Tourism Council (WTTC), tourism in 2005 turned out to be the second largest industry, accounted for 3.8 per cent of global Gross Domestic Product - GDP (Rosli & Azhar, 2007). Its development has been promoted by governments in both developed and developing countries. In Malaysia, the initial effort on tourism promotion could be back dated to about three decades ago with the hosting of the first Pacific Asian Tourism Association (PATA) Conference in 1972, followed by the second PATA Conference in 1987. Subsequently, a more serious effort started with the launching of the Visit Malaysia Year (VYM) Campaign in 1990 and followed by the State Visit Year (SVY). As a result of various promotional efforts implemented by the government since then, the tourism sector has contributed remarkably to the economy. The share of tourism revenue in the services account of the Malaysian balance of payments increased steadily from 32.7 per cent in 2000 to 43. per cent in 2005. By 2010, total tourist receipts are expected to reach RM59.4 billion compared to RM31.0 billion in 2005 (Malaysia, 2006). This whopping figure justifies Malaysia and some other developing countries for promoting tourism on the expectation that this sector would contribute to their economic development. In a broader perspective, tourism has a direct impact not only on economic development as argued by Hall (1995), but also on social, environmental and ethical developments of a destination country (Mbaiwa, 2003). Its impact on small business development draws much attention in the literature, too.

With tourism development, the local people have golden opportunities to offer services or sell products (Dickman, 1992; Rogerson, 2004) to local and foreign tourists. Mathieson and Wall (1982) suggested that tourism makes its most valuable economic impacts in the early phase of development in a Third World country, and will diminish in significance with the coming of industrialization. Hence, they also warned against over-reliance on tourism and urged that profits from it be channeled to other sectors of the economy. They also stressed that although such comments are accurate for some countries, there is no doubt that many more will see little economic development of this kind and will have to rely on tourism for as long as they can.

Elliott and Mann (2005) stressed that tourism's role in development has evolved significantly, providing not just foreign exchange, economic growth and employment, but also opportunity for host community participation in biodiversity conservation, urban growth, infrastructure overhaul and planning, rural development, environmental restoration, coastal protection and cultural heritage preservation. Based on the findings from their study on the Sub-Saharan African (SSA) region, it was found that tourism has a role to play in a greater number of developing economies than ever before and development agencies are progressively becoming involved in this sector. In the culturally and biodiversity rich SSA region, tourism earnings and employment have grown 120 per cent since 1980 (WTO, 2002), significantly outpacing other sectors, but despite this growth, there is no evidence that tourism is contributing to an overall growth in per capita GDP. Bhatia (2004) stressed the importance of effective tourist management capabilities in ensuring the maximum impacts of tourism industry on the economy

Recognising the positive advantages of tourism, much research has been carried out on small businesses in the tourism industry (for examples: Thomas, 2000; Sharma & Upneja, 2005; Rogerson, 2004; Hanqin & Morrison, 2007). Despite such cases, the direct impact of tourism on business performance is totally ignored. The World Bank (2004) estimated that over 90 percent of businesses in SSA region (as part of the services sector) are small and medium scale enterprises (SMEs). Hence, the potential to utilize tourism as a tool for sustained socio-economic development as well as the redistribution of developed country's wealth is increasingly considered in development strategies (currently defined as Poverty Reduction Strategy – PRS) between donor and assistance agencies and beneficiary countries.

There was no attempt to incorporate tourism variables into the model of business performance in the past research. The case also applies to Malaysia as literature on this sector, in general, and on the impact of tourism on small business in particular, is hardly found. This lack of research on small tourism businesses is surprising since the Malaysian government has paid greater attention to the development of small businesses, including in the tourism-related businesses. In addition, as tourism is widely recognised as a catalyst for entrepreneurial development, its impact on small business performance is interesting to be studied empirically. In order to fill up the literature gap, this study attempts to identify factors influencing the performance of small tourism businesses with special reference to the impact of tourism. The finding of this study would consolidate tourism development theory that tourism is an important catalyst for entrepreneurial development and small business performance. This would also support the government's efforts in promoting tourism, in general, and island tourism in particular.

## ***2. Island Tourism in Malaysia***

Malaysia has been endowed with a large number of islands both in West (Peninsular) and East (Sabah and Sarawak) Malaysia. Among the many islands in West Malaysia, the four islands that have become a major attraction for both local and foreign tourists are the Langkawi Island in the state of Kedah, the Pangkor Island (in Perak), the Perhentian Island (in Terengganu) and the Tioman Island (in Pahang). The first two islands are located on the west coast of Peninsular Malaysia, whilst the remaining two are located on the east coast.

### **2.1 Langkawi Island**

The Langkawi Island (briefly Langkawi) is an archipelago of 99 islands in the Andaman Sea, at the northern most part of the Straits of Malacca. It is about 30 km off the mainland coast of Kuala Kedah (Kedah) and some 20 km off Kuala Perlis (Perlis). It is also adjacent to Satun at the Thai border. Langkawi is a district with a parliament seat under the state of Kedah.

The current population totals to about 50,000, with the majority (90 percent) occupying the main island, in addition to a smaller number occupying the Tuba, Dayang Bunting and Rebak Besar Islands. Langkawi is easily accessible by ferry from Kuala Perlis and Kuala Kedah. Daily ferries serve between both locations of about one hour intervals, from 7.00 am to 7.00 pm. Travelling via the ferry would take about one hour from Kuala Kedah and about 45 minutes from Kuala Perlis. Langkawi is also connected by ferry services to Satun (Thailand). In addition, Langkawi is equipped with an international airport, hence it is connected by air from Kuala Lumpur International Airport (KLIA) and Low Cost Communications Terminal (LCCT), Sepang, Singapore and Bangkok. There are also daily ferries running between Langkawi and the Marine Park of the Payar Island.

With a total land area of 204 sq. miles (528 sq. km) Langkawi is much bigger than Penang (233 sq. km) but slightly smaller than Singapore (595 sq. km). Langkawi has been a free-duty island since 1987. Hence, shopping for free-duty goods has been the main attraction especially among the Malaysians. All areas within the main island are easily accessible by roads, and are also connected to other smaller islands by small boats. Recently (on 1<sup>st</sup> June 2007), three specific areas of the island – namely, the Dayang Bunting Island, Gunung Mat Cincang and Kilim, were gazetted by UNESCO as the Langkawi Geopark. Similar to many other islands in the country, tourist arrivals in Langkawi are subject to seasonality. The peak seasons are basically during the school and public holidays and festive seasons. The best period which coincides with dry, hot and calm weather, is between the months of January to June of each year. The months of July to November might be affected by a mild monsoon, thus causing rough sea conditions, although still accessible by ferries.

In many aspects, Langkawi is no match to the other three islands in the study. There are a couple of world class hotels besides the two golf courses of international standards. Major hot spots for tourists include, Crocodile Farm, Telaga Tujuh (Seven Wells), Cable Car, Eagle Sanctuary, Underwater World (the world's largest aquarium), Giant Eagle Statute, Tasik Dayang Bunting, Beringin Waterfalls, Tapak Beras Terbakar, Makam Mahsuri (Langkawi Legend), Langkawi Maritime and Air show – LIMA (a bi-annual event), and Le-Tour Langkawi (annual international cycling event). For those who like sun-bathing and swimming, Langkawi has a lot of naturally fine beaches to offer – Pantai Tengah, Pantai Teluk Baru, Pantai Rhu, Pasir Tengkorak, Datai Bay, Burau Bay and Pantai Kok.

## **2.2 Pangkor Island**

The Pangkor Island (briefly Pangkor) is a small island with a total land area of about 8 sq km and inhabited by 25,000 islanders. It is located off the coast of Perak in north-west Peninsular Malaysia and can be reached by ferry (at 30 minutes intervals) from Lumut, a small coastal town that links to Ipoh, or from Sitiawan. It is also linked by air from Kuala Lumpur (Subang Airport), and LCCT (Sepang). Pangkor has been heavily promoted as a low-key tourist destination by the Malaysian government, but fishing and fish products remain the major industries.

Pangkor is endowed with historical heritage. Back in the 17<sup>th</sup> century, the Dutch built a fort in an effort to control the Perak tin trade. In 1874, it was the location of a historic treaty between a contender to the Perak throne and the British government (The Pangkor Treaty), which began the British colonial domination of the Malay Peninsular. The entire Pangkor is accessible by taxi. It is famous for its fine beaches and a mix of low budget to 5-star accommodations. Teluk Nipah, Coral Bay, and Pasir Bogak are some of the most attractive beaches available on the island. Pangkor Laut, a smaller island off Pangkor, is equipped with a world class resort, owned and managed by the Berjaya Group. Similar to Langkawi, tourist arrivals are also subject to seasonality. The peak period coincides with the school and public holidays and festive seasons. Nevertheless, the island is not much affected by the monsoon, hence is quite safe for tourists to visit the island at any times of the year.

## **2.3 Perhentian Island**

The Perhentian Island (briefly Perhentian) is about 19 km offshore the coast of north-eastern Malaysia in the state of Terengganu, approximately 64 km south of the Thai border. The two main islands are Perhentian Besar and Perhentian Kecil. They are surrounded by the Susu Dara, Seringgi and Rawa Islands which are relatively smaller than the main two islands. The entire area of Perhentian belongs to the Redang Island's National Marine Park, which means that collecting coral and littering are strictly prohibited.

Back in 1970s, Perhentian was used as the transit point for “boat-people”, referring to those who illegally migrated from Vietnam. Whoever caught landing on Malaysian waters by the Customs and Immigration officers were considered as illegal migrants and sent to Perhentian while awaiting for deportation to the third country. Perhentian is accessible from fishing villages of Kuala Besut, Tok Bali, Kuala Merang and Batu Rakit. However, Kuala Besut is by far the nearest, safest and easiest access to the island. Due to the island’s protected status, the main tourist activities are minimal in environmental impact: - sunbathing, swimming, snorkeling, scuba diving, turtle and shark-watching.

## **2.4 Tioman Island**

The Tioman Island (Tioman) is a small island located about 32 km off the east coast of Peninsular Malaysia in the state of Pahang, and measures some 39 km long and 12 km wide. It has eight main villages, the largest and most populous being Kampung Tekek in the north. It is densely forested but still sparsely inhabited, and is surrounded by numerous coral reefs, making it a scuba diving haven. Tioman is linked by ferries from Kuala Mersing (Johor) and Tanjung Gemuk (Pahang). It is also served by air, a propeller plane service by Berjaya Air from Singapore (Seletar Airport) and Kuala Lumpur (Subang Airport).

The villages in the island are only accessible by ferries (with only 3 to 4 return services daily to and from Kuala Mersing / Tanjung Gemuk) and smaller fishing boats and speed boats owned by private operators. Hence, traveling between the tourist locations within the island is not only limited but indeed very costly and time-consuming (waiting time). Tioman is almost closed to tourists during July to February due to rough seas (north-east monsoon), hence the best and safest period for tourist visits are during the months of March to June. This means that occupancy rates for chalets and hotels in the island during the rough weather are extremely low. Tioman is well known for its fine sandy beaches and pristine water. Thus, activities like scuba diving, snorkeling, and sunbathing have become the major attraction among the local as well as foreign tourists. In the 1970s, the TIME magazine selected Tioman as one of the world’s most beautiful islands.

## **3. Small Business Performance**

Firm performance issues have drawn the interest of scholars from various disciplines and perspectives (see Brush & Chaganti, 1998; Hansen & Wernerfelt, 1989; Maes, Sels & Roodhooft, 2005). Two performance measures are notable in the literature: financial measures, such as profit, turnover, return on investment, productivity (Saad & Patel, 2006; Maes, Sels & Roodhooft, 2005) and non-financial measures, including the number of employees, communication, learning, trust, stakeholder satisfaction, and competitive position (Garrigos-Simon, Marques & Narangajavana, 2005; Maes, Sels & Roodhooft, 2005; Saad & Patel, 2006). However, Murphy, Trailer & Hill (1996) discover that the most frequently used measures are predominantly economic.

Factors associated with firm performance have also become the interest of many researchers (Watson, 2006). Rogoff, Lee & Suh (2004) argue that the success or performance of firms is determined by internal and external factors. Wijewardena & Tibbits (1999) in their literature survey found that firm performance is related to individual entrepreneurs, firm-specific attributes, and external factors. In relation to firm size, a large number of literature have been generated in many disciplines, including economics, management and sociology to address the question whether larger firms enjoy higher performance than that of smaller firms (Majumdar, 1997). Cooper & Dunkelberg (1986) assert that small firms may have limited access to various human, financial and organisational resources which in turn retard their performance. Cragg & King (1998) argue that financial performance of small businesses is strongly influenced by the markets where they operate as well as entrepreneur’s objectives, characteristics and management practices. Sharma & Upneja (2005) in their literature survey found that marketing resources and capital structure mix of enterprises as well as previous experience, skill and educational level of the owners are factors influencing small business performance. All these factors are internal to the businesses. In reality, however, external factors or environments would influence small business performance. This external environment is beyond the control of a business and can be either hostile (Smallbone & Welter, 2001) or in favour of small businesses.

External environments would come in many forms, such as macro-economic policies and procedures (Fogel & Zapalska, 2001), access to financing and infrastructure, quality of infrastructure services and time saved in obtaining licenses (Sharma, Sneed & Ravichandran, 2007) which may directly or indirectly impact small business performance. One of the external factors that may contribute to small business performance is the tourism industry. According to UNESCAP (2005), tourism creates opportunities for small entrepreneurs because start-up costs for and barriers to entry in this sector are relatively low and can even be accessible to the poor. Glasson, Godfrey & Goodey (1995) argue that tourism can be a catalyst for national and regional developments by means of providing and generating employment, exchange earnings, balance of payment and infrastructure, benefiting both locals and tourists. With respect to employment creation, Mbaiwa (2003) in his study in the Okavango Delta, Botswana found that the local people were employed in tourism-related businesses, such as lodges, hotels, airlines, transport, wholesales, retails, financial institutions and the handicraft industry. This also reflects that tourism provides jobs and opportunities for the locals to get involved in entrepreneurial activities. Dickman (1992) asserts that tourism stimulates local agricultural, manufacturing, service and construction-related businesses in order to meet the needs of tourists for food, furniture, equipment and accommodation. Mathieson and Wall (1982) argued that a more analytical way of generalizing about the international tourism is to subdivide the travel process into three main elements: a dynamic phase covering movement to and from the destination; a static phase involving the stay itself; and a consequential phase describing the chief economic, physical, and social impacts on the environment. These constitute a set of interconnected parts with feedback links throughout the system

Rogerson (2004) reveals that tourism provides business opportunities to black entrepreneurship in South Africa in the travel and tour sector and in the provision of accommodation, especially the small bed and breakfast sector. A study by Sharma & Upneja (2005) in the Tanzanian tourism industry found that small hotels and restaurants become a major source of employment opportunities and entrepreneurial activities. Al-Wahab & Al-Din (1975) argue that the demand for tourism, as measured by the number of tourists, sometimes reflects the incomes of the business. With tourism, UNESCAP (2005) asserts that local people, including the poor, have opportunities to earn additional incomes by selling produce or offering services directly to tourists.

Judging from the literature, it is hypothesized that tourism has significant positive impact on the performance of small tourism business.

#### **4. Research Methodology**

##### ***Variables and Measurement***

It should be borne in mind that collecting actual data from small businesses seems a trivial job since they do not keep any records for their transactions. In many cases, small business owners on the island could not distinguish between sales and profits. Many of them thought that sales are their incomes or profits that could be spent on their daily essentials. As a result of this, any attempts to use financial data based on the owners' mental calculation would lead to a serious bias in statistical estimation and analysis. As a way out, the goal approach was employed in this study as it is most widely used in the literature in order to gauge business performance from the perspective of owner-manager (Pfeffer & Salancik, 1978). Concomitant with the recommendation by Westhead, Wright & Ucbasaran (2001) and Kalleberg & Leicht (1991), multiple measures, i.e. financial and non-financial indicators, were adopted to measure business performance. Using a five-point Likert scale from 1 (strongly disagree) to 5 (strongly agree), the respondents were asked to indicate the degree of their agreements over the remarkable growth of their business on each financial and non-financial item for the last three-year period (2005-2007). Three financial items listed in the questionnaire were sales, profits and the fixed asset; whilst the number of workers, customer satisfaction, business expansion or diversification and the number of business outlets were listed as non-financial items.

Identified from the literature, some independent variables incorporated in the regression model were age of the business (measured as years in operation), experience of the owners (in years), start-up capital (in Malaysian Ringgit) as a proxy for business size, educational level of the owners and the industry (dummy variables as adopted by Gibson & Cassar, 2005). The tourism factor was also included in the model and measured by the number of tourist arrivals and tourist customers.

In this regard, the respondents were asked to report separately the number of local and foreign tourists who arrived on the islands and who became their customers for the last three years (2005-2007) on a five-point Likert scale of 1 = decreased substantially; 2 = decreased slightly; 3 = unchanged; 4 = increased slightly; and 5 = increased substantially.

### ***Survey Instrument and Sample***

This study employed a questionnaire in order to compile primary data from the owners of small business on the four main tourism islands in West Malaysia by means of face-to-face structured survey approach. A total of 166 small businesses participated in this study of which 56 respondents or 33.7 per cent from Langkawi (the largest island), 38 respondents or 22.9 per cent from the Pangkor Island, and 36 respondents or 21.7 per cent each from the Perhentian Island and the Tioman Island. These sample respondents were surveyed in their premise and given an assurance that this study was purely for research and nothing to do with any government or non-government agencies. They were also assured of the confidentiality of the data collected and the anonymity of the respondents in any communication forms to control for any response biases.

### ***Data Analysis and Screening***

Factor analysis by the orthogonal method with Varimax rotation was employed to ensure that the factors extracted are independent and unrelated to each other. By this procedure, two performance factors for the small businesses were extracted by the factor analysis. Based on the factor loadings, three items which had the highest communality on Factor 1 were the number of outlets (with the loading value of 0.84), business expansion or diversification (0.83) and the number of employees (0.71); and on Factor 2 were sales (0.92), profits (0.92) and the fixed asset (0.56). One item – customer satisfaction – was dropped from the factor list due to its low factor loading. The reliability of each extracted factor was tested using the Cronbach's coefficient alpha that was set at the minimum score of 0.70. These factors have passed the tests and been identified as non-financial (Factor 1) and financial (Factor 2) indicators with the Cronbach's alphas of 0.78 and 0.81 respectively.

A multiple regression analysis was employed to estimate factors that may impact small business performance. For this operation, an index was constructed for each financial and non-financial indicator on the basis of the extracted items as mentioned above. An index also was constructed for each tourist arrival and tourist customer on the basis of two different groups of tourists – local and foreign tourists - and the scales given above. Before the final estimations were made, a data screening was performed by the application of Kurtosis and Skewness measures in order to test for data normality as the assumption of normality is a prerequisite for a regression analysis. Some data, such as business experience of the owners and age of the business were not normally distributed and were transformed into log. A re-inspection of the variables used found that all of them had met the assumption of normality as the Kurtosis and Skewness values fell between  $\pm 1.0$  which were regarded excellent by George & Mallery (2003). However, the values of each variable are not reported in this paper due to space constraint.

## ***5. Results and Discussion***

### ***Descriptive Statistics***

This study has excluded the businesses with less than three years in operation because its aim is to examine a long-term business performance. As shown in Table 1, a large portion of the businesses were in operation for a considerable number of years. The majority of the businesses were in operation between six and 10 years. In fact, 53 or 31.5 per cent of the respondents were in operation for more than 10 years. The mean of business age in the accommodation industry in South Africa is only 2.5 years (Rogerson, 2004); and eight years in small hotel activity in Tanzania (Sharma, Sneed & Ravichandran, 2007). The majority of travel agents in China were less than one year in operation (Hanqin & Morrision, 2007). However, a direct comparison with the study results elsewhere cannot be made because this study confines its investigation to small businesses operating 3 years and above only. The owners of the small businesses considerably had a low level of education. As displayed in Table 1, the majority of them (63.9 per cent) had education until the secondary school only. Merely 12.0 per cent of the small business owners had tertiary education. . At the first glance, this finding is rather surprising. Malaysia is a more developed country compared to Tanzania, but the educational level of the small hotel owners in the latter were mostly university degree or some college diplomas (Sharma, Sneed & Ravichandran, 2007).

Table 1: Profile of the businesses and owners

Variables	Frequency (N)	Percentage
Year in Operation (mean = 10.4)	168	100.0
3-5 years	54	32.1
6-10 years	61	36.3
11-15 years	20	11.9
More than 15 years	33	19.6
Educational level	166	100.0
Non-schooling	5	3.0
Primary school	35	21.1
Secondary school	106	63.9
Tertiary education	20	12.0
Business Activities	168	100.0
Accommodation and food services	54	32.1
Retail and souvenir	61	36.3
Travel agent, transport and sports	20	11.9
Others	33	19.6
Business Registration	167	100.0
Unregistered	11	6.6
Registered	156	93.4

Note: \* mean = 33,640.

Source: The Sample Survey.

Nevertheless, it should be realised that more educated people in Malaysia have better access to employment opportunities in the public and private sector; it hence discourages them from participating in entrepreneurship. Only lately, with the increasing number of unemployed graduates, small business is seen as a new source of own employment and entrepreneurship for many new graduates. The tourism industry has indeed provided many business opportunities to the people. Table 1 demonstrates that businesses flourished in retail and souvenir and accommodation and food services. These two categories of business activities fulfill the basic need for tourists. Any tourists need a place to rest and sleep as well as an outlet to eat along their staying period on the Islands. Besides the daily essentials which can be obtained from retail shops, tourists also need to buy souvenirs to bring back to their home town or home country, either for their own memorable moment or for distributing to relatives and friends. As expected, most of the businesses were registered with the authority and consistent with the finding in Tanzania (Sharma, Sneed & Ravichandran, 2007).

### ***Inferential Statistics***

Table 2 and Table 3 demonstrate the regression results of the study. It should be informed that an examination of the residual scatterplots as suggested by Coakes (2005) was first thoroughly checked in the process of fulfilling the assumptions of normality, linearity, homoscedasticity and independence of residuals as required by a multiple regression analysis. However, the many graphs and statistics produced by this operation make it impossible to display them in a limited space of this paper. The regression results in Table 2 reveal that start-up capital and tourist arrivals have significant positive impact on the small tourism business, either measured by financial or non-financial indicators on the islands. The education level of the owners has no significant impact on financial performance, but it has significant positive impact on non-financial performance of the businesses. Table 3 also displays that the start-up capital and the number of tourist customers lend a significant positive impact on financial and non-financial performance of the small businesses. As in the first case, the educational level of the owners positively influences the non-financial performance, but not the financial performance of the business. By and large, tourism either measured in tourist arrivals or tourist customers lend significant positive impacts on both financial and non-financial performance of the small tourism businesses. This finding confirms the argument of Cragg & King (1998) that financial performance of small business is strongly influenced by the markets they operate. This also substantiates the long recognition of the importance of the environment for entrepreneurial performance as stressed by Smallbone & Welter (2001).

Table 2: Impact of tourist arrivals on business performance

Variables	Non-Financial Indicator	Financial Indicator
Business age (ln)	0.278 (1.497)	-0.148 (-1.240)
Business experience of the owners (ln)	-0.108 (-1.174)	0.014 (0.235)
Start-up capital	0.110 (2.408)**	0.062 (2.054)**
Education level	0.127 (2.176)**	0.021 (0.545)
Tourist Arrivals	0.066 (2.514)**	0.067 (3.937)***
Retail and Souvenir	-0.135 (-0.991)	0.034 (0.390)
Travel agent, transport and sports	-0.039 (-0.175)	0.109 (0.748)
Other services	-0.431 (-1.506)	0.130 (0.705)
Constant	0.690 (2.000)**	1.765 (7.618)***
Adjusted R <sup>2</sup>	0.128	0.122
F Statistics	3.687***	3.559***

Note: Figures in parentheses are *t*-statistics.

\*\*Significant at the 0.05 level; and \*\*\* at the 0.01 level.

Table 3: Impact of the number of tourist customers on business performance

Variables	Non-Financial Indicator	Financial Indicator
Business age (ln)	0.315 (1.729)*	-0.112 (-1.038)
Business experience of the owners (ln)	-0.082 (-0.917)	0.045 (0.821)
Start-up capital	0.094 (2.095)**	0.052 (1.918)*
Education level	0.131 (2.312)**	0.027 (0.805)
Tourist Customers	0.065 (2.650)***	0.078 (5.195)***
Accommodation and food services	0.163 (1.223)	-0.001 (-0.018)
Travel agent, transport and sports	0.067 (0.465)	0.057 (0.665)
Other services	-0.373 (-2.005)**	0.021 (0.192)
Constant	0.471 (1.119)	1.619 (6.259)***
Adjusted R <sup>2</sup>	0.142	0.184
F Statistics	3.996***	5.138***

Note: Figures in parentheses are *t*-statistics.

\*Significant at the 0.10 level; \*\* at the 0.05 level; and \*\*\* at the 0.01 level.

Interestingly, UNESCAP (2005) reveals that many successful tourism businesses were run by the poor, for examples in the provision of accommodation, catering, retail outlets, tourist guiding services, and entertainment and other services. With the increasing number of tourists to the Islands, more demand for goods and services would be expected from the tourists. As the Islands are rather isolated from the mainland, the tourists have no choice but to use services or to buy goods, albeit at relatively higher prices, offered by the small businesses.

With the presence of local and foreign tourists in the islands, small businesses in various sub-sectors were able to sell their services and hence improved their financial and non-financial positions. It is also consistent with the finding of Rogerson (2004) in South Africa that the presence of local and foreign tourists is important for tourism-related businesses. As argued by Al-Wahab & Al-Din (1975), the demand for tourism as measured by the number of tourists sometimes reflects the incomes of the business. This finding supports empirically that tourism does not only reflect the business revenue, but it also determines the financial and non-financial performance of the small businesses.

## **6. Conclusion**

The impact of tourism on entrepreneurship, entrepreneurial development and business performance is well recognised in the literature. Due to low start-up costs and low barriers to entry, tourism creates business opportunities for small entrepreneurs in various tourism-related business activities, including in local agricultural, manufacturing, services and construction-related businesses. The most notable one is business opportunities in tourism-related services, such as accommodations, food outlets, tourist agents or guides, retails, and sport facilities, since local and foreign tourists need various services along their stays on the islands. The results of this study have proven empirically that tourism has significant positive impacts on the financial and non-financial performances of the small tourism businesses. This consolidates tourism development theory that tourism brings about positive impact on the local economy in general and entrepreneurial development in particular. It also provides a clear signal that any efforts by governments in promoting and developing the tourism industry would bring about positive impact on the performance of small tourism businesses.

Despite the case, future studies should look into the different impact of foreign and local tourism on small business performance since Rogerson's (2004) study in South Africa found that foreign tourists became the major source of African businesses. Young (1973) mentioned the case study of the Caribbean Island of St. Lucia where the coming of tourism resulted in a flight of labor from the local banana industry which was the main source of foreign income. Those left on the land could not cope with the labor requirements of the banana crop with a consequent loss of productivity and earnings. Tourism led to a great increase in food imports as well as a great strain on the balance of payments. The net benefit to the island was therefore marginal. Should such a study is carried out a better policy could be formulated in order to attract either local or foreign tourists or both for future development of the tourism sector. Further studies should also be carried out on small tourism businesses in order to identify any support needed by the entrepreneurs. Based on the researchers' observation it was felt that the owners had little knowledge in business management since many of them did not even keep proper business transaction records, let alone to adopt a more sophisticated accounting system. Thus, a research on this area would assist the small businesses in enhancing their performance.

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