

Corporate Governance Model in the Malaysian Tourism Small and Medium-Sized Enterprises

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ABSTRACT

To ensure Tourism Small and Medium-Sized Enterprises (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. Hence, the primary objective of the study is to develop a model of best practice for corporate governance in the Malaysian TSMEs. The findings highlight nine corporate governance practices significantly derived as important component for the TSMEs namely shareholders, top management, board of directors, ownership and board structure, conflict of interest, stakeholders, social responsibility, remuneration and transparency. Based on these findings, a conceptual model has been developed to present a standard practice for corporate governance in the Malaysian TSMEs. These practices play vital role in managing the TSMEs toward achieving their strategies and objectives. The model contributes to the better and successful management of TSMEs particularly since corporate governance has proven as vital aspect for SMEs growth. It is suggested that further research should be conducted to investigate the significance of these practices to the successful management of the TSMEs.

Keywords: Corporate Governance, Malaysian Tourism Small and Medium-Sized Enterprises

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, Azam & Islam, 2013), it is clear that corporate governance brings new strategic outlook through external independent directors and enhances firms' corporate entrepreneurship and competitiveness (Abor & 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 (Department of Statistics, 2012).

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. 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.

PROBLEM STATEMENT

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 (MOTAC, 2011). 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.

RESEARCH OBJECTIVE//RESEARCH QUESTIONS

The primary objective of the study is to develop a model of best practice for corporate governance in the Malaysian TSMEs through investigating the board of directors perceptions on corporate governance practices in their company.

LITERATURE REVIEW

Several factors have been identified as important aspects of corporate governance practiced in SMEs for instance transparency, openness and corporate social responsibility. They are considered important aspects of an SME's operations in order to attract financing from banks and other lenders. It is noted earlier that two aspects restricted the management of corporate governance in SMEs (Neilson, 1974). It has been identified that the SME could not have of necessary facilities or managerial expertise in order to use some strategies of the diversification. In second place, the interpersonal character, and the interaction found in the SMEs should lead to a biggest adequacy between the owners, the directors, and the employees.

Many studies have been conducted on different segments of SMEs in the tourism industry for instance constrained growth of the tourism sector, environmental goals of rural family-owned/-operated tourism, small business performance, financial performance, leadership and motivation behavior and family businesses. However, an intensive literature review also

reveals that there have been very few studies on tourism entrepreneurship and small businesses in the tourism industry. This is probably due to the fact that entrepreneurs in the industries might possess lower levels of entrepreneurial characteristics compared to other industries. In fact, it is believed that entrepreneurs are not motivated by the desire to maximize economic gain.

Additionally, several studies indicate that most tourism entrepreneurs begin TSMEs due to the low entry barrier in the industry (Morrison & Thomas, 1999; Skokic & Morrison, 2011; Brouder & Eriksson, 2013; which gives them an opportunity to be part of the industry (Jaafar, Maideen & Sukarno, 2011). Further, Mazzarol, Volery, Doss and Thein (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, Lashley, & Stewart 1998; Boer 1998; Dewhurst & Horobin 1998; Friel 1998; Wanhill 1998; Webster 1998; Shaw & Williams, 2002; Augustyn 2004; Thomas & 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, Forer & Lawton, 1999; Getz & 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 (Small and Medium Enterprise Corporation Malaysia, 2012). The government has placed high expectations on TSMEs to play their role as a vital component in increasing the country's foreign exchange earnings. The fact is the government has increased the funding on development allocation for TSMEs and has spent RM 4,677.1 million in the form of 183 training and financial programs in 2011.

RESEARCH METHOD

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. The questionnaire asked them to indicate their perceptions on nine practices of corporate governance in TSMEs namely shareholders practice, top management practice, board of directors practice, 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).

FINDINGS

Perceptions on the shareholders practice

The respondents were asked to indicate their perceptions on seven items representing the shareholders aspect of corporate governance practice in TSMEs. All the seven items were positively emphasized by the respondents and showed high mean value ranged from 3.380 to 4.004 (Table 1).

Table (1): Perceptions on the shareholders practice

Items	Agree	Neutral	Disagree	Mean
Have a say in evaluating the company's top management performance.	79.9	16.6	3.5	4.004
Have a right to take part in company's meeting.	79.5	17.5	3.0	3.987
Have a say in the appointment and dismissal of the company administrators.	72.9	21.4	5.7	3.913
The shareholders play vital role in corporate governance of the company.	72.5	22.2	5.3	3.882
Have full, timely access to the company information.	75.5	19.7	4.8	3.865
Prohibit payments of any household or personal expenses of shareholders with company funds.	69.9	22.2	7.9	3.834
Examine, approve or reject year-end financial statements and balance sheets.	69.4	24.0	6.5	3.830

Perceptions on the top management practice

The study also investigated the respondents' perceptions on the top management practice in TSMEs (Table 2). The findings indicated that all the six items in this aspect produced high mean value ranged from 4.109 to 4.231.

Table (2): Perceptions on the top management practice

Items	Agree	Neutral	Disagree	Mean
Refrain from using any inside information for illegitimate purposes.	87.8	10.9	1.3	4.231
Ensure strict compliance with legal or statutory provisions.	86.9	10.9	2.1	4.179
Look after and protect the company's goodwill.	86.0	13.1	0.9	4.175
Respect and enforce the rules of corporate governance adopted by the company.	83.8	15.3	0.9	4.157
Make every effort to duly and properly achieve the company objective.	86.0	11.8	2.1	4.114
The company's top management plays vital role in corporate governance of the company.	80.2	12.7	2.1	4.109

Perceptions on the board of directors practice

Table 3 depicts the findings from the analysis of board of directors pertaining to corporate governance practice in TSMEs. The findings highlighted that five items on board of directors derived with high mean value ranged from 3.673 to 4.087.

Table (3): Perceptions on the board of directors' practice

Items	Agree	Neutral	Disagree	Mean
The Board of Directors play vital role in corporate governance of the company.	85.0	10.9	3.9	4.087
Establish policies for the selection, appointment, performance evaluation and dismissal of key company executives.	82.0	14.4	2.6	4.000
Should meet at least once a month.	72.9	23.1	4.0	3.887
Should include at least one outside and/or independent director.	66.0	25.8	8.2	3.773
Should have an odd number of members ranging from a minimum of three (3) up to a maximum of nine (9).	64.6	27.5	7.8	3.673

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 4). The findings indicated that all the three items in this aspect produced high mean value ranged from 3.581 to 3.952.

Table (4): Perceptions on the ownership and board structure practice

Items	Agree	Neutral	Disagree	Mean
Ownership and board structure are vital aspects of the company's corporate governance.	74.6	24.5	0.8	3.952
Large shareholders can benefit the minority shareholders because of their power.	71.6	25.8	2.6	3.921
The Chief Executive Officer (CEO) has a concentrated power based to make decision in his/her own self-interest.	62.0	19.2	18.8	3.581

Perceptions on the conflict of interest practice

The study also investigated the respondents' perceptions on the conflict of interest practice in TSMEs (Table 5). The findings indicated that all the four items in this aspect produced high mean value ranged from 3.673 to 3.961.

Table (5): Perceptions on the conflict of interest practice

Items	Agree	Neutral	Disagree	Mean
Unlawfully use inside or privileged information to their own advantage or to protect their personal interests or those of any third parties.	72.5	20.5	7.0	3.961
Conflicts of interest are vital aspect of the company's corporate governance.	82.5	15.7	4.8	3.908
Bring family members into the company without regard for their qualifications or for established policies.	69.0	20.1	10.9	3.780
Under no circumstances may company executives grant any special compensation to members of the Board of Directors.	61.6	31.4	7.0	3.673

Perceptions on the stakeholders practice

Table 6 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.

Table (6): Perceptions on the stakeholders practice

Items	Agree	Neutral	Disagree	Mean
Company is to institute mechanisms designed to ensure the fair treatment of the employees.	84.8	13.5	1.7	4.153
Company is to establish mechanisms for monitoring compliance with laws and regulations governing its line of business.	84.0	12.2	1.7	4.079
Company is to establish mechanisms for passing benefits along to the surrounding community.	85.2	13.5	1.3	4.079
Company will establish fair procedures for goods and services based on considerations of quality, pricing and performance.	86.0	12.7	1.3	4.074
The stakeholders play vital role in corporate governance of the company.	81.6	16.2	2.1	4.031
Company will establish mechanisms for allowing its customers to make inquiries, suggestions and claims.	82.5	15.7	1.8	3.952

Perceptions on the social responsibility practice

Table 7 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.

Table (7): Perceptions on the social responsibility practice

Items	Agree	Neutral	Disagree	Mean
Company will promote sound environmental management and help control the environmental impact of their operations, products and services.	86.9	11.8	1.3	4.158
Social responsibility is a vital aspect of the company's corporate governance.	83.8	14.0	2.1	4.118
Company will need to develop strategies for preventing and minimizing environmental and human impacts and risks.	86.4	11.8	1.8	4.070

Perceptions on the remuneration practice

The study also investigated the respondents' perceptions on the remuneration practice in TSMEs (Table 8). The findings indicated that all the three items in this aspect produced high mean value ranged from 3.974 to 4.004.

Table (8): Perceptions on the remuneration practice

Items	Agree	Neutral	Disagree	Mean
The director's remuneration should be appreciable and reflect the responsibility and commitment of the directors.	78.6	20.1	1.3	4.004
Remuneration is a vital aspect of the company's corporate governance.	78.1	20.1	1.7	3.978
The incentives of top management ensure the alignment of the management and shareholders interest.	80.3	17.5	2.1	3.974

Perceptions on the transparency practice

Table 9 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.

Table (9): Perceptions on the transparency practice

Items	Agree	Neutral	Disagree	Mean
Transparency is a vital aspect of the company's corporate governance.	89.0	10.0	0.8	4.227
Company must disclose the compensation systems established by the Boards of Directors.	82.5	14.8	2.6	4.097
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	14.4	5.2	3.974

DISCUSSION

Developing a model of best practice for corporate governance in TSMEs

Based on the perceptions of the board of directors and top management, nine 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. To develop a best model of corporate governance practice in line with the objective and strategy of the Malaysian TSMEs, these nine components were categorized into the existing model of corporate governance as discussed in the literature review. The nine components are separated according to their impacts toward the management of TSMEs namely, the management aspect, the roles aspect and the contribution aspect (Figure 1). The management aspect consist of four components relating to the planning and management of TSMEs such as shareholders, top management, the board of directors and stakeholders components. Following with the 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 shareholders and stakeholders are consistent to the study by Umrani, Johl and Ibrahim (2015) where they found that majority shareholders are 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 shareholders' rights. Hence, the corporate governance practice must highlight this as vital component to be taken into account to determine best practice for TSMEs. Additionally, boards of directors component as included in the management aspect are in line with previous study by Magaisa, Duggal and Muhwandavaka (2013) where they noted that board of directors are specifically designed to bring in new ideas, facilitate in the formulation and implementation of strategies and account for the way the corporations are run. Further they also 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.

As for the ownership structure component in the contribution aspect, the findings are in line with a study on Tunisian SMEs where it is noted that board size along with the presence of some external members have had a positive effect on the SME performance (Hamad & Karoui, 2011). This result highlights the important role which could be played by the board of directors as a control mechanism within an SMEs. Eventually, the components of corporate governance practice derived for the Malaysian TSMEs is consistent to the agency theory of corporate governance as highlighted by previous study by Ansong (2013) through focusing on inputs of governance such as the separation of the CEO and the chairman’s roles and the composition of boards.

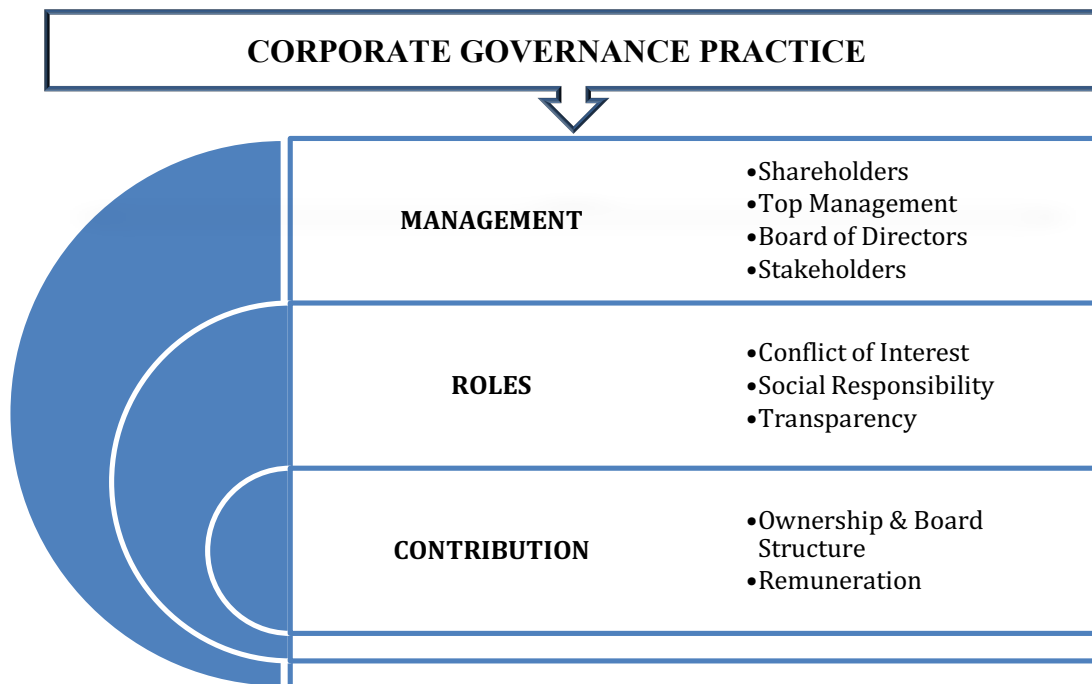


Figure (1): Model of Corporate Governance in Malaysian TSMEs

CONCLUSION

The study has significantly highlighted the importance of corporate governance practice in the TSMEs. Based on the consistency of the findings on nine aspects of corporate governance practices in TSMEs, it can be concluded that these aspects represent the elements in the model of best practice for corporate governance in TSMEs. The model contributes 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 model was basically referred to their perceptions rather than 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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