

# Service sector industry in malaysia



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Service sector plays an important role in the growth and development of Malaysian economy. The enhanced growth of services sector in Malaysian economy is indeed in line with the growth transformation that has taken place in many of the developed economies such as in United States of America and European Union. In these countries, the services sector forms a major structural component of the economy compared to manufacturing or other primary sectors (Public Bank Review, 2008). According to survey done by World Trade Organization, eight developing countries are in the list of the world's 30 largest exporters of services and Malaysia was ranked 30th in 2008 ([www. tradechakra. com](http://www.tradechakra.com)). It implies the significance of service sectors (in terms of exports) to Malaysian economy.

Table 1. 1 shows Malaysian Gross Domestic Product (GDP) by type of economy sector for year 2008 and 2009. In year 2008, the GDP of service sector was constantly higher than Malaysian overall GDP in addition to GDP of other economic sectors i. e. agriculture, mining, manufacturing and construction. Though, GDP of service sector remained higher than Malaysian

overall GDP in year 2009, its growth has declined compared to the construction sector throughout year 2009 and manufacturing sector in 4th Quarter of year 2009 (Department of Statistics, 2010). However, it also shows that GDP of services sector began to recover from 3rd to 4th Quarter in 2009 with the growth rate of 3.4% to 5.1%.

Table 1. 2 shows the GDP of services sub-sectors from year 2005 until 2009 (Department of Statistics, 2010). Generally, Table 1. 2 indicates all sub-sectors experienced steady growth from 7.2% in 2005 to 9.7% in 2007. However, subsequently there was a decline in the growth of these sub-sectors with 7.3% in 2008 and 4.5% in 2009. The sub-sector of wholesale, retail trade, hotels and restaurants had experienced a finer growth compared to the other sectors. Both Table 1. 1 and Table 1. 2 show there was decline in the growth of service and its sub-sectors. It can be justified with severe world-wide economic crisis as well as due to outbreak of H1N1 A influenza virus disease. As the hospitality and tourism is one of the important sub-sectors of service sector, the outbreak of diseases had significantly influenced the growth of services sector (www. tradechakra. com; WTO, 2010).

Nevertheless, under the Third Industrial Master Plan (IMP3), 2006-2020, the services sector is expected to contribute significantly to country's economic growth with the aim to position Malaysia to become a regional centre for selected services (Malaysian Industrial Development Authority - MIDA, 2010; Public Bank Economic Review, 2008). Accordingly, the IMP3 has targeted the service sector to record an annual growth rate of 7.5% per annum and to contribute 59.7% to GDP by 2020. Eight services sub-sectors have been

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identified for further development considering their potential for greater global integration and exports namely real estate, transport, energy, telecommunications, distributive trade, hotel and tourism, financial services and health services (MIDA, 2010).

In order to enhance the growth of this service sector and its contribution to the economy, the government has begun the intensification efforts in 2008. One of the significant efforts was to attract foreign investments through major policy initiatives whereby Government has targeted about RM688 billion (RM45.9 billion per year) investments for the services sector under IMP3 (MIDA, 2010). Table 1.3 illustrates the total approved investment in the services sector for year 2008. For year 2008, the total investment was RM50.1 billion, surpassing the investment target under the IMP3 which is RM45.9 billion per year. Apart from real estate, telecommunication and financial services, hotel and tourism sector were allocated significant amount of domestic investment due to its significance importance towards Malaysian economy.

The growth and development of tourism sector in Malaysia has a long history (Norlida Hanim et al. 2008). Initially, Malaysian economy was heavily dependent on primary commodities mainly rubber, palm oil and petroleum products before and after its independence in 1957. In order to diversify the country's economy, Government had seriously begun to stimulate the development of the manufacturing industry in the 1970s. However, these two sectors i. e. primary commodities and manufacturing were highly export-oriented and their performance was directly influenced by changes of the world economic climate (Norlida Hanim et al. 2008). The severe economic

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recession that hit most of the Asian region in the mid 1980s had badly hurt the Malaysia economy and the government started to search for a more robust industry to broaden the country's economic base. Tourism was identified as a potential industry that could encourage and stimulate the socio-economic development of the country especially as a supplier of foreign exchange earnings and employment opportunities (Norlida Hanim et al. 2008).

Serious efforts in developing and promoting tourism began only with the establishment of the Tourist Development Corporation Malaysia (TDCM) in 1972 and it took another 15 years before a specific ministry, the Ministry of Arts, Culture and Tourism (MOCAT) was set up in 1987 (Hamzah, 2004). In 2004, this ministry was restructured into three ministries and one of them is the Ministry of Tourism which was assigned to take care of coordination and implementation of government policies and strategies pertaining to tourism development. Ministry of Tourism had ensured the establishment of various tourism-related agencies at the state level, continuous promotional activities and active participation of the private agencies. Consequently, the tourism industry has experienced a rapid growth and gained its importance in the Malaysian economy (Hamzah, 2004; Norlida Hanim et al. 2008; Public Bank Economic Review, 2008).

The Prime Minister Datuk Seri Najib Tun Razak revealed that tourism sector has earned about RM 51 billion (€ 10.6 billion) in year 2009 ([www.tourism-review.com](http://www.tourism-review.com)). This was contributed by the arrival of unexpected 23.5 million tourists compared to initial target of merely 19 million tourists. Consistently, Malaysian government has taken significant efforts in order to take

advantage over this positive record as well as to further improve the standard of services within tourism sector. According to the Prime Minister Datuk Seri Najib ([www.tourism-review.com](http://www.tourism-review.com)), the government has prepared a grant worth RM 899 million (€187 million) to the tourism sector with the aim of upgrading its infrastructure, invest in training of front liners and extend the range of appealing tourism products and events over the next year.

In order to stimulate the further expansion of tourism sector, Government has given numerous incentives for the companies that are interested in investing in tourism sector. Generally, a company granted Pioneer Status enjoys a 5-year partial exemption from the payment of income tax and it will only have to pay tax on 30% of its statutory income (MIDA, 2010).

Alternatively, a company granted Investment Tax Allowance (ITA) will get an allowance of 60% on the qualifying capital expenditure incurred within five years (MIDA, 2010). However, in order to further develop eco and agro-tourism in East Malaysia, companies undertaking new investments in 4 and 5 star hotels in Sabah and Sarawak are considered for Pioneer Status, with income tax exemption of 100% or ITA of 100% (MIDA, 2010). On the other hand, companies that reinvest in the expansion, modernization and renovation of hotels and tourism projects are eligible for another round of Pioneer Status (with income tax exemption of 70%) or Investment Tax Allowance of 60% (MIDA, 2010). Besides these investment incentives, companies also qualify for a double deduction on the expenditure incurred for promotional activities at overseas and participation in an approved international trade fair in Malaysia (MIDA, 2010). Further, companies that

bring in at least 500 foreign tourists or organize domestic tour packages for at least 1200 local tourists in a year are eligible for tax exemption on the income earned (MIDA, 2010).

The most distinct aspect of Malaysian tourism is the country's cultural and natural heritage. Malacca and Penang are known as famous tourist destinations for their multicultural and historical attractions meanwhile east coast of Peninsular Malaysia and East Malaysia (i. e. Sabah and Sarawak) are known destinations for eco and agro tourism activities as these places are gifted with natural wealth ([www. tourism. gov. my](http://www.tourism.gov.my)). Besides sightseeing, other activities that attract tourists to Malaysia include shopping, leisure and business-related events. Global sporting events like Sepang F1 Grand Prix and Le Tour de Langkawi are also attracting a significant number of foreign tourists into the country ([www. tourism. gov. my](http://www.tourism.gov.my)). In addition to these events, Malaysia is also known for its world renowned amusement or theme parks such as Genting Highland Resort, Sunway Lagoon Water Resort, Eye on Malaysia (a 60-metre high Ferris wheel) and others.

The state-of-the-art Kuala Lumpur International Airport (KLIA) is a major gateway into South East Asia and it currently handles flights for over 40 international carriers. Despite rising global fuel prices, air fares remain relatively stable in Malaysia thus the growth of tourists has been facilitated. This is due to the intense yet healthy competition between national carrier i. e. Malaysia Airlines (MAS) and Asia's largest budget airlines i. e. Air Asia (EUROMONITOR, 2009). In the accommodation sector, some of the world's leading hotel brands are already operating in Malaysia such as Hilton, Marriott, Shangri-La and Sheraton ([www. mah. org. my](http://www.mah.org.my)). The occupancy rate

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of hotel is consistently high for popular tourist attractions e. g. Kuala Lumpur and Genting Highland.

Tourist arrivals in Malaysia have increased to 7.34 million between January and April, 2009 as compared to 7.10 million for the same period last year. Number of tourist arrivals to Malaysia is predicted to reach 24.6 million by 2010, with the bulk of travelers comprising intra-regional tourists (BERNAMA, 2009). This figure is admirable given the prolonged global economic crisis and the emergence of Influenza A (H1N1) worldwide. According to the Ninth Malaysian Plan (9MP), there will be 791 million or 80% intra-regional travelers, while the rest being long haul travelers. South East Asian (SEA) countries especially Singapore and Thailand will remain the largest source of tourist arrivals to Malaysia. Apart from that, it is said more efforts would be made to generate greater interest among potential tourists from traditional markets like Europe, Britain, Australia, New Zealand and United States to visit Malaysia (BERNAMA, 2009). For example, recently Ministry of Tourism has introduced six attractive packages to boost further the tourism sector as well as to attract the tourists to stay relevant and competitive even in this disruptive time (BERNAMA, 2009). The new packages that have been introduced are Golden Third Age (G3A), Sophisticated Office Ladies (SOL), Sophisticated Office Men (SOM), Building Bridges, Family Enrichment Travel and UNESCO 3 in 1 (Hamzah, 2004; Norlida Hanim et al. 2008). The G3A packages would be customized to the needs of senior citizens where it will be organized during non-peak seasons and weekdays. The remaining packages would be innovative, attractive and value for money in order to cater the needs of working adults, youths and families. Considering the



significance tourism sector towards Malaysian economy, the proposed strategies under 9MP in the next five years would focus on the tourism potential as an important source for generating foreign exchange earnings, entrepreneurship development and employment.

## **1. 2 Problem Statement**

Tourism is not a single unified sector but selectively cuts across and impacts many traditional and emerging sectors. It consists of numerous suppliers who provide services and goods namely accommodation, foods and beverages, inbound and outbound transportation as well as excursions (Tapper and Font, 2004). In addition to this, this sector involves number of intermediaries whom play a significant part in the marketing and distribution of tourism goods and services to the final customers or in this case tourist. The complex nature of tourism business, motivates tourism firms to emphasize on the both vertical and horizontal integration of their goods and services with and among the channel members i. e. suppliers and intermediaries (Yamaguchi, 2004; Mitchell and Phuc, 2007). The complexity of tourism sector is said to be greater with respect to international tourism activities due to the involvement of different cultures and industry systems. In such a closely interlinked supply system, any behavior of any party can evoke chain reactions that will directly influence the performance of individual organization (Murphy and Smith, 2009). Hence, the adoption of effective supply chain management (SCM) has become vital for tourism firms to enhance their competitiveness (Chen, 2009; Zhang and Murphy, 2009).

SCM concept has originated from manufacturing sector (Dimitrov, 2005; Sengupta et al., 2006, Shashank and Goldsby, 2008) and currently it

concentrates in a handful of industry sectors such as agriculture (e. g. Peterson, 2002), construction (e. g. Carter and Dresner, 2001), retailing (e. g. Sparks and Wagner, 2002) and others. However, in comparison with sectors which deal with tangible products e. g. manufacturing sector, little attention has been paid to the sectors which deal with intangible products or services (Burgess et al., 2006; Sachan and Datta, 2005). It can be justified with the complex nature of services sector due to its intangibility characteristic as well as its dependency on humans. This is perceived to probably hinder the thorough coordination and integration among the chain players. It is also surprising considering the greater amount of SCM researches in other services sectors compared to tourism sector. Examples of other services sectors that have been researched in relation to SCM practices are education sector (e. g. Om et al. 2007), retailing sector (e. g. Hugos and Thomas, 2006), information technology sector (e. g. Shashank and Goldsby, 2008), financial sector (e. g. Field and Meile, 2008), and healthcare sector (e. g. Haszlinna and Porter, 2009).

Nevertheless, some researches have been undertaken in SCM-related areas of tourism sector considering that success of SCM practices in other services sectors could be applied into this sector. The SCM areas that have been mostly covered by tourism researchers are vertical integration (Diego and Juan, 2000; Lafferty and Fossen, 2001; Theuvsen, 2004; Yamaguchi, 2005), value chain analysis (Mitchell and Phuc, 2007; Guzman et al. 2008; Tejada and Linan, 2009) and distribution channel (Buhalis, 2000; Alamdari, 2002; Pearce and Schott, 2005; Pearce, 2008). Furthermore, it was also highlighted that the supply side of tourism sector has been greatly neglected since only

marketing perspective has been utilized to investigate the distribution, integration and value chain of tourism sector (Pearce and Schott, 2005; Zhang et al. 2009). The lack of attention to supply networks is not only unique to tourism researches as most of researches in services sector focus more on the marketing rather than the supply side (Sachan and Datta, 2005; Sengupta et al. 2006; Shashank and Goldsby, 2008). Improvement of the distribution side alone is insufficient to benefit individual tourism firms or the tourism sector as a whole (Zhang et al. 2009; Pibbonrungrroj and Disney, 2009; Rusko et al. 2009). Hence, the sector has to be analyzed from an integrated perspective which resembles a network of tourism firms.

Compared to other services and non-services sectors, products offerings of tourism sector are extensively dominated by information due to its intangibility nature. Intangible tourism products cannot be physically displayed or checked at the point of sale before purchasing. These products are usually bought prior to consumption time and always away from the place of consumption. The lack of appealing illustration and descriptions about tourism products provided by both suppliers and intermediaries shall severely fail to attract consumers or tourists' attention and interest towards the products (Connor and Murphy, 2004; Deepthi, 2008). As a rule of thumb from AIDA (attention-interest-desire-action) model, without having both attention and interest of tourists towards the products, it will be very unlikely to create desires for tourists to purchase and consume the tourism products (Kotler et al. 2009). Timely, accurate, relevant and sufficient information is greatly needed to fulfill the tourists' queries pertaining to their tourism products. With proper utilization of information regarding products and

services, tourism firms can easily satisfy the tourists (Egziabher, 2001; Deepthi, 2008). Therefore, the greatest challenge for the tourism sector is to provide a seamless integration of information and physical services through the flexible configurations of the physical and informational parts (Zhou, 2004; Buhalis and Law, 2008).

Utilization of information technologies (IT) greatly facilitates the integration of information and physical services in tourism sector. IT is a general term that describes any technology that helps to produce, manipulate, store, communicate, and/or disseminate information (Kumar, 2002). Buhalis (2000) has stated that “ a whole system of IT is being rapidly diffused throughout the tourism industry and no player will escape its impacts”. The ever increasing supply and demand of tourism products makes IT an imperative tool and thus it plays a more critical role in tourism marketing, distribution, promotion and co-ordination (Connor and Murphy, 2004; Buhalis and Law, 2008). The re-engineering of these processes generates a standard change altering the entire structure of tourism sector and hence IT has a dramatic impact on the tourism sector (european E-Business Market Watch, 2003; Deepthi, 2008). With the presence of information technologies, there are three major innovations in tourism sector namely Computer Reservations Systems (CRS) in 1970s; Global Distribution Systems (GDS) in 1980s; and Internet in 1990s (Egziabher, 2001; Zhou, 2004; Usoro, 2007). Existing researches have explored the utilization of IT in individual divisions or activities of tourism sector. Consequently, review on existing literatures highlight that there is no or very limited studies which examine the impact of IT on entire supply chain management practices within tourism sector (e. g.

Wyne and Berthon, 2001; Zhang et al. 2009; Pibbonrungsroj and Disney, 2009). This scenario is completely different in manufacturing sector where there are currently numerous studies that have examined the impact of IT in supply chain management practices within that sector (e. g. Johnston and Mak, 2000; Hoek, 2001; Grieger, 2003; Lancaster et al. 2006).

Despite the potential benefits of SCM implementation, full integration of supply chain is rarely achieved (Fawcett and Magnan, 2002). It is also claimed that most of potential benefits resulted from SCM implementation could be limited due to the lower integration and coordination of supply chain activities (Chandra and Kumar, 2000; Lafferty and Fossen, 2001; Harland, 2007). There are numerous factors that inhibit the implementation and integration of supply chain activities within both services and non-services sectors such as lack of technological know-how, immature research and development practices, insufficient capital and lack of support from top management (Fawcett and Magnan, 2002; Harland, 2007). It is perceived that barriers faced by SCM practitioners in non-services sectors are somewhat different than in services sector. In fact, the effects and types of these barriers are more intense in services sector considering their unique yet complex nature (Rosena et al. 2008; Tate, 2008; Ruteri and Xu, 2009). Ultimately, these barriers are significantly believed to obstruct the integration SCM practices (Chandra and Kumar, 2000; Lafferty and Fossen, 2001; Harland, 2007).

Measuring the performance of supply chain has proved to be challenging due to the complex characteristics of the supply chains. However, effective performance measurement is crucial in controlling and monitoring the supply

chain activities as well as in assessing the efforts made by chain members within the sector (Gunasekaran et al. 2004; Fauske et al. 2007; Bhagwat and Sharma, 2007). In contrast to the wealth of researches on supply chain performance measurement within non-services sector, merely little attention has been paid to such measurement in tourism sector (Frohlich and Westbrook, 2002; Sengupta et al. 2006; Ji and Guo, 2009). The existing performance measurement studies within tourism sector are mostly conceptual in nature where it is noticeable that these studies are mainly concentrating on the accommodation activities, a key component of tourism sector, rather than the entire network of tourism sector (Reichel and Haber, 2005; Yilmaz and Bititci, 2006; Ji and Guo, 2009).

Until very recently, there are limited researches, both empirical and conceptual, which examine the entire concept of SCM within tourism sector (e. g. Muchina and Popovici, 2008; Kozak et al. 2008; Zhang et al. 2009; Veronneau and Roy, 2009; Pibbonrungrroj and Disney, 2009; Rusko et al. 2009). Due to the scarce of tourism SCM researches, Pibbonrungrroj and Disney (2009) have done a systematic literature search and it was found that there were only 44 TSCM studies and most of TSCM literatures (about 66%) have been published in 2008 and 2009. It was also discovered that there are two stages of TSCM researches. The first stage is the era before 2007 where there is only conceptual-framework papers meanwhile in second stage of TSCM research, more empirical studies are published than conceptual framework papers. Pibbonrungrroj and Disney (2009) found that half of empirical studies were found in Europe whereas only about one-third of empirical studies were found in Asia specifically in China and Thailand which

are known as world-renowned tourist destinations (Pibbonrungrroj and Disney, 2009). It implies that there are little similar studies in Asia and none in Malaysian context. As such, there is an urge to examine the entire network of supply chain within tourism sector in Malaysia.

### **1. 3. Research Objectives and Research Questions**

Researches on SCM-related areas within tourism sector are largely neglected. Tourism sector, which is known for its complexity due to presence of multiple channel members, greatly needs a systematic approach to coordinate its numerous activities. As such, IT implementation is perceived to further facilitate the integration of TSC business processes within and across tourism supply chains. Factors that could inhibit the implementation of TSC practices should be minimized or overcome in order to enhance the performance of entire tourism supply chain. Accordingly, measuring the performance of TSC practices is vital chore in order to assess its effectiveness in achieving company's intended objectives. In line with all these issues, this study is intended to explore TSC business processes integration (TSC BPI), TSC barriers, IT implementation as well as overall TSC performance by focusing on Malaysian tourism sector. Overall TSC performance will be measured from the perspective of both consumers (tourists) and service providers (consisting of suppliers and intermediaries). Below is the list of research objectives and pertaining research questions used to undertake this study.

To discover current TSC practices among Malaysian tourism firms

RQ1: What are the main SC business processes concentrated by tourism firms?

RQ2: What is the current integration level of TSC business processes?

To determine barriers faced in the practicing TSC

RQ3: What are the factors that inhibit tourism firms in managing their supply chains?

RQ4: How do these inhibitors influence TSC business process integration?

To examine IT implementation in TSC practices

RQ5: What are the key IT infrastructures used by tourism firms to practice their

supply chains?

RQ6: How does current IT implementation level affects the TSC business process integration?

To analyze overall performance of tourism supply chains

RQ7: How do TSC business process integration affects the overall TSC performance from the perspective of service providers?

RQ8: How do TSC business process integration affects the overall TSC performance from the perspective of customers?



RQ9: How do barriers influence the overall performance of TSC?

RQ10: How does IT implementation influence the overall TSC performance?

## **1. 4 Research Scope**

Market survey conducted by EUROMONITOR (2009) found that casinos and theme or amusement parks are two major tourist attractions in Malaysia for the period of 2002-2007 with the market share of 40. 24% and 24. 79%, respectively. Since family holidays are popular among Malaysians, theme parks were famous among domestic tourists particularly during school holidays meanwhile they were also famous among international tourists. This is because, Kuala Lumpur, their entry point into Malaysia, is actually surrounded with many famous theme parks such as Genting Highland, Sunway City Lagoon, Mines World Resort, Eye on Malaysia and so on. It should be noted that the only one casino in Malaysia which attracts bulk tourists is also located in Genting Highland, the top tourist attraction with highest number of tourist arrivals for the period of 2002-2007 (EUROMONITOR, 2009). In addition to this, it has been forecasted that combinations of casinos - theme parks will be the leading tourist attractions in coming years, with the projected market share of 98. 53% (EUROMONITOR, 2009). Considering the prominent role of theme parks within Malaysian tourism sector, this study will undertake investigation on supply chain practices that take place within Malaysian theme parks.

As for this study, tourism supply chain (TSC) is defined as a systematic procedures in managing a group of tourism firms engaged in numerous activities ranging from the supply of different components of tourism

products or services to the distribution and marketing of the final tourism products to the tourists at a specific tourism destination (Pibbonrungrroj and Disney, 2009; Zhang et al. 2009). Accordingly, this study will examine all activities involved in tourism SC from supplying, assembling until selling the final tourism products to the tourists. Therefore, relationship among all key players i. e. service producers (of attractions, accommodation, dining and transportation), intermediaries (consisting of tour operators and travel agents) as well as tourists will be comprehensively explored in this study.

Only tourists who make a visit to the chosen destinations for the leisure purposes will be considered for this study. These tourists should be either on domestic or inbound travels. On the other hand, only traditional intermediaries (instead of new intermediaries i. e. Internet portals) are taken into account. Furthermore, this study will consider only services producers and intermediaries whom provide services to as well as tourists whom consume services at the chosen destinations. Practically, some service suppliers (particularly suppliers of dining and transportation) as well as intermediaries could be possibly located at other locations; however, they have to provide services to the chosen destinations or to tourists visiting the chosen destinations in order to be considered for this study.

The service suppliers and intermediaries should be a registered member of Malaysian Associations of Hotel (MAH), Malaysian Association of Tour and Travel Agents (MATTA) or Ministry of Tourism Malaysia (MOTOUR). Apart from being the registered members of above mentioned associations, the suppliers and intermediaries should have basic Internet and Web presence considering importance of IT implementation in TSC practices. Inhibitors for <https://assignbuster.com/service-sector-industry-in-malaysia/>

TSC practices are assessed based on perceptions of both services suppliers and intermediaries. Finally, overall performance of tourism supply chain is assessed by using both financial and non-financial performance measures based on perceptions of tourism firms and tourists.

## **1. 4 Research Significance**

Consistent with the importance of supply chain practices for the success of tourism firms, findings of this study will be certainly beneficial for many parties. These findings will enhance the existing facts of supply chains that claim SC is a backbone of any businesses despite the nature of products (both tangible and intangible) dealt with. It will further discover that even a complex business sector, tourism, would be benefitted by practicing supply chains. This study will also prove that tourism firms will significantly improve its overall performance by integrating their SC business process at greater extent. Considering tourism supply chain is a relatively new research area, the findings of this study will be a good starting point for existing researchers within the field of traditional supply chains or tourism management. These researchers could extend theories from their current fields into TSC researches in order to further enhance the exploration. Finally, this study will be also useful for other countries with similar profile as Malaysia particularly within the region of South East Asian. This is because, most of the countries within this region are known for their tourism activities where they need a systematic approach to organize their tourism activities. As such, a well-organized TSC will be very significant for these countries where ultimately its practices will improve overall economic growth.

## **1. 5 Conclusion**

In conclusion, this chapter discusses all the introductory aspects of this research. The discussion throughout this chapter indicates the importance of this research being conducted in Malaysian context. The early investigation of the research topic indicated there are no similar studies had been investigated within the similar scope. Thus, this study is expected to be valuable for all involved parties in supply chain practices within Malaysian tourism sector. Next chapter will discuss the literature review of this study.