

## **Business Alliance Practices among Tourism Small and Medium Enterprises (TSMES) in Malaysia**

<sup>1</sup>Kalsitinoor Set, <sup>2</sup>Amir Mahmood and <sup>3</sup>Frank W. Agbola  
<sup>1</sup>School of Maritime Business and Management,  
Universiti Malaysia Terengganu, 21030 Kuala Terengganu Terengganu, Malaysia  
<sup>2</sup>University of Newcastle, Singapore Campus, 491B River Valley Road,  
#04-02, 248373 Valley Point, Singapore  
<sup>3</sup>Department of Economics, Newcastle Business School,  
University of Newcastle, 2308 Callaghan NSW, Australia

---

**Abstract:** This study examines the business alliance practices of Tourism Small and Medium Enterprises (TSMES) in Malaysia. TSMES play a crucial role in sustaining economic growth and development in Malaysia. The study explores the business alliance activities of TSMES to determine the similarities and differences of TSMES across Malaysia. The study finds that overall TSMES practices formal business planning in their business operations with main alliance activity is information sharing followed by knowledge sharing. Some policy implications to assist TSMES to implement and improve the practices are suggested.

**Key words:** Tourism small and medium enterprises, business alliance, tourism industry, activity, Malaysia

---

### **INTRODUCTION**

Tourism industry provides various tourism-related business services such as: accommodation, food and beverage, passenger transport, travel agency, tour operator and tourist guide, cultural, recreation, entertainment and miscellaneous tourism services (i.e., Personal care and Salun Per Aqua (SPA), camping sites, zoo, museum and theme parks).

Requiring low skills and with relatively low entry barriers, this industry provides an attractive option, encouraging the local community to set up TSMES (Hall and Rusher, 2013). This has contributed to employment opportunities in the Malaysian tourism industry through TSMES and the opportunity to develop new service industry enterprise to cater the tourists seeking more authentic holiday experience.

With the industry experiencing a fast-changing environment due to the growing sophistication of tourists, the demand for quality and increased segmentation of the tourist market, business alliances have become more important business strategies to sustain competitiveness and business growth (Rhodes *et al.*, 2014). With Malaysia emerging as one of the most popular destinations in the world, the Malaysian government has taken a strategic approach to developing and improves the performance of the tourism industry. In

the Malaysian context, the government has made concerted efforts to spur the tourism industry through empowering and supporting TSMES. In the context of TSMES studies in Malaysia, there is still limited research focusing on TSMES solely. Most of the studies on SMEs merely focus on SMEs in other industries, particularly manufacturing industry. Studies on manufacturing SMEs have looked into various lines of investigation such as macro-economic contribution, firm performance and management practices. Thus, understanding the business alliance practices as part of the management practices of TSMES in Malaysia is, therefore, pertinent.

**TSMES in Malaysia:** TSMES now play a greater role in Malaysian tourism industry and contribute to its overall performance. Various policies and strategies have been implemented to enhance TSMES business performance. SME development framework has been developed and implemented during the Second Industrial Master Plan (IMP2) (1996-2005) in 1996. Following on this commitment, under the Eight Malaysia Plan (2000-2005), the Malaysian government provided a wide range of assistance programmes for TSMES. Under the 15 year blueprint of the Third Industrial Master Plan (IMP3) (2006-2015), the Malaysian government outlined five strategies, particularly focused on supporting the development of diverse and competitive SMEs in all sectors. These SME

Table 1: Distribution of TSMEs

TSMEs business activities	Establishments	%
Accommodation services	2,817	1.2
Transportation services	40,025	
Art, entertainment and recreation services	6,217	2.6
Food and beverages services	142,721	59.7
Miscellaneous tourism services	36,721	15.4
Travel agency, tour operator and tourist guide services	10,609	4.4
Total	239,110	

Malaysian Department of Statistics

policies have contributed to significant growth on TSMEs emergence from 2005 to 2010, from 100,637 TSMEs to 239,110 TSMEs.

In Malaysia, TSMEs form the bulk of the tourism industry, ranging from tourism operating business and agencies, transportation services and hotels to operators of camping sites, short stay accommodation, Meeting, Incentives, Convention and Exhibition (MICE), museums, theme parks, national parks and SPA services. It is therefore not surprising that TSMEs play a significant role in creating jobs and contributing to the economic growth in Malaysia.

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

With the increase in international tourist arrivals, the tourism industry has created business potential and diversification of tourism products and services especially in the context of TSMEs in Malaysia. In Malaysia, SMEs in the services sector, particularly in the tourism industry increased from 100,637 firms (or 21.1% of overall SMEs) in 2005 to 239,110 firms (41.1% of growth) in 2010 (Department of Statistics, 2012; MITI, 1996).

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% of total output) compared to that of other SMEs in the services sector (RM215,794 million or 75% 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% 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. This indicates that TSMEs play a big part in contributing income to the industry and the nation.

**Business alliance:** Braun (2002) discussed how the fostering of a culture of connectivity, networking, learning and trust between regional Australian TSMEs may offer potential solutions to the possible loss of competitive advantage in the new economy. She justifies that networking and cooperative relationships are considered prime determinants of commercial success. As such, Australian TSMEs have the opportunity to both collaborate and compete by joining a regional marketing portal founded on cooperative principles such as sharing resources and exchanging industry knowledge.

One consistent pattern in the new business process is the complex networks of interaction, whereby emphasis on collaboration between firms is placed as the key for new models of innovation. Research indicates that network building is not only a major new source of competitive advantage for any company but a crucial asset to business survival and an essential global and, indeed, the regional management requirement.

Australian SMEs, on their involvement in business networks, noted a significant level of interest in networking or formulating networks in the future, indicating that networking is likely to become important in the business future of Australian SMEs (Dean *et al.*, 1997). Two types of business networks were identified: formal and informal. The formal networks constituted formal arrangements between companies to consolidate resources and informal networks were seen as loose arrangements facilitating information exchange. Service companies were notably more likely to be involved in formal and informal networking than manufacturing companies.

The global transition to tourism-focused economies, the emergence of new destinations and increasing demand for differentiated tourism products and services have engendered the need for TSMEs to develop strategies to become competitive in the changing global economy (Gronum *et al.*, 2012).

In the small business context, business alliance activity is relevant due to the firms' limited resources, including goods, information, technology and products as well as limited market presence (Greane *et al.*, 2015). Building business alliances is a strategic move by SMEs to overcome limited resources. Having business alliances allows SMEs to acquire financial resources, technological know-how, market position, reputation or unique managerial or human resources (Gronum *et al.*, 2012).

Alliances reflect the collective use resources and cross-organisational information flows to assist alliance partners in achieving a future desired strategic position (Gronum *et al.*, 2012). From the Resource Based View (RBV) of the firm perspective, this describes how business owners build their businesses from the resources and capabilities that they currently possess or can acquire (Greene *et al.*, 2015). This activity provides SMEs with plenty of opportunities to partner in and establish cooperative arrangements. Research indicates that network building is not only a major new source of competitive advantage for any company but a crucial asset to business survival and an essential global tool (Gronum *et al.*, 2012).

Alliances enhance the capability of businesses to perform various activities along the value chain and deliver superior customer value through developing and integrating business processes (Jiang *et al.*, 2014). On the other hand, a business alliance activity that develops due to the limited resources of an organisation will then turn into an opportunity to expand business performance (Hung *et al.*, 2015; Lin and Wu, 2014).

## **MATERIALS AND METHODS**

This study focused on five geographic locations in Malaysia, namely: Kuala Lumpur, Kedah, Pahang, Pulau Pinang and Sabah. These locations are considered to be representative of TSMES in the tourism industry due to the large number of tourist arrivals in these locations.

Due to the fragmented nature of the tourist activities, the sample was limited to TSMES that provide accommodation services and travel agency services, tour operator and tourist guide services. To ensure that the samples are representative of the population, the following criteria were used to select tourism enterprises in the final sampling frames: tourism enterprises must have between one and 50 employees, thus, consistent with the definition of SMEs in Malaysia (National SME Development Council (2005). TSMES surveyed must have been operating for more than two years because longevity is one of the determinants for being a successful operator in a small business context (Rogerson, 2000; Walker and Brown, 2004) and key informants for this study were primarily the owner/managers of the businesses. A self-administered questionnaire was designed to collect data for this study. Participants were selected using the random sampling technique. A total of 705 questionnaires were distributed and out of these 370 was returned. After checking for completeness and excluding unusable responses, 346 responses were deemed fit to be included in the data analyses.

## **RESULTS AND DISCUSSION**

Of the 346 owner managers surveyed, the majority were males (77.5%). The respondents ranged in age from 25 and above with 85.2% of the respondents aged 31 years and above. The majority of the respondents has tertiary education (59.4%) with 36% with secondary education and the remaining 4.6% with primary education. Interestingly, all the respondents have some form of formal education. Most of the owner managers in the tourism industry are of Malay origin (44.5%), nearly thirty nine percent of owner managers are of Chinese origin, 14.7% of Indian origin and the remaining 2.3% are of other origins. Most owner managers of TSMES have had some form of work experience in the tourism industry (87.3%), with a very small number with no prior work experience in the industry (1.7%). Most of the TSMES were registered as private limited companies (40.2%) and approximately 56% of the TSMES in this study were not family businesses.

Table 2 depicts the type of TSMES surveyed in this study. TSMES offering accommodation services make up 51% (or 176 TSMES) while the other 49% (or 170 TSMES) are travel agents, tour operators and other tourism guide service 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.

A little over half (53.5%) of the surveyed TSMES have informal business alliances while the rest (46.5%) does not have any business alliances. Pahang records the highest proportion of TSMES that have business alliances (13%) while Sabah hosts TSMES (11.3%) that have no business alliance activity compared to other locations in Malaysia.

Table 3 ranks the means and standard deviations in terms of the motives for engaging in business alliances. TSMES mostly formed business alliances for information sharing (Mean = 3.72) and knowledge sharing (Mean = 3.70).

This type of alliance formation is categorised as organisational learning and the main concern for the alliance formation is to improve individual and collective organisational actions via improved knowledge and understanding (Love and Gunasekaran, 1999). TSMES indicated that the least motivational factor to form business alliances are subcontracting, human resource support (Mean = 3.43) and equipment sharing (Mean = 3.40). According to Zakarija, in Croatia, the lack of reliability and trust towards other firms are a hindrance

Table 2: Distribution of TSMES by location and type of business

Locations	Total TSMES	Type of business	
		Travel and tour services, tourism guide services	Accommodation
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%)

Data derived from the survey

Table 3: Business alliance activity of TSMES in Malaysia

Alliance activity	Mean	SD	Rank
Information sharing	3.72	1.05	1
Knowledge sharing	3.70	1.07	2
Economies of scale	3.66	1.09	3
Entering new market	3.63	1.04	4
Subcontracting	3.50	1.17	5
Human resource support	3.43	1.13	6
Equipment sharing	3.40	1.07	7

Data derived from the survey

to the business alliance formation and can also explain why human resource support and equipment sharing are the least-alliance activity for TSMES in the Malaysian context. Further tests on ANOVA and Tukey's HSD shows the results are significant (F-value = 8.34, p = 0.00 which is less than the critical value of 0.05) and there is a significance difference across the location of TSMES. This can relate to due to the lack of knowledge and capabilities and the emotional and cultural barriers of owner/manager (Rhodes *et al.*, 2014).

### CONCLUSION

This study has examined the preliminary business alliance activity practised by TSMES in Malaysia, focusing on the demographic of the owner/manager of TSMES, business alliance characteristics and activities across Kuala Lumpur, Kedah, Pahang, Pulau Pinang and Sabah. Overall, business alliance practices among TSMES in Malaysia are still a challenge. However, it can be improved by utilising the huge advantage of business growth and the development of Malaysia tourism industry through successful network alliance such as quality resourcing, inter-firm cooperation, trust relationships, knowledge-sharing and trust and risk control. The results of this study would assist tourism entrepreneurs and policy makers to determine the kind of business alliance activities that enhances their firm performance.

### REFERENCES

Braun, P., 2002. Networking tourism SMEs: E-commerce and e-marketing issues in regional Australia. *Inf. Technol. Tourism*, 5: 13-23.

Dean, J., S. Holmes and S. Smith, 1997. Understanding business networks: evidence from the manufacturing and service sectors in Australia. *J. Small Bus. Manage.*, 35: 78-85.

Department of Statistics, 2012. Economic Census 2011: Profile of Small and Medium Enterprises. Department of Statistics, Putrajaya, Malaysia, ISBN: 9789839044676, Pages: 268.

Greene, P.G., C.G. Brush and T.E. Brown, 2015. Resources in small firms: An exploratory study. *J. Small Bus. Strategy*, 8: 25-40.

Gronum, S., M.L. Verreynne and T. Kastle, 2012. The role of networks in small and medium-sized enterprise innovation and firm performance. *J. Small Bus. Manage.*, 50: 257-282.

Hall, C.M. and K. Rusher, 2013. Risky Lifestyles? Entrepreneurial Characteristics of the New Zealand Bed and Breakfast Sector. In: *Small in Firms Tourism*, Michael, H.C. and K. Rusher (Eds.). Elsevier Publishing Company, Amsterdam, Netherlands, pp: 83-98.

Hung, S.C., S.W. Hung and M.J.J. Lin, 2015. Are alliances a panacea for SMEs? The achievement of competitive priorities and firm performance. *Total Q. Manage. Bus. Excellence*, 26: 190-202.

Jiang, X., Y. Yang, Y.L. Pei and G. Wang, 2014. Entrepreneurial orientation, strategic alliances and firm performance: Inside the black box. *Long Range Plann.*, 49: 103-116.

Lin, Y. and L.Y. Wu, 2014. Exploring the role of dynamic capabilities in firm performance under the resource-based view framework. *J. Bus. Res.*, 67: 407-413.

Love, P.E. and A. Gunasekaran, 1999. Learning alliances: A customer-supplier focus for continuous improvement in manufacturing. *Ind. Commer. Training*, 31: 88-96.

MITI, 1996. Second industrial master plan (1996-2005). Ministry of International Trade and Industry, Putrajaya, Malaysia.

National SME Development Council, 2005. Definitions for small and medium enterprises in Malaysia. *Bank Negara Malaysia, Malaysia*. pp: 1-14

Rhodes, J., P. Lok and V. Cheng, 2014. A framework for successful network alliances for SMEs in China. *Int. J. Strategic Bus. Alliances*, 3: 201-220.

Rogerson, C.M., 2000. Successful SMEs in South Africa: The case of clothing producers in the Witwatersrand. *Dev. Southern Afr.*, 17: 687-716.

Walker, E. and A. Brown, 2004. What success factors are important to small business owners?. *Int. Small Bus. J.*, 22: 577-594.