Corporate governance practice for tourism small and medium-sized enterprises in Malaysia

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ABSTRACT

The Tourism Small and Medium-Sized Enterprises (TSMEs) make a significant portion of entrepreneurial enterprises in Malaysia, and as a matter of fact play a big role as the backbone in the Malaysian tourism industry. Good corporate governance has been proven as a mechanism to increase companies’ performance and since corporate governance also plays a vital role in the small firms including entrepreneurial, this study intends to examine the corporate governance practices in TSMEs namely ownership and board structure, conflict of interest, stakeholders, social responsibility, remuneration and transparency. A number of 229 respondents consisted of board of directors and top management of TSMEs were asked to indicate the importance of corporate governance practices and to determine the component of best practices for the TSMEs. The findings highlight that all the six corporate governance practices significantly derived as important component for the TSMEs. At present, there has been limited study on corporate governance in TSMEs. Hence, these findings would contribute towards considering these best practices as a vital role in managing TSMEs in achieving their strategies and objectives.

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1. Introduction

Nowadays corporate governance is not just a problem to be addressed by big companies but also the entrepreneurs and small and medium-sized enterprises (SMEs). Even though there have been many problems in SMEs as identified in literature such as labor intensive production techniques, lower requirements of imported inputs and better geographical dispersion (Chowdhury et al., 2015), it is clear that corporate governance brings new strategic outlook through external independent directors and enhances firms’ corporate entrepreneurship and competitiveness (Abor and Adjasi, 2007). As understood, the tourism small and medium-sized enterprises (TSMEs) make a significant portion of SMEs in Malaysia, and as a matter of fact play a big role as the backbone in Malaysia tourism industry. TSMEs in Malaysia offer tourism products and services, and have unique characteristics compared to tangible manufactured products.

It is reported that many of the SMEs in Malaysia are in the services sector, with more than a third of the firms involved in the tourism industry in 2010. The Malaysian government sees the potential of the tourism industry through its contribution to economic growth and social development hence it has taken a strategic approach to developing the performance of its tourism industry. As tourism emerged as one of the world’s major industries with significant changes in the structure and operation of the tourism industry worldwide, the global transition to tourism-focused economies, the emergence of new destinations, and increasing demands for differentiated tourism products and services have engendered the need for tourism small and medium-sized enterprises (TSMEs) to develop strategies to become competitive in the changing global economy.

1.1. Problem statement

Several studies note that TSMEs play important role in the industry as to achieve the significant changes in global tourist consumption, and the increase of differentiated and niche tourism products (Page et al., 1999; Getz and Carlsen, 2000; Ateljevic, 2009). TSMEs performance and survival in the industry are particularly important to Malaysia.
because apart from their key role in delivering tourism products to the tourist, they also play an active role in advancing the local community. Despite the efforts, TSMEs still continue to face challenges that impede successful tourism development in destination countries, thus slowing gains that can emerge from TSMEs activities.

Given this phenomenon, the Malaysian government has made concerted efforts to spur the tourism industry through empowering and supporting TSMEs. It is believed that understanding the key success factors of TSMEs and at the same time recognizing the important of TSMEs are therefore pertinent to ensure TSMEs will reach their full potential. Further, to ensure TSMEs in Malaysia continue to support the national tourism industry and remain a source of employment to the community, the government has focused on determining the key success factors of Malaysian TSMEs' performance with a focus on tourism entrepreneurs' motivation and management. Malaysia has come out with various TSMEs programs and policies implemented by the government to promote the Malaysian tourism industry. Based on reports, the government spent RM 4,677.1 million in the form of 183 training and financial programs for TSMEs in 2011, thus increasing the funding on the development allocation.

Eventually, this indicates that the government has placed high expectations on TSMEs to play their role as a vital component in increasing the country's foreign exchange earnings. Additionally, the Malaysian government has also encouraged the active participation of TSMEs through vigorous promotion and marketing, diversifying target markets, as well as improving the competitiveness of tourism products and services in an effort to sustain tourists’ interest in Malaysia. As TSMEs in Malaysia are seen as the backbone of the industry, it is a challenged to effectively manage the companies. The TSMEs need to compete with other industries not just concerning the creation of a business plan but more of engaging in business networking and managing business performance.

Many studies emphasize the problems in managing TSMEs. For instance, the TSMEs are found to have a shortage of financial resources, lack of management and marketing skills, lack of industry expertise and strategic vision (Beaver et al., 1998; Boer, 1998; Dewhurst and Horobin, 1998; Friel, 1998; Warhill, 1998; Webster, 1998; Shaw and Williams, 2001; Augustyn, 2013; Thomas and Augustyn, 2007). TSMEs in Malaysia employ about 991, 419 workers accumulate to 38.1 per cent of total employment in SMEs services sectors. As a matter of fact, a report from the Ministry of Tourism and Culture Malaysia highlighted that the tourism industry employs more than a third of employees in the services sector and is considered the second highest earner in foreign exchange and national income. Hence, the issue of corporate governance in TSMEs must be given serious attention.

Taking into account that TSMEs in Malaysia play significant role in the economic development of the country with 239,110 active establishments including 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 and 19,643 firms (8.2 per cent) offering accommodation services; arts, entertainment and recreation services; and travel agency, tour operator and tourism guide services, it is important to study the related issues concerning corporate governance in TSMEs. Even though there are few models of best practice for corporate governance, none was developed specifically for the TSMEs in Malaysia. In order to boost the Malaysian tourism industry through TSMEs, a standard model of best practice for corporate governance must be identified and developed as to guarantee good management among the stakeholders in the TSMEs.

1.2. Research objective

The primary objective of the study is to investigate best practice for corporate governance in the TSMEs in Malaysia. The study embarks on the following questions:

- What are the corporate governance practices in the Malaysian TSMEs?
- What are the Malaysian TSMEs perceptions on corporate governance practices in their organizations?
- Does good corporate governance important in the Malaysian TSMEs?
- What are the components of best corporate governance practice for TSMEs in Malaysia?

2. Review of literature

The definition of corporate governance exists according to various disciplines. The Organization for Economic Co-operation and Development perceives corporate governance as more than an analysis of the effect of separation and control in a modern society thus defining it as dealing with the rights and responsibilities of a company’s management, its board, shareholders and various stakeholders. Keaney et al. (1997) define corporate governance as the structures, processes, cultures and systems that engender the successful operation of the organizations.

Today, many firms and organizations are practicing a good governance mechanism to increase their performance. The adoption of best practices in corporate governance has a prominent place in the regulatory and developmental global agenda of capital markets. In general, there have been existing models of corporate governance being practice in companies. The Anglo-Saxon model is applied to the US, the UK, Australia, New Zealand and Canada, South Africa and other members of Commonwealth (Tricker, 1994; Bradley et al., 1999). The model
involves shareholder interests in the decision-making processes of corporations. This results from the view that a firm is a property of those who have invested capital and for the pursuit of their economic interests.

The definition of small and medium-sized enterprise (SME) varies from country to country. Several guidelines exist to assist firms or organizations to better understand of SME. In such country for example Egypt, SME is defined as having more than 5 and fewer than 50 employees. As for Vietnam, SME is considered as having employees between 10 and 300 in the organization. In further definition, the Inter-American Development Bank defines SME as having a maximum of 100 employees and less than $3 million in revenue. According to Natarajan and Wyrick (2011), countries in Europe define SME as having manpower fewer than 250 employees while in the United States, SME is defined as those with employees less than 500 standard definition. As for Malaysia, SMEs are defined according to sector similar to countries such as Hong Kong, Japan and Thailand which is based on the number of full-time employees or the total sales or revenue. The definitions eventually are obtained from the National SME Development Council (NSDC), a government agency primarily responsible for SME development in the country.

It is reported by Dube et al. (2011) that good corporate governance improves SMEs’ prospect of obtaining funds from banks, investors and venture capitalists. In fact, poor corporate governance systems have been identified to have thwarted efforts of SMEs at attracting finance and thus are deemed to be one of the main barriers to their performance (Gockel and Akoena, 2002; Abor and Biekpe, 2007). According to Hart (1995), in many instances, SMEs tend to have a less pronounced separation of ownership and management than larger firms since SMEs are made up of only the owner who is the sole proprietor and manager. Basically in some cases, it is argued that because SMEs have few employees who are mostly relatives of the owner and thus no separation of ownership and control, there is any need for corporate governance in their operations.

Additionally, several studies indicate that most tourism entrepreneurs begin TSMEs due to the low entry barrier in the industry which gives them an opportunity to be part of the industry (Morrison and Thomas, 1999; Jaafar et al., 2011; Skokic and Morrison, 2011; Brouder and Eriksson, 2013). Further, Mazzarol et al. (1999) and also Skokic and Morrison (2011) suggest that the owner–manager’s socio-economic characteristics such as age, gender and education level also form a part of the obstacles that have a considerable effect on entrepreneurial intention and business performance of SMEs. Tourism SMEs have to face many challenges just like other SMEs elsewhere are facing such as, a shortage of financial resources, lack of management and marketing skills, lack of industry expertise and strategic vision (Beaver et al., 1998; Boer 1998; Dewhurst and Horobin 1998; Friel, 1998; Wanhill, 1998; Webster, 1998; Shaw and Williams, 2001; Augustyn, 2013; Thomas and Augustyn, 2007).

TSMEs also play a crucial role in the tourism industry by delivering tourism products and services to the tourist, thus vigorous efforts have been made by the Malaysian government to utilize the advantages that TSMEs can offer (Page et al., 1999; Getz and Carlsen, 2000; Ateljevic, 2009). Given that TSMEs performance and survival in the industry are particularly important to Malaysia because apart from their key role in delivering tourism products to the tourist, it is therefore essential to observe TSME performance to ensure the TSMEs will reach their full potential through playing an active role in advancing the local community. There are various TSME programs and policies implemented by the government to promote the Malaysian tourism industry through TSMEs.

3. Methodology

The secondary data in the study was obtained from various sources extensively from the Ministry of Tourism and Culture Malaysia (MOTAC), Tourism Malaysia, and SME Corporation located in Putrajaya and Kuala Lumpur, Malaysia. As for the primary data, the study used questionnaire survey where the information was obtained and compiled with the purpose of investigating TSMEs perceptions on the corporate governance practice. The list of respondents was obtained from the Malaysian owner-managers of TSMEs. Due to the fragmented nature of the activities of Malaysian TSMEs, 229 TSMEs were selected and consisted of accommodation service, travel agency services, tour operator and tourism guide services.

The questionnaire was distributed to the board of director and top management of the TSMEs. It consisted of two parts namely part one asking the respondents to describe their profiles and awareness on corporate governance practice. Additionally, part two asking them to indicate their perceptions on six practices of corporate governance for TSMEs namely ownership and board structure practice, conflict of interest practice, stakeholders practice, social responsibility practice, remuneration practice and transparency practice. The information and data were then analyzed using Statistical Package for Social Science version 19.0 (SPSS). Descriptive statistics were employed to describe the respondents’ profiles and perceptions regarding corporate governance practice.

4. Findings

4.1. Perceptions on the ownership and board structure practice

The study also investigated the respondents’ perceptions on the ownership and board structure practice in TSMEs (Table 1). The findings indicated
that all the three items in this aspect produced high mean value ranged from 3.581 to 3.952. The respondents agreed that ownership and board structure are vital aspects of the company's corporate governance (74.6%). They also agreed that large shareholders can benefit the minority shareholders because of their power (71.6%). Additionally, the respondents also indicated their agreement regarding the Chief Executive Officer (CEO) power to make decision in his/her own self-interest company goodwill, the rules of corporate governance and achieving company's objective (62.0%).

### 4.2. Perceptions on the conflict of interest practice

The study also investigated the respondents' perceptions on the conflict of interest practice in TSMEs (Table 2).

The findings indicated that all the four items in this aspect produced high mean value ranged from 3.673 to 3.961. The respondents agreed that the management should not bring in family members into the company without regard for their qualifications or for established policies (69.0%). Finally, the respondents also agreed that under no circumstances may company executives grant any special compensation to members of the Board of Directors (61.6).

### 4.3. Perceptions on the stakeholders practice

Table 3 depicts the findings of the study regarding respondents' perceptions on the stakeholders practice in TSMEs. The findings indicated that all the six items in this aspect produced high mean value ranged from 3.952 to 4.153.

The respondents agreed that the stakeholders are to institute mechanisms designed to ensure the fair treatment of the employees (84.8%). They also agreed that the company is to establish mechanisms for monitoring compliance with laws and regulations governing its line of business (84.0%). Additionally, the respondents also agreed that company is to establish mechanisms for passing benefits along to the surrounding community (85.2%). Further, the findings indicated that the respondents agreed company will establish fair procedures for goods and services based on considerations of quality, pricing and performance (86.0%) and that the stakeholders play vital role in corporate governance of the company (81.6%). The final item in the study highlighted that the respondents agreed that the company will establish mechanisms for allowing its customers to make inquiries, suggestions and claims (82.5%).

### 4.4. Perceptions on the social responsibility practice

Table 4 depicts the findings from the analysis pertaining to the social responsibility practice in TSMEs. The findings highlighted that three items derived with high mean value ranged from 4.070 to 4.158. Majority of the respondents agreed that the company will promote sound environmental management and help control the environmental impact of their operations, products and services (86.9%). This is followed by social responsibility as a vital aspect of the company's corporate governance (83.4%) and the company will need to develop
strategies for preventing and minimizing environmental and human impacts and risks (86.4%).

Table 4: Social responsibility practice

<table>
<thead>
<tr>
<th>Items</th>
<th>Agree</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company will promote sound environmental management and help control the environmental impact of their operations, products and services.</td>
<td>86.9</td>
<td>4.158</td>
</tr>
<tr>
<td>Social responsibility is a vital aspect of the company’s corporate governance.</td>
<td>83.8</td>
<td>4.118</td>
</tr>
<tr>
<td>Company will need to develop strategies for preventing and minimizing environmental and human impacts and risks.</td>
<td>86.4</td>
<td>4.070</td>
</tr>
</tbody>
</table>

4.5. Perceptions on the remuneration practice

The study also investigated the respondents’ perceptions on the remuneration practice in TSMEs (Table 5).

The findings indicated that all the three items in this aspect produced high mean value ranged from 3.974 to 4.004. The respondents agreed that the director’s remuneration should be appreciable and reflect the responsibility and commitment of the directors (78.6%). They also agreed that the remuneration is a vital aspect of the company’s corporate governance (78.1%). Additionally, the respondents agreed that the incentives of top management ensure the alignment of the management and shareholders interest (80.3%).

Table 5: Remuneration practice

<table>
<thead>
<tr>
<th>Items</th>
<th>Agree</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>The director’s remuneration should be appreciable and reflect the responsibility and commitment of the directors.</td>
<td>78.6</td>
<td>4.004</td>
</tr>
<tr>
<td>Remuneration is a vital aspect of the company’s corporate governance.</td>
<td>78.1</td>
<td>3.978</td>
</tr>
<tr>
<td>The incentives of top management ensure the alignment of the management and shareholders interest.</td>
<td>80.3</td>
<td>3.974</td>
</tr>
</tbody>
</table>

4.6. Perceptions on the transparency practice

Table 6 depicts the findings from the analysis pertaining to the transparency practice in TSMEs. The findings highlighted that three items on transparency practice derived with high mean value ranged from 3.974 to 4.227. Majority of the respondents agreed that transparency is a vital aspect of the company's corporate governance (89.0%).

This is followed by the company must disclose the compensation systems established by the Boards of Directors (82.5%) and the recipient of financial information is to be disclosed to the company’s shareholders, Board members and statutory and other auditors, as well as to any interest groups (80.4%).

Table 6: Transparency practice

<table>
<thead>
<tr>
<th>Items</th>
<th>Agree</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency is a vital aspect of the company’s corporate governance.</td>
<td>89.0</td>
<td>4.227</td>
</tr>
<tr>
<td>Company must disclose the compensation systems established by the Boards of Directors.</td>
<td>82.5</td>
<td>4.097</td>
</tr>
<tr>
<td>The recipient of financial information is to be disclosed to the company’s shareholders, Board members and statutory and other auditors, as well as to any interest groups.</td>
<td>80.4</td>
<td>3.974</td>
</tr>
</tbody>
</table>

5. Discussion

Based on the perceptions of the board of directors and top management, six components of corporate governance practice had revealed high mean value of agreement which significantly indicated that these components must be taken into account to determine the best practice of corporate governance for the Malaysian TSMEs. These components are categorized under the ownership and board structure practice, conflict of interest practice, stakeholders practice, social responsibility practice, remuneration practice and transparency practice (Fig. 1).

To develop best corporate governance practice in line with the objective and strategy of the Malaysian TSMEs, these six components were categorized into the existing model of corporate governance as discussed in the literature review. The six components are separated according to their impacts toward the management of TSMEs namely, the management aspect, the roles aspect and the contribution aspect (Fig. 2). The management aspect consists of one component relating to the planning and management of TSMEs namely the stakeholders components. This is followed with conflict of interest, social responsibility and transparency as components which focusing on the major roles of the management in achieving the objective of the company. Hence, these components were included in the roles aspect of corporate governance practice. Finally, two other components were included in the contribution aspect of corporate governance based on the fact that they are related to the human resource and facilities which significantly can contribute to the growth of TSMEs.

Generally, findings on the management aspect such as the stakeholders is consistent to the study by Umran et al. (2015) where they found that majority stakeholders involved in the act of expropriation, which results loss of huge amount of money and trust of the minority shareholders. They also suggested the necessity to have a comprehensive code to monitor the firms and control the stakeholders, and also it helps to protect the minority stakeholders’ rights. Hence, the corporate
governance practice must highlight this as vital component to be taken into account to determine best practice for TSMEs. Additionally, the study is also in line with previous study by Magaisa et al. (2013) where they noted that it is difficult for the organizations to have board members who are separate from the stakeholders and who are capable to run and account for the running of the organizations.

6. Conclusion

The study has significantly highlighted the importance of corporate governance practice in the TSMEs. Based on the consistency of the findings on six aspects of corporate governance practices in TSMEs, it can be concluded that these aspects represent the elements of best practice for corporate governance in TSMEs. These components also contribute to the better and successful management of TSMEs particularly since corporate governance has proven as vital aspect for SMEs growth. However, there is still a limitation of the study such as it only focused on the board of directors and top management of TSMEs perceptions regarding corporate governance practices in their organizations. The development of the framework for best practice was basically referred to their perceptions rather that measuring the related variables which could have contributed to the management success. Hence, further research should be conducted to investigate the significance of these practices to the successful management of the TSMEs.

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