

# Service sectors in the malaysian economy



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Service sector plays an important role in the growth and development 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). As per 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 kind of economy sector for year 2008 and 2009. In year 2008, the GDP of service sector was constantly higher than Malaysian overall GDP as well as GDP of other economic sector namely 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 (Bank Negara Malaysia, 2009). 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 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 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 had begun intensification efforts in 2008. One of the significant efforts is attracting 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 <https://assignbuster.com/service-sectors-in-the-malaysian-economy/>

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 has been allocated significant amount of domestic investment due to its significance importance towards Malaysian economy, in general and services sector, in particular.

The growth and development of tourism sector in Malaysia has a long history. Initially, Malaysian economy was heavily dependent on primary commodities mainly rubber, palm oil and petroleum products before and a few decades 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 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 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

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Arts, Culture and Tourism (MOCAT) was set up in 1987 (Amran, 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, coordinating and implementing 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 an importance in the Malaysian economy (Amran, 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 unexpected number of tourists arrival about 23.5 million which has surpassed the initial target of 19 million tourists. In order to take advantage over this positive record as well as to further improve the standard of service, 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

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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 are attracting 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).

With an endless variety of goods and competitive prices, Malaysia is a wonderful destination for shoppers. Malaysia has a wide of shopping places such as huge shopping malls, hypermarkets, exclusive boutiques, duty free shops and others. The shopping activities have been further stimulated by the Malaysian Mega Sales Carnival which held twice a year (MRA – Malaysia Retailers Association, 2010). This event is jointly organized by Ministry of Tourism, Tourism Malaysia and Shopping Malaysia Secretariat.

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, 2010). 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 (MAH -Malaysian Association of Hotel, 2010). The occupancy rate of hotel is consistently high for popular tourist attractions e. g. Kuala Lumpur and Genting Highland.

Tourist arrivals in Malaysia increased to 7. 34 million between January and April, 2009 as compared to 7. 10 million for the same period last year.

Tourist arrivals to Malaysia are 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 (Amran, 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.



## 1.1 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 et. al, 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 e. g. services sector (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. Melnyk and Stank, 2000), 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 and non-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), 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 that is as a network of tourism supply chains.

Until very recently, there are limited researches, both empirical and conceptual, which examine the entire concept of SCM within tourism sector (refer 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. As such, it can be safely concluded that there is an urge to examine the entire network of supply chain within tourism sector.

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 (1998) 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 (refer to e. g. Wyne and Berthon, 2001; Zhang et al. 2009; Pibbonrungrroj 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 (refer to e. g. Johnston and Mak, 2000; Hoek, 2001; Grieger, 2003; Lancaster et al. 2006). Hence, one of the aims of this research is to examine the impact of Internet utilization towards tourism supply chain management.

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. Generally, SCM practices within both sectors are hindered by almost similar barriers such as lack of technological know-how, research and development, capital, managerial support and physical infrastructures (Rosen et al. 2008; Tate, 2008; Ruteri and Xu, 2009). Nevertheless, it is one of the aims of this research to examine the specific barriers that inhibit tourism firms in implementing supply chain activities in their business operations.

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 and McGaughey, 2004). It is claimed that supply chain performance should be measured in overall (Fauske et al. 2007). As such, each entity of supply chains is responsible for the overall performance instead of its own performance. Despite the wealth of researches on supply chain performance measurement within manufacturing sector, merely little attention has been paid to such measurement in tourism sector (Frohlich and Westbrook, 2002; Yilmaz and Bititci, 2006; Sengupta et al. 2006). Therefore, there is an opportunity to further examine the overall performance of supply chain management within tourism sector in this research.

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

Researches on SCM-related areas within tourism sector are largely neglected. It should be noted that 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, SCM practices through the utilization of IT are expected to facilitate the coordination and integration of numerous tourism activities. Factors that could inhibit the implementation of SCM practices should be minimized or overcome in order to enhance the performance of tourism supply chain activities. Accordingly, measuring the performance of tourism supply chain practices is vital chore in order to assess its effectiveness in achieving company's intended objectives. As such, this research is intended to explore the numerous issues involved in tourism supply chain management by concentrating on Malaysian tourism sector as the key focus.

To discover the current TSCM practices among Malaysian tourism firms

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

RQ2: What is the current level of SC implementation by tourism firms?

To determine the factors that inhibit the practices of TSCM

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

RQ4: How do these inhibitors influence SC implementation level of tourism firms?

To examine the impacts of IT utilization towards the tourism supply chain practices

RQ5: What are the areas that IT is being utilized in tourism SC?

RQ6: What are the implications of IT utilization for tourism SC?

RQ7: How does IT Internet influences the SC areas and implementation level of tourism

firms?

To critically analyze the overall supply chain performance of tourism firms

RQ8: How do SC practices influence the overall performance of tourism firms?

### **1.3 Research Scope**

As for this study, TSCM 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 (Pibbonrungraj and Disney, 2009; Zhang et al. 2009). Accordingly, this study examines 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, foods and beverages and transportation), intermediaries (consisting of tour operators and travel agents) as well as tourists are comprehensively explored in this study. Only services producers



and intermediaries whom provide services to as well as tourists whom consume services at the chosen destinations are considered. It implies that the service suppliers (e. g. transportation firms) and intermediaries could be possibly located at other places but they have to provide services to the chosen destination in order to be considered for this study. Besides that, the services 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). All TSC activities consisting of supplying, assembling and selling final tourism products, which involve the utilization of IT, are also examined in this study. Inhibitors for TSC practices are assessed based on perceptions of both services suppliers and intermediaries. Finally, tourists' satisfaction with chosen destination and tourism firms, is used as a sole variable in order to measure the overall performance of tourism firms resulted from SC practices.