

FINANCIAL SUSTAINABILITY OF COMMUNITY-BASED TOURISM (CBT): THE CASE OF TOURISM COOPERATIVE LIMITED (KOPEL BERHAD)

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ABSTRACT

This paper highlights the issues and challenges facing by community-based tourism (CBT) to ensure financial sustainability of their project or enterprise by using Tourism Cooperative Limited (KOPEL Berhad) as a case study. Nowadays, the financial sustainability issues is a main consideration due to large number of CBT projects are constrained and some are severely threatened by inconsistent and inadequate financing. CBT has been identified as a strategic approach that encourages them to diversify revenue sources and develop new revenue-generating activities. This case study provides issues and challenges faced and factor that contributing to the financial sustainability of the enterprise. For KOPEL, the management challenge is to allocate resources strategically and make those resources as productive as possible using new financial and marketing model.

KEYWORDS: Financial Sustainability, Community-Based Tourism, Triple Bottom Line, Issues and Challenges, Success Factors

INTRODUCTION

Community-based tourism (CBT) has, for over three decades, been promoted as a means of development whereby the social, environmental and economic needs of local communities are met through the offering of a tourism product. CBTs appear to contribute to social and economic survival as well as to development of in marginalized areas particularly in developing countries. The economic potential of tourism, especially within developing countries, has been identified as an important contributing factor to global tourism growth (Honey 1999; Ashley and Roe1998; Mowforth and Munt1998). In developing countries tourism has often been viewed as the pivot for small-scale enterprises and employment, and therefore the uplifting of standards of living (Honey 1999).

The CBT has potential to provide some unique opportunities for communities by offering not only greater benefits but also enhancing their involvement in planning and management of tourism in their village as well as community.

In Malaysian context, CBT (especially homestay programme) is heavily promoted in Malaysia as a tool to increase rural people's income. However, the issues of viability and sustainability of the project are dubious. There are several problems associated to CBT including low income generation and takes time to deliver benefits to villagers, uneven tourism income distribution, and the fluctuation of income due to seasonal effect. Furthermore, the business failure in the CBT can be attributed to a range of barriers, including; the small size or structure of enterprises, lack of resources, finance and funding issues that need to be tackled closely by the management of the CBT to ensure the sustainability and viability of their enterprise.

In the concept of Community-based tourism (CBT), although issues like community participation, empowerment, cultural revitalisation, and natural resource management play an important role, it is must also be taken into consideration that CBT must be commercially profitable if it is to be sustainable. Most importantly, for sustain the CBT, they also need

to generate sustainable income streams to fund their social purpose and at the same time to reduce their dependency on grants and donations especially from external funders or donors. Many of the CBT projects in developing countries have been supported by international organizations or NGOs which providing external financial supports only in the early phase for developing capacity building of local people through training, building basic tourism facilities or establishing partnerships. In general, financial sustainability has been the main issue faced by many community-based tourism enterprises. The large number of CBTs is constrained and some are severely threatened by inconsistent and inadequate financing to run their commercial activities.

This paper summarizes the findings from this study raised several issues, challenges and the factors that influencing financial sustainability of KOPEL Berhad by employing an intensive strategic assessment.

LITERATURE REVIEW

Community-based tourism (CBT) arose after the Earth Summit in 1992 at Rio de Janeiro in accordance with the Agenda 21. There is insufficient rigour in the use of the concept of community-based tourism. The concept is used flexibly (Goodwin and Santilly 2009). WWF defined community-based tourism as a form of tourism 'where the local community has substantial control over, and involvement in, its development and management, and a major proportion of the benefits remain within the community.' WWF accepted that the concept of community depends on local 'social and institutional structures' and accepted that it 'must also embrace individual initiatives within the community' (WWF International 2001).

Based the above definition, CBT is commonly understood to be managed and owned by the community, for the community. It is a form of 'local' tourism, favouring local service providers and suppliers and focused on interpreting and communicating the local culture and environment. It has been pursued and supported by communities, local government agencies and non-government organisations (NGOs).

A Community-based tourism or enterprise should have following characteristics: (Community Partnering for Local Development 2012).

- **Community-Owned:** Assets (fixed and current) must solely belong to the community and placed on the sale to attain private financial gain.
- **Community-Led:** Local stakeholders take an active role in the enterprise.
- **Community-Controlled:** Organizational leadership, like the Board of Director is represented by the local people. This leadership is held liable to the community.
- **Income-Generating:** The income generated is re-invested or surplus is distributed for the benefit of the community.
- **Socially and Environmentally Responsible:** As a social enterprise, it is not driven by the need to maximize profits but primarily to help the community as a whole without neglecting the environment.
- **Financially Self-Sustaining:** The CBT is able to sustain its operations, event without the aid of external funding. Otherwise, the CBT should be on its way to being self-sustaining.

There are some limitations in establishing a community-based enterprise including the following: (Japan International Cooperation Agency 2012)

- Long preparation period, with too many interest groups

- Presence of opposing parties due to vested interest.
- Difficulty of getting support from other members of community, other way remains apathetic or non-supportive.
- May increase the number of staff required to run the enterprise because of community members request.
- Existence of pressures to extend the scope of enterprise, hence, increases project costs.
- Limited technical capacity of local people, thus need massive input in capability building.
- Limited capital from the community itself, soliciting funding assistance (such as loans) may require “collateral”.
- May not always be accessible due to limited service facilities.

Tourism is increasingly seen as a key community tool, with the recognition of its economic contribution in bolstering stagnating economies and its ability to unify local community residents (Fennel 2003). At community levels, tourism offered opportunities for direct, indirect, and induced employment and income, spurring regional and local economic development (Aref 2010; Coccossis 2004). Community-based tourism (CBT) and community development are inherently interlinked. Since the income generated from CBT is at the complete disposal of the community, the community is free to use the funds according to their own development priorities.

CBT, when successful, becomes a self-sustaining business, generating income for the community free from the stipulations and controls of an aid agency or government body. Adopting good practice in Community Based Tourism contributes to each of the ‘three pillars of sustainability’ delivering social, environmental and economic benefits (a more sustainable environment, and be commercially viable). These three pillars are based on the concept of the triple bottom line for sustainability (often referred to as ‘TBL’ or ‘3BL’). The TBL is a term that was coined by John Elkington in 1994. TBL implies that businesses can and ought to be run in a financially, socially, and environmentally responsible manner (Elkington 1997).

All businesses need finance or funding at some stage in their operation to start up, continue in business and grow. Lack of sufficient finance is a common problem facing by a community-based tourism (CBT). A CBT, just like any other business, will endeavour to become financially independent. Sustainability is all about the attitude and ability of a social enterprise to plan for their future.

In the context of business, there are three aspects to sustainability – organisational, financial and environmental and has two sides: (1) relates to the fact that an enterprise needs to be able to survive and endure financially over time (2) relates to the enterprises’ social purpose, whether it can endure and whether it is able to maintain or deepen its impact over time. A CBT can achieve financial sustainability through attracting income from other sources (not just grants), making use of qualified and experienced financial staff, using proper financial controls and reviewing all financial information properly. The financial objective of a CBT is not by default viability (generating sufficient income to cover all costs). They can improve efficiency and effectiveness of the organization by reducing the need for donated funds; providing a more reliable, diversified funding base; or enhancing the quality of programs by increasing market discipline.

THE RESEARCH APPROACH AND STUDY CONTEXT

Methodology

This paper arose out of a preliminary investigation by exploring the strategic financial sustainability issues in a community-based tourism enterprise with a special reference to Tourism Cooperative (KOPEL Berhad). This paper seeks to identify a range of factors that will contribute to the viability and sustainability of the KOPEL. The findings were

distilled from interviews with the chairman of KOPEL Berhad, executive manager, staffs and cooperative members. These major indicators included financial position, income and expenses, details of co-operative structure, staff, management, marketing, business activities, and a set of responses covering a more detailed range of topics. The data gained from key informants' interview then transcribed to identify the issues and problems related to financial sustainability facing by the co-operative. Ishikawa's Fishbone analysis and situational analysis using SWOT Analysis (Strength, Weaknesses, Opportunities and Threats Analysis) have been used to identify KOPEL's problems related to financial sustainability of the enterprise.

Study Context

KOPEL Berhad which stands for Tourism Cooperative is the Community Ecotourism Cooperative of the Batu Puteh Community. It is located in the village of Batu Puteh, Lower Kinabatangan, Sabah, Malaysia (Figure 1) and was registered in July 2003 under Subsection 7(1) of the Malaysian Cooperative Act 1993. KOPEL is considered as the most successful community-based enterprise by winning numerous awards at national and international levels. The co-operative was established in 2003 and currently made up of 260 villagers from Kampung Batu Puteh, Kampung Mengaris, Kampung Perpaduan and Singgah Mata Village in Mukim Batu Puteh. KOPEL was set up to reverse the losses, to capitalise on ancient indigenous and traditional knowledge and culture, to save and create economic value and appreciation of the mega-diverse rich rainforests of the area, and in the process create a sense of hope for a sustainable future for the people of Lower Kinabatangan.

The establishment of KOPEL was first initiated by Mr. Mohd Hasim, Kampung Batu Puteh locally-born who also a volunteer of World Wildlife Fund (WWF) Malaysia. It started from initial cooperation with conservation project under coordination of MESCOT (Model for Ecologically Sustainable Community Tourism) in 1998 which involved various community-based programs funded by three non-government organisations (NGOs), the WWF of Malaysia and Norway and Discovery Channel Television. MESCOT project set up the Miso Walai Homestay Program in Kampung Batu Puteh as the pilot project, with its main objective to develop awareness, knowledge and skills among local community relating to conservation of natural resources, cultural and environment for economic development. The capacity building program involved several workshops on inventory and natural resources management, development of tourism product for business, and cultural and environment conservation. In year 2000, Miso Walai Homestay Program gained greater involvement from community in all villages of Batu Puteh as the project has convinced the community about the potential of the activities to their income. The involvement of community was increased from only 1,700 participants in the early phase of the program to 3,300 participants, which also led to increment of number of homestays operated, from 7 participants to 34 participants.



Figure 1: The Location of Kg. Batu Puteh, Kinabatangan

From a rural community that relies on natural resources such as logging, hunting, fishing, agriculture for survival of life, they latter transformed into an environmentally-conscious community that eventually became tourists attraction and became one of their source of incomes through the establishment of KOPEL Berhad. Currently, KOPEL's main business is related to community-based tourism like homestay, boat riding for nature sight-seeing, and conservation activities. KOPEL's main financial resources have been revolved from fund generated from government agencies and NGOs, as well as income derived from various KOPEL's activities especially the homestay, boat service, guiding and food catering as shown in Table 1 below. The co-operative only keeps three percent of the income for its operational expenditure and the fund also provides micro credit for its members by offering them low interest loans.

Table 1: KOPEL's Annual Income, 2010-2012

No.	Sources of Income	2012 (RM)	2011 (RM)	2010 (RM)
1	Miso Walai Homestay	246,817.00	193,274.30	235,878.50
2	Handicraft Products	60,922.10	42,643.30	31,595.50
3	Cultural Dance Performance	61,252.40	75,075.90	55,981.49
4	Boat Service	300,891.34	286,842.93	251,371.67
5	Local guides	348,477.56	238,701.13	204,323.61
6	Rainforest Eco Camp (TREC)	60,756.00	44,562.25	40,892.00
7	Transportation services	149,963.00	128,844.15	113,210.93
8	Conservation fees	234,312.30	126,954.40	115,347.25
9	Food and Beverages	263,353.92	238,899.64	251,677.81
10	Retail shop	60,444.00	53,386.50	40,307.80
11	Others	119,980.76	108,299.25	90,295.32
Total Revenues		1,907,170.38	1,537,483.75	1,430,881.88
Total Expenditure		1,663,559.02	1,431,307.81	1,282,959.76
Net Income		243,611.36	106,175.94	147,922.12

RM3.00 was equal to approximately USD1.00 in 2012

Source: KOPEL Berhad (2012)

RESULTS AND DISCUSSIONS

Issues and Challenges Facing by KOPEL Berhad

It is undeniable that all types of enterprise face some forms of challenge throughout their operations. Nevertheless, it is often argued that smaller firms, i.e. SMEs face greater range of challenges compared with larger firms, due to its size and fragile characteristics. In this study, the main issues and challenges faced by KOPEL are directly related to its limited resources, especially access to finance and business management skills deficiency, as well as issues related to the external context like level of community involvement, and marketing factors. These challenges have influenced the development and performance of KOPEL which might impact its sustainability in community-based tourism industry.

With regards to issues relating to financial resources, it was found that KOPEL is heavily depended on external grant funded by the government agencies, non-government organisations (NGOs) and several donors and funders who play significant role in community-based development or conservation project. As a result, KOPEL is less stable in its wealth due to great reliance on external funding for its capital resources, which last just for short term basis. Access to financial capital would be worse off to KOPEL in the long run, especially if there are no more funds from external parties, whilst at the same time KOPEL has to pay for the costly maintenance of its business although KOPEL charges minimal price for its products. Ultimately, KOPEL tended to experience low return on investment.

Another challenges faced by KOPEL in relating to resources, is in terms of person-related capital, i.e. business management skill of the operator. It was found that KOPEL does not have proper management and accounting procedure throughout the enterprise. In fact, KOPEL practices informal costing rather than having formal financial records.

As a result, KOPEL experienced difficulties to monitor its gross profit and savings, which might not provide accurate financial performance record.

The two main issues faced by KOPEL in relating to external influences are community involvement and marketing factors. It was found that KOPEL faced challenges in relating to community commitment who are the members or partners to KOPEL. It is believed that KOPEL might face lack of reliable business partners in the long run if it fails to motivate or encourage its members. It is well mentioned in the literature that lack of personal drives and motivations could delay the involvement of a person to engage into a business (McClelland 1987; Brockhaus and Horwitz 1986). Apparently, KOPEL's challenge is lack of awareness, skills and knowledge among the community about the community-based tourism business. KOPEL should encourage and motivate its members to commit into its activity by facilitating and guiding them with relevant capacity building program and motivation courses including related to housekeeping, food preparation, customer relation, planning and management skill, costing skill, etc. If this measure is not applied in KOPEL, it might experiences difficulty in access to business partners in the long run.

In relating to marketing factors as KOPEL's setback, it was found that from the study, KOPEL is having issues on the small market size, fluctuate demand and lack of promotion activities. KOPEL's products are less diversified; its market mostly comes from foreign tourists. The locals are less favoured to experience the community-based activity like traditional home-stay and nature sight-seeing. In addition, KOPEL face fluctuation in demand as tourism-related product is a seasonal product. In terms of promotion activities, KOPEL's low-profit marketing approach, for examples to develop awareness on nature conservation and community/cultural-based experience, have actually caused problems to KOPEL to get better sales. KOPEL's product and business characteristic has also become the challenges to its business. Apparently, KOPEL's major challenges for being in a nature-related tourism business is its characteristic as a fragile business due to its vulnerable resources, i.e. wild-life and nature resources, expose to unpredictable weather and uncontrolled deforestation. In addition, KOPEL also faced intense competition with other available tourism products, which lead to problem in product imitation and as a result, KOPEL's product is not unique anymore although KOPEL has invested so much into sustainable and green-related products.

The Factors Influencing Financial Sustainability of KOPEL Berhad

From the study, it was found that although KOPEL face several challenges which might impede the growth of its business activities in the long run, it can be said that KOPEL possess several qualities which allows it to survive until today. Some of the factors that are found to be influential for KOPEL's financial sustainability include the internal and external factors, namely:-

- **Personal Qualities and Traits of the Owner-Managers**

It was found that KOPEL's owner-managers possess favourable personality traits which allow them to sustain even when faced with obstacles, such as strategic vision thinking, enthusiastic, passion and social-oriented person. All of these qualities can be referred as 'perseverance' that involves sustained goal-directed action and energy. Timmons (1985) contends owner-managers who hold persistently to their goals and who hate to give up increase their chances to sustain in business.

- **Good Management (Organising and Planning)**

The ability of KOPEL to organise its organisation through good business plan especially in relating to secure resources from potential stakeholders and to employ those resources to villagers shows that KOPEL is being managed

effectively. It can be said that KOPEL's managers have demonstrated good organising skill which allows it to sustain in the business.

- **Good Investment on Product Development and Marketing**

KOPEL's ability to survive is also illustrated through investment that they have made into product development and marketing research in order to expand and improve its business efficiency. KOPEL always come out with new ideas and new products based on their current strengths and capabilities. In addition, KOPEL is also undertaking marketing research to have better understanding the current market needs and wants and to explore new potential market in order to survive in the future.

- **Availability of Abundance Local Resources**

The availability of vast wealth of natural forest resources and own cultural heritage become the great opportunities to KOPEL as this provides abundance of local resources. This could help KOPEL to create and offer variety of experience-related activities to tourists, which allows KOPEL to sustain in their financial in the future.

- **Ability to Network and Affiliate with External Organisations**

Many researchers contended that SMEs could achieve competitive advantage not necessarily through innovation, but through developing social networks for access to resources and markets (Krueger, Reilly and Carsrud 2000; Lee and Tsang 2001). In this study, KOPEL has collaborated with other potential external organisations and individuals throughout the value chain, for example having strong partnership and networking with other stakeholders, like government intermediaries (Forestry Department and Ministry of Culture, Tourism and Environment Sabah), NGOs (WWF, Universities) and private sectors. Figure 2 shows various stakeholders involved in KOPEL's activities and programs. Strong networks provide better resource mobilisation especially in terms of flows of financial resource, information and diversification of business activities, which it is believed to have positive effect on survival of KOPEL in the future.

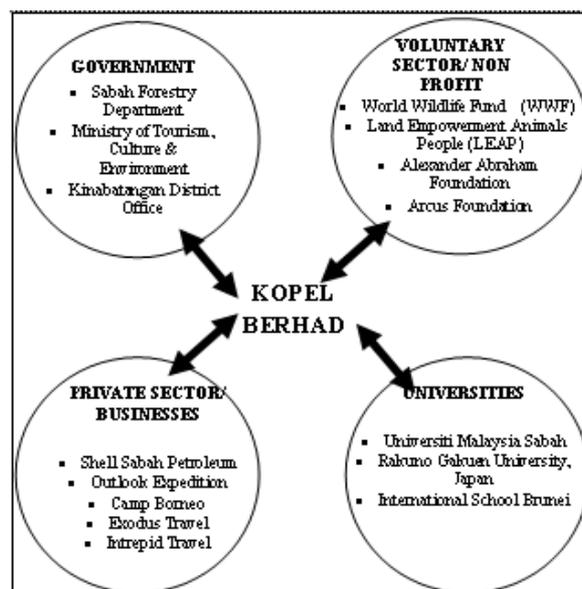


Figure 2: Stakeholders Involvement in KOPEL's Activities/Programmes

- **Presence of Local Communities as Business Partners**

The presence of local communities in the village area poses greater opportunities to KOPEL as a source of

business partners. Since year 2000, KOPEL has gained greater involvement from local community when KOPEL offered various social and technical supports to the communities to encourage and motivate them to join as business partners. It is believed that high level of commitment of local communities as business partners could be achieved through KOPEL's training program like capacity building on business and management skills, as well as marketing and communication skills. Having sufficient social supports through experienced and skilled business partners may influence the development and growth of KOPEL in the long run.

CONCLUSIONS

A community-based enterprise evaluates wealth in terms of the benefits accruing to the broader community rather than as personal profit. In this case of KOPEL, it can be described how community-based tourism (CBT) emerges through a complex process of personal initiatives, local mobilization and legitimization, the creation of new institutional platforms and networking towards critical resources, including government and NGOs support to tackle the issues of business viability and financial sustainability.

The success of a community entrepreneurship as shown by KOPEL is highly depend on the leadership (local champion), the uniqueness of local resources, community and other stakeholders support and types of benefit gain from the business. Similar to the case of KOPEL, the CBT often struggle to grow their business from an idea, to a small model that works, to a scaled operation that empowers large numbers of people. The large majority of them lack the skills, experience and expertise required to succeed in business by ensuring their financial sustainability particularly to the community that lacking in term of access to knowledge, funding, infrastructure, technology and marketing.

So that, social enterprise activity should be undertaken as a means to increase financial sustainability and tackle most pressing problems through innovative approaches especially by using financial and marketing solutions. Community-based Tourism Enterprise projects, like any other small businesses, need to keep careful tabs on their performance in all aspects of a business by understanding and reacting to meet customer needs and management of their finances, their internal operations, their human resources and their relations with various external suppliers and stakeholders. Financial sustainability for CBT requires effective planning and robust financial management together with an understanding of what funding and income opportunities are available and a willingness to diversify into these where possible. It also involves building organisational skills and capacity to ensure the best and most effective use of resources by introducing innovative product and clearly identify the right market segments.

In conclusion, the implementation of Community-based Tourism (CBT) at the local or community level is challenging and demanding as there are associated with such a new approach in the tourism or community business by emphasizing on financial sustainability aspect. Nevertheless overcoming the constraints and challenges are possible if the followings measures are carefully put in place through strong support from government, private and NGO sector as well as commitment from the community itself.

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