

# Enhancing Hospitality Service Management and Financial Literacy for Sustainable Tourism Development : Evidence from Malaysia's Local Destination Operators

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**Abstract.** In the increasingly competitive tourism landscape, many local operators in Malaysia face challenges in maintaining service quality and managing their businesses sustainably. The objective of this study is to investigate how training in hospitality service management and financial literacy can enhance the long-term sustainability of local tourism businesses. This study aims to examine the impact of hospitality service management and financial literacy training on the business sustainability of local tourism operators. Using a quantitative approach, data were collected from 120 small-scale tourism entrepreneurs in East Malaysia through structured questionnaires and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results show that both hospitality service management and financial literacy have a positive and significant effect on business sustainability. Moreover, the integrated implementation of both trainings produces a stronger impact than each intervention individually. These findings support the SERVQUAL Model, Human Capital Theory, and Empowerment Theory, highlighting that knowledge-based capacity building is crucial for improving operational performance and economic resilience in the tourism sector. The study recommends that policymakers and universities adopt integrated training modules that combine service and financial competencies to empower tourism-based microenterprises and foster inclusive, sustainable development.

**Keyword:** Hospitality management, financial literacy, financial capability, tourism operators, business sustainability

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## 1. INTRODUCTION

Tourism has become a cornerstone of economic development for many countries in Southeast Asia, including Malaysia. The nation's diverse culture, natural beauty, and ethnic richness offer tremendous opportunities for the growth of the tourism sector. However, the local tourism industry particularly at the community level has not fully realized its potential due to persistent issues in service quality and business sustainability. A key contributor to this underperformance is the limited capacity of local destination operators to manage hospitality services professionally, which directly impacts the quality of tourist experiences (UNWTO, 2023).

Many small and medium-scale tourism operators in Malaysia lack formal training in hospitality service management. This limitation leads to poor service delivery, low tourist satisfaction, and reduced repeat visitation. Moreover, the absence of structured learning opportunities on customer relationship management, digital marketing, and service innovation

further widens the gap between local operators and their competitors from more developed destinations (Omar, Yusof, & Alwi, 2021). The phenomenon gap here lies in the mismatch between Malaysia's strong tourism potential and the low operational quality at the grassroots level.

In addition to service management deficiencies, a major barrier to the sustainability of tourism businesses is low financial literacy. Many operators struggle with basic financial tasks such as budgeting, cash flow monitoring, and cost control. These limitations not only hinder day-to-day operations but also compromise their ability to reinvest and grow their businesses. Research by Lusardi and Mitchell (2020) highlights that financial literacy is strongly associated with improved business resilience and sustainability, yet such skills remain largely undeveloped among micro and small tourism entrepreneurs in Malaysia. This presents a research gap, as few empirical studies have examined the intersection of financial literacy and hospitality management in the context of community-based tourism.

Furthermore, the growing digitalization of tourism services presents both opportunities and threats. While technology can enhance visibility, streamline service delivery, and improve customer engagement, many local tourism operators in Malaysia lack the digital competencies and infrastructure to capitalize on these advancements. According to Hashim and Ahmad (2022), digital skill deficiency among local entrepreneurs remains a significant hurdle in achieving tourism competitiveness. Despite growing recognition of this problem, there is limited community-based intervention targeting the digital and financial upskilling of tourism players at the local level.

From an institutional standpoint, this situation calls for structured community engagement initiatives that not only provide technical training but also foster long-term empowerment of local actors. Management and Science University, in alignment with its mission to support sustainable community development and meet national Key Performance Indicators (IKU), initiated a capacity-building program for tourism operators. This program integrates training in hospitality service management and sustainable financial literacy, addressing the dual needs for quality improvement and business sustainability (Zulkifli, Rahman, & Hanafi, 2023).

In summary, while tourism in Malaysia holds vast untapped potential, its development is hindered by fragmented service delivery and low financial competencies at the grassroots level. Previous research has often addressed these issues in isolation; however, few studies have explored integrated training approaches that simultaneously target hospitality management and financial literacy within the same intervention. This paper seeks to bridge that research gap by analyzing the outcomes of a holistic empowerment program that aims to optimize service quality and strengthen financial management among local tourist destination operators in Malaysia.

## **2. THEORETICAL FRAMEWORK**

### **Service Quality Theory (SERVQUAL Model)**

The quality of hospitality services is fundamental to tourist satisfaction and destination competitiveness. One of the most widely used models to measure and manage service quality is the SERVQUAL Model, developed by Parasuraman, Zeithaml, and Berry (1988). This model identifies five dimensions of service quality: tangibles, reliability, responsiveness, assurance, and empathy. In the context of local tourist destinations, effective hospitality service management must ensure that these five dimensions are addressed consistently to enhance the visitor experience and foster customer loyalty. Applying the SERVQUAL framework allows operators to evaluate service gaps and implement targeted improvements.

### **Financial Literacy Theory**

Financial literacy refers to the knowledge and skills required to make informed and effective financial decisions. According to Huston (2010), financial literacy comprises both financial knowledge (awareness of concepts) and financial application (behavioral skills). In the tourism sector, especially among small operators, financial literacy is essential to budgeting, financial planning, risk management, and profitability. Without financial literacy, even well-managed tourism services can collapse due to poor fiscal control. The theory emphasizes the role of financial education as a driver of economic empowerment and business sustainability.

### **Empowerment Theory**

Empowerment theory, as defined by Zimmerman (2000), involves the process by which individuals gain control over their lives, acquire critical awareness, and take active roles in community and economic development. In the tourism context, empowerment means enabling local stakeholders—such as destination operators and homestay entrepreneurs—to gain knowledge, confidence, and skills to improve their services and financial autonomy. This theory underpins the community-based training and engagement approach used in the program, with the goal of building both individual capacity and collective action.

### **Hypothesis Development**

#### **The Influence of Hospitality Service Management Training on Service Quality among Local Tourism Operators**

Effective service management is a core component in delivering high-quality hospitality experiences. Based on the SERVQUAL model by Parasuraman et al. (1988), service quality is evaluated through dimensions such as tangibility, reliability, responsiveness, assurance, and empathy. In the context of community-based tourism, many local operators in Malaysia lack formal training in these areas, leading to service inconsistencies and subpar visitor experiences (Omar et al., 2021). Training in hospitality service management equips these operators with the skills to standardize and elevate their service delivery, which in turn enhances customer satisfaction and increases destination competitiveness. Therefore, it is

hypothesized that training in hospitality service management significantly improves the service quality offered by local tourism operators.

H1: Hospitality service management training has a positive and significant effect on the service quality of local tourism operators

### **The Impact of Financial Literacy on Financial Management Capabilities in Local Tourism Businesses**

Financial literacy, as defined by Huston (2010), encompasses both the knowledge and application of financial concepts, including budgeting, cash flow management, and strategic financial decision-making. In tourism, particularly among small and micro businesses, a lack of financial understanding can result in inefficient use of resources, financial vulnerability, and limited growth potential. Prior studies have shown that entrepreneurs with higher levels of financial literacy are more likely to engage in planning, saving, and sustainable investment behaviors (Lusardi & Mitchell, 2020). By providing training on financial fundamentals, operators are better positioned to manage their businesses sustainably and make informed financial decisions. Thus, it is hypothesized that increasing financial literacy leads to enhanced financial management capabilities in local tourism enterprises.

H2: Financial literacy has a positive and significant effect on the financial management capabilities of local tourism businesses.

### **The Effect of Integrated Hospitality and Financial Literacy Training on the Sustainability of Local Tourism Enterprises**

While training in hospitality management and financial literacy can independently benefit local tourism operators, combining both interventions provides a more holistic approach to business development. Human Capital Theory (Becker, 1993) supports the notion that investment in skills and knowledge leads to greater productivity and long-term economic gains. When operators are equipped with both service excellence and financial management capabilities, they are more likely to build resilient, customer-centered, and financially sustainable businesses. Furthermore, Empowerment Theory (Zimmerman, 2000) suggests that such integrated capacity-building not only enhances operational skills but also boosts confidence and autonomy. Therefore, it is hypothesized that the integration of hospitality service management and financial literacy training significantly contributes to the overall sustainability of local tourism enterprises.

H3: The integrated training in hospitality service management and financial literacy significantly enhances the sustainability of local tourism enterprises.

## **3. METHODOLOGY**

### **Research Design**

This study adopts a quantitative research approach with a causal-explanatory design, aiming to empirically test the relationship between hospitality service management training, financial literacy, and business sustainability among local tourist destination operators in Malaysia. The research seeks to analyze whether the proposed training interventions

significantly improve service quality and financial management capabilities, and whether their integration enhances long-term business sustainability.

### **Population and Sample**

The population in this study includes local tourism stakeholders in Malaysia, specifically small-scale tourist destination operators, homestay managers, and tourism-based micro-entrepreneurs—particularly in East Malaysia (e.g., Sabah and Sarawak), where tourism potential is high yet underdeveloped.

The sample was selected using a purposive **sampling** technique, targeting respondents who:

1. have been operating a tourism-related business for at least 1 year,
2. have not previously received formal training in hospitality or financial literacy, and are actively involved in daily business operations.

A total of 120 respondents were selected to participate in the study, which is deemed adequate for structural analysis using Partial Least Squares – Structural Equation Modeling (PLS-SEM), based on the “10-times rule” and power analysis recommendations (Hair et al., 2019).

### **Variables and Operational Definitions**

This study includes three primary variables:

1. Hospitality Service Management (HSM) – refers to the ability of tourism operators to manage customer service, facility operations, and marketing strategies effectively. Measured using adapted SERVQUAL-based indicators (Parasuraman et al., 1988).
2. Financial Literacy (FL) – refers to the respondents’ understanding and application of budgeting, cash flow management, and business financial planning. Indicators are adapted from Huston (2010) and Lusardi & Mitchell (2020).
3. Business Sustainability (BS) – defined as the long-term viability of the tourism enterprise, including profitability, growth, and adaptability. Measured through indicators of financial stability, service continuity, and innovation.

All items were measured using a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).

### **Data Collection Procedure**

Data were collected through a structured questionnaire distributed during training workshops and follow-up sessions held in collaboration with Management and Science University. Respondents were briefed on the purpose of the study and gave informed consent prior to participation. To minimize response bias, anonymity was ensured, and no personal identifiers were collected.

### **Instrument Validity and Reliability**

The research instrument was adapted from validated scales in prior literature and underwent expert review to ensure content validity. A pilot test involving 30 respondents was conducted to evaluate construct reliability **and** internal consistency, with Cronbach’s Alpha > 0.70 as the minimum threshold (Nunnally & Bernstein, 1994).

### Data Analysis Technique

Data were analyzed using Partial Least Squares – Structural Equation Modeling (PLS-SEM) with the help of SmartPLS 4.0 software. This method was chosen due to its suitability for predictive models and small to medium sample sizes.

The analysis steps included:

- Descriptive analysis (mean, standard deviation)
- Measurement model evaluation (validity and reliability of constructs)
- Structural model evaluation (path coefficients and hypothesis testing)
- Bootstrapping procedure with 5,000 resamples to test significance ( $p$ -values  $< 0.05$ ).

**Tabel 1**

| No. | Variable                             | Definition                                                                                                 | Indicators                                                                                                                                                                                 | Referensi                                           |
|-----|--------------------------------------|------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| 1.  | Hospitality Service Management (HSM) | The ability to manage service quality in tourism, including operations, customer relations, and marketing. | HSM1: Customer responsiveness<br>HSM2: Staff reliability<br>HSM3: Service facilities quality<br>HSM4: Complaint handling<br>HSM5: Promotional strategies                                   | Omar, M. K., Yusof, M. A., & Alwi, S. F. S. (2021). |
| 2.  | Financial Literacy (FL)              | The knowledge and ability to make informed financial decisions for business sustainability.                | FL1: Ability to create and manage a budget<br>FL2: Understanding of cash flow<br>FL3: Business saving behavior<br>FL4: Knowledge of investment and credit<br>FL5: Financial record keeping | Lusardi, A., & Mitchell, O. S. (2020).              |
| 3.  | Business Sustainability (BS)         | The ability of a tourism business to maintain profitability and adapt to long-term challenges.             | BS1: Profit consistency<br>BS2: Business growth planning<br>BS3: Ability to survive during low seasons<br>BS4: Service continuity<br>BS5: Innovation and adaptability                      | Zimmerman, M. A. (2000).                            |

## 4. RESULTS AND DISCUSSION

### Descriptive Statistics

A total of 120 valid responses were analyzed. Most respondents were homestay managers (45%), followed by local tour operators (32%) and small-scale souvenir entrepreneurs (23%). The majority (68%) had operated their business for more than three years. Preliminary descriptive analysis showed moderate levels of hospitality service management (mean = 3.72), low to moderate financial literacy (mean = 3.48), and moderate perceived business sustainability (mean = 3.55), based on a 5-point Likert scale.

### Measurement Model Evaluation

The measurement model was tested using SmartPLS 4.0 to assess construct validity and reliability:

- Convergent Validity: All outer loadings exceeded 0.70 and AVE values ranged from 0.61 to 0.73, meeting the minimum threshold.
- Internal Consistency: Cronbach's Alpha and Composite Reliability (CR) values for all constructs were above 0.80.
- Discriminant Validity: The Fornell-Larcker criterion and HTMT ratios confirmed sufficient separation among constructs.

Thus, the measurement model demonstrated satisfactory validity and reliability, supporting the robustness of further structural analysis.

### Structural Model and Hypothesis Testing

The structural model evaluation used bootstrapping (5,000 samples) to test the significance of path coefficients. The results are summarized below:

**Table 2.**

| Hypothesis | Path                               | $\beta$ (Beta) | t-value | p-value | Decision                |
|------------|------------------------------------|----------------|---------|---------|-------------------------|
| H1         | HSM → Business Sustainability (BS) | 0.426          | 5.783   | 0.000   | Supported (Significant) |
| H2         | Financial Literacy (FL) → BS       | 0.384          | 4.921   | 0.000   | Supported (Significant) |
| H3         | HSM + FL (Joint Effect) → BS       | 0.617          | 6.842   | 0.000   | Supported (Significant) |

The  $R^2$  value for Business Sustainability was 0.62, indicating that hospitality service management and financial literacy jointly explain 62% of the variance in business sustainability.

### Discussion

#### Impact of Hospitality Service Management on Business Sustainability

The study found that improvements in hospitality service management significantly enhanced business sustainability among tourism operators. This aligns with the SERVQUAL framework (Parasuraman et al., 1988), which emphasizes how service quality dimensions—such as responsiveness, reliability, and customer focus—translate into increased customer satisfaction, repeat visits, and long-term business viability. Operators who participated in training showed better ability to maintain service consistency, manage tourist expectations, and apply basic marketing strategies. This finding supports earlier work by Omar et al. (2021), which suggested that operational excellence is a key pillar of success for community-based tourism.

#### Impact of Financial Literacy on Business Sustainability

Financial literacy was also shown to have a statistically significant positive effect on business sustainability. Operators who gained a better understanding of budgeting, cash flow management, and savings strategies reported more confidence in managing finances and planning for growth. This reinforces the theory of Huston (2010), which defines financial literacy as a behavioral asset crucial for entrepreneurial resilience. Consistent with Lusardi & Mitchell (2020), the results highlight that financially literate operators are better equipped to make informed decisions, avoid debt traps, and maintain operations during economic downturns.

#### The Integrated Effect of HSM and FL

Most notably, the combined effect of hospitality service management and financial literacy training had the strongest impact on business sustainability. This supports the Human Capital Theory (Becker, 1993), suggesting that investments in multiple skill domains yield higher productivity. The synergistic effect demonstrates that both service excellence and sound financial management are essential for building resilient, competitive, and sustainable

tourism enterprises. Furthermore, this aligns with Empowerment Theory (Zimmerman, 2000), which posits that knowledge-based empowerment fosters autonomy, confidence, and proactive behavior in managing local businesses.

### **Implications**

These findings underscore the importance of integrated capacity-building programs for tourism operators. Government agencies, universities, and NGOs should focus on dual-skill training modules that address both hospitality service and financial literacy. Policies aimed at empowering local tourism stakeholders should not treat these skill sets in isolation but as interdependent levers for sustainability.

## **5. CONCLUSION AND RECOMMENDATION**

Based on the results of this study, it can be concluded that training in hospitality service management and financial literacy significantly contributes to the sustainability of local tourism enterprises in Malaysia. Hospitality management training has been proven to improve service quality, which ultimately enhances tourist satisfaction and the competitiveness of tourism destinations. Meanwhile, improved financial literacy equips operators with the skills to manage budgets, record cash flows, and plan financial sustainability more strategically. These two aspects, when implemented together, create a stronger positive impact on business sustainability compared to when applied separately.

These findings support the theoretical understanding that knowledge-based empowerment and practical training can enhance the capacity and autonomy of business operators to independently manage challenges. The combination of service and financial training not only equips tourism players with technical skills but also fosters the growth of resilient, adaptive, and sustainable businesses.

As a recommendation, governments, universities, and training institutions should develop integrated training modules that include both hospitality service skills and financial management, especially targeting tourism MSMEs in underdeveloped areas such as East Malaysia. Training programs should not be limited to one-way sessions but should also include post-training monitoring, business mentoring, and digital technology integration. Further research is encouraged to explore the mediating role of digital adoption or moderating factors such as market access and business networking in supporting the long-term success of community-based tourism enterprises.

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