Tourism Small and Medium Enterprises (TSMEs) in Malaysia

Kalsitinoor Set
Department of Management and Marketing
Faculty of Management and Economics
Universiti Malaysia Terengganu
21030 Kuala Terengganu, Terengganu, Malaysia

Abstract

This paper examines the profile and tourism small and medium-sized (TSMEs)in Malaysia. The study is focused on TSMEs located in Kuala Lumpur, Pahang, Kedah, Pulau Pinang and Sabah. Most research focused on SMEs studies in other industry such as manufacturing while there is limited research on TSMEs in Malaysia. This study attempts to profile the characteristics of TSMEs in Malaysia. A self-administered questionnaire was used to collect data from 750 TSMEs with 346 were found useable for this study. Empirical results indicate that majority TSMEs in Malaysia is small-sized, family-owned, most of TSMEs in Malaysia are considered experienced with 30 years tourism business experience and saw huge increments of new TSMEs after 1992 which is reflected on Malaysian government's tourism-specific plan on TSMEs during Sixth Malaysia Plan.

Key Words: Tourism SMEs, Tourism Malaysia

1. Introduction

Tourism industry in Malaysia began in 1972 with the establishment of the Tourist Development Corporation (TDC). Since then, tourism industry performance in Malaysia has successfully shown positive achievement. The combination of unique features of Malaysian natural resources and the multiracial and multicultural society has been strengthen through tourism policies developed and implemented by the Malaysian government to develop competitive advantages for Malaysia tourism industry.

The Malaysia government has played big role in in planning, gearing and developing the industry. The Government has various and continuous tourism-specific initiatives through its five-year economic plan since the 2nd Malaysia Plan (1971-1975) until the recent 10th Malaysia Plan (2011-2015). The Sixth Malaysia Plan (1991 – 1995) was especially prominent for the tourism industry in Malaysia because of the establishment on the first National Tourism Policy (NTP) which serve as the guiding principles for planning, developing and marketing tourism industry in Malaysia. Continuously, the National Eco-tourism Plan (1996) was established during the Seventh Malaysia Plan, the Rural Tourism Master Plan (2001) during the Eight Malaysia Plan and the Second National Tourism Policy (2003-2010). Each of these tourism specific tourism policies was established to merely focus on the needs to prosper tourism industry performance based on tourism products and services aimed by the Malaysia government.

Besides focusing on tourism products and services, the Malaysian government has acknowledged on the importance of TSMEs in tourism industry performance. Lists of financial and non-financial programmes have been established to support TSMEs performances. This action was taken to further prosper Malaysian TSMEs performances and to increase the business longevity in order to realise the government's plan for tourism industry in Malaysia. Thus, this trend shown the Malaysian government has taken a proactive approach to enhance the capability and the role of TSMEs as the backbone in Malaysia tourism industry.

In the context of TSMEs studies in Malaysia, there is still limited numbers of research focusing on TSMEs solely. Most of studies on SMEs merely focus on SMEs in other industries particularly manufacturing industry. Studies on manufacturing SMEs have look into various segments such as macroeconomic contribution (Abdullah, 2002), firm performance (Ismail and King, 2005) and management practices (Rahman and Tannock, 2005). Therefore, a review of TSME characteristics will help to provide better insight on TSME development in Malaysia. To fill this knowledge gap, this study seeks to profile characteristics of TSMEs in Malaysia.

2. TSMEs in Malaysia

The continuous efforts to stimulate tourism industry by the Malaysian government bring positive impact on TSMEs business activities. TSMEs in Malaysia account for about 85 per cent of tourism businesses. Following the guidelines introduced by international organisations such as the United Nations World Tourism Organization (UNWTO), Eurostat, and the Organization of Economic Co-Operation and Development (OECD), the Malaysian Government applies the Tourism Satellite Accounts (TSA) to characterise tourism-specific products from suppliers' perspectives. The categorisation of tourism products are as follows:

- accommodation services,
- food and beverage serving services,
- passenger transport services,
- travel agency, tour operator and tourism guide services,
- cultural services, recreation and other entertainment services, and
- miscellaneous tourism services (i.e., Personal care and salus Per Aqua (SPA), camping sites, Zoo, museum and theme parks).

Table 1 presents TSMEs business activities in 2010 with 239,110 active establishments. There are 142,721 firms (59.7 per cent) offering food and beverage services, 40,025 firms (16.7 per cent) offering transportation services and other miscellaneous tourism services. Meanwhile ,accommodation services; arts, entertainment and recreation services; and travel agency, tour operator and tourism guide services are offered by 19,643 TSMEs (8.2 per cent of total TSMEs).

Table 1: Distribution of TSMEs, 2010

TSMEs Business Activities	Establishments	%
Accommodation services	2,817	1.2
Transportation services	40,025	16.7
Art, entertainment and recreation services	6,217	2.6
Food and beverage service	142,721	59.7
Miscellaneous tourism services	36,721	15.4
Travel agency, tour operator and tourism guide services	10,609	4.4
TOTAL	**239,110**	**100.0**

Source*:* Malaysian Department of Statistics, Census 2011(2012)

With the increase in international tourist arrivals, tourism industry has created business potential and diversification on tourism products and services especially to TSMEs in Malaysia. In Malaysia, SMEs in the services sector, particularly in the tourism industry increased from 100,637 firms (or 21.1 per cent of overall SMEs) in 2005, to 239,110 firms (41.1 per cent of growth) in 2010 (Malaysian Department of Statistics, Census 2005, 2012).

Looking at the performance of TSMEs and other SMEs in the services sectors; education, health, transport and communication, computer service, telecommunication, wholesale, retail, financial intermediaries and business and management consultancy, TSME gross output was relatively low at RM 70,846 (24.7 per cent of total output) compared to that of other SMEs in the services sector (RM215,794 million or 75 per cent of total output). In 2010, of the 2.6 million workers in SMEs in the services sector, TSMEs employed about 991,419 workers (38.1 per cent of total employment in SMEs in the services sector). The tourism industry employs more than a third of employees in the services sector, is the second highest earner in foreign exchange and national income (MOTOUR, 2011). This indicate TSMEs play a big part in contributing income to the industry and the nation.Table 2 compares TSME performance indicators with those of other SMEs in the services sector in Malaysia in 2010.

Table 2: Key Performance Indicators of TSMEs, 2010

Indicators	Total SMEs in the Services Sector		TSMEs		Other SMEs services	
	Total	**%**	**Total**	**%**	**Total**	**%**
Number of establishments	580,985	100.0	239,110	41.1	341,875	58.9
Gross output (RM million)	286,640	100.0	70,846	24.7	215,794	75.3
Value added (RM million)	165,284	100.0	31,043	18.7	134,241	81.3
Employment (persons) (million)	2,600,000	100.0	991,419	38.1	1,608,518	61.9

Source: Malaysian Department of Statistics, Census 2011(2009, 2012)

In term of size, Table 3presents the number of TSMEs establishments showed an apparent increase from 2003 to 2010. One of the factors that contribute to this increase are the Government's incentives such as the special fund for tourism on SMEs-sized related projects during the 6th Malaysia Plan (1991 – 1995) and the range of tourism activities, products and markets during the 7th Malaysia Plan (1996 – 2000). The tourism industry saw an increase of more than 80 per cent of establishments of various sizes. The dominance of micro-sized firms in the tourism industry in 2003 continued in 2010, with 66.1 per cent and 83.8 per cent of micro firms respectively. In terms of the proportion of small and medium-sized enterprises, in 2010 the percentage is getting smaller compared to 2003.

Table 3: Distribution of TSMEs by Size, 2003 and 2010

Size	2003		2010	
	Total	**%**	**Total**	**%**
Micro	7,233	66.1	200,402	83.8
Small	3,033	27.8	35,098	14.6
Medium	674	6.1	3,610	1.6
Total TSMEs	**10,940**	**100.0**	**239,110**	**100.0**

Source: Malaysian Department of Statistics, Census 2011(2012)

3. Methodology

A survey was conducted from five major tourist destinations; Kuala Lumpur, Kedah, Pulau Pinang, Pahang and Sabah. This list of TSMEs in these destinations wasgathered from the Ministry of Tourism Malaysia and Tourism Malaysia. The selection process was following the stratified sampling technique. The stratification was based on the five selected major tourist destinations in Malaysia (Kuala Lumpur, Pahang, Kedah, Pulau Pinang, Pahang and Sabah) and the sub-population in this study was the selected TSMEs who provide accommodation services, travel agency services, tour operator services or tourism guide services.

The selection of a sample of 380 TSMEs may not be fully representative but the selection of the above locations was appropriate since these states received the highest tourist arrivals of 65 per cent of total tourist compared to other states in Malaysia. Furthermore, TSMEs established at the selected five locations represents 72 per cent of total TSMEs in Malaysia and geographically these locations also represent each region of Malaysia; East Coast (Pahang), North (Kedah and Pulau Pinang), West (Kuala Lumpur) and East Malaysia (Sabah).In terms of the key informant, the owner-managers or tourism entrepreneurs was primarily the source of information and have enormous influence on enterprise growth in small businesses. A personally administered questionnaire for the respondents was used in this study. The approach was adopted to increase participation among participants. There were 750 questionnaires distributed to a random sample of TSMEs.370 were returned, yielding a 49.3 per cent response rate. Only 346 (or 46.1 per cent) were found useable for this study. The findings of this study are based on a sample of 346 TSMEs in Malaysia.

4. Results and Discussion

4.1. Type of TSMEs' Businesses

Table 4 depicts the type of TSMEs surveyed in this study. TSMEs offering accommodation services make up 51 per cent (or 176 TSMEs), while the other 49 per cent (or 170 TSMEs) are travel agents, tour operators and other tourism guide services providers.

Respondent TSMEs are evenly distributed in terms of the types of tourism services they offer. Location plays a role in terms of the type of tourism businesses at tourist attractions. Two states, Pahang and Penang, show dominance on certain types of tourism businesses: Pahang on nature and adventure, and Pulau Pinang on City Excitements.

Table 4: Distribution of TSMEs by Location and Type of Business

Location	Total TSMEs		Type of business: Travel agency services, tour operator, and tourism guide services		Type of business: Accommodation services	
	Freq.	%[a]	Freq.	%[a]	Freq.	%[a]
Pahang	70	20.3	40	11.5	30	8.7
Pulau Pinang	69	19.9	28	8.1	41	11.8
Kedah	71	20.5	36	10.4	35	10.2
Kuala Lumpur	72	20.8	34	9.8	38	11.0
Sabah	64	18.5	32	9.2	32	9.3
Total	346	100.0	170	49.0	176	51.0

Note: [a]% refers the number of type of businesses express as a percentage of the total number of TSME

Source: Data derived from survey

Pahang shows the highest number of TSMEs involved in travel agency services, tourist operations and tourism guide services. This is reflected in Pahang's location, which is in the East Coast Region of Malaysia. It has a variety of eco-tourism attractions compared to other states in Malaysia. It is surrounded by the highlands, rainforest which covers 66 per cent of the state's area, and lakes full of various flora and fauna.This may imply the higher number of registered travel agency services, tour operator and tourism guide services in Pahang compared to other locations in Malaysia.

Meanwhile, Pulau Pinang has the highest establishment of accommodation services in this study, with 41 TSMEs or 60 per cent of TSMEs. Only 40 per cent were travel agency services, tour operator and tourism guide services. Thus, many resorts are primarily located along the Pulau Pinang, including famous beaches such as TanjungBungah, BatuFeringhi and TelukBahang. The state also continuously refurbishes its city attractions, particularly at Gurney Drive, a famous place offering a variety of Penangite delicious local foods. The other locations of Kedah, Kuala Lumpur and Sabah focus on natural-resource attractions and city excitements attractions. This justifies the equal distribution of the type of TSME businesses: travel agency services, tour operators and tourism guide services and accommodation services established in these locations.

In order to find out whether the location of TSMEs and type of TSME business had a relationship that could be used to explain the distribution above, the Pearson Chi-Square (χ^2) test for independence was carried out. Following the test for independence and given the calculated value of χ^2 (DF = 4, N = 346) = 4.01 and a p-value of 0.40 which is more than the critical value of 0.05, the study accepts the null hypothesis and concludes that there is no significant relationship between location and type of business at the 5 per cent significance level (see Appendix 5.1). The statistical result indicated that there is no difference in terms of the TSMEs' location and its type of business. This indicates that regardless of the fact that certain locations such as Pahang and Pulau Pinang have advantages on its natural resources which contribute to their tourism attractions compared to other locations in Malaysia, it has no influence on the preferences on type of tourism businesses established in the location.

4.2 TSMEs Firm Size Structure

Firm size in this study is measured by the total number of full-time employees. Respondent TSMEs in this study are primarily small-sized TSMEs with 62 per cent, while medium-sized TSMEs make up the remaining 38 per cent. Table 5 depicts the respective frequency distribution of the TSMEs by location and size. Table 5 presents that 213 firms (or 62 per cent of the total sample)are of small size; that is, they have 5 to 19 full-time employees.133 firms (or 38 per cent) are of medium size and have 20 to 50 full time employees. Reviewing the data in terms of TSME size distribution across locations, Pahang has the highest number of small-sized enterprises with 67 firms or 19.5 per cent; followed by Pulau Pinang with 45 firms or 13.0 per cent; and Kuala Lumpur with 44 firms or 12.8 per cent.

Kedah dominates the medium-size enterprises with 44 firms or 12.6 per cent; followed by Sabah with 34 firms or 9.6 per cent of medium-size enterprises from the total of TSMEs in this study.

Table 5: Distribution of Firm Size by Location

Location	Total TSMEs		TSMEs firms size (Full Time Employee) Small (5-19)		Medium (20-50)	
	Freq.	%[a]	Freq.	%[a]	Freq.	%[a]
Pahang	70	20.3	67	19.5	3	0.8
Pulau Pinang	69	19.9	45	13.0	24	7.0
Kedah	71	20.5	27	7.9	44	12.6
Kuala Lumpur	72	20.8	44	12.8	28	8.0
Sabah	64	18.5	30	8.8	34	9.6
Total	346	100.0	213	62.0	133	38.0

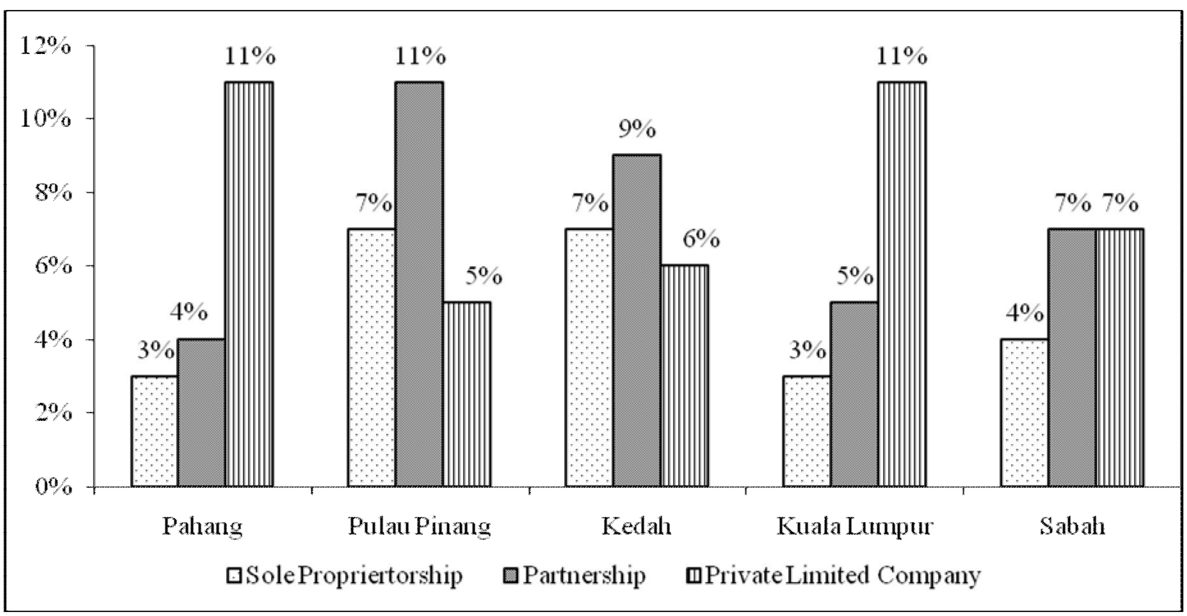
Note: [a]% refers the number of firm size express as a percentage of the total number of TSME
Source: Data derived from survey

Further analysis was carried out to explain the distribution above. The results from the test for independence showed the calculated value of χ^2 (DF = 4, N = 346) = 57.35 and a p-value of 0.00, which is less than the critical value of 0.05 (see Appendix 5.2). The study therefore rejects the null hypothesis and concludes that there is a significant relationship between TSMEs' locations and firm size, at the 5 per cent significance level. This can be related to the preference to keep the business small in order to avoid the complexities in handling bigger tasks in business operation (Jaafar, Abdul-Aziz, Maideen, & Mohd, 2011).

4.3 TSMEs Ownership Structure

TSMEs ownership structure is important because previous research conducted on SMEs in other industries indicates that small family firms are positively associated to SME performance (Davis, Dchoorman, & Donaldson, 1997; Wenyi, 2009). Figure1a and Figure 1b illustrate the ownership type by location in the sample firms.

Figure 1a: TSMEs by Type of Family Business and Type of Ownership

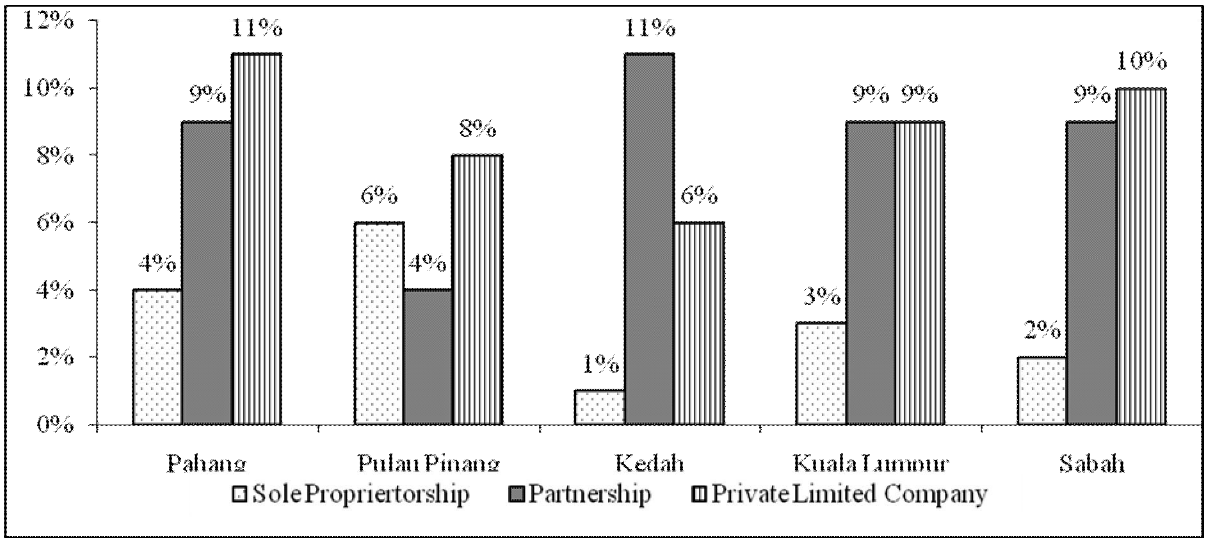


Note: Percentage is refers the types of ownership express as a percentage of the total number of TSME
Source: Data derived from survey

Ownership type in this study is categorized into family and non-family business, and each category is further differentiated in terms of sole proprietorship, partnership or private limited firms. Figure 1a indicates that the majority of TSMEs in this study are family owned with 231 firms or 67 per cent. Out of this 67 per cent, 82 firms or 39 per cent are registered as private limited firms. The findings of the higher number of family-owned TSMEs is in line with the structure of SME ownership surveyed by Rachagan and Satkunasingam(2009) and Rahman(2006) who also found a dominance of family owned SMEs in Malaysia. Findings in this study also indicate that the majority of TSMEs' respondents with 208 firms or 59 per cent operate as sole proprietorships and partnerships.

The family TSMEs in Pahang, Kuala Lumpur and Sabah prefer to register their firms as private limited companies. This is quite interesting because only the non-family TSMEs from the northern region (Pulau Pinang and Kedah) prefer to register their firms as sole proprietorships and partnerships. Based on the Pearson Chi-Square analysis, there is no significant relationship between type of family business and type of ownership. χ^2 (DF = 2, N = 346) = 3.0, and p-value = 0.22, which is more than the critical value of 0.05.

Figure 5.1b: TSMEs by Type of Non-Family Business and Types of Ownership



Note: Percentage isrefers the types of ownership express as a percentage of the total number of TSME
Source: Data derived from survey

However, in terms of the location and type of ownership, the study rejects the null hypothesis and concludes that there is a significant relationship at the 5 per cent significance level. The calculated value of χ^2 (DF = 8, N = 346) = 26.92, and p-value =0.00, which is less than the critical value of 0.05. The simplicity in establishing and terminating sole proprietorships and partnerships compared to private limited companies, has made these two types of business ownership the most common ownership among Malaysian SMEs (SME Corp Malaysia, 2011).Similar empirical studies by Wibowo (2007) and Pidani(2011) found out a similar pattern of SMEs ownership structure in Indonesia.

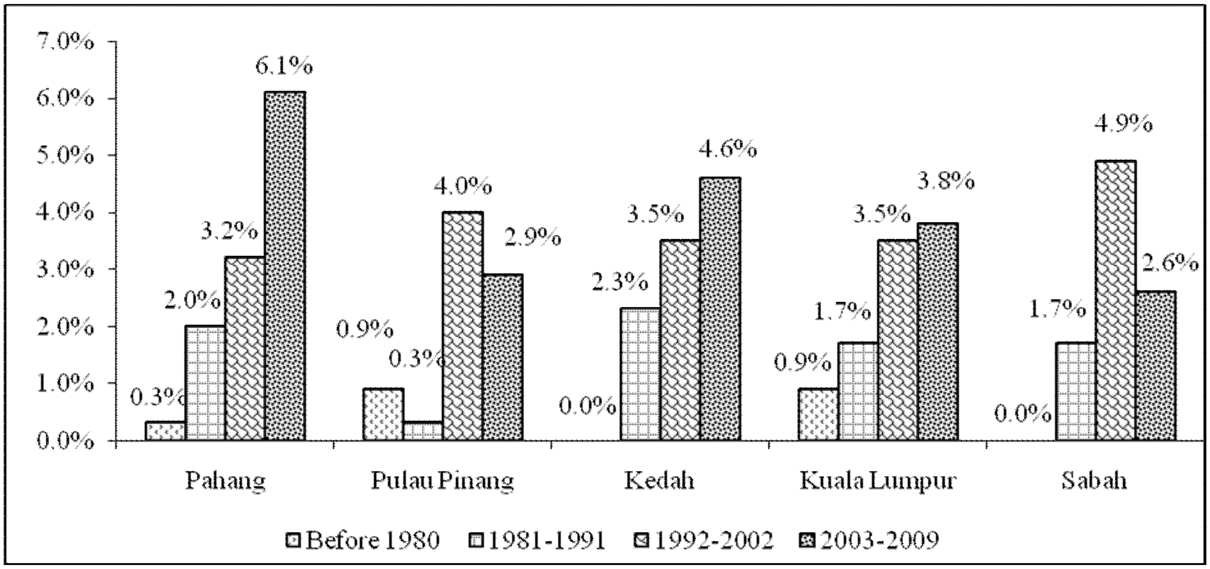
4.4 TSMEs Firm Age Structure

TSMEs in this study are also reported in terms of the years they are established. The number of years in operation can explain the extent of accumulated knowledge, experience and capabilities in managing the business operation (Graner & Isaksson, 2002). Thus in the context of firm performance, older firms relatively will show higher capabilities from experience than younger firms which are still new and emerging in the industry (Camison-Zomoza, Lapierda-Alcami, Segarra-Cipres, & Boronat-Navarro, 2004).

Figures 2a and 2b show the majority of TSMEs in Malaysia are considered experienced firms. More than 197 firms or 57.0 per cent have been in operation for more than 30 years. About 120 firms or 34.6 per cent were established in between 1992– 2002. 59 firms or 17.0 per cent and 18 firms or 5.2 per cent of the sampled TSMEs in Malaysia are the longest running in the business, established before 1980.

There are 149 firms or 43 per cent that were established in between 2003 – 2009. Pulau Pinang and Kuala Lumpur contains predominantly older firms, as many have been in the industry longer compared to other TSMEs in Malaysia. This can be attributed to the early tourism programs and promotions carried out in these two states by the Malaysian Government since the Second Malaysian Plan (1971-1975) (Economic Planning Unit, 1971).

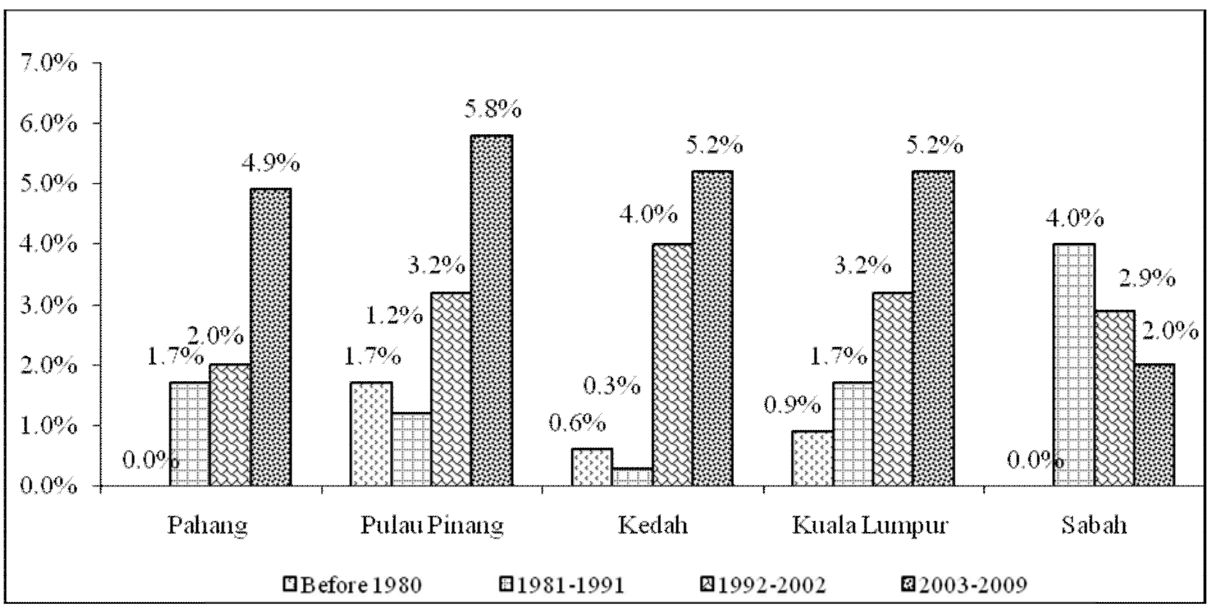
Figure 2a: Proportion of TSMEs Travel Agency, Tour Operator and Tourism Guide Service by Year of Establishments



Note: Percentage is travel agency, tour operator and tourism guide services express as a percentage of the total number of TSME

Source: Data derived from survey

Figure 2b: Proportion of TSMEs Accommodation by Year of Establishments



Note: Percentage is accommodation services express as a percentage of the total number of TSME

Source: Data derived from survey

Further analysis was conducted to test for independence to find out whether TSMEs 'location and year of the business established had a relationship to explain the distribution above. The results from the Pearson Chi-Square test showed the calculated value of χ^2 (DF = 12, N = 346) = 39.93 and a p-value of 0.00 which is less than the critical value of 0.05.

The study therefore rejects the null hypothesis and concludes that there is a significant relationship between the location and year of establishment at the 5 per cent significance level. Based on the data, the number of newly established TSMEs in 1992 onwards increased for both types of TSMEs businesses: travel agency and tour operator and tourism guide services and accommodation services.

The periods between 1992 – 2002 and 2003 – 2009 saw more than 100 being established in the tourism industry: 120 firms or 34.6 per cent in between 1992 – 2002, and 149 firms or 43 per cent in 2003 – 2009. Compare the figures to only 77 firms or 22.2 per cent of TSMEs established before 1991. The government's tourism-specific programs and policies (especially during the Sixth, Seventh and Eighth Malaysia Plans) contribute to the high number of TSMEs. During these periods, Malaysia government emphasized a highly integrated approach and implementation on tourism planning which increased the number of TSME establishments. For example, during the Sixth Malaysia Plan (1991-1995), the government has set up a special fund for tourism of RM 200 million, focusing on small and medium-sized projects. The government also introduced a new clause of the Investment Incentive Act of 1968,which provided an income tax exemption for tour operators (Economic Planning Unit, 1991).

During the Seventh Malaysia Plan (1996 – 2000), the government focused on expanding the country's tourism activities, products and market (Economic Planning Unit, 1996). In the Eighth Malaysia Plan, the government focused on specialised tourism products and services such as eco-tourism, agro-tourism, homestay programmes, cultural heritage tourism, thematic events, MICE, sports and recreation, education tourism and the Malaysia My Second Home programme (Economic Planning Unit, 2008). In the Ninth Malaysia Plan, the government promoted the country as a preferred location for feature films, television commercials and documentaries in addition to the specialised tourism products and services (Economic Planning Unit, 2006). These Malaysia Plans have expanded tourism business opportunities among Malaysians and boosted the establishments of TSMEs during these periods.

5. Conclusion

It is important to note that, although the Malaysian government's policy initiatives to boost tourism has been effective in achieving sustained growth in tourism industry, a continued growth in the future is reliant on the full participation of all stakeholders within tourism industry. The TSMEs are expected to play a vital role in ensuring growth within Malaysia tourism industry. The Malaysian government, in its developmental plans has recognised the role of TSMEs and have implemented a number of initiatives aimed at improving efficiency in the tourism industry. One important aspect of TSMEs, identified as vital to the success of the industry, has been the entrepreneurial skills.

Since the Malaysian tourism industry is comprised of a high proportion of small businesses, it faces greater challenges than some of other major industry in the country. This is particularly acute as tourism has a lower operating profit than the average of all industries. Clearly, the future development and growth of the tourism industry depends largely upon the management practices at the enterprise level and other internal as well as external factors that underpin the performance of TSMEs. Future research should focus on investigating the important role of management practices adopted by TSMEs in Malaysia.

References

Camison-Zomoza, C., Lapierda-Alcami, R., Segarra-Cipres, M., & Boronat-Navarro, M. (2004). A Meta Analysis of Innovation and Organisational Size. Organization Studies, 25(3), 331-361.

Davis, J. F., Dchoorman, D., & Donaldson, L. (1997). Toward a Stewarship Theory of Management. Academy of Management Review, 22, 20-47.

Department of Statistics. (2009). Accommodation Services Kuala Lumpur: Department of Statistics.

Department of Statistics. (2012). Economic Census 2011: Profile of Small and Medium Enterprises (D. o. Statistics, Trans.). Putrajaya: Department of Statistics, Malaysia.

Economic Planning Unit. (1971). Second Malaysia Plan 1971-1975. Kuala Lumpur: National Printing Department.

Economic Planning Unit. (1991). Sixth Malaysia Plan 1991 - 1995. Kuala Lumpur: Percetakan Nasional Berhad.

Economic Planning Unit. (1996). Seventh Malaysia Plan 1996 - 2000. Kuala Lumpur: Percetakan Nasional Berhad.

Economic Planning Unit. (2006). Ninth Malaysia Plan 2006-2010. Putrajaya: The Economic Planning Unit.

Economic Planning Unit. (2008). Eighth Malaysia Plan 2000 - 2005. Kuala Lumpur: Percetakan Nasional Berhad.

Graner, M., & Isaksson, A. (2002). Export Performance in the Kenyan Manufacturing Sector. In A. Bigsten & P. Kimuyu (Eds.), Structure and Performance of Manufacturing in Kenya. Oxford: University of Oxford.

Jaafar, M., Abdul-Aziz, A. R., Maideen, S. A., & Mohd, S. Z. (2011). Entrepreneurship in the Tourism Industry: Issues in Developing Countries. International Journal of Hospitality Management, doi:10.1016/j.ijhm.2011.01.003.

MOTOUR. (2011). Ministry Of Tourism Malaysia (Ministry's Profile) Retrieved 10th February, 2011, 2011, from http://www.motour.gov.my/index.php/english/kem_profil.html

Pidani, R. R. (2011). Identifying Export Barriers and Export Development of Indonesian Manufacturing Small and Medium Enterprises (SMEs). PhD, University of Newcastle, Australia, Newcastle.

Rachagan, S., & Satkunasingam, E. (2009). Improving Corporate Governance of SMEs in Emerging Economies: A Malaysia Experience. Journal of Enterprise Information Management, 22(4), 468-484.

Rahman, A. (2006). Effective Corporate Governance (1st ed.). Shah Alam, Malaysia: University Publication Centre (UPENA).

SME Corp Malaysia. (2011). SME Development Programmes Retrieved 16 February, 2011, from http://www.smidec.gov.my

Wenyi, C. (2009). The influence of family ownership on SME performance: evidence from public firms in Taiwan. [Article]. Small Business Economics, 33(3), 353-373. doi: 10.1007/s11187-009-9178-6