Job Creation In Small, Micro and Medium Enterprises (SMMTEs)

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Tourism is often characterised as being dominated by small-sized enterprises (SMEs) (Smith, 2006). According to Fayed and Fletcher (2002), Cocossis, (2001) tourism plays an important role in the regional development of developing countries through job creation. The purpose of this study was to evaluate the factors contributing to job creation in Small Medium Tourism Enterprises (SMMTEs). The conceptual framework was adopted and modified from Kristen and Rogerson (2002). This model explains the relationship between the nature and location of the tourism project, size and source of investment and the policy intentions and level of support that is available for entrepreneur development, which eventually leads to job creation. This study emphasised on the quantitative research method through a survey of a sample size of 100 respondents. The results indicated that the nature of business, size of business in terms of employee and turnover and sources of finance of SMMTEs significantly contributed to job creation in SMMTEs. However, eventhough SMMTEs were aware of the government incentives available to them, it did not significantly contribute to job creation.

Keywords: Small Medium Tourism Enterprises (SMMTEs), nature of business, size of business in terms of employee and turnover, sources of finance and job creation

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**Introduction**

Tourism is a cross-cutting sector involving many other economic activities such as transport, construction and retail that create holiday products or provide leisure and business travel-related services. According to the Commission of the European Communities (2006), although large international companies contribute to this sector, it is mainly dominated by Small Medium Enterprises (SMEs). Zoltan (1992) stated that small firms have outpaced large ones in innovation and job creation. However there is no agreement in literature on how “small firms” in the tourism industry should be defined. Some commentators adopt quantitative criteria, notably number of employees, whereas others prefer the qualitative approach (Morrison and Thomas, 1999). According to Nolan (2002), the predominance of small firms is one of the defining characteristics of tourism industry with companies employing less than 50 people.

Fayed and Fletcher (2002) and Cocossis (2001) stated in their studies that tourism plays an important role in the regional development of developing countries through job creation. According to the WTTC (1998) report, travel and tourism emerged as a leading economic driver for the 21st century. This report also stated that tourism is an important contributor to wealth and job creation, the effect of which affects all economy sectors. According to OECD (2004), this growth in employment opportunity will take place through SME growth and development.

In Malaysia, small and medium enterprises are expected to contribute 37% to the GDP in 2010 and the bulk of this growth is targeted to come from the services sector (SME Annual Report, 2006). According to the report, the contribution to employment by SMEs will also increase from 56% in 2005 to 57% of total employment in 2010. The small, micro and medium enterprises (SMMEs) play a vital role to the industrial development in Malaysia. Therefore this paper is set to assess the following.

- To assess the contribution of Small Medium Tourism Enterprises (SMMTEs) to job creation in the tourism related sectors.
- To assess if the government policies and incentives given to tourism industry contribute to job creation in SMMTEs

**Background**

The term ‘tourism sector’ refers to the large and fragmented collection of companies producing commodities that support the activities of holidaymakers. According to Smith (1998), these commodities include transportation, accommodation, food service, attractions and travel trade services. Morrison and Thomas (2004) stated that the tourism industry comprises of a large number of small firms, which are fragmented and, as a result, are widely dispersed.

The development of SMMEs has become an important strategy for economic development for most developing countries (Co, J.M., 2004). According to GEM (2004), SMMEs are becoming more than just a source of job creation globally. In his work, he stated that the shift in thinking has placed entrepreneurship at the center of the attempt to understand the forces that drive economic growth, distinct from previous emphases on technology and large established firms. Hence tourism has a potential to create small businesses and therefore create jobs (Rogerson, 2001). The benefits of tourism must be manifested by local job creation and entrepreneurial activity. According to Rutherford (2000), local entrepreneurial activities are important in three aspects:

- Facilitate more linkages with sectors of the local economy, generating demand for local product and labour,
• The profits from tourism business will accrue to the local population; and
• The ownership and active participation in tourism related businesses would enhance local tolerance to tourist activities.

Kristen and Rogerson (2002) presented a model which explains the relationship between the nature and location of the tourism project, size and sources of investment and the policy intentions and level of support that is available for entrepreneur development, which eventually leads to job creation. Lerner and Haber (2000) also identified the above factors, which are considered key influences in small tourism business development and performance. Authors such as Morrison and Teixeira (2004) were also of the same opinion.

The role of government support and policy intentions can influence the economic and non-economic opportunities that are essential to the creation of conditions for developing small businesses (Lerner and Haber, 2000). However, some studies show that despite major effort by the government to provide incentives to encourage small business development and hence stimulate job creation, job creation results remain insignificant. According to Rutherford (2006), the government is now turning its attention to entrepreneurship development and the promotion of self-employment strategies to overcome the unemployment problem.

**Small and Medium Tourism Enterprise as Defined in the Malaysian Context**

SMEs in Malaysia are defined according to size, turnover and activity (SMIDEC, 2002). In this paper, SMEs in Malaysia are classified as part of the services category as there is no one specific definition for the small, micro and medium tourism enterprises (SMMTEs). The services sector includes education and health, professional services, selected services, transportation and communication, computer industry services, wholesale and retail trade and telecommunication; companies in this sector have either fewer than 50 full-time employees or an annual sales turnover of less than RM5 million.

Small and medium enterprises (SMEs) play a vital role in Malaysia’s economic development and are considered the backbone of the country’s industrial development. The Malaysian government’s concern for the development of SMEs is evidenced, as early as 1970, through the “New Economic Policy” introduced in 1971. The commitment towards the development of SMEs in Malaysia can also be seen in the Second Industrial Master Plan (IMP2), followed by the Third Industrial Master Plan (IMP3). The IMPs provided an integrated approach to the development of industrial areas and allowed opportunity for the growth of SMEs (MITI, 2005).

SMEs in Malaysia operate in various industries in different economic segments with different scopes of importance. According to Hashim (2007), Malaysian SMEs are largely found in four broad segments, which are services, manufacturing, raw material producers and agriculture.

Small and medium businesses in Malaysia account for a large proportion of the total business in various sectors in the economy. According to the SME Annual Report 2005, a nationwide Census on Establishment and Enterprises was conducted on business enterprises in the manufacturing, agriculture and services sectors. A preliminary assessment based on 523,132 business establishments that responded to the census indicated that 99.2% of business establishments are SMEs. 86.5% of the SMEs are in the services sector, 7.3% of SMEs are in the manufacturing sector and 6.2% of the SMEs are involved in the agriculture sector.

Large enterprises are openly dominant in the country while the micro, small and medium enterprises are underestimated in respect to their importance and contributions towards the country’s economy (Hashim, 2007). The tourism industry comprises a plethora of
small, micro and medium-sized enterprises (SMMTEs). The significance of small firms in delivering a substantial part of the total tourism output is an established feature of the tourism industry.

Conceptual Framework and Research Hypotheses

The proposed conceptual framework is adopted and modified from Kristen and Rogerson (2002) as presented in Figure 1. The model explains the relationship between nature of the tourism project, size in terms of number of employees and turnover, sources of finance and government incentives available for entrepreneur development, which eventually leads to job creation. Based on the conceptual framework in Figure 1, the following research question was formulated:

Does the nature of tourism project, size of business in terms of employee number and turnover, sources of finance and government incentives contribute to job creation in the tourism sector?

![Figure 1 Conceptual framework adopted and modified from Kristen and Rogerson (2002)](image)

Based on the above, the following hypotheses were formulated:

**H1:** Nature of business influences job creation in SMEs.
**H2:** Size of SMEs in terms of number of employees and turnover influences job creation.
**H3:** Sources of finance in setting up SMEs influences job creation.
**H4:** Government incentives and subsidies for SMEs influence job creation.

Methodology

A questionnaire was designed based on the Kristen and Rogerson (2002) model, which was divided into three parts. Part A required information on the business profile of the respondents. Parts B and C gathered information concerning job creation and government incentives in the respondents’ business. The questionnaire was designed in a structured manner to examine whether the nature of business of SMMTEs in a tourism project, size of SMMTEs in terms of number of employees and turnover, source of finance in setting up the SMMTEs and government incentives and subsidies for SMMTEs contribute to job creation in the tourism sector. The questionnaire was distributed to a sample size of 100 SMMTEs (travel and tour operators) on a self-administered basis in Kuala Lumpur and the state of Selangor.

The data collected were analysed using the reliability analysis of Cronbach’s Alpha to determine the internal consistency of the constructs and a multiple linear regression (MLR) method was used to test the hypotheses of the study.
Analysis

Sample Characteristics

The sample comprises of the following organisation types: 45.9% company, 30.6% sole proprietorship, 22.4% partnership and 1% others. The majority of the respondents have been in the industry for 5 to 10 years (64.3%). The annual turnover of the majority of the travel and tour operators was between RM 200,000 and 1 million (46.9%) while 35.7% were between 1 million and 5 million and 11.2% were less than RM 200,000. As for the size of business in terms of employee numbers, 62.2% of the tour operators had 5 to 20 employees, 21.4% had less than 5 employees and 16.3% had 20 to 50 employees. 31.6% of the respondents indicated that 50% to 75% of their total turnover was contributed from tourism projects; 4.1% of the respondents indicated that less than 15% of their total turnover was contributed from tourism projects. The majority of the respondents financed their business through their own savings and bank loans. 74.5% of the respondents were aware of available government incentives, but only 17.3% have utilised the said incentives.

Findings

A reliability analysis was carried out for the following constructs: size of business in terms of number of employees, turnover and job creation. The results of Cronbach’s Alpha showed an average value of 0.61 for size in terms of employee number and turnover and 0.96 for job creation. This outcome indicates an acceptable and high level of reliability for academic-based research (Nunnally, 1978). A Chi Square analysis was also conducted to test the hypothesis. The cross tabulation and the Pearson Chi Square results are shown in Table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Chi Square</th>
<th>df</th>
<th>p</th>
<th>Sole Proprietorship</th>
<th>Partnership</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>36.27</td>
<td>8</td>
<td>0.000</td>
<td>8</td>
<td>21</td>
<td>15</td>
</tr>
<tr>
<td>2006</td>
<td>30.69</td>
<td>8</td>
<td>0.000</td>
<td>7</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>2007</td>
<td>30.15</td>
<td>8</td>
<td>0.000</td>
<td>8</td>
<td>22</td>
<td>20</td>
</tr>
</tbody>
</table>

Based on the results in Table 1, a significant association between job creation and type of ownership was established and therefore H1 is supported. An examination of cross tabulation between the variables resulted in the finding that partnerships have significantly contributed to job creation in 2005, 2006 and 2007.

A multiple linear regression (MLR) analysis was conducted to investigate the influence of business size, in terms of employee number and annual turnover, on job creation. Before the results of the analysis are discussed, the assumption of MLR was first investigated and the expected patterns for non-violation of the assumption were found. The result of this investigation seemed to support the use of MLR as an appropriate statistical analysis for this part of the study.
Table 2 Estimated Unstandardised and Standardised Regression Coefficients

<table>
<thead>
<tr>
<th>Mode 1</th>
<th>Unstandardised Coefficients</th>
<th>Standardised Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>3.197</td>
<td>.547</td>
<td>5.845</td>
</tr>
<tr>
<td></td>
<td>What is the size of your business in terms of number of employees</td>
<td>.729</td>
<td>.246</td>
<td>.399</td>
</tr>
<tr>
<td></td>
<td>How big is your business in terms of annual turnover</td>
<td>-.851</td>
<td>.183</td>
<td>-.627</td>
</tr>
</tbody>
</table>

F = 11.77, df = 2, p = 0.000, R Square = 0.609, p< 0.05
A Dependent Variable: JC2005

Table 2 provides the results of the MLR analysis for 2005. Based on the results, the overall MLR model with the two predictors of size in terms of employee number and annual turnover has worked well in explaining the variation in job creation. From Table 2, size of business in terms of employee number was found to exert a significant positive influence on job creation in 2005 (t = 2.963, p = 0.005, b = + 0.73). On the other hand, size of business in terms of annual turnover was found to exert a significant inverse relationship on job creation (t = -4.65, p = 0.000, b = -0.85).

The estimated regression equation is as follows:

Job Creation = 3.197 + 0.729 size in terms of employee number – 0.851 size in terms of annual turnover

The proportion of explained variance as measured by R Square for the above regression equation is 0.609, which means 60.9% of the variation in job creation is explained by size of business in terms of employee number and annual turnover. The beta values given in Table 2 seem to indicate that business size in terms of employee number (beta = 0.399) is a more important predictor of job creation than business size in terms of annual turnover (beta = -0.627).
Table 3 Estimated Unstandardised and Standardised Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardised Coefficients</th>
<th>Standardised Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.575</td>
<td>.486</td>
<td>5.297</td>
</tr>
<tr>
<td></td>
<td>What is the size of your business in terms of employee number</td>
<td>.938</td>
<td>.216</td>
<td>.551</td>
</tr>
<tr>
<td></td>
<td>How big is your business in terms of annual turnover</td>
<td>-.717</td>
<td>.166</td>
<td>-.546</td>
</tr>
</tbody>
</table>

F =13.961, df=2, p = 0.000 , R Square = 0.627, p< 0.05

a Dependent Variable: JC2006

Table 3 provides the results of the MLR analysis for 2006. Based on the results, the overall MLR model with the two predictors of size (in terms of employee number and annual sales turnover) has worked well in explaining the variation in job creation. The table also showed that business size in terms of employee number was found to exert a significant positive influence on job creation in 2006 (t = 4.351, p = 0.000, b = + 0.938. On the other hand, size of business in terms of annual turnover was found to exert a significant inverse relationship on job creation (t = -4.32, p = 0.000, b = -0.72).

The estimated regression equation is as follows:

Job Creation = 2.575 + 0.938 size in terms of employee number – 0.717 size in terms of annual turnover

The proportion of explained variance as measured by R Square for the above regression equation is 0.627, which means that 62.7% of the variation in job creation is explained by the size of business in terms of employee number and size of business in terms of annual turnover. The beta values given in Table 3 seemed to indicate that the size of business in terms of number of employees (beta = 0.551) is a more important predictor of job creation than annual sales turnover (beta = -0.546).
Table 4 Estimated Unstandardised and Standardised Regression Coefficients

<table>
<thead>
<tr>
<th>Mode</th>
<th>Unstandardised Coefficients</th>
<th>Standardised Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>3.019</td>
<td>.553</td>
<td>5.460</td>
</tr>
<tr>
<td></td>
<td>What is the size of your business in terms of employee number</td>
<td>.999</td>
<td>.246</td>
<td>.514</td>
</tr>
<tr>
<td></td>
<td>How big is your business in terms of annual turnover</td>
<td>-.850</td>
<td>.194</td>
<td>-.556</td>
</tr>
</tbody>
</table>

f = 13.017: df = 2; p = 0.000, R square = 0.602, p< 0.05

Table 4 provides the results of the MLR analysis for 2007. Based on the results, the overall MLR model with the two predictors of size in terms of employee number and annual turnover has worked well in explaining the variation in job creation. From Table 4, size of business in terms of employee number was found to exert a significant positive influence on job creation in 2007 (t = 4.056, p = 0.000, b = + 0.99). On the other hand, size of business in terms of annual turnover was found to exert a significant inverse relationship on job creation (t = -4.39, p = 0.000, b = -0.85).

The estimated regression equation is as follows:

Job Creation = 3.019 + 0.999 size in terms of employee number – 0.850 size in terms of annual turnover.

The proportion of explained variance as measured by R Square for the above regression equation is 0.602, which means that 60.2% of the variation in current job creation explained by size of business in terms of employee and size of business in terms of annual turnover. The beta values given in Table 4 seem to indicate that the size of business in terms of employee number (beta = 0.514) is a more important predictor of job creation than annual turnover (beta = -0.556).

Table 5 Results of Chi Square Test between Sources of Finance and Job Creation 2005-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Chi Square</th>
<th>df</th>
<th>p</th>
<th>Own Saving</th>
<th>Bank Loan</th>
<th>Gov Incentives</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>30.359a</td>
<td>12</td>
<td>0.002</td>
<td>23</td>
<td>17</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>2006</td>
<td>23.661</td>
<td>12</td>
<td>0.023</td>
<td>23</td>
<td>18</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>2007</td>
<td>23.724</td>
<td>12</td>
<td>0.022</td>
<td>24</td>
<td>20</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>
Based on the results in Table 5, a significant association between job creation and sources of finance has been established and therefore H3 is supported. An examination of cross tabulation between the variables resulted in the finding that entrepreneur’s own savings as a source of finance has contributed significantly to job creation in 2005, 2006 and 2007.

Table 6 Results of Chi Square Test between Government Incentives and Job Creation

<table>
<thead>
<tr>
<th>Year</th>
<th>Chi Square</th>
<th>df</th>
<th>p</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>4.78a</td>
<td>4</td>
<td>0.310</td>
<td>5</td>
<td>39</td>
</tr>
<tr>
<td>2006</td>
<td>1.53a</td>
<td>4</td>
<td>0.821</td>
<td>5</td>
<td>42</td>
</tr>
<tr>
<td>2007</td>
<td>1.73a</td>
<td>4</td>
<td>0.786</td>
<td>5</td>
<td>50</td>
</tr>
</tbody>
</table>

Based on the results in Table 6, there is no significant association between business size in terms of employee number and annual turnover with government incentives; therefore, H4 is rejected. An examination of cross tabulation between size of business in terms of employee number and government incentives resulted in the finding that 80 out of 97 travel and tour operators had not made use of any form of government incentives. In terms of annual turnover, the finding shows that 78 out of 92 travel and tour operators have not made use of any form of government incentives.

Discussion

This study identified the nature of business, business size in terms of employee number and annual turnover, and sources of finance as main contributors towards job creation. Previous literature explained that SMMTEs promote job creation; it is possible that such job creation is promoted via the nature of business, business size in terms of employee number and sales turnover, and sources of finance of the SMMTEs. It is noted, however, that government incentives do not contribute to job creation in SMMTEs.

H1 of this study posited that the nature of business influences job creation in SMMTEs. The results indicated that the nature of business contributed significantly to job creation. As such it could be implied that of the three different types of business structure examined, the partnership structure contributed most to job creation. This could be explained by the fact that compared to a company structure, a partnership is a medium-sized business which requires fewer formalities in terms of setting up operations. This implies that the partnership structure is the most favoured structure, followed by sole proprietorship, among the small medium business entrepreneurs.

H2 of this study posited that the size of SMMTEs in terms of employee number and turnover influences job creation. The results indicated that size in terms of employee number and annual turnover contributed significantly to job creation. The findings also indicate that size in terms of employee number contribute more towards job creation as compared to annual turnover. This could be due to the fact that turnover reflects on a business’ profitability and thus does not significantly contribute to job creation as business size in terms of number of employees. The findings imply that despite the high turnover, some SMMTE entrepreneurs may use the increased profits to acquire new technologies and other services which do not create job opportunities.

H3 of this study posited that sources of finance in setting up SMMTEs influence job creation; the findings indicated that the source of finance had indeed contributed significantly to job creation. The majority of the SMMTEs were financed through owners’ own savings.
and bank loans. However, factors such as ownership type, acquisition type, level of education of the owner and reasons for business startups should be studied carefully in determining the financing preferences.

H4 of this study posited that government incentives and subsidies for SMMTEs influence job creation; the findings indicated that government incentives do not contribute to job creation. This is in line with Rutherford (2006) who explained that owners’ own funding and bank loan promotes job creation while government incentives promote entrepreneur development.

Conclusion and Implication

The purpose of this study was to assess whether the nature of business, size of business in terms of employee number and turnover, sources of finance and government incentives contribute towards job creation in small and medium enterprises. After surveying the small and medium-sized travel agencies in Klang Valley, the study showed four important findings pertaining to job creation.

Firstly, the study indicated that the partnership business structure has a stronger and positive impact on job creation by SMMTEs. Most of the SMMTEs in Klang Valley are registered as partnerships (as opposed to sole proprietorships or companies). This could be attributed to the availability of capital and human resources, and the fact that fewer formalities are required.

Secondly, the findings identified that the size of business in terms of annual turnover is not a main predictor for job creation; despite the high turnover, some firms have remained constant in terms of offering employment opportunities. However, the size of the enterprise in terms of employee numbers has a significant relationship with job creation. This explains that job opportunities in SMMTEs in Klang Valley are not determined by enterprise profitability alone.

Thirdly, the study shows that most of the SMMTEs are funded through entrepreneurs’ own savings and bank loans; this finding is consistent with previous research.

Finally, an analysis on government incentives indicated no relationship with job creation. A large number of the SMMTEs surveyed indicated that they were not aware of government incentives available. Therefore, it is necessary for the government to create awareness among the owners of SMMTEs about the government support and incentives available to them.

The study made several important contributions to SMMTE entrepreneurship research. From an academic perspective, the study results give empirical support to the Kristen and Rogerson (2002) model in that the nature of business, size of business, sources of finance and government incentives contribute to job creation in SMMTEs.

Secondly, the study emphasised that awareness of government incentives and sources of finance among entrepreneurs is necessary to maximize the potential of the enterprise concerned.

Thirdly, the study helps academic researchers recognise that the factors contributing to job creation in SMMTEs are far different from other SMEs in the economy.

Fourthly, this paper would be important to policy makers for them to realise the contribution of small, micro, medium enterprises (SMMTEs) towards economic development. Also, awareness would be created amongst local residents as to the contribution of SMMTEs towards job creation and as an income generator.

A limitation of this study was the lack of full cooperation from the respondents, as information such as turnover and other information would be confidential in nature. Another limitation was the fact that the SMMTEs did not maintain proper records on employee
turnover. In addition, some SMMTEs were reluctant to answer the survey due to time constraints and lack of interest.

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